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JUN 7 1993

Director's Office

June 3, 1993

Phyllis T. Hazel
Director
Division of Health and Social Services
CT Building
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1901 N. DuPont Highway
P.O. Box 906
New Castle, DE 19720

Dear Phyllis:

This study looks at marginal after tax rewards from earning income on the part of low income persons. It is much more thorough than, but along the same lines as, the Lotus spreadsheet I worked up and gave to Jack.

My conclusion from this is that the tax and welfare systems often conspire to take more from the welfare client who tries to work than the person actually earns.

It's a bit dense reading, but is more empirical than most I've seen.

Sincerely,

William M. Remington
Deputy Director
Division of Revenue
(302) 577-3318

WMR/dmg

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copy to Katie Way
no copy circulate:
Steve
Elaine
Buck
John
me

Effective Marginal Tax Rates on Lower-Income Wage Earners: The Impact of State Taxes

by Joel Michael and Nina Manzi

Joel Michael and Nina Manzi are legislative analysts in the Research Department of the Minnesota House of Representatives.

Many tax provisions, such as the dependent care and earned income credits, target benefits to lower-income individuals. These provisions may, as a side effect, impose high marginal tax rates on individuals subject to the credits' phaseouts. The high marginal rates work against another goal of the provisions, to encourage increased work effort.

Michael and Manzi analyze these marginal rate effects of federal and state tax provisions and selected public assistance programs on lower income wage earners and suggest that state policy makers need to pay greater attention to these effects in designing state tax structures, especially earned income credits and similar provisions.

Tax Reform, Marginal Rates, and Targeting Benefits to the Poor

Two purposes of recent federal and state income tax reform efforts have been (1) to reduce marginal tax rates and (2) to reduce taxes on the working poor and near-poor.

Lowering marginal tax rates — the rates that apply to increases in income — reduces the inherent disincentive to work and invest and other distortions of market decisions that result from an income tax.¹ During the 1980s, Congress reduced marginal tax rates dramatically and many states also lowered their tax rates.

Targeting tax credits and deductions and government benefits² to the poor reduces the revenue cost of these provisions and limits them to the "most deserving" individuals.

¹In general, this is true. Of course, if lower marginal tax rates result from provisions that effectively mismeasure income, disincentives and distortion of market decisions may result.

²Many nontax government programs also impose marginal tax rates. Benefit programs that reduce transfer payments as income rises — Social Security benefits, Aid to Families with Dependent Children (AFDC), housing assistance, food stamps, and similar programs — impose marginal tax rates on earnings. These benefit reductions affect the incentive to work as much as income or earnings taxes.

During the 1980s, both federal and state governments enacted or expanded tax credits and direct benefits for lower-income individuals and families. For example, the federal government expanded the earned income credit (EIC). The EIC is intended to remove lower-income wage earners from the tax rolls and to provide work incentives.³ Commentators have urged states to enact EICs and several have.⁴

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Efforts to target benefits to low-income taxpayers frequently work against the goals of providing for low marginal tax rates and work incentives for lower-income workers. Design features inherent in these targeted provisions — typically phaseout provisions that limit benefits to low-income individuals and families — increase marginal tax rates on individuals with incomes in the phaseout ranges. Insofar as lower-income wage earners are concerned, the goal of targeting benefits to the poor can work against the goal of low marginal tax rates. If the primary goal is to redistribute income, this may not be of great concern. However, the cumulative effect of these provisions may still give one pause, since they can result in very high effective marginal rates on individuals in the phaseout ranges. If a principal goal is to provide work incentives (as with earned income tax credits), the cumulative impact may suggest a redesign of these provisions.

Scope

Our analysis focuses on the impact of tax rates under federal and Minnesota taxes and benefit programs on lower-income

³Wage subsidies, such as the earned income credit, have mixed labor supply effects. The income effect of the subsidy may cause some to reduce their work effort. For others, the substitution effect (i.e., the subsidy's increase in the wage rate causes work to be substituted for leisure) will cause increased work effort. The substitution effect is assumed to outweigh the income effect, increasing work effort.

⁴See, e.g., S. Gold, "The State Fiscal Agenda for the 1990s," 113-15 (1990).

wage earners. Several articles have catalogued and analyzed effective marginal tax rates under federal law. These analyses have focused, however, on higher income taxpayers with investment income,⁵ self-employed taxpayers,⁶ elderly taxpayers,⁷ and the entire population.⁸ Little attention has been paid to the effective marginal rates imposed on the earnings of lower-income wage earners or to the impact of state taxes.⁹ Furthermore, although the implicit marginal cost of benefit reductions under public assistance programs has been noted, these implicit tax rates have not been analyzed.¹⁰

This article focuses on the tax rates applicable to wages earned by lower-income wage earners. It incorporates state taxes, using the Minnesota income tax, and public assistance benefit programs in the analysis.¹¹ The principal method computes marginal rates for hypothetical lower income taxpayers (heads of households with two dependents) claiming average credit and deduction amounts for the selected income range (\$0 to \$40,000). In addition, specific examples illustrate some relatively extreme cases of high marginal rates on lower income wage earners in not totally uncommon situations. We also estimate the distribution of marginal tax rates under the Minnesota income tax for the population of all filers. The article does not analyze the effect of the Social Security earnings test or provisions limited to the elderly.¹²

The tax and benefit provisions analyzed include:

Federal tax provisions:

- Social Security tax rates;
- federal individual income tax rates;
- the federal EIC; and
- the federal dependent care credit.

State tax provisions:

- Minnesota individual income tax rates;
- the Minnesota dependent care credit;
- the Minnesota working family (earned income tax) credit (EIC);¹³ and
- the Minnesota property tax refund (PTR).

Public assistance benefits:

- Aid to Families with Dependent Children (AFDC);
- food stamps; and
- housing assistance (section 8).

Assumptions

We made a variety of assumptions to calculate effective marginal tax rates for lower-income wage earners. Effective marginal rates under tax code and public assistance programs depend on a variety of factors besides wages. These include filing status (regular income tax rates), number of dependents (regular tax, dependent care credits, EICs, PTR), expenditures on dependent care (dependent care credits), and imputed property tax paid (property tax refund).

A very small increase in income can result in a large reduction in the credit relative to the increased income, if the individual is at the exact point of one of these 'cliffs.'

To display effective marginal tax rates as curves on a two-dimensional graph for a set of hypothetical families, it is necessary to make a series of assumptions regarding these characteristics. We have calculated and graphed effective marginal rates for head-of-household families with two dependents. We assumed that all income was derived from wages and salaries.¹⁴ Child care costs for the dependent care credit and public assistance programs were set as fixed dollar amounts for each unit based on a percentage of income determined from census data.¹⁵ For purposes of the Minnesota property tax refund, we assumed that all families were renters and had

⁵Maule, "Getting Ham'd: Highest Applicable Marginal Rates That Nail Unsuspecting Taxpayers," 53 *Tax Notes* 1423 (1991).

⁶Bensinger, Savage & Shaffer, "Marginal Tax Rates of Self-Employed Taxpayers," 52 *Tax Notes* 957 (1991).

⁷Feldstein & Samwick, "Social Security Rules and Marginal Tax Rates," 55 *Nat. Tax J.* 1 (1992); Brannon, "Should I Work in 1991?" 50 *Tax Notes* 2 (1991) 189; Gist & Mulvey, "Marginal Tax Rates and Older Taxpayers," 49 *Tax Notes* 6 (1990); Oestreich, Toole & Galbraith, "Restoring the Incentive for the Elderly to Work," 49 *Tax Notes* 4 (1990).

⁸Lerman & Cilke, "The Distribution of Effective Marginal Tax Rates," Proceedings of the 84th Annual Conference of Nat. Tax Assoc.-Tax Inst. of Am. 245 (1992).

⁹A Reschovsky, Discussant's Comments on "Administering Refundable Tax Credits: Lessons from the EITC Experience," Proceedings of the 84th Annual Conference of Nat. Tax Assoc.-Tax Inst. of Am. 198, 199 (1992), points out the effect of the phase-out provisions of Wisconsin's state taxes on marginal tax rates.

¹⁰See Gist & Mulvey, *supra* note 7, at 682 (one-sentence description of AFDC benefit phaseout). One exception to this is G. Lewis & R. Morrison, "Interactions Among Social Welfare Programs," Discussion Paper No. 866-88 (Institute for Research in Poverty, U. of Wis., Sept. 1988). Its discussion of tax rates is somewhat limited, however. It does not reflect the new provisions of the earned income credit, nor does it include the dependent care credit. Their analysis assumed state taxes to simply be a flat 2.1 percent.

¹¹Aside from our familiarity with Minnesota, it provides a good model of the potential for targeted provisions to raise marginal rates. Minnesota has an earned income credit and a child care credit, both with phaseout features. In addition, Minnesota has a property tax refund program with an income phase-out, as well as the usual array of public assistance programs.

¹²The marginal tax rates that apply to the elderly frequently are written about and analyzed. See articles cited in note 7. One feature of the Minnesota income tax, the subtraction for the elderly and disabled, increases the marginal rates of elderly taxpayers in its phase-out range by 3 percentage points. See Minn. Stat. section 290.0802, subd. 2 (1990).

¹³The official name for Minnesota's earned income credit is the working family credit. To avoid confusion, we use the more commonly used term earned income credit, throughout the rest of the article.

¹⁴This permits ignoring the complications that result from the presence of nonwage income on marginal rates, particularly in the public assistance programs. For example, the AFDC and food stamp programs allow exclusion of part of wages from benefit reductions, while these exclusions do not apply to nonearned income. The marginal rates under the tax code on interest or dividend income differ from those on earned income. See Lerman & Cilke, *supra* note 8, for discussion of the variation in marginal tax rates on salaries and interest income.

¹⁵Bureau of Census, *Who's Minding the Kids* 21-22 (Household Economic Studies, P-70, No. 20, August 1990). Although the dollar amount of child care costs were determined as a percentage of income, we assumed that child care costs did not increase with the assumed increase in income that is subject to the marginal rate. This may not be a reasonable assumption, if the increase in wages results from increased hours of work that require an additional out-of-pocket expenditure for dependent care costs. To the extent that this occurs, the assumption overstates marginal rates for individuals not receiving the maximum dependent care credits, since increases in child care spending will generate higher credits.

puted property taxes equal to the average for their incomes based on 1990 Minnesota Department of Revenue data.¹⁶

The phaseout provisions of the federal and state dependent care credits and the property tax refund contain "cliffs" or "notches." A very small increase in income can result in a large reduction in a credit relative to the increased income, if the individual is at an exact point of one of these "cliffs." For example, a \$1 increase in income could result in a \$48 drop in the federal dependent care credit or a \$36 reduction in the state credit. To prevent these anomalous "cliffs" from appearing in the graphs, we calculated the marginal tax rates based on \$1,000 increases in income. This approach is consistent with the view that marginal rates are important for their incentive effects on major economic decisions — for example, deciding whether to increase work hours, enter the work force, or change jobs — that generally will result in nontrivial increases in earnings.

Federal Tax Provisions

Social Security imposes a set of flat tax rates — 6.2 percent for the Old Age, Survivors, and Disability Insurance (OASDI) program and 1.45 percent for Medicare — on wages up to a specified threshold.¹⁷ Since these thresholds are well above the \$40,000 cutoff for our analysis, the Social Security tax is essentially a 7.65-percent flat rate that applies to all wages.

Four other aspects of Social Security affect marginal tax rates but are ignored for purposes of the analysis. Two of these provisions affect recipients of OASDI benefits: the earnings test and the inclusion of a portion of benefits in adjusted gross income subject to federal and Minnesota income taxation. Since we limited the analysis to the nonelderly, these elements were not relevant. Third, employers are subject to a tax equal to that imposed on the worker's wages. The economic incidence of this tax falls on wages.¹⁸ However, the goal of the analysis was to show the tax rate at a given level of nominal wages, allowing us to ignore the employer-level tax.¹⁹ Fourth, since the focus of the analysis is marginal tax rates on wages, the quirks of the Social Security tax structure that apply to self-employment earnings are not analyzed.

We analyze marginal rates attributable to three federal income tax provisions: the regular tax rates, the EIC, and the dependent care credit. We ignored a number of other provisions that impose effective marginal tax rates, either because they affect only investment income or because they are limited to higher incomes.²⁰ In addition, we assumed that the affected

low-income wage earners do not itemize deductions. This allowed us to ignore additional effective marginal rates that result from itemized deduction rules.²¹

The regular federal tax rates need little discussion. The marginal rate depends on taxable income (wages less the standard deduction and personal exemptions in our examples) and filing status. Two possible rates apply to our selected examples of low-income wage earners — 0 and 15 percent.

The federal EIC consists of three credits: the basic credit; the health insurance credit; and the young child credit. The credit is refundable and available only to taxpayers who live with a qualifying child.

The basic credit equals a percentage of earnings up to a maximum amount. Separate credit percentages apply for one or two qualifying children and Congress has provided for increases in these credit percentages. For tax year 1992, the credit percentages are 17.6 percent for one child and 18.4 percent for two children. For tax year 1994, after the increases are fully phased in, the respective credit percentages will be 23 and 25 percent. Since the credit is refundable, these percentages provide negative marginal tax rates on earnings for filers who have not qualified for the maximum credit.

To limit availability of the credit to lower-income families, the credit is phased out based on amounts of adjusted gross income (AGI) (or earnings, whichever is higher) over statutory thresholds.²² Separate phaseout rates again apply for one or two qualifying children, and Congress has provided for increases in these phaseout percentages to accompany the credit percentage increases. For tax year 1992, the phaseout percentages are 12.57 percent for one child and 13.14 percent for two. For tax year 1994, after the increases are fully phased in, the phaseout percentages are 16.43 and 17.86 percent. These phaseout percentages take away the credit and thus impose positive marginal rates on taxpayers whose credits are being phased out.

The supplemental young child credit applies to families who have a qualifying child under age one at the end of the calendar year. The credit rate is 5 percent and the phaseout rate is 3.57 percent. The taxpayer may not, however, claim a dependent care credit for employment-related expenses to care for the child.²³

The third element of the EIC, the supplemental health insurance credit, increases the basic credit rate by six percentage points. The credit amount is limited to amounts paid for health insurance that covers a qualifying child. The phaseout percentages are increased by 4.285 percentage points.²⁴

¹⁶As with dependent care expenses, we assumed that spending on rent did not rise with the increase in wages subject to the hypothetical marginal rate.

¹⁷In 1992, taxable wages are equal to \$55,500 for the OASDI tax rate and \$130,200 for the Medicare tax rate.

¹⁸See, e.g., R. Musgrave & P. Musgrave, *Public Finance in Theory and Practice* 507-09 (1980).

¹⁹The employers' tax lowers wage rates in the long run. To appropriately account for it would have required adjusting the amount of wage income that would have been received by the worker absent the tax. The simple goal of the analysis was to show the amount of additional tax required to be paid at a given level of earnings, since this is the amount that is most likely to affect work decisions.

²⁰These include the phaseout of the \$25,000 allowance of rental losses under the passive loss rules, the phaseout of the deductibility of individual retirement account contributions by individuals covered by qualified plans, the phaseout of itemized deductions, the phaseout of personal exemptions, the alternative minimum tax (AMT) rate, and the phaseout of the AMT exemption amount.

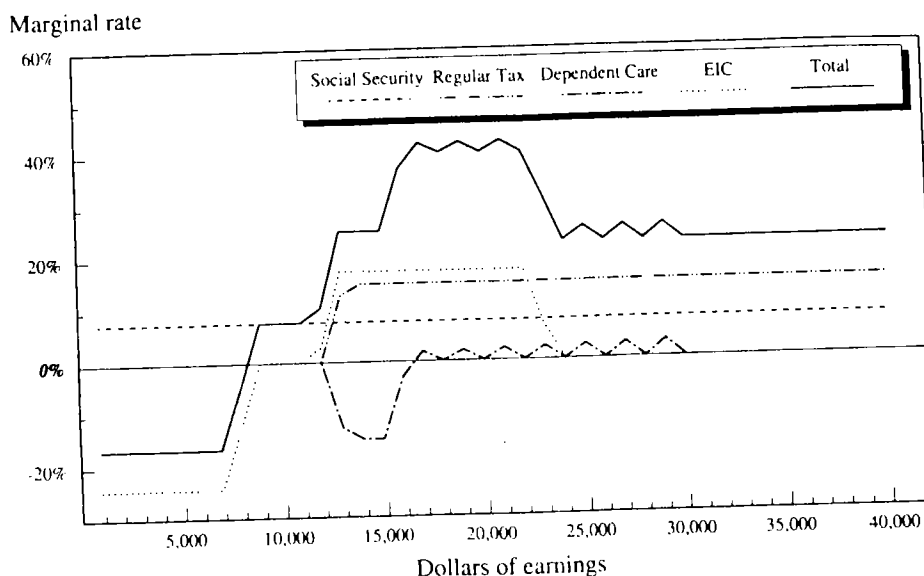
²¹Under this constraint, the effect of the percentage of income floors for medical expenses (7.5 percent of AGI), casualty losses (10 percent of AGI), and miscellaneous business expenses (2 percent) can be ignored. The phaseout of itemized deductions is not relevant, since it only applies at higher income levels (over \$100,000 of AGI).

²²The threshold is \$11,840 for tax year 1992, as a result, no credit is available to filers with AGIs above \$22,130. The threshold amount is indexed for inflation.

²³This does not prevent the taxpayer from claiming a dependent care credit for employment-related expenses for the care of another qualifying child or children.

²⁴Thus, for an individual qualifying for the basic credit for two children, the supplemental young child credit, and the health insurance credit in tax year 1994, the combined credit percentage would be 36 percent and the phaseout percentage 25.715.

Figure A



The federal dependent care credit is calculated by multiplying qualifying employment-related expenses by a credit percentage. The credit percentage begins at 30 percent for incomes (AGI) of \$10,000 or less and declines by one percentage point for each additional \$2,000 (or part thereof) of AGI. The credit rate for taxpayers with AGIs over \$28,000 is 20 percent.

Figure A displays the components of federal marginal tax rates applicable to a head of household with two dependents and \$40,000 or less in earnings, following the assumptions outlined above. Total marginal rates rise quickly from below a negative 16 percent for wages of less than \$7,000 to over 40 percent at about \$17,000 of earnings. This steep rise results from the combined effect of the phaseout of the EIC, the Social Security tax, and the regular tax applying after the standard deduction and personal exemptions have been exhausted. Effective marginal rates drop back to roughly 23 percent after the phaseout of the earned income and dependent care credit.

Because the dependent care credit is not refundable, it acts to reduce marginal rates. As the regular tax begins to apply, the credit reduces the regular tax and permits the taxpayer to continue receiving refunds under the EIC. The partial phaseout of the dependent care credit does not affect these families, since they do not have sufficient regular tax to use their full credits. Once their regular tax liability equals or exceeds the credit amount, the phaseout creates small positive marginal rates with a characteristic notch effect: the credit rate is reduced by a percentage point for each \$2,000 of income.²⁵

²⁵The effective marginal rate depends on the amount of qualifying dependent care expenditures, as described in the text above. Higher levels of expenditures result in large credits, greater reductions, and higher effective marginal rates.

Minnesota Tax Provisions

As with the regular federal tax rates, the *Minnesota regular income tax rates* are straightforward. The marginal rate depends on Minnesota taxable income (essentially the same as federal taxable income in our examples) and filing status. Three possible marginal rates apply to our selected examples of low-income wage earners — 0, 6, and 8 percent.²⁶

The *Minnesota dependent care credit* closely follows the federal credit with two important variations. First, it is refundable; second, the credit includes an added phaseout provision that limits availability of the credit to those with household incomes under \$28,380 for tax year 1992.²⁷ The state credit equals the federal dependent care credit, except the maximum credit decreases by \$18 (\$36 for two qualifying dependents) for each \$350 of income over the statutory threshold.

The refundability feature yields negative marginal rates (essentially a child care related earnings supplement) for affected individuals. The phaseout feature imposes positive marginal rates of 5.1 percent (or 10.2 percent for two qualifying children) for those with sufficient qualifying expenses in the phaseout range.

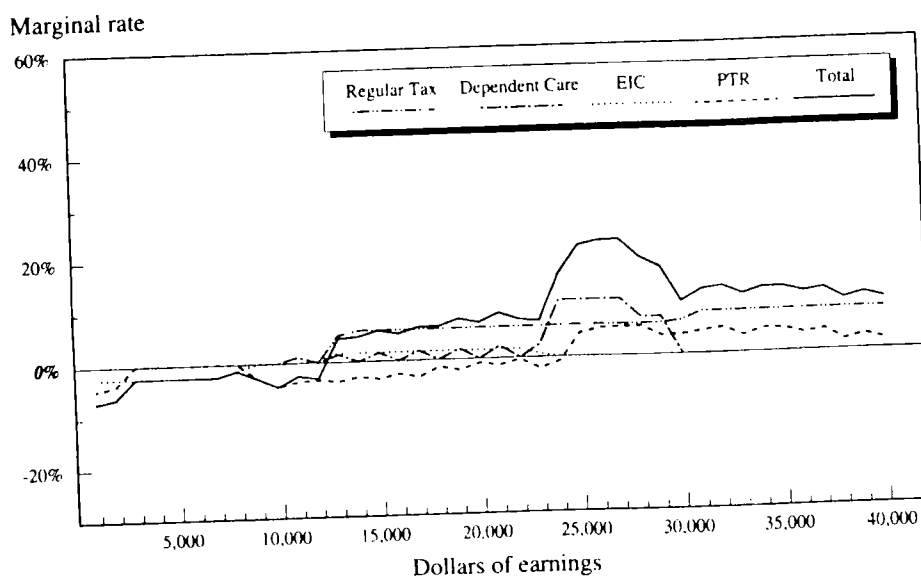
The *Minnesota earned income credit* equals 10 percent of the federal EIC. The state credit is refundable. The marginal rates, thus, equal 10 percent of the marginal rates under the federal credit.

The *Minnesota property tax refund (PTR)* program provides refunds of property taxes to qualifying homeowners or renters. Separate schedules are provided for homeowners and renters.

²⁶Minnesota also applies an 8.5-percent rate at higher taxable income levels.

²⁷The phaseout thresholds are indexed for inflation.

Figure B



Our analysis is limited to the renter component of the program, since most lower-income wage earners are renters.²⁸

The PTR provides refunds when the renter's imputed property tax exceeds a specified percentage of income.²⁹ The threshold percentage and the credit percentage vary by income level under a statutory rate and bracket structure. As income rises, the credit percentage drops, and property taxes must exceed a higher percentage of income for a renter to qualify.

The threshold percentages function as straightforward marginal tax rates: each additional dollar of income reduces the refund by the applicable percentages. The threshold percentages range from 1 to 3.5 percent. The credit percentages, however, apply to imputed property tax over the threshold. Thus, additional income does not reduce the refund until enough income is received to subject the recipient to a lower credit percentage in a higher bracket. The effective marginal rate, then, depends on the absolute level of the imputed property tax.

Figure B displays the components of Minnesota state marginal tax rates applicable to a head of household with two dependents. These marginal rates are substantially above the statutory rates of 6, 8, and 8.5 percent under the regular tax that are commonly thought to apply in Minnesota. The phaseout provisions of the state earned income credit, dependent care

credit, and property tax refund all are contributors to these marginal rates.

As shown in Figure B, the total state marginal rate is negative for taxpayers with wages below \$12,000, since the state earned income and dependent care credits are refundable. Once income reaches the phaseouts of these credits, the marginal rates rise to just over 10 percent at about \$23,000 and to over 22 percent at \$25,000. The property tax refund contributes three to five percentage points to the total marginal rate throughout the range above \$24,000.³⁰

Public Assistance Benefits (Transfer Payments)

Individuals who qualify³¹ for *Aid to Families with Dependent Children (AFDC)* are subject to reductions in their cash grants for a portion of their earnings. The reductions in AFDC grants are the equivalent of marginal tax rates. They apply when earnings (plus other income) less "disregards"³² exceed the eligibility threshold.

These tax rates vary based on family size, the number of months on the program, and other characteristics. AFDC re-

²⁸In the Minneapolis-St. Paul metropolitan area, half of the households with money incomes of \$30,000 or less are renters (60 percent of those with incomes below \$20,000). U.S. Commerce Dept., *American Housing Survey for the Minneapolis-St. Paul Metropolitan Area* (1989). (Over half of the homeowner households have incomes over \$40,000.) In addition, it seems reasonable to assume that a significant proportion of the homeowner households with lower incomes are elderly or retired individuals who derive a lower share or none of their income from wages.

²⁹Income is reduced by a deduction based on family size.

³⁰As an aside, the marginal rate curve under the property tax refund (PTR) has a final spike of an additional 18.7 percentage points above \$40,000 (on the far right of the graph) when the refund is fully phased out. The refund maximum is reduced throughout the phaseout range by \$100 for each \$1,000 of income, in addition to application of the threshold rate of 3.5 percent of income that must be paid before qualifying for a refund.

³¹A family qualifies for AFDC if its income and assets are within specified limits for families of similar size and characteristics. A variety of additional special rules apply to determine who is eligible for AFDC. See House Research, *Minnesota Welfare: A Guide to Public Assistance Programs in Minnesota* 5-8 (January 1993) for a general description of the eligibility requirements under the Minnesota version of AFDC.

³²"Disregards" is the welfare program jargon for income that is disregarded in calculating eligibility.

cipients receive earned income disregards, as a work incentive for a maximum of 12 months. After that time the disregards are not available again until the individual has been off AFDC in Minnesota for 12 consecutive months. For each of the first four months, the first \$120 of earnings and one-third of the excess are disregarded. Thus, the implicit marginal tax rate is 67 percent for amounts over the threshold. Beginning with the fifth month, the one-third provision no longer applies and the disregard drops to \$90 per month, resulting in benefits tax of 100 percent. Child care expenses of up to \$175 per month for each child aged two or older or \$200 per month for each child under two are disregarded.

Food stamp recipients similarly have their allotments reduced by a portion of their earnings. These reductions are the equivalent of marginal tax rates. The amount received in food stamps equals the "Thrifty Food Plan" amount³³ less 30 percent of the recipient unit's net income. In calculating net income, recipients deduct 20 percent of wages as work expenses, a \$122 standard deduction, and child care expenses up to \$160 per child per month.³⁴ Thus, most recipients are subject to an effective marginal tax rate of 24 percent on wages — 30 percent of the 80 percent of wages that remain after allowing the 20-percent work expense deduction.

Recipients of *section 8 and other federal rent assistance* (referred to hereafter as section 8) generally must pay 30 percent of their incomes to cover housing costs, while the program covers the rest.³⁵ As a recipient's income increases, more is paid by the recipient and less by the program. An individual is no longer eligible when 30 percent of the recipient's income equals fair market rent. In effect, a program recipient's earnings are subject to a marginal tax rate of 30 percent.

Medical assistance, Minnesota's *Medicaid* program, provides a package of health care services to recipients.³⁶ Eligibility depends on, among other elements, the individual's or family's income.³⁷ If total income rises above specified thresholds, eligibility for benefits ceases. Unless a recipient's new employer provides health care benefits, the potential loss of Medicaid benefits as a result of increased earnings will be a strong disincentive to work. Health insurance — particularly

individual coverage — can be very costly and may be completely unavailable because of preexisting medical conditions or other circumstances.

In effect, the Medicaid eligibility rules impose a steep marginal tax rate for income increases that result in denied eligibility.³⁸ This marginal rate is, in effect, a "cliff" or "notch." One dollar of income theoretically can result in the loss of benefits potentially worth thousands of dollars. Second, Medicaid benefits are provided in kind, rather than as cash or near-cash grants, such as AFDC or food stamps. The value of the benefits will depend on the cost of insurance to provide similar benefits to the recipients, the availability of employer-funded health benefits, and the utility of health benefits to the recipients.³⁹ These factors make it difficult to measure or show the potential loss of Medicaid benefits as a traditional marginal tax rate. Nevertheless, the incentive effect of the potential loss of Medicaid eligibility must be kept in mind, particularly when considering marginal tax rates on AFDC recipients, all of whom are Medicaid recipients. Family members of different ages lose Medicaid eligibility at different income levels; adults lose eligibility at much lower incomes than do young children. The points at which Medicaid eligibility is lost under Minnesota's medical assistance rules are marked with a star on Figures C and D.

In effect, the Medicaid eligibility rules impose a steep marginal tax rate for income increases that result in denied eligibility.

A variety of other public assistance programs impose effective marginal rates on their recipients. We did not analyze these programs, since they are neither entitlements nor available to large numbers of recipients.⁴⁰

Figure C displays the effective marginal rates that apply under each of the three public assistance programs and the total marginal rates that apply to a three-person family. Total marginal rates are over 90 percent until AFDC benefits are phased out, and remain at just over 50 percent until the recipient no longer qualifies for food stamps. A spike or notch occurs when

³³The Thrifty Food Plan is the lowest cost of four food plans designed by the U.S. Agriculture Department. It is priced monthly using data from price surveys done for the consumer price index. The food stamp allowances derived from the Thrifty Food Plan, however, are adjusted annually for price changes each October.

³⁴In addition, one-half of shelter costs may be deducted, if they exceed half of gross income after deducting work and child care expenses. This deduction cannot exceed \$194. Our examples assume recipients do not qualify for this deduction, based on our assumed rent levels.

³⁵Unlike AFDC, food stamps, and Medicaid, section 8 rent assistance is not an entitlement program. Although an individual or family may be eligible for assistance, receipt of a grant depends on the availability of funds. A substantial number of families receive section 8 assistance (approximately 95,000 in Minnesota), but there is also a long waiting list of eligible families for money to provide assistance is unavailable. The waiting list is significantly shorter for whom eligible families and individuals who are elderly or disabled.

³⁶For a description of benefits provided under Minnesota's Medical Assistance Program, see House Research, *Minnesota Welfare A Guide to Public Assistance Programs in Minnesota* 51 (January 1991).

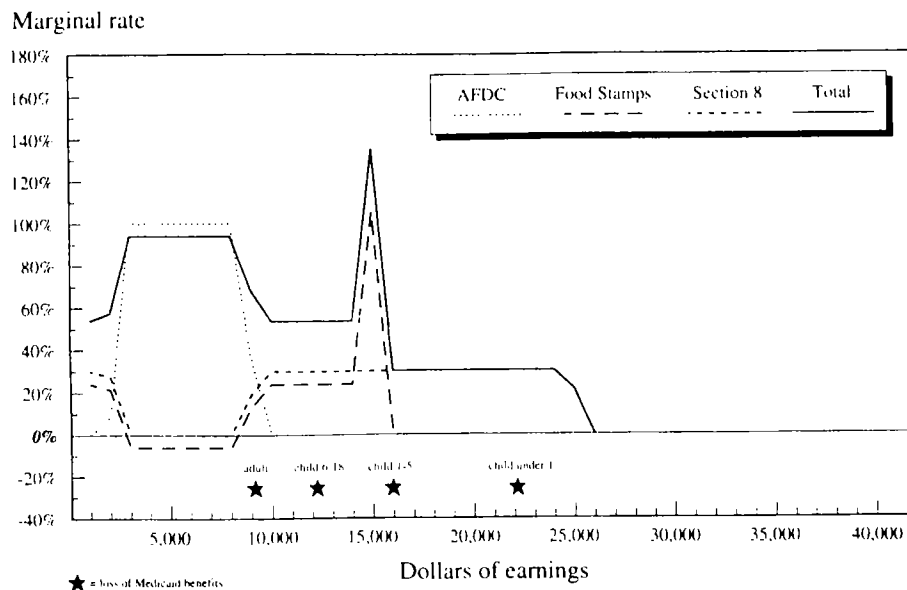
³⁷See House Research, *Minnesota Welfare A Guide to Public Assistance Programs in Minnesota* 47-49 (January 1991) for a description of the eligibility requirements of Minnesota's Medical Assistance program.

³⁸Recipients of AFDC benefits automatically qualify for Medicaid. For these individuals, a one-year "grace period" delays the loss of Medicaid benefits. In other words, if an increase in income makes them ineligible for AFDC eligibility, Medicaid benefits still continue for one year.

³⁹The cost of individual health coverage will vary with the health condition of the individuals involved, age, sex, and other factors. Furthermore, many individuals may substitute a less generous benefits set than that provided under Minnesota Medical Assistance Program, if they were to purchase their own coverage.

⁴⁰For example, Minnesota provides child care subsidies under a "sliding fee child-care program." This program is not an entitlement — except for certain AFDC recipients. Slightly more than 7,000 families are estimated to receive benefits under the program, while there is insufficient funding for many more eligible families. (Section 8 housing assistance, which is also limited by funding constraints, by contrast has over 95,000 recipients in Minnesota.) The design of the program's "sliding fee" schedule results in the imposition of marginal reductions in benefits that range from 10 to 66 percent. As benefits are reduced under the sliding fee program, however, the federal and state child care credits pay a part of the increased cost, mitigating these fairly steep marginal rates.

Figure C



the recipient becomes ineligible for food stamps. In effect, the loss of food stamp eligibility results in a large notch or cliff. Measured for a \$1,000 increase in earnings, this cliff imposes a marginal rate of over 100 percent on a family of three with \$14,000 in annual income. Put another way, a \$1,000 increase in earnings (\$84 a month) results in the loss of \$1,024 in food stamps (\$85 a month).

Figure C reveals that various phaseout rules of the public assistance programs, in some instances, interact to hold down the combined marginal rate. As the figure shows, AFDC, taken alone, imposes a 100-percent marginal rate above \$1,080 until benefits are eliminated. (The benefit calculations assume that the 12-month AFDC earned income disregard cycle.⁴¹) However, this 100-percent marginal rate is shifted to slightly higher incomes after deducting the disregards for child care expenses and effectively is reduced when the food stamp rules are taken into consideration. As a dollar of earnings is substituted for a dollar of AFDC benefits, the recipient's income for purposes of the food stamp program drops, since 20 percent of earnings are deducted as work expenses. This reduces the combined marginal rate from 100 to 94 percent. In a similar fashion, when a dollar of earnings is substituted for a dollar of AFDC benefits, the recipient's income under section 8 remains unchanged and section 8 benefits are not reduced. Thus, the AFDC benefit reductions, in effect, eliminate the section 8 marginal rate.

Combined Effects

Figure D graphs the combined effects of federal, state, and the public assistance program marginal rates for heads of

households with two dependents. The graph shows that the total marginal rates are at very high levels until about \$27,000 of earnings are reached. At income levels below \$15,000, the public assistance programs are the primary contributors to these high rates. The tax provisions — particularly the EICs — actually mitigate these high rates. After the eligibility under AFDC and food stamps is exhausted, the phaseout rates of various tax credit programs (i.e., the federal and state EICs and dependent care credits), the regular tax rates and section 8 take over to maintain marginal rates above 70 percent. After eligibility for section 8 assistance is exhausted at about \$25,000, marginal rates drop to the 40-percent level.

Marginal Rates Examples

Table 1 displays eight hypothetical examples of the marginal tax rates imposed on a \$1,000 increase in wages of a lower-income family with two dependent children. Four of the examples are heads of household and four are married joint units. The characteristics of the examples were selected to illustrate families with a variety of characteristics and with relatively high marginal rates. Some of the examples have relatively typical mixes of income and expenditures, while others have more unusual, but not implausible, characteristics.

The marginal rates imposed on these families range from just over 40 percent to over 90 percent. State tax rates are significant contributors to these rates in some examples — comprising more than 45 percent of the total marginal rate in three of the eight examples (columns 4, 7, and 8). In other examples, the state marginal rates are insignificant. For example, in the AFDC example (column 2), the state tax impact is small and negative.

The AFDC example is interesting in that it shows that the net impact of the federal and state tax provisions, through the EICs, and the food stamp program is to reduce the 100-percent effective rate under the AFDC program. By contrast, a head of

⁴¹Under the AFDC rules, beginning 12 months after the first month a recipient has earned income subject to a benefit reduction, benefits are reduced dollar-for-dollar for monthly earnings in excess of \$90 and the child care disregard.

Figure D

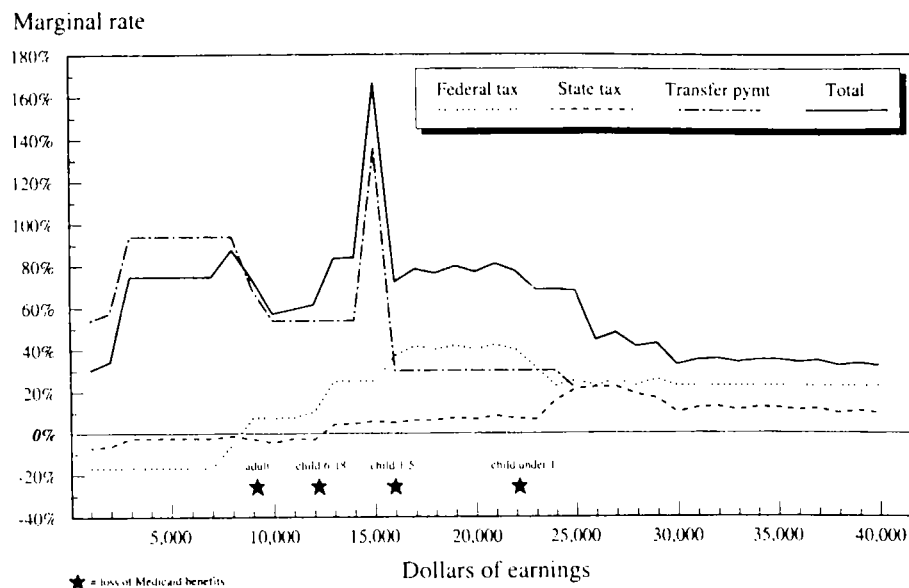
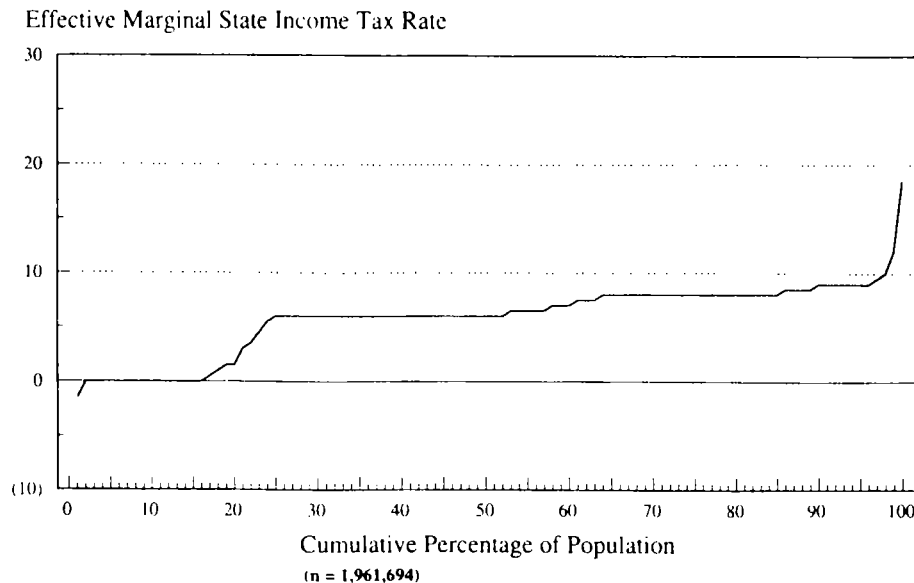


Table 1: Effective Marginal Tax Rates Applicable to \$1,000 Increase in Wages for Hypothetical Families

Filing status	head of household	head of household	head of household	head of household	married joint	married joint	married joint	married joint
	2	2	2	2	2	2	2	2
Number of dependents	2	2	2	2	2	2	2	2
Under age 1	1	1	0	0	1	1	0	0
Income (wages)	\$12,000	\$4,000	\$17,500	\$25,500	\$15,500	\$18,500	\$27,000	\$40,000
AFDC (grant before reduction)	N.A.	\$6,382	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Child care expenses	\$2,400	\$1,800	\$4,800	\$4,800	\$2,400	0	\$3,000	\$2,400
Imputed property tax for PTR	\$518	\$390	\$704	\$1,400	\$728	\$1,052	\$1,800	\$2,100
Section 8 recipient (Y/N)	Y	Y	Y	N	Y	Y	N	N
AFDC	N.A.	100.00	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Food Stamps	24.00	-6.00	N.A.	0.00	24.00	N.A.	N.A.	N.A.
Section 8	30.00	0.00	30.00	N.A.	30.00	30.00	N.A.	N.A.
Social Security (FICA)	7.65	7.65	7.65	7.65	7.65	7.65	7.65	7.65
Federal income tax	12.80	0.00	15.00	15.00	15.00	15.00	15.00	15.00
Federal EIC basic	13.14	-18.40	13.14	0.00	13.14	13.14	0.00	0.00
— young child credit	3.57	-5.00	0.00	0.00	3.57	3.57	0.00	0.00
— health insurance	4.29	N.A.	4.29	0.00	4.29	4.29	0.00	0.00
Federal dependent care credit	-12.80	0.00	-15.00	4.80	-15.00	0.00	0.00	0.00
MN income tax	5.10	0.00	6.00	6.00	6.00	6.00	6.00	6.00
MN EIC	2.10	-2.34	1.70	0.00	2.10	2.10	0.00	0.00
MN dependent care credit	2.40	0.00	10.80	10.80	2.40	0.00	7.20	0.00
MN property tax refund	-3.70	0.00	-2.50	6.10	-3.20	-0.70	6.89	20.00
Total effective marginal rate	88.55	75.91	71.08	50.35	89.95	81.05	42.74	50.65

Figure E



household (column 1) or married joint filer (column 3) with roughly comparable income on a family size adjusted basis actually has higher effective marginal rates (94 and 90 percent versus 76 percent) when they participate in the section 8 rent assistance program.

Marginal rates in the examples tend to decline with increased income, as income exceeds the phaseout ranges of the earned income and dependent care credits (e.g., columns 4 and 7). The final married joint example (column 8) has a relatively low rate (30.65 percent), putting aside the cliff effect of ending eligibility for the property tax refund program (a 20-percent marginal rate).

Distribution of Minnesota Marginal Tax Rates

The preceding discussion has shown that very high marginal rates can apply to the earnings of taxpayers with modest incomes. Furthermore, state marginal tax rates are important contributors to these high rates. However, all this analysis has been based on hypothetical taxpayers using average deduction and credit amounts. It may be that few taxpayers actually are subject to these high marginal rates.⁴²

We used the House Income Tax Simulation (HITS) model, a microsimulation model of the Minnesota income tax system, to estimate the effective marginal rates for the population of Minnesota taxpayers. The model calculates the tax liabilities for approximately 16,000 filers in the sample.⁴³ We increased

the wages of each filer by \$1,000 and calculated the effective state marginal income tax rate on this increase, using tax year 1992 parameters. Figure E displays the results. The marginal effective rates under the property tax refund are not included in the graph.

About 1.5 percent of filers have negative marginal rates as a result of the refundable Minnesota EIC.⁴⁴ Fifteen percent have marginal rates of zero, while over 60 percent of filers' Minnesota marginal rates range from 6 to 8.5 percent, the regular statutory income tax rates. About 10 percent of filers have marginal rates higher than 9 percent, while a very small proportion have effective marginal rates as high as 18.5 percent.

Figure E shows that the Minnesota income tax imposes significantly higher marginal rates on wage income than commonly thought. The relatively high proportion of rates that exceed the top regular tax rate shows the effect of the EIC, dependent care credit, and several other provisions that are not discussed in this article. These provisions derive from federal law. They include various phaseout provisions and the percentage of AGI thresholds for several itemized deductions.⁴⁵

To test the extent that these high marginal rates fall on lower income filers, a second distribution of effective marginal rates was calculated and graphed for filers with AGIs less than \$40,000. This graph (not printed) shows that most of the high

⁴²See Lerman and Gilke, *supra* note 8, for discussion of the dispersion of effective federal marginal rates.

⁴³The sample is drawn from tax filers, not families or households. For example, a teenage child living at home who files a separate tax return is a filing unit. Since the policy concern relates to families, rather than tax-filing units, this must be kept in mind in examining the results. Since these filing units do not qualify for earned income or child care credits and are unlikely to take itemized deductions, this probably increases the number of "low-income" filers with marginal rates equal to the regular statutory rates.

⁴⁴The sample consists of 1988 Minnesota and federal tax returns. Because Minnesota did not have an earned income credit in 1988 and the sample is drawn from a universe of state filers, it underrepresents individuals who would file only to receive an earned income credit refund. The number of individuals with negative marginal rates as a result of the state earned income tax credit is understated. Minnesota's child care credit is refundable, however. Thus, the sample includes individuals who file only to obtain credits of the child care credit, providing some representation of the population of filers qualifying for fully refundable EIC.

⁴⁵See footnote 20 for a list of these provisions.

marginal rates — e.g., all of those over 14 percent — fall on filers with incomes below \$40,000. By contrast, the marginal rates that are slightly (less than one percentage point) higher than the top statutory regular rate of 8.5 percent are attributable to filers with incomes over \$40,000. The former suggests that the highest marginal rates are largely attributable to the EIC and dependent care credit provisions, while the latter are largely attributable to the phaseout of personal exemptions and itemized deductions.

Conclusions/Policy Implications

Federal and state tax and benefit policies impose high effective marginal tax rates on many relatively low-income wage earners. Combined marginal rates in excess of 50 percent are not uncommon. These high marginal rates result from provisions targeted to low-income recipients, the benefits of which are taken away (phased out) as income rises. The earned income and dependent care credits are two main examples of this structure.

The preceding discussion has shown that very high marginal rates can apply to the earnings of taxpayers with modest incomes. It may be that few taxpayers actually are subject to these high marginal rates.

State taxes can be important contributors to these high marginal rates. This is particularly true in states like Minnesota that follow federal law in providing targeted benefits to low-income families, while adding more targeted provisions with phaseout provisions. For example, it is not uncommon for the Minnesota state tax provisions to add 10 to 20 percentage points to the total effective state and federal marginal rates.

Labor supply effects. High marginal rates on low-income wage earners have a variety of potential policy implications. The phaseout of the EICs and dependent care credits are primary contributors to these high marginal rates. A frequently cited rationale for these credits is to provide work incentives for low-income wage earners. The recent modifications to the EIC that increased both credit amounts and the phaseout rates may have been counterproductive in this regard.⁴⁶ The labor supply effects of these targeted provisions appear to be an appropriate candidate for further empirical study.⁴⁷

Cumulative impacts. The impact on marginal rates should be considered when federal or state policymakers evaluate

proposals that would add more phaseout or targeting provisions to the tax structure or in the provision of government benefits, such as subsidized health insurance. For example, proposals to convert the personal exemptions to credits that phaseout need to be evaluated for their cumulative effects on overall effective marginal rates, as well as under other tax policy criteria. The implicit marginal rate effects of proposals to provide health benefits for lower income households should be considered.⁴⁸ Targeted provisions need to be evaluated not only in isolation and for their impact on the distribution of the static tax burden, but also for their cumulative impact on effective marginal rates.

Design of state EICs. Marginal rate effects should be considered more carefully in the design of state tax provisions. In evaluating proposed changes to the tax structure, policymakers tend to examine distributional effects carefully, while ignoring marginal rate effects and administrative complexity. This tendency is reinforced by the routine preparation of tables showing the income distribution effects of each tax proposal.⁴⁹ One check on this tendency would be to regularly prepare analyses of tax proposals that display the marginal rates that the proposal will impose by a set of salient characteristics, such as income level or filing status.

For example, one choice facing states considering enacting or increasing an EIC is whether the credit should be refundable. Six states — Iowa, Maryland, Minnesota, Rhode Island, Vermont, and Wisconsin — have state EICs. Three of these credits — those in Minnesota, Vermont, and Wisconsin — are refundable, while the other states' credits are not. A state can provide a much higher credit rate for a nonrefundable credit at the same revenue cost as a refundable credit.⁵⁰ For example, Minnesota provides a refundable state EIC equal to 10 percent of the federal EIC. Minnesota could provide a nonrefundable EIC equal to 100 percent of the federal credit at a slightly lower revenue cost.

The choice between a refundable or nonrefundable credit has important effects on the effective marginal rates imposed. The marginal rate difference between a refundable and nonrefundable EIC are summarized in the text below and in Table 2, which uses Minnesota parameters to contrast a 10-percent refundable EIC with a 100-percent nonrefundable credit.⁵¹

⁴⁶In 1992, Minnesota enacted a new health care program, Health Right, for individuals whose incomes or assets are too high to qualify for Medicaid, but are under \$40,000. 1992 Minn. Laws chap. 549, art. 4 sections 5 to 9. The share of the program cost that the Minnesota Care recipient must pay rises with income. In other words, the program imposes implicit marginal rates. These marginal rates will range from 1.2 to 8.8 percent, although the percentages could be higher if claims experience requires higher premium payments in the future. See 1992 Minn. Laws chap. 549, art. 4 section 3. Throughout the long legislative debate over this program, the marginal rate effects and the interactive effects with other means-tested programs of the Minnesota Care program were not seriously discussed or considered.

⁴⁷This is done in Minnesota for all income tax changes, and we assume similar practices are followed in other states where microsimulation models are used to prepare the estimates of the impact of tax changes.

⁴⁸All state EICs are a percentage of the federal credit. This makes for ease of administration and compliance at the state level.

⁴⁹As noted above, a 10-percent refundable credit and 100-percent nonrefundable credit are essentially revenue neutral in Minnesota. This relationship may vary in other states, depending on other provisions of the state income tax and the characteristics of the population.

⁴⁶The EIC can only stimulate higher work effort among those recipients who receive higher credits for earning additional wages. The credit is, at best, neutral for those who receive the maximum credit but do not have high enough income to be in the phaseout range. The income effect suggests, however, that the credit will reduce work effort among this group. The credit will dampen work effort by those in the phaseout range, since it increases the tax rate on their marginal earnings. See, e.g., S. Hoffman & L. Seidman, "The Earned Income Tax Credit," 37-51 (1990) for a discussion of these issues.

⁴⁷Cf. B. Bosworth & G. Burtless, "Effects of Tax Reform on Labor Supply, Investment, and Saving," 6 *J. of Econ. Perspectives* 3 (1992) (finding increased labor supply among workers in the lowest quintile during the 1980s, despite no significant change in their marginal tax rates).

Table 2:
Marginal Rates Imposed Under Minnesota EIC Alternatives*
Heads of Households With 2 Dependents, Tax Year 1992

Wages #	Refundable credit equal to 10% of federal EIC	Nonrefundable credit equal to 100 percent of federal EIC
0-\$7,520	-1.8%	0.0
\$7,521-11,840	0.0	0.0
\$11,841-12,150	1.3%	0.0
\$12,151-19,165	1.3%	-6.0%
\$19,166-22,370	1.3%	13.1%
Over \$22,370	0.0	0.0

*Basic credit only.

#Assumes wages and adjusted gross income are equal.

Refundable EIC

(1) Negative marginal rates or wage subsidies are provided to individuals who do not have sufficient earnings to reach the maximum credit. For tax year 1992, the maximum credit is reached with \$7,520 (\$7,750 for 1993) of earnings. These negative marginal rates offset the positive marginal rates under the Social Security tax. For a participant who is also a recipient of AFDC or food stamps, these wage subsidies reduce the marginal rates imposed under those programs.

(2) A marginal rate of zero is imposed on participants who have sufficient earnings (over \$7,520 for tax year 1992 and \$7,750 for 1993) to reach the credit maximum, but who do not have AGI or earnings over the phaseout threshold (\$11,840 for tax year 1992 and \$12,200 for 1993).⁵²

(3) Positive marginal rates are imposed on individuals who have sufficient earnings to reach the credit maximum and AGIs or earnings to put them in the phaseout range. For tax year 1992, the phaseout range stretches from \$11,840 to \$22,370 (\$12,200 to \$23,050 for 1993).

Nonrefundable EIC

(1) Individuals who do not have sufficient income to be subject to state income tax receive no benefit from a nonrefundable EIC. Their marginal rate under the credit is zero. The range of income and the number of individuals in this category depends on the state tax structure — e.g., the amount of the

standard or itemized deductions allowed and the personal exemption or credit amounts. Table 2 shows these values for the Minnesota state income tax for tax year 1992.

(2) A nonrefundable credit imposes negative marginal rates for filers who would pay state income tax, absent the EIC, but whose entire tax liability is eliminated by the EIC. The total state marginal rate, of course, is zero. The EIC offsets the marginal rate that otherwise would be imposed by the state tax. Table 2 shows these values for the Minnesota state income tax for 1992. These negative marginal rates occur at higher income levels than the negative marginal rates under a revenue-neutral, refundable credit. Furthermore, they do not apply if another provision of state law (e.g., a nonrefundable dependent care credit or itemized deductions) would eliminate state tax liability.

(3) Finally, positive marginal rates are imposed on taxpayers in the phaseout range who have sufficient income to be subject to state income tax liability, notwithstanding the EIC. These rates will be much higher (essentially 10 times in the Minnesota situation) than those imposed under a revenue-neutral, refundable EIC on similarly situated filers.

Table 2 shows that the pattern of the marginal rates under the two credits differ significantly. As one would expect, the nonrefundable credit imposes more extreme marginal rates, both positive and negative, on a smaller number of individuals. The negative marginal rates are imposed at higher income levels for the nonrefundable credit alternative. From another perspective, the nonrefundable credit alternative essentially reduces the total state income tax marginal rate to zero until the credit is exhausted. When viewed as part of the overall state tax structure, the nonrefundable credit eliminates any negative marginal rates (wage subsidies) and imposes very high marginal rates in the narrow band of the phaseout range where taxpayers have positive state income tax liabilities.

Table 3 shows the estimated number of head-of-household filers subject to the marginal rates under the same two Minnesota EIC alternatives. These estimates were made using the HITS microsimulation model. Over twice as many individuals qualify for the refundable credit as for the nonrefundable credit. The nonrefundable credit concentrates its benefits on a smaller group of recipients with AGIs between \$10,000 and \$22,370. Slightly over one-quarter of the recipients of a nonrefundable

⁵²Zero marginal rates are also imposed on those with no earnings or with AGIs or earnings in excess of the point at which the credit is phased out.

Table 3: Estimated Number of Taxpayers Subject to Effective Marginal Rates* Under Minnesota EIC Alternatives for Heads of Households, Tax Year 1992

adjusted gross income	Refundable credit equal to 10% of federal EIC			Nonrefundable credit equal to 100% of federal EIC		
	marginal rate	number of filers	percent of total	marginal rate	number of filers	percent of total
Up to \$6,999	-2.4%	14,204	22%	0	0	
\$7,000-7,999	-1.2%	1,698	3%	0	0	
\$8,000-9,999	0	6,918		0	0	0%
\$10,000-11,999	0	7,691	22%	-6.0%	3,034	
\$12,000-18,999	1.7%	26,176		-6.0%	16,672	71%
\$19,000-21,999	1.7%	8,012		16.9%	7,506	27%
\$22,000-22,999	1.7%	609	53%	6.2	609	2%
\$23,000 or over	0	0	0%	0	0	0%
Total	N.A.	65,308	100%	N.A.	27,821	100%

*Effective marginal rates on \$1,000 increase in wages.

credit are in the phaseout range and pay state income tax. These individuals are subject to the full effect of the EIC phaseout rates between 12.57 and 21 percent.⁵³

The refundable EIC concentrates its benefits on families who are not subject to the state income tax. A refundable credit can be justified as offsetting the higher marginal tax rates imposed on recipients of public assistance benefits, such as AFDC, food stamps, and Medicaid. These programs impose higher marginal tax rates on wages than virtually any income tax would. In some ways, the refundable credit can be seen as an adjunct to these public assistance programs, a way of reducing their strong disincentives to work.

The nonrefundable credit provides its benefits to those slightly higher up the income scale — typically, those who are just above the thresholds for most of the public assistance programs. It reduces the marginal rates under the state income tax for those individuals and take more individuals "off the tax rolls." However, it imposes significantly higher effective marginal rates on individuals within a narrow band of income who are in the phaseout range and must pay some state income tax. This creates an undesirable notch effect in the marginal rate curve. The nature of this effect obviously depends on the parameters of the state income tax and thus must be analyzed separately for each state income tax structure.

The nonrefundable credit provides its benefits to those slightly higher up the income scale — typically, those who are just above the thresholds for most of the public assistance programs.

Marriage penalties. The high marginal rates imposed by the tax and benefit systems also create substantial marriage penalties. We have not attempted to analyze the size of these penalties, but they can be extremely large. Marriage penalties of several thousand dollars are plausible, and penalties over \$1,000 would seem common.⁵⁴ The Economic Recovery Tax Act and the Tax Reform Act of 1986 significantly reduced the marriage penalties that apply to middle-income couples. However, these targeted provisions, both tax and program benefits, continue to impose proportionately much larger marriage penalties on low-income couples.

⁵³The phaseout rate, as described above, varies with the number of dependents and whether the taxpayer qualifies for the young child or supplemental health insurance credit. These possibilities for varying phaseout rates (and thus effective marginal rates) explain the differences in the marginal rates under Table 2, which deals only with the basic credit, and Table 3, which simulates all features of the credit for the taxpayer population.

⁵⁴For example, if two single parents, each with \$14,000 of earnings and one child (thus qualifying for the EIC), marry, their combined federal and Minnesota income tax burdens would rise from a \$570 EIC refund to a net liability of \$2,688, a \$3,258 marriage penalty. If only one of the individuals has a child and qualifies for the earned income credit, their combined premarriage tax rises from \$1,395 to \$3,171 after they marry, a \$1,776 marriage penalty. In either case, the marriage penalty (over two-thirds of which is attributable to the EIC phaseout) is substantial. These penalties become even larger if either or both individuals qualified for the health insurance portion of the EIC or the state or federal dependent care credits. For example, in the first example, the marriage penalty could increase to over \$4,600.

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**A BUSINESS APPROACH
TO
WELFARE REFORM**

June 4, 1993
Washington, DC



NATIONAL ALLIANCE OF BUSINESS

A BUSINESS APPROACH TO WELFARE REFORM

Executive Summary

Today there is widespread agreement that our welfare system must be improved. Created to address economic problems of the 1930s, Aid to Families with Dependent Children is no longer suited to social conditions of the 1990s. Congress took a major step toward reforming the welfare system with passage of the Family Support Act in 1988. Even so, welfare reform continues to remain high on the public policy agenda.

Growing dissatisfaction with the system prompted President Clinton's campaign pledge to "end welfare as we know it." To fulfill this pledge, the President has outlined several principles that will guide his welfare reform proposal. He would impose time limits on the receipt of benefits, expand the Earned Income Tax Credit, toughen child support, and increase education and training opportunities for welfare recipients.

A comprehensive reform of the welfare system will require a concerted effort by, and the active involvement of, both the public and private sector. Because a strengthened and expanded welfare-to-work program is widely recognized as crucial to reform, the business community must play a critical role in this effort. As a business-led organization involved in welfare-to-work programs nationwide, the National Alliance of Business (NAB) has developed this paper to provide a business approach to welfare reform efforts.

The paper describes some of the issues in our current system of public welfare, outlines the social and economic costs of this system, and suggests a framework for the business community's involvement in its reform. It does not attempt to answer the many questions sure to be discussed during the debate on welfare reform. Nonetheless, the paper raises the issues business believes are essential to welfare reform efforts and discusses how those issues should be addressed. Fundamentally, NAB proposes the need for a business approach to welfare reform because we believe there can be no comprehensive attempt at reform or any expectation of its success without employer involvement.



This approach to welfare reform recognizes that any new or reformed system must be firmly rooted in and connected to the local labor market. Any system of public assistance that is not inextricably bound to local economic conditions and labor needs will face significant barriers in helping to move its participants to productive employment and self-sufficiency.

Reforming the welfare system will be a large and complicated undertaking. It will require addressing issues not only specific to welfare but also related to child care, health care, transportation, housing, job training and education. But if a reformed welfare system does not have at its core assimilating welfare participants into the workforce, it will achieve only limited success. American business should take part in the welfare reform debate to ensure that the redesigned system encourages work and assists participants in becoming productive members of our society.

Background

A brief scan of the current public welfare system reveals four major weaknesses. First, welfare does not reinforce values most Americans believe are important: work, family, individual responsibility, and self-sufficiency. Welfare rules penalize savings, perpetuate dependency, discourage work, and isolate recipients. In short, welfare often rewards failure not success.

Second, welfare often penalizes marriage and underwrites single parenthood. Welfare rules have traditionally imposed a stiff "marriage" penalty: women who marry a man with a job usually exceed AFDC limits on household income and thus lose their benefits. Couples who choose to live together instead of marrying suffer no such loss of income.

Third, much of what the federal government spends on public assistance to the poor is lost in an uncoordinated and inefficient system. Because this money is dispensed through so many separate programs and delivery systems with their own rules and regulations, much of it is swallowed up by an ever expanding bureaucracy for delivering social services, and never reaches the poor.

Finally, and most important from a business perspective, welfare undercuts the incentive to work. The current system is



replete with rules and regulations that have the effect of discouraging those who wish to work from doing so. For many, staying on welfare is simply a matter of economics. When cash assistance, medical, transportation, housing, and child care benefits - many of which are cut for those moving off AFDC - are considered, welfare often offers a more stable income than work.

The costs of maintaining the current system must, then, be measured in both economic and social terms. Currently, Washington spends about \$150 billion a year on 75 means-tested programs for the poor. In addition, the indirect costs, in the form of higher taxes to pay for remedial education, emergency medical care, drug treatment, homeless shelters, police, courts, prisons, etc. are an increasing burden on the economy and on our society.

Even more significant, however, are the costs of losing the productive capacity of a large number of our citizens. This is a loss of the productive potential of millions of citizens who cannot, for lack of education and/or skills, compete in a global economy. Nor can these costs be measured simply in economic terms. The costs of continuing with the current system will drain our country of important human resources well into the 21st century.

A Call for Reform

A general consensus has been formed that there are deep structural flaws in our public welfare system as it currently operates. A closer look at common attitudes about welfare, however, reveals two general and distinct points of view regarding welfare recipients. Recent studies have shown that people generally view welfare recipients in one of two ways: as long-term, or "career," welfare recipients and as temporary, or "transitional," recipients. A focus group study done in California discovered that perceptions of welfare recipients generally determined attitudes about the system as a whole. Those who felt that most welfare recipients were long-term dependents of the system generally had more negative impressions than those who felt most welfare recipients were temporary participants. The significance of these findings is that while many people express general dissatisfaction with our welfare system, what is most objectionable is the long-term



dependency it allows and, at times, encourages. Thus any significant attempt at welfare reform must seriously address the long-term dependency that welfare encourages.

Welfare reform is certain to remain high on the public policy agenda as several reform proposals are being discussed and/or considered. President Clinton campaigned on the promise to "end welfare as we know it." Legislation has not yet been introduced, but the President has indicated the following principles will guide development of his welfare reform plan.

- **First, welfare should be a second chance not a way of life.** Under the Clinton plan, most recipients would have two years after they completed a training program before they would be asked to take a job either in the private sector or in public service. The President would guarantee that welfare recipients do not lose their access to health care and child care by moving into the workforce.
- **Second, every American who works full-time with a child in the home should not live in poverty.** The centerpiece of this proposal is an expansion of the Earned Income Tax Credit (EITC). The EITC is a tax credit for working families with incomes of less than \$22,370 and one child living at home. Under the Clinton plan the income threshold would be raised and the credit would be extended to poor workers who don't have children.
- **Third, federal child support enforcement would be dramatically toughened.** It is estimated that 15 million children have parents who could pay child support but do not. The President proposes having states establish paternity at the hospital and using the Internal Revenue Service to collect unpaid child support. His plan would also establish a national databank to track down deadbeat parents.
- **Fourth, education and training opportunities for welfare recipients would be expanded.** This step would build on the Family Support Act of 1988, which required states to move a portion of their welfare recipients into training programs and jobs.



Business Involvement in Welfare Reform

Under the framework of the Clinton plan, states would be accorded greater flexibility to experiment and design their own approaches to welfare reform. The President has promised to approve waivers to states for welfare reform programs that may not directly reflect the policies of his Administration, provided that there is an honest evaluation of each program.

It is in the interest of all concerned that the business community participate in any reform discussion so as to guarantee that any proposal is premised upon the goal of moving welfare recipients off public assistance and into productive employment. Because any earnest attempt at reforming the welfare system will include efforts to strengthen and expand successful welfare-to-work programs, employers' involvement is critical. Welfare-to-work programs lie at the intersection between social service agencies, education and training services, and the labor market. Meaningful business involvement can improve program efficiency and effectiveness and can significantly increase the chances that program participants will ultimately become independent from public assistance.

Welfare-to-work programs must be incorporated into our national effort to build a world class workforce. At a time when all resources of the nation's labor market must be better utilized to keep pace with global economic competitiveness, preparation of welfare recipients to meet the expanding human resource needs of business is critical. However, employment and training programs for welfare recipients will not be sufficient in and of themselves unless they leverage the interests, perspectives and resources of the business community.

Private sector employers know what job skills are needed in their industries and in their geographic areas. They understand local labor market trends that can help to guide program designs and training content. Just as business has a direct interest in welfare-to-work programs as a means to building a better workforce, so too does the nation need to develop the productive capacity of groups previously considered to be outside the mainstream of our economy to assure an adequate supply of skilled workers. Training welfare recipients to fill job vacancies in the private sector not only makes good social policy - we are dignified by our work - it is sound economic policy. In short,



A Framework for Welfare Reform

Principle 1

the business community has a stake in the success of welfare-to-work. The problems created by chronic unemployment and dependency are well documented. Because these problems demand the use of scarce resources, and because they contribute to social tensions which affect productivity and the general business climate, the public sector should be interested to have business's assistance in solving them.

Long-term welfare dependency and complex labor phenomena are issues too large and important for any one sector of society to address alone. Labor market and welfare issues are no longer just government problems. A public/private partnership based on the principles outlined below would bring the best leadership, resources, and commitment to the table in each local community to address the welfare issue.

Welfare reform should be an integral part of the effort to develop a comprehensive workforce development system that is firmly rooted in local labor market needs and opportunities.

If the United States is to remain competitive in world commerce in the 21st century, we need to invest in building the skills of our current and future workforce, and we must actively engage in partnerships to build a workforce development system that includes all our citizens. We must realize the need for the public and private sectors to collaborate on systems that optimize the full potential of our human resources.

Experts agree that we lack a coherent system for setting human resource goals and priorities at the community level and for linking employment, training, and education programs together with local employers to deliver services efficiently to meet these goals and priorities. A broad-based workforce development system would help to eliminate the inefficiencies in the current use of resources for public assistance and welfare-to-work programs. The system would be characterized by: a common point of intake; individualized assessment of clients to determine their service needs; a form of case management to see participants through the system; and a common system of placement that employers could readily access.



The lack of available resources at the state level has been a barrier to previous welfare reform efforts and to developing effective welfare-to-work programs. State budgets, severely pinched by the recession, have not been able to provide sufficient matching funds to use all of the available federal money. A comprehensive and well-coordinated workforce development system would increase the probability that adequate funding is available at the federal, state, and local level to meet the needs of our current and future workforce.

Another barrier to improved welfare-to-work programs is the lack of coordination between different federal and state agencies and the programs they administer. The result of this is more often than not an incoherent effort between different parts of the system that do not work together toward complementary goals. Welfare-to-work program administrators have expressed a great desire for a more integrated and better coordinated system. Legislative changes would be required to correct some of the problems, but with influence of the private sector, a workforce development system could accomplish much administratively to improve coordination and reduce paperwork. Such a system would provide the context for making decisions about investing in our human resources today for the benefit of our future economic competitiveness.

The crucial components of any welfare-to-work program are education and job training. These components, however, are also expensive. Viewed in the short term these services do not seem to justify their costs. Viewed in the long term as part of an overall effort to build an internationally competitive workforce, they are a wise investment in our future. A comprehensive workforce development system implemented at the state and local level would serve clients more efficiently.

The key component of a workforce development system should be a network of business-led Workforce Investment Councils to be established in every labor market in the country. The Councils would overcome the inefficiency of our current fragmented and frequently duplicative approach to local labor market program administration by overseeing the operation of a more efficient, integrated system of service delivery. In fact, several states have utilized the existing Private Industry Council system to serve this function.



Within a framework of federal and state policy leadership and support, the Councils would negotiate among existing federal, state, and local training and work-related education programs.

A restructured welfare program that is integrated into a larger workforce investment system would provide a more efficient way of moving participants into productive employment. Education and training programs would be responsive to local economic conditions and participants would be provided training appropriate to those conditions. Such a system would allow welfare to return to its intended role of providing participants with temporary assistance as they prepare to enter or reenter the workforce.

Principle 2

Welfare reform should build on the Family Support Act of 1988 to expand education and training programs that help welfare recipients become job-ready and employed.

In 1988, Congress enacted the Family Support Act (FSA), which established a new employment and training program for recipients of AFDC called the Job Opportunities and Basic Skills Training (JOBS) program. The purpose of JOBS is to assure that needy families with children obtain the education, training and employment that will help them avoid long-term welfare dependence. JOBS requires states to set up welfare-to-work programs, to fund the programs by matching federal dollars, and to compel some welfare recipients to participate in these programs. Through these programs, participants receive basic and vocational education, job skills and job readiness training, on-the-job training and community work experience. They are also eligible to receive support services, such as transportation, child care and Medicare up to a year after they complete training.

Perhaps the most significant aspect of JOBS is its emphasis on participant responsibility. JOBS stresses that welfare recipients have an obligation to pursue the opportunities and take advantage of the activities presented to them. One of the shortcomings of the current welfare system is the absence of expectations it places on participants. Only by moving towards a policy which recognizes and rewards participants' efforts to help themselves will we eliminate the long-term nature of public



assistance. To this end, the President's proposal to impose time limits on the receipt of welfare is a step in the right direction. However, without continuing and strengthening this emphasis on mutual obligation, as required under JOBS, time limits will only be partially effective.

The foundation upon which to build welfare reform is already in place. A coordinated, comprehensive welfare system can be constructed with refinements to the existing structures and can become an integral component of the workforce development system. JOBS is the culmination of a great deal of welfare experience and reflects what programs need, such as design flexibility and the encouragement to coordinate with other, appropriate agencies and community-based organizations. In fact, most interested parties believe that the ingredients for a successful welfare-to-work program are contained in JOBS.

Many observers also recognize that the potential for success in an expanded Family Support Act and JOBS program lies in their emphasis on individualized services and assistance. Many of the education and training programs in states, however, are not capable of addressing the unique needs of welfare recipients. Target groups from welfare-to-work programs differ from those that have traditionally been served effectively by education and training programs. When compared with other students in education and training programs, welfare recipients have generally been found to have lower average achievement, lower average motivation, greater need for support services, and a higher incidence of personal problems. Welfare-to-work programs should be designed with the flexibility necessary to address different needs.

Because of welfare recipients' special needs, states and localities have found it necessary to adapt existing education and training programs. Many education providers have found that welfare recipients by and large require more counseling than non-welfare recipients. Others have adapted their established curricula to meet the needs of welfare recipients. In some local education agencies in California, for example, educators decided to create classes expressly for adult welfare recipients. The Job Training Partnership Act (JTPA) is moving toward a system with an assessment process and an array of appropriate services that succeed in matching services to the person. The effort needs to be expanded to include JOBS participants.



Another significant aspect of the JOBS program is its emphasis on providing work experience. Many JOBS programs use Community Work Experience or Work Supplementation not as ends in themselves but as components of a program designed to prepare participants for work. As a component, work experience is a way for the participant to make choices about potential professions, become accustomed to the job readiness skills that a permanent position requires, and to develop additional skills. In addition, the program staff can use work experience as an assessment tool of a participant's training or education needs.

The Family Support Act of 1988, and specifically the JOBS program, lays the groundwork for reforming the welfare system. The Act's emphasis on participant responsibility, the importance it places on the provision of employment and training services to welfare recipients, and its encouragement of employment programs such as Community Work Experience and Work Supplementation, begin to move in the direction of a reformed and improved welfare system.

Principle 3

Public service employment should be evaluated by weighing the benefits it would provide against the costs it would impose.

The idea of mandating some type of work experience is controversial because it inevitably leads to a debate about public service employment. The President has said that under his plan after two years welfare recipients would be asked to take a job in either the private or public sector. Presumably, those unable to find private sector jobs would be placed in some type of public service employment. The questions associated with public service employment are too numerous to be discussed definitively in this paper, yet it is clear that, however well-designed and well-constructed a public service employment program is, it should not be a permanent alternative to unsubsidized private sector employment. Additionally, public service employment should not position welfare recipients against unionized workers, dislocated workers, and existing workers for jobs. In general an effective public service employment program will need to be carefully managed to avoid pitfalls of supplanting or replacing regularly funded private sector jobs. The benefits of public service employment are the



values and habits of work it instills, the sense of participant responsibility it imparts, and the skills and training it provides to participants.

Principle 4

Welfare reform should preserve the flexibility allowed to the states and should encourage state experimentation with their own welfare plans.

The environment for welfare reform experimentation was established by the Family Support Act of 1988 and by the federal government's response to requests from the states for waivers. The states have used this flexibility and made major changes to their welfare systems. For example, Wisconsin has been a leader among states experimenting with welfare reform. Widely known for its Learnfare program, which reduces welfare benefits for teenage truancy, Wisconsin has also proposed a more aggressive child support collection system than the one found in the Family Support Act.

In Ohio, teen parents receive a bonus in their welfare grant for being enrolled in a school program leading to a high school diploma or its equivalent and for meeting monthly attendance requirements. Maryland has proposed cutting benefits for recipients not receiving preventive health care or not keeping children in school. New Jersey is experimenting with denying benefits to mothers if they have additional children. Michigan has abolished its general assistance program, which provided benefits to adults with no children. Recently, Wisconsin became the third state to begin work on a time-limit plan, joining Vermont and Florida. Vermont was granted a waiver from federal rules to proceed with its plan, Florida will submit a waiver request shortly, and the Wisconsin legislature will soon vote on its time-limit proposal.

Much of the progress that has been made on welfare reform has been the result of ideas like these developed, tested, and refined at the state level. Almost every state has some experimental innovative approach in its welfare-to-work program and although many state experiments will be controversial, it is through state flexibility and experimentation that widely acceptable program solutions will be found. Allowing, indeed encouraging, these demonstrations to continue should be a key component of a reformed welfare system.



Principle 5

Welfare reform should preserve the safety net for children and the disabled. Furthermore, steps should be taken to address the root causes of poverty and avert welfare dependency before it begins.

The goal of all welfare-to-work programs should be to help participants find productive employment and become contributing members of our workforce and society. However, programs should not be considered to have failed if all participants in them do not reach this goal. There will still remain a segment of the welfare population which will have great difficulty becoming self-sufficient. There are a number of welfare recipients who cannot work because of age or disability. In the efforts to reform the welfare system it is essential that we not lose sight of our commitment to providing citizens a safety net below which no one is allowed to fall.

Today, the business community is defining its role in public policy by seeking greater involvement in school reform, vocational education, dislocated worker training programs, job-training for the disadvantaged, school-to-work and youth apprenticeship programs. As the business community continues to provide input into these and other critical issues affecting the quality of the American workforce, questions about long-term welfare dependence will be addressed. Many of the flaws of our welfare system today could be corrected by taking action sooner and addressing problems before they occur.

A Role for Business

Although the proposed framework for reform is primarily addressed to public-policy makers, there is a distinct but closely related role for the business community. As detailed earlier in this paper, business has a critical stake in the success of our welfare-to-work system. As this system is further integrated into a workforce investment strategy, the business community's stake becomes even higher and the benefit of having business involved in the design and implementation of welfare-to-work programs is even greater.

Businesses can help ease the transition from welfare-to-work by adopting voluntary "family friendly" policies that recognize the



barriers many welfare recipients face in gaining full-time employment. Many of the hurdles welfare recipients face in maintaining productive employment are only indirectly related to income. AFDC recipients often have child care, transportation, health care and other needs that prevent them from finding and maintaining full-time jobs. Recognizing the interrelationship between these issues and the welfare reform debate is a necessary first step in constructing a more enlightened welfare system. These are issues to be addressed by both the public and private sectors. There are, nevertheless, steps the business community can take voluntarily to remove some of the obstacles welfare recipients face on their path to self-sufficiency.

Many companies, large and small, have begun to adopt policies that provide support for employees struggling to balance family, health, transportation, and other concerns. These concerns are often what keep welfare recipients from maintaining employment. The extent to which businesses can address them will be a critical factor in the success of reformed welfare system.

Additionally, employers have a key role to play at the local, state, and federal levels in the design and implementation of welfare-to-work programs and welfare reform strategies.

At the local level, businesses are often the best predictor of labor market trends and needs. Businesses also know the skills required of the current and future workforce in their industries. The business community can bring this knowledge and experience to the development of effective welfare-to-work programs. Local private sector leaders can serve an important role as outside brokers, or barometers, for public programs related to employment and training. Very often it is the "neutral" business volunteer who motivates public agencies and officials to work more effectively and to coordinate resources more efficiently toward a common goal.

At the state level. Many of the most innovative ideas on welfare reform have emerged from state efforts to restructure their programs. States will continue to experiment with ideas and as such it is at the state level where business can have an impact on overall policy direction. Critical to the success of programs at this level is the ability to coordinate statewide public/private employment and training strategies.



Summary and Conclusions

At a time of limited public resources, coordination among job training and education programs is a critical common sense issue for employers. Welfare-to-work programs should be coordinated with other employment and training resources available for similar population groups. This can be done through comprehensive state-level coordination policies that provide criteria for coordination in the local planning process.

At the federal level. AFDC has been and remains a federally funded program. Overall policy decisions that impact welfare programs will be made in Washington. The business community can make its voice heard as the Administration, the Congress and national organizations frame a redesigned welfare system. Appropriate issues for the business community to raise at the federal level include: increasing incentives for welfare recipients to seek and maintain employment; creating incentives for employers to hire welfare recipients; developing program performance evaluation criteria; and simplifying program requirements.

President Clinton has indicated that welfare reform will be prominent on the domestic public policy agenda. There is nearly universal agreement that the current system has several fundamental problems and serves to perpetuate the conditions it was designed to correct. The question is no longer whether something needs to be done but rather what can be done.

The business community can help to answer this question by advocating policies that have productive employment as their end results. The issues confronted in moving welfare recipients into productive employment are directly related to issues in building a world-class workforce capable of competing in the global economy.

The debate on welfare reform will require that we address many broad issues including the proper role and responsibility of federal, state, and local governments, their relationship with the business community, the reciprocal obligations of those receiving public assistance, and the most appropriate way to empower those in poverty to take control of their own lives.





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GARY J. STANGLER
DIRECTOR

May 13, 1993

Carol Rasco
Chief Domestic Policy Advisor
The White House
Washington, DC 20500

Dear Carol:

Recognizing the extreme demands on your time, I respectfully request that you visit with two individuals who are key to our welfare reform efforts in Missouri:

- Bob Rogers, President of the Kauffman Foundation
- Bert Berkley, Chairman of the Board of Tension Envelopes, Inc., and chair of our Local INvestment Commission (LINC), a local governance entity for human service programs.

The purpose of our visit is to apprise you of the community's direct ownership, direction and assistance in financing the welfare reform efforts recently announced by Governor Mel Carnahan and Mayor Emanuel Cleaver. You may recall, I sent you the media materials used in that announcement. We are seeking to retain waivers granted by HHS and to push for final resolution of our waiver request at USDA. These waivers allow us to use benefits as wage supplements as part of an economic development strategy to attract jobs to the inner city that otherwise were going offshore. Several manufacturing firms have expressed interest and are working with us on this effort.

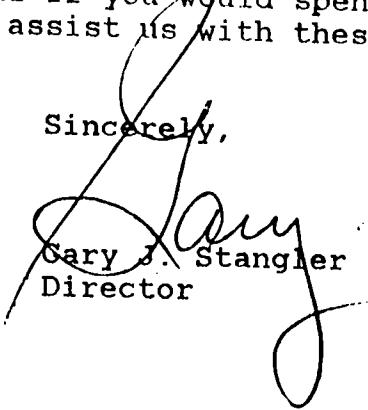
In addition to our welfare reform efforts, Mr. Rogers and Mr. Berkley would like to provide you with the results of our focus group research on family and child welfare issues, which was conducted in ten cities across the United States and, I believe, are helpful as you push your strategies on family support and family preservation in the president's budget, and for other efforts on child welfare reform.



May 13, 1993
Page 2

I would be very grateful if you would spend a few minutes with us, and both learn and assist us with these efforts. Best personal wishes.

Sincerely,



Gary J. Stangler
Director

GJS:dl

Local INvestment Commission (LINC)

VISION/MISSION

The primary objective of LINC is to reform the human services system at the community level. LINC will connect with all human service initiatives in Kansas City to:

- establish service flexibility going beyond "business as usual";
- view families-in-need holistically;
- move from crisis-focused to primary and preventive services; and
- design services that encourage family independence, not system dependency.

AUTHORITY

LINC will serve as an agent of the state and will therefore incur no legal liabilities. The state human services director will enforce LINC's recommendations.

BUILDING ON EXISTING FOUNDATIONS

It is essential that LINC identify and learn from public and private agencies of the community with local collaborative experience. Emphasis will be on innovative programs and supporting those programs "that work."

GEOGRAPHIC DATA

LINC will initially focus its attention and conduct needs-assessments on the population in the Kansas City limits, south of the Missouri River. Although this area will define the target population, the intention is to improve the entire system of service rather than on segmenting participants and services. The

Commission will use existing data bases and will build upon them to establish a context for analysis and projection of trends.

ACCEPTANCE STRATEGY

It is necessary to achieve acceptance from a wide variety of state and community leaders. Their support and endorsements will be critical to LINC's achievement of systems reform. To meet this level of acceptance, committee members' commitment to the commission is vital.

OPERATING PRINCIPLES AND PLANS

The director of the Department of Social Services will appoint the LINC chair and vice-chairs. Once established, the Commission will appoint committee chairs, vice-chairs and then select members for the professional committees listed below.

Commission membership will be broad and inclusive and comprised solely of lay volunteers. Individuals receiving services will be represented, as well as business leaders, community and neighborhood activists, involved citizens and area professionals.

--Professional Committees

Committee members will provide technical expertise to the Commission. They will be selected for their talent, knowledge and expertise in their specific profession. LINC's eight professional committees are:

- aging**
- welfare reform**
- health care (Medicaid access)**
- children and family services**
- school-linked services**
- housing**
- business development**
- security**

Objectives, priorities and guiding principles will be set by Commission members for subcommittees' reaction and response. The guiding principles will give each subcommittee an overall direction and a common theme.

The professional committees will work with and address both Commission members and program participants alike, thus incorporating all levels into the system reform process.

—Professional Cabinet

A professional cabinet of advisors will help guide the Commission, providing them with technical assistance. The cabinet consists of recognized professionals from various disciplines.

COMMUNICATION PROCESS

A strategy for effective, ongoing communication with DSS staff, the community, the provider population, the Commission professional committees, and the media will be developed. Guiding principles will be set by LINC members with the professional committees setting their own individual goals for their specific areas. A two-way process will be developed to share information. The committees must also devise ways to gather information through a variety of means—i.e. hearings, interviews, focus groups, etc.

EDUCATIONAL PROCESS

Educating the Commission, program staff, the community, office holders, the media and other stake-holders will take place on a variety of levels. Some will require in-depth knowledge and training, while others may only need to be kept apprised of LINC's progress.

The educational process will not only serve to educate but motivate as well. Focus will be on the need to change the way we do business and how the community can play a larger role in shaping the future for Missouri families.

–Internal

All members of LINC and its subcommittees will receive issue specific training and briefings through activities such as site visits, focus groups, hearings, workshops, interviews and seminars.

–External

The Commission must keep in mind the need to communicate new ideas with local stake-holders and advise them of the Commission's progress. They will also report on successful programs and determine how to address programs that are outdated or not working.

FUNDING

One of LINC's goals will be to bring together public and private funding. Through the use of incentives and redirecting of funds, LINC will have impact on discretionary and entitlement programming, thus allowing greater flexibility and financial priority setting to be made at the community level.

The feasibility of expanding the use of available federal funding will also be explored by LINC. Private monies may be utilized to enhance programs and to match federal dollars.

SHORT-TERM FOCUS

The importance of building on short-term successes will help LINC move toward its goal of systems reform. Targets for short-term successes include:

- out-posting state personnel to sites beyond state offices;
- creating more flexible working hours;
- reviewing eligibility requirements; and
- reducing staff turnover and improving morale.

LONG-TERM FOCUS

LINC's focus for the long term will be:

- **develop broad-based outreach;**
- **create outcome-focused contracting;**
- **assess and expand managed or coordinated care health services;**
- **invest in a training commitment for staff and providers; and**
- **commit to consistent and ongoing communication, emphasizing successes along the way and building in community ownership.**

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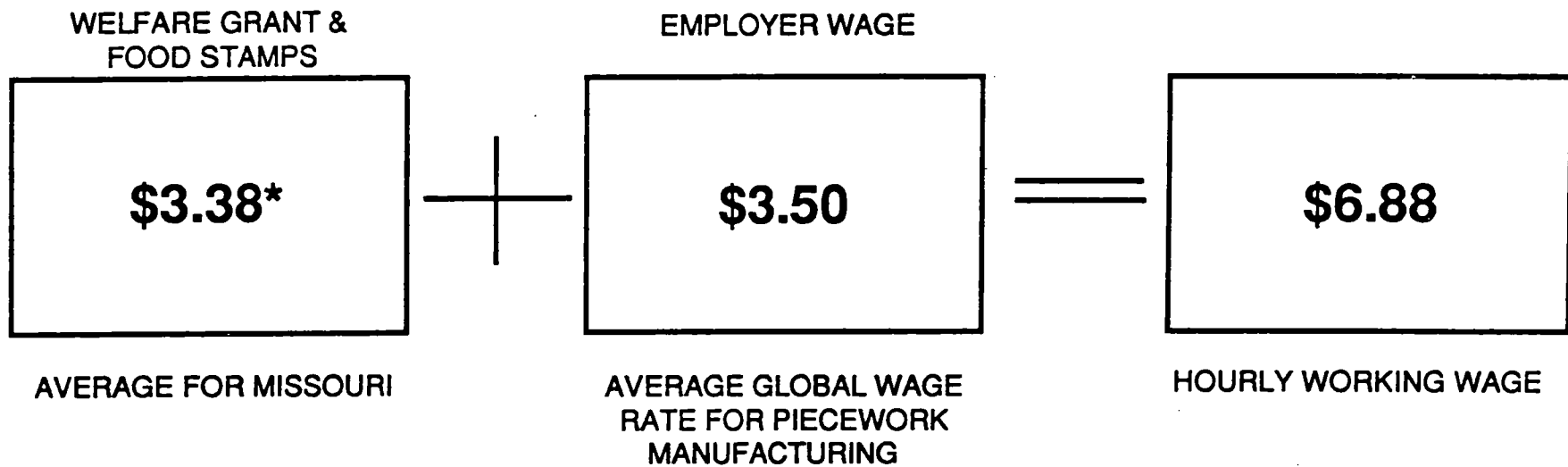
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EXAMPLE OF WAGE SUPPLEMENTATION



WAIVER ALLOWS PARTICIPANTS TO RECEIVE HEALTH CARE AND/OR CHILD CARE FOR UP TO FOUR YEARS

(*This example is based on a three-member family receiving maximum benefits)

21st Century Community Kansas City, Missouri

February 18, 1993

Overview

The 21st Century Community initiative is a ten-year, comprehensive approach to the development of low-income urban communities. Kansas City, Missouri is the first community in the nation to receive approval as a pilot site. 21st Century Community will be pursued through a series of partnership strategies among government, the private sector and local community organizations. These strategies will incorporate successful approaches, such as Head Start, Futures, Futures Connection and child support enforcement, bringing them together with new initiatives in areas of job creation, wage supplementation, work skills and job skills, comprehensive "learning readiness," and family and neighborhood support.

Status

Kansas City's Local INvestment Commission (LINC) - a 23 member board designed to coordinate human services at the community level, will have responsibility for managing the 21st Century Community initiative. In partnership with the city government, civil leaders and the state of Missouri, LINC will prepare to implement the 21st Century Community initiative and will have management responsibility.

A strategic plan and a compact for the implementation of the 21st Century Community for Kansas City was signed by major community leaders. The signature page of the compact indicates the level of support for the initiative from the business community, foundations, and civic organizations (see attached sheet).

In order to implement the 21st Century Community initiative, an application for a federal waiver was submitted to the U.S. Department of Health and Human Services (HHS). The waiver request was to:

- allow the Aid to Families with Dependent Children (AFDC) grants to be used as wage supplementation for a period up to 48 months;
- allow wage supplementation participants to accumulate assets up to \$10,000 during the 48 month period for certain uses, such as college or to start a business;
- allow wage supplementation participants to remain eligible for non-wage benefits, such as Medicaid and child care services during the 48 month period; and
- ensure that children receive child support payments and get the maximum amount of support benefits available to them while allowing the parent to participate in wage supplemented employment.

This federal approval gives Kansas City the opportunity to move forward with transforming economically disadvantaged communities and moving them into socially healthy and self-sustaining environments.

Immediate Activities

- **Job Creation - Recruiting businesses to establish community-based enterprises creating “new” jobs that would have otherwise gone “off shore.”**
- **Community-Based Enterprises - Starting and expanding entrepreneurial training and business management mentoring.**
- **Wage Supplementation - Identifying and assisting employers who will provide a “workable wage” for welfare recipients through a cash welfare grant and the wage the employer would pay overseas. For welfare recipients to be eligible they must:**

- **be income-assisted residents who, at the time of employment, are receiving AFDC and food stamps;**
- **volunteer for training that provides work skills as well as job skills; and**
- **be a parent who is required to make child support payments to a child in an income-assisted household;**

(Wages paid to eligible community residents will be provided up to 48 months, during this period they will continue to receive health care and/or child care).

- **Job Progression - Tying wage supplemented employment to guarantees of non-subsidized jobs that take people off welfare and out of poverty.**
- **Job Development - Focusing on job entry education and work skills training in preparation for jobs. These activities will be coordinated with existing Job Training Partnership Act programs, FUTURES, GED programs, etc.**
- **Learning Readiness and Education - Establishing a comprehensive learning readiness strategy that will ensure that every child within the community arrives at school with their fullest potential for learning. The strategy will focus on identified, preventable causes of diminished learning capacity, such as low birth weight, prenatal exposure to drugs or alcohol, lack of preventive health screenings and immunizations, inadequate nutrition, etc.**

Immediate Activities Continued

- **Learning Readiness and Education. . . .**
 - ensuring that comprehensive case management will secure the provision of needed health and human services to each child and to families with multiple needs; and
 - determining that Head Start programs, Parents As Teachers and local schools will form an integrated network to provide a comprehensive package of parenting and early childhood development services for school-age and preschool-age children.
- **Comprehensive Family & Neighborhood Supports - Working with neighborhood-based family support networks to integrate service planning, coordinate service delivery and financing, ensure service continuity, provide both immediate and direct access from any point of entry, and ensure overall system accountability for meeting individual and family needs.**

Future Activities

- **creating "community banks" for personal and business credit to support community-based enterprises;**
- **expanding networks of early childhood education and child care; and**
- **tax incentives.**

Management

The initiative is a collaboration of parties to the compact. These parties include:

- **Kansas City Mayor's Office**
- **Local INvestment Commission**
- **local Civic Council**
- **Black Chamber of Commerce**
- **Kansas City Chamber of Commerce**
- **Hispanic Chamber of Commerce**
- **Kansas City Greater Community Foundation**
- **Kauffman Foundation**
- **Missouri Department of Social Services**

Management Continued

The overall management of the 21st Century Community will be achieved by the leadership of LINC, and supported by the local community organizations. LINC will act as the focal point for the effort. LINC, through its committees and professional cabinet will provide the staffing for various components of the initiative.

Evaluation

The initiative will be evaluated by an independent third party who will assess impacts on community residents, businesses, and the community infrastructure and conduct a cost-benefit analysis from the perspectives of the participant, the community, the government, and the taxpayer. The evaluation will be longitudinal (i.e. to assess changes affecting both individual community residents and the community itself over time).

Federal and State Costs

Overall, implementation of the 21st Century Community will result in both a net decrease in federal and state outlays and a net increase in revenues over the course of the ten-year project period. The ten-year period will allow flexibility for initial outlays that will create future savings.

Next Steps

Many tasks remain to support this initiative. These fall into two categories, state tasks and community tasks.

State tasks include:

- apply for a waiver for Food Stamp income to be used to support wage supplementation;
- work with HUD to establish rent ceilings within the target area; and
- request discretionary federal and philanthropic funding to fill gaps identified by the limitations of programmatic funding.

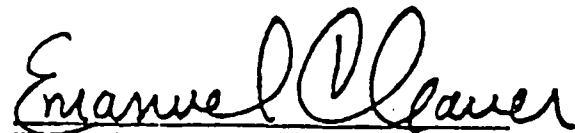
Community tasks include:

- establish work groups under LINC to conduct the strategic planning;
- establish private wage supplemented employment opportunities;
- establish job progression opportunities for employees participating in wage supplementation;

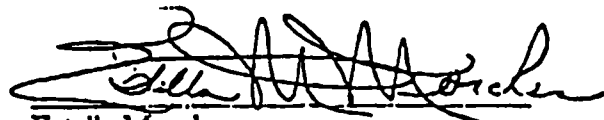
- **coordinate community job placement and training efforts with the local Full Employment Council;**
- **establish early education and daycare resources within the target community;**
- **establish a systematic approach to supporting entrepreneurial endeavors within the target community;**
- **link the education initiative with AMERICA 2000 schools, and**
- **establish community collaboration to work with the local and state agencies to develop family support centers.**

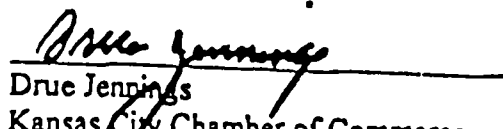
We, the undersigned, support the 21st Century Communities compact for the Kansas City, Missouri community. We support the concept of the plans as stated in the compact document. -

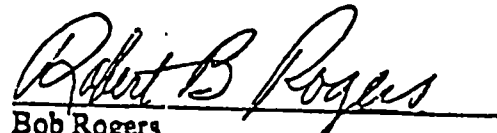

Bert Berkley, Chairperson
LINC

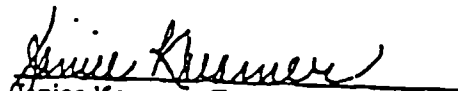

Emanuel Cleaver II, Mayor
Kansas City, Missouri

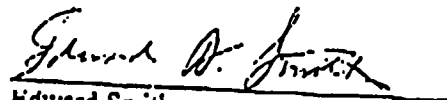

Keith Brown
Project NeighborH.O.O.D.

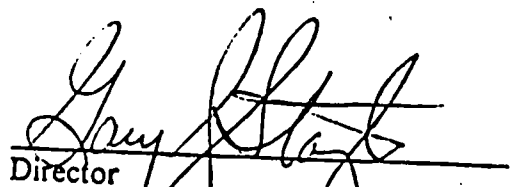

Estella Moriles
Hispanic Chamber of Commerce


Drue Jennings
Kansas City Chamber of Commerce


Bob Rogers
Kauffman Foundation


Janice Kremer, Greater Kansas City
Community Foundation


Edward Smith
Civic Council


Director
Missouri Department of Social Services


Marcellus Hughes
Black Chamber of Commerce



**EXECUTIVE OFFICE
STATE OF MISSOURI**

MEL CARNAHAN
GOVERNOR

P.O. BOX 720
JEFFERSON CITY, MO 65102

For immediate release,
February 18, 1993

For information,
call Chris Sifford at
314-751-3222

**Governor Carnahan Announces Work Program That Focuses on
"Ending Welfare As We Know It"**

Governor Mel Carnahan announced today that Missouri has received federal approval for waivers designed to move people from "welfare rolls to payrolls." Joining Governor Carnahan, were the Kansas City initiators of the proposal, Mayor Emanuel Cleaver II and Bert Berkley, chair of the area's Local Investment Commission (LINC).

Carnahan said this effort is a breakthrough initiative that links human services with economic development. He emphasized that it will change the way we look at welfare and will help put welfare recipients to work.

The initiative, called 21st Century Community, is the first of its kind in the nation to receive federal flexibility that will allow welfare grants to be used as wage supplements for up to 48 months. Qualified employers will use the cash grants to supplement wages and provide an adequate, workable wage that will not only help welfare recipients get off welfare but out of poverty.

"For too long we have tried to solve our social ills through antiquated welfare programs. We must change that outmoded way of thinking and bring in the vital piece that is missing - economic development," Carnahan said. "Without this link, we will never successfully get people on the payrolls and out of poverty, revitalize neighborhoods and attract business to our inner cities. This exciting waiver reform movement allows us to experiment in a number of areas that before were never open to us. And more importantly it offers promise for the future."

The ten-year demonstration project came about through a series of partnership strategies among local, state and federal governments, community organizations, neighborhood associations and the business sector. The strategies incorporate and strengthen already existing programs in the areas of comprehensive "learning readiness", job creation and progression, family and neighborhood support, wage supplementation, community-based enterprises, and child support enforcement.

Mayor Cleaver echoed Carnahan's enthusiasm for the 21st Century Community project by saying, "This is a bold, yet pragmatic approach to moving people from long-term dependency to stable, private sector employment. I'm proud to say this transition will take place through a process of revitalization of our inner city neighborhoods."

The project is a two phase effort, building on programs already in existence. The first phase, covering the areas mentioned above, will be put into place almost immediately. Future plans will include: tax incentives for employers, investors and non-supplemental employees, expansion of community-based business support and job training/employment preparation.

Bert Berkley chairman of the board of Tension Envelopes and chairman of LINC, explained that the local commission will take management responsibility for the project. LINC, a 23-member board appointed last fall by Department of Social Services director Gary Stangler, is designed to coordinate human services at the local level to better meet the needs of the area's residents.

"This initiative involves people from all areas of the community and it reshapes our whole approach to social and economic issues. I am extremely pleased that Governor Carnahan has joined Mayor Cleaver, LINC and all the signatories of our compact to help focus on changing our social and economic infrastructures in our inner cities," Berkley said.

Signatories of the 21st Century Compact are: Keith Brown, Project NeighborHOOD; Marcellus Hughes, Black Chamber of Commerce; Drue Jennings, Kansas City Chamber of Commerce; Jan Kreamer, Greater Kansas City Community Foundation; Estella Morales, Hispanic Chamber of Commerce; Bob Rogers, Kauffman Foundation; Ed Smith, Civic Council and Gary Stangler, Missouri Department of Social Services.

Agenda
21st Century Community
News Conference
10:00 AM, February 18, 1993
University of Missouri - Kansas City
52nd and Holmes
Education Building, Room 115

Chairman of Local INvestment Commission (LINC) - Bert Berkley,
Welcoming remarks and introductions. Berkley recognizes UMKC Chancellor Dr.
Eleanor Schwartz

Berkley Introduces Governor Carnahan - (the Governor will be on a tight
time frame to meet the President - he will be leaving before news
conference is over)

Missouri Governor Mel Carnahan - addresses how the 21st Century
Community project will help put people to work and change the welfare
system.

Kansas City Mayor Emanuel Cleaver II - addresses the Goals of the 21st
Century Communities initiative and implications for the community.

Bert Berkley - talks about how LINC will play a role and
introduces signatories to the 21st Century Community compact.
Signatories are:

Keith Brown, Project NeighborH.O.O.D.

A. Marle Young, Black Chamber of Commerce

Drue Jennings, Kansas City Chamber of Commerce

Janice Creamer, Greater K.C. Community Foundation

Estella Morales, Hispanic Chamber of Commerce

Steve Rolling, (representing Bob Rogers) Kauffman Foundation

Ed Bull, Civic Council

Gary J. Stangler, MO Department of Social Services

Berkley introduces businessmen, Mike Williams, Mitch Valencia, and
Scott Westlake - partners who are interested in being the first 21st
Century Community enterprise.

Questions from the media



From the desk of

WILLIAM S. WAPLES, JR.

100 Saratoga Road - Stratford, NJ 08084

(609) 346-1143

Kathi Way

- Pls. respond to him.
I assume he means
Web. Ref.

March 11, 1993

Ms. Carol Rasco
The White House- West Wing
1600 Pennsylvania Ave.
Washington, D. C. 20500

Dear Ms. Rasco:

- "LEARN-FARE" -

RE: The President's National Remedial Educational
Program to retrain via on-JOB-TRAINING centers.

As a former English instructor on both the secondary and college levels, I believe I can positively assist the administration in realizing its goal of implementing creative programs to solve these daunting national problems.

The solution actually comes in one small package, its size not much larger than that of the standard pocket dictionary and its contents as educationally succinct as they are gramatically correct in fulfilling your needs.

Having successfully utilized this source as a positive classroom catalyst for both English and Creative Writing studies, I can recommend its use in your program most enthusiastically.

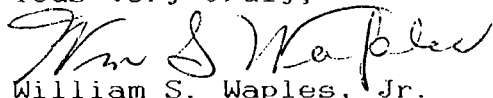
I should appreciate the opportunity of discussing the matter with you at greater length.

A Rapid Response Team Captain in the campaign, an active participant in the Presidential Transition Planning Foundation and, presently, a member of "Americans for Change," I have supported President Clinton's dream of a nation reunited.

That revitalized America must be a more literate country, and, by implementing my educational suggestion, it truly will be!

I look forward to hearing from you in the near future.

Yours very truly,


William S. Waples, Jr.

Member I D Number: 02046236--3473000110013

WILLIAM S WAPLES
100 SARATOGA RD
STRATFORD NJ 08084



Attn: Mrs. Carol Rouse
The West Wing
The White House
1600 Pennsylvania Ave
Washington, D.C. 20500

STATE OF ALASKA

DEPARTMENT OF HEALTH AND SOCIAL SERVICES

DIVISION OF PUBLIC ASSISTANCE

WALTER J. HICKEL, GOVERNOR

Theodore A. Mala, Commissioner

P.O. BOX 110640
JUNEAU, ALASKA 99811-0640
PHONE: (907) 465-3347

June 15, 1993

Mr. Laurence J. Love
Acting Assistant Secretary
Administration for Children
and Families
Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

Dear Acting Assistant Secretary Love:

The State of Alaska has begun to implement its federal waiver to disregard for young parents receiving Aid to Families with Dependent Children (AFDC) income earned from their employment under the Job Training Partnership Act (JTPA) Title IIB Summer Youth Employment and Training Program (SYETP).

On May 14, 1993, Alaska received waiver approval conditional upon further federal approval of an appropriate evaluation plan submitted by June 15, 1993.

In addition to young parent educational and/or employment outcomes at September 30, 1993, total income disregarded and AFDC case status of SYETP/AFDC participants, as proposed in our application letter of April 28, 1993, Alaska further proposes to perform an "implementation process evaluation" of its SYETP income disregard waiver demonstration project.

Alaska believes an implementation process evaluation of this demonstration project would be of the greatest concrete value and highest national interest for the following reasons:

1. Without imminent Congressional approval of supplemental funding for the 1993 JTPA Title IIB summer youth program, Alaska anticipates total demonstration project enrollment of approximately 100 AFDC young parents. No statistically reliable results can be quantitatively derived from such a small sample.
2. No pre-demonstration project data exists, either in the Division of Public Assistance eligibility information system or in the databases of Alaska's JTPA agencies, to allow for a statistical comparison of AFDC young parent participation in SYETP with and without the income disregard in effect.

3. There is substantial national support for a permanent amendment to the Social Security Act, Section 402(a)(8)(A)(v), to provide a permanent income disregard for JTPA youth program earnings by AFDC youth.
 - a. During the 1992 Congressional session, the U.S. House of Representatives approved such an amendment in HR 11, subsequently vetoed by President Bush.
 - b. The American Public Welfare Association unanimously adopted a resolution supporting such an amendment at its 1993 Spring meeting in Washington, D.C. upon the recommendation of its Education, Training and Employment Committee.
4. An implementation process evaluation which documents the actual steps taken to implement the income disregard and to maximize enrollment of AFDC young parents in SYETP in Alaska could serve as a functional blue print for the U.S. Department of Health and Human Services (DHHS) and as practical technical assistance to the other 49 states in the likely eventuality of Congressional statutory change making this JTPA youth income disregard permanent.
5. There is unanimous agreement among Division of Public Assistance management, the Job Training Partnership Office, the three JTPA Service Delivery Areas (SDA's), and the Alaska Native employment and training programs that an implementation process evaluation would be of tremendous value to Alaska entities themselves in improving self sufficiency services to AFDC young parents.
6. There is existing precedent in US DHHS to authorize an implementation process evaluation for this project in OPE-92-1, "Comprehensive Service Delivery Approaches for Teen Parents Required to Participate in the JOBS Program", where just such an evaluation was called for in the Office of Policy and Evaluation grant announcement.

Alaska therefore proposes to conduct and provide to US DHHS an implementation process evaluation of its 1115(a) demonstration project to disregard income earned by AFDC young parents in the 1993 JTPA Title IIB Summer Youth Employment and Training Program, that would provide the following elements:

1. Document implementation meetings and teleconferences with the JTPO, JTPA Service Delivery Areas, State JOBS field staff, Alaska Native JOBS and tribal JTPA staff, and Division eligibility and system operations staff.

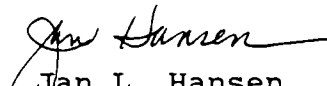
Acting Assistant Secretary Laurence Love
June 15, 1993
Page 3

2. Delineate clearly any practical implementation problems and solutions encountered by any party to this initiative.
3. Use and document project closure focus groups of JTPA agency, Alaska Native partners, enrolled youth themselves, as well as Division of Public Assistance staff to develop recommended implementation procedures.
4. Identify any SDA, state or federal policy, statutory, regulatory or operational barriers to effective enrollment of AFDC young parents in JTPA youth programs and recommend barrier removal solutions.
5. Develop model coordination agreements between the Division of Public Assistance and each of the major partners involved in this demonstration project.

Although an implementation process evaluation is a relatively new management tool and Alaska would welcome dialogue with your staff to further define evaluation goals or tasks, we respectfully request your approval of this expanded evaluation proposal.

If you have any questions about this proposed evaluation, please do not hesitate to contact me.

Sincerely,

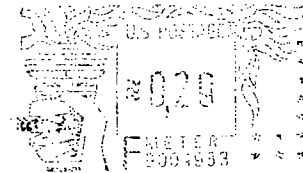

Jan L. Hansen
Director

cc: Theodore A. Mala, MD, MPH
Commissioner, DHSS

Kathryn Way
Special Assistant to the President
on Domestic Policy

Stephen Henigson
Regional Administrator
Administration for Children and Families

State of Alaska
Department of Health & Social Services
Division of Public Assistance
P.O. Box H
Juneau, Alaska 99811-0640



Ms. Kathryn Way
Special Assistant to the President
for Domestic Policy
Room 218, Old Executive Office Building
The White House
Washington, D.C. 20500

SENATE FILE 268

AN ACT

CREATING AN IOWA INVESTS PROGRAM AND PROVIDING RELATED
PROVISIONS INCLUDING APPLICABILITY PROVISIONS, AND
EFFECTIVE DATES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

DIVISION I

IOWA INVESTS -- IOWA COUNCIL ON HUMAN INVESTMENT

Section 1. NEW SECTION. 8A.2 IOWA COUNCIL ON HUMAN
INVESTMENT.

An Iowa council on human investment is established to define a human service agenda for the state and to propose benchmarks for the strategic goals of the state identified by the council. The governor or the governor's designee shall be a member and chairperson of the council and the council shall consist of eight other members appointed by the governor, subject to confirmation by the senate. The appointments shall be made in a manner so that all of the state's congressional districts are represented along with the ethnic, cultural, social, and economic diversity of the state. Terms of office of members other than the governor are three years. Council members shall be reimbursed for actual and necessary expenses incurred in performance of their duties. Members may also be eligible to receive compensation as provided in section 7E.6. The governor shall assign staffing services to the council which may include the staff identified by the director of the department of management. The council shall do all of the following:

1. Develop an overall long-term human investment strategy for the state including broad policy goals and benchmarks which are goal statements reflecting specific results or

achievements in public policy at a particular time in the future. The strategy shall be developed through a process involving input from and consensus-building with a broad cross-section of the state's population. Public hearings shall be held by the council in developing the strategy and benchmarks. The human investment strategy and benchmarks shall be submitted to the governor and the general assembly for a determination as to how the strategy and benchmarks will be set and achieved.

2. Develop an Iowa human investment budget and accounting model which provides a financial weighting of human investments. The budget and accounting model shall provide a means to reflect public and private investments in the skills and employability of Iowans. It is anticipated that the accounting system will indicate that human investments will generate returns in excess of the investments. The council shall implement the model on a pilot project basis and report annually concerning the model and the pilot project to the governor, general assembly, and the public.

3. Study the potential for the state to appropriate moneys according to the highest return on human investment. The council shall recommend to the governor and the general assembly a method for fully implementing the human investment budget and accounting model developed pursuant to subsection 2. The model shall provide for incentives for state agencies to utilize appropriations in a manner in order to achieve the highest returns on human investments.

4. Develop and apply return on human investment accounting standards. The council shall monitor state human investments according to the standards it applies and regularly report to the governor, general assembly, and public concerning actual returns on human investment.

5. Advocate for regulatory and legislative initiatives for decategorization of funding and deregulation to improve human investment.

6. Educate the public, community agencies, and the general assembly concerning human investment principles and practices.

7. Conduct customer satisfaction surveys of the users of public services and utilize the information from the surveys in establishing returns on human investments and determining the effectiveness of the public programs.

Sec. 2. INITIAL APPOINTMENTS. The governor shall make the initial appointments as follows to the Iowa council on human investment created in section 8A.2:

1. Three members to a one-year term.
2. Three members to a two-year term.
3. Two members to a three-year term.

DIVISION II WELFARE REFORM

Sec. 3. WELFARE REFORM INITIATIVE. A welfare reform initiative is established involving the federal-state aid to dependent children program administered under chapter 239 and the federal-state job opportunities and basic skills (JOBS) program implemented under chapter 249C. The purpose of the initiative is to replace welfare provisions which encourage dependency with incentives for employment and self-sufficiency. The initiative includes specific provisions for work-and-earn incentives and for involving participants in family investment agreements. These provisions are expected to support individuals in making a transition from welfare to employment, to encourage savings, and to strengthen family stability.

The department of human services shall submit a waiver request or requests to the United States department of health and human services as necessary for federal authorization to implement the policy changes in the aid to dependent children, child care, and JOBS programs provided in this section. The department may submit a waiver request or requests to the United States department of agriculture to make changes in the federal food stamp program to correspond with the policy changes provided in this section. For the purposes of this section, the term "recipient" has the meaning provided in section 239.1 and the term "individual" means a recipient, applicant, or other person whose income must be considered by

the department. The welfare reform initiative shall include all of the following provisions:

1. Implementation of the following initiatives to encourage a recipient of aid to dependent children to make a transition to employment:

a. If an individual's earned income is considered by the department, the individual shall be allowed a work expense deduction equal to 20 percent of the earned income. The work expense deduction is intended to include all work-related expenses other than child day care. These expenses shall include but are not limited to all of the following: taxes, transportation, meals, uniforms, and other work-related expenses. However, the work expense deduction shall not be allowed for an individual who is subject to a penalty in accordance with administrative rules for failure to comply with program requirements.

b. If an individual's earned income is considered by the department, the individual shall be allowed a work-and-earn incentive. The incentive shall be equal to 50 percent of the amount of earned income remaining after all other deductions are applied. The department shall disregard the incentive amount when considering the earned income available to the individual. The incentive shall not have a time limit. The incentive shall replace the current time-limited incentive which provides for disregarding \$30 plus one-third of the earned income. The work-and-earn incentive shall not be withdrawn as a penalty for failure to comply with program requirements.

c. A family with a stepparent shall be allowed a child day care deduction for any children of the stepparent or the parent subject to the limits provided in applicable administrative rules.

d. If an individual begins employment but was unemployed at least 12 months before beginning employment and timely reports the earnings from the employment, the earnings shall be subject to an income disregard. This income disregard shall apply in determining the individual's eligibility and

grant levels under the aid to dependent children program during the individual's first four months of employment. To be eligible for the income disregard, the employment must commence following the date of the individual's application for aid to dependent children. The department shall adopt rules defining the term "unemployed" for the purposes of this paragraph. The income disregard shall not be withdrawn as a penalty for failure to comply with program requirements.

e. If an individual has timely reported an absence of income to the department, consideration of the individual's income shall cease beginning in the first month the income is absent. However, this provision shall not apply to an individual who has quit employment without good cause as defined in administrative rules.

f. Interest income shall be disregarded.

g. A determination of eligibility for the aid to dependent children unemployed parent program shall not include consideration of either parent's work history or which parent earned more during the 24 months prior to application for assistance under the program. The determination of eligibility shall not include consideration of either parent's number of hours of employment except to establish the date assistance would begin in accordance with administrative rules. However, both parents must participate in a family investment agreement required by this section and in work and training activities unless good cause not to participate is established in accordance with administrative rules. The department shall continue to deny eligibility for the unemployed parent program under provisions of section 239.2, subsection 3, paragraph "b" involving labor disputes or if either parent refuses to apply for or draw unemployment benefits.

h. The department shall disregard as income any moneys an individual deposits in an individual development account established pursuant to this Act.

2. Implementation of the following initiatives to encourage a recipient of aid to dependent children to accumulate assets and savings:

a. Revision in the current limitation involving consideration of the quantity and value of motor vehicles. In implementing this revision, the department shall disregard the first \$3,000 in equity value of a motor vehicle. Beginning July 1, 1994, and continuing in succeeding fiscal years, the motor vehicle equity value disregarded by the department shall be increased by the latest increase in the consumer price index for used vehicles during the previous state fiscal year. This disregard shall be implemented for each adult and working teenager in a family. The amount of a motor vehicle's equity in excess of \$3,000 shall apply to the resource limitation established in paragraph "b".

b. The resource limitation for a family applying for aid to dependent children shall be \$2,000. The resource limitation for a recipient family shall be \$5,000.

c. The department shall disregard not more than \$10,000 of a self-employed individual's tools of the trade or capital assets in considering the individual's resources.

d. The department shall disregard any interest income and the balance of an individual development account established pursuant to this Act in considering an individual's resources.

3. The department shall establish a policy regarding the implementation of family investment agreements which limits the period of eligibility for aid to dependent children based upon the requirements of an individual family's plan for self-sufficiency. The policy shall require an individual family's plan to be specified in a family investment agreement between the family and the department. The department shall adopt rules to administer the policy. The components of the policy shall include but are not limited to all of the following:

a. PARTICIPATION. An individual shall be subject to a family investment agreement if the individual is a parent living in a home with a child for whom aid to dependent children is applied for or is provided. An individual must enter into a family investment agreement with the department unless any of the following conditions exists:

(1) The individual is a parent of a child who is less than six months of age. If both parents are in the child's home, this exception shall apply to only one parent. The department may require an individual who is a teenage parent with a child who is less than six months of age to participate in high school completion activities.

(2) The individual is working 30 hours or more per week.

(3) The individual is completely unable to participate in any option due to a disability.

b. AGREEMENT OPTIONS. A family investment agreement shall require an individual to participate in one or more of the following options. An individual's level of participation in one or more of the options shall be equivalent to the level of commitment required for full-time employment or shall be significant so as to move toward that level. The department shall adopt rules for each option defining requirements and establishing assistance provisions for child care and transportation. The options shall include but are not limited to all of the following:

(1) Full-time or part-time employment.

(2) Active job search.

(3) Participation in the JOBS program.

(4) Participation in other education or training programming.

(5) Participation in a family development and self-sufficiency grant program under section 217.12.

(6) Work experience placement.

(7) Unpaid community service. Community service shall be authorized in any nonprofit association which has been determined under section 501(c)(3) of the Internal Revenue Code to be exempt from taxation or in any government agency. Upon request, the department shall provide a listing of potential community service placements to an individual, however, an individual shall locate the individual's own placement and perform the number of hours required by the agreement. The individual shall file a monthly report with the department which is signed by the director of the

community service placement verifying the community service hours performed by the individual during that month. The department shall develop a form for this purpose.

(8) If the individual participates in at least one other option, any other arrangement which would strengthen the individual's ability to be a better parent, including but not limited to participation in a parenting education program.

c. PENALTIES. If an individual fails to comply with the provisions of the individual's family investment agreement during the period of the agreement, JOBS program penalties shall be applied.

d. COMPLETION OF AGREEMENT. Upon the completion of the terms of the agreement, aid to dependent children assistance to a recipient covered by the agreement shall cease or be reduced in accordance with administrative rules. The department shall adopt rules to implement this paragraph and to determine when a family is eligible to reenter the aid to dependent children program.

e. CONTRACTS. The department of human services may contract with the department of employment services, department of economic development, or any other entity to provide services relating to a family investment agreement.

f. INFORMATION DISCLOSURE. The department may disclose confidential information described in section 217.30, subsection 1, to other state agencies or to any other entity which is not subject to the provisions of chapter 17A and is providing services to recipients who are subject to a family investment agreement, if necessary in order for the recipients to receive the services. The department shall adopt rules establishing standards for disclosure of confidential information if disclosure is necessary in order for recipients to receive services.

4. Implementation of the following provisions involving child day care assistance available to individuals who no longer receive aid to dependent children due to employment:

a. Extension of the eligibility period for transitional child care under section 239.21 from 12 months to 24 months.

b. The department shall automatically determine an individual's eligibility for other child day care assistance if the individual is not eligible for transitional child care or eligibility for transitional child care is exhausted.

5. If an individual received aid to dependent children in another state within one year of applying for assistance in this state the requirements of this subsection shall apply. Using the family size for which the individual's eligibility is determined, the department shall compare the standard grant payment amount the individual would be paid in the other state with the standard grant payment amount the individual would be paid in this state. For the period of one year from the date of applying for assistance in this state, the individual's grant shall be the lesser of the two amounts. The provisions of this subsection shall not apply to an individual who was previously a resident of this state before living in another state and receiving aid to dependent children or to an individual who has moved to this state to be near the individual's parent or sibling.

Sec. 4. CONTINGENCY PROVISION. The waiver request or requests submitted by the department of human services pursuant to section 3 of this Act to the United States department of health and human services shall be to apply the provisions of section 3 statewide. If federal waiver approval of a provision of section 3 of this Act is granted, the department of human services shall implement the provision in accordance with the federal approval. If a provision of this Act is in conflict with a provision of chapter 239 or 249C, notwithstanding that provision in chapter 239 or 249C, the provision of this Act shall be implemented and the department shall propose an amendment to chapter 239 or 249C to resolve the conflict.

Sec. 5. EMERGENCY RULES. The department of human services may adopt administrative rules under section 17A.4, subsection 2, and section 17A.5, subsection 2, paragraph "b", to implement the provisions of this division of this Act and the rules shall be effective immediately upon filing unless a

later date is specified in the rules. Any rules adopted in accordance with this section shall also be published as a notice of intended action as provided in section 17A.4.

Sec. 6. APPLICABILITY. If federal approval is granted, approved provisions of section 3, subsections 1, 2, 4, and 5, of this Act shall be implemented beginning July 1, 1993, and approved provisions of section 3, subsection 3 of this Act shall be implemented January 1, 1994, subject to the availability of funding.

Sec. 7. EFFECTIVE DATE. Sections 3 through 5 of this Act, being deemed of immediate importance, take effect upon enactment.

DIVISION III

JOBS PROGRAM INFORMATION

Sec. 8. Section 217.30, subsection 4, Code 1993, is amended by adding the following new paragraph:

NEW PARAGRAPH. e. The department may disclose information described in subsection 1, to other state agencies or to any other person who is not subject to the provisions of chapter 17A and is providing services to recipients under chapter 239 who are participating in the federal-state job opportunities and basic skills program administered under chapter 249C, if necessary for the recipients to receive the services.

DIVISION IV

MENTORING

Sec. 9. NEW SECTION. 239.22 MENTORING.

A statewide mentoring program is established to recruit, screen, train, and match former recipients and other volunteers with current recipients in a mentoring relationship. The commission on the status of women of the department of human rights shall implement the program in collaboration with the departments of human services, economic development, employment services, and education. The availability of the program is subject to the funding appropriated for the purposes of the program.

Sec. 10. APPLICABILITY. For the fiscal year beginning July 1, 1993, and ending June 30, 1994, the mentoring program

created in section 9 of this Act shall not be implemented statewide by the commission on the status of women but shall be implemented as a pilot program in a county or counties chosen by the commission.

DIVISION V

Sec. 11. IOWA WORKS.

1. The department of human services, in cooperation with the state human investment policy council or similar policy development group, shall analyze the welfare reform initiative known as "Iowa Works", including but not limited to all of the following components of the initiative:

a. The development of a guaranteed minimum income plan for persons who agree to participate in work training and employment, and who agree to transfer all welfare benefits and income to the state.

b. The provision of investment accounts to participating families, which become available when families leave the program and which can only be used for long-term investment purposes.

c. The decategorization of assistance programs including but not limited to aid to dependent children and food stamps.

d. The development of partnerships with local communities to provide the nonfederal share of JOBS funds.

e. The waiver of employers' unemployment taxes associated with hiring workers who participate in the initiative.

2. The components of the initiative described in subsection 1 shall be analyzed for both policy and fiscal implications and the analysis shall be completed by March 1, 1994. In addition, the department shall contact the United States department of health and human services and other appropriate federal agencies and departments to determine whether the initiative or portions of the initiative may be acceptable as a waiver to current federal regulations and policy. The analysis and any correspondence between the department and the federal government shall be submitted to the chairpersons and ranking members of the joint appropriations subcommittee on human services and the standing

committees on appropriations of the senate and house of representatives at the time the analysis is completed or at the time the correspondence is sent or received. If the department determines that any portion of the initiative would be acceptable to the federal government and implementation would not require any additional state funding, the department may submit the initiative or portions of the initiative as part of other waiver requests to the federal government.

3. The department, in cooperation with the state human investment policy council or similar policy development group, shall continue to evaluate grants or waiver opportunities for other welfare reform initiatives such as child support assurance. The department may implement initiatives which are beneficial to the public if implementation does not require any additional state funding.

DIVISION VI

WORKFORCE DEVELOPMENT

Sec. 12. NEW SECTION. 84B.1 WORKFORCE DEVELOPMENT CENTERS.

The departments of employment services and economic development, in consultation with the departments of education, elder affairs, human services, and human rights shall establish guidelines for colocating state and federal employment and training programs in centers providing services at the local level. The centers shall be known as workforce development centers. The departments shall also jointly establish an integrated management information system for linking the programs within a local center to the same programs within other local centers and to the state. The guidelines shall provide for local design and operation within the guidelines. The core services available at a center shall include but are not limited to all of the following:

1. INFORMATION. Provision of information shall include labor exchange and labor market information as well as career guidance and occupational information. Training and education institutions which receive state or federal funding shall provide to the centers consumer-related information on their

programs, graduation rates, wage scales for graduates, and training program prerequisites. Information from local employers, unions, training programs, and educators shall be collected in order to identify demand industries and occupations. Industry and occupation demand information should be published as frequently as possible and be made available through centers.

2. **ASSESSMENT.** Individuals shall receive basic assessment regarding their own skills, interests, and related opportunities for employment and training. Assessments are intended to provide individuals with realistic information in order to guide them into training or employment situations. The basic assessment may be provided by the center or by existing service providers such as community colleges or by a combination of the two.

3. **TRAINING ACCOUNTS.** Training accounts may be established for both basic skill development and vocational or technical training. There shall be no training assistance or limited training assistance in those training areas a center has determined are oversupplied or are for general life improvement.

4. **REFERRAL TO TRAINING PROGRAMS OR JOBS.** Based upon individual assessments, a center shall provide individuals with referrals to other community resources, training programs, and employment opportunities.

5. **JOB DEVELOPMENT AND JOB PLACEMENT.** A center shall be responsible for job development activities and job placement services. A center shall seek to create a strong tie to the local job market by working with both business and union representatives.

Sec. 13. **NEW SECTION.** 258.18 **SCHOOL-TO-WORK TRANSITION SYSTEM.**

The departments of education, employment services, and economic development shall develop a statewide school-to-work transition system in consultation with local school districts, community colleges, and labor, business, and industry interests. Initially the development of the system shall

focus upon youth apprenticeship and as development continues shall incorporate additional recommendations regarding expansion of other school-to-work opportunities for high school youths. The system shall be designed to attain the following objectives:

1. Motivate youths to stay in school and become productive citizens.
2. Set high standards by promoting higher academic performance levels.
3. Connect work and learning so that the classroom is linked to worksite learning and experience.
4. Ready students for work in order to improve their prospects for immediate employment after leaving school on paths that provide significant opportunity to continued education and career development.
5. Engage employers and workers by promoting their participation in the education of youth in order to ensure the development of a skilled, flexible, entry-level workforce.
6. Provide a framework to position the state to access federal resources for state youth apprenticeship systems and local programs.

DIVISION VII

INDIVIDUAL DEVELOPMENT ACCOUNTS

Sec. 14. Section 422.7, Code 1993, is amended by adding the following new subsection:

NEW SUBSECTION. 28. If the taxpayer is owner of an individual development account certified under chapter 541A at any time during the tax year the following adjustments shall be made:

- a. Subtract, to the extent included, all of the following:
 - (1) Contributions made to the account by persons and entities, other than the taxpayer, as authorized in chapter 541A.
 - (2) The amount of any savings refund authorized under section 541A.3, subsection 1.
 - (3) Earnings from the account to the extent not withdrawn.
- b. Add, to the extent not included, all of the following:

holder's deposits. A deposit made under this paragraph shall be held in trust for the account holder and shall only be used to earn income in the account or to be withdrawn by the account holder for a purpose provided in subsection 4.

3. The account earns income.

4. During a calendar year, an account holder may withdraw without penalty from the account holder's account the sum of the following:

a. With the approval of the operating organization, amounts withdrawn for any of the following approved purposes:

- (1) Educational costs at an accredited institution of higher education.
- (2) Training costs for an accredited or licensed training program.

(3) Purchase of a primary residence.

(4) Capitalization of a small business start-up.

Amounts withdrawn for purposes of this paragraph shall be charged to the source of principal on a prorated basis. Moneys transferred from another individual development account shall be considered to be a deposit made by the account holder for purposes of charges to the source of principal.

b. At the adult account holder's discretion any income earned by the account. An account holder who is ten or more but less than eighteen years of age may withdraw any income earned by the account with the approval of the account holder's parent or guardian and of the operating organization. If the account holder is less than ten years of age, any income earned by the account may be withdrawn by the account holder's parent or guardian with the approval of the operating organization.

c. At the account holder's discretion, if the account holder is at least fifty-nine and one-half years of age, any amount.

5. If an account holder is less than eighteen years of age, moneys shall not be withdrawn from the holder's account unless the withdrawal is authorized under subsection 4. If an account holder is eighteen or more years of age, any amount of

the adjusted account holder deposits withdrawn during a calendar year which is not authorized under subsection 4, is subject to a penalty of fifteen percent. In addition, if at any time the cumulative amount withdrawn by the account holder over the life of the account that is not authorized under subsection 4 exceeds fifty percent of the amount of the adjusted account holder deposits, the contributions made by a charitable or individual contributor held in trust in the account holder's account shall be removed from the account and redeposited in another individual development account or the reserve pool as directed by the contributor and deposits made by the state of a savings refund authorized under section 541A.3, subsection 1 shall be withdrawn and deposited in the reserve pool. The amount of the adjusted account holder deposits is the amount remaining after subtracting from the cumulative moneys deposited by the account holder all amounts withdrawn pursuant to subsection 4, paragraph "a". At the time a charitable or individual contributor contributes moneys to an account the contributor shall indicate the contributor's directions for disposition of moneys which are removed. If the designated choice of the contributor does not exist the contributed moneys shall be withdrawn and deposited in the reserve pool.

6. Penalty amounts collected pursuant to subsection 5 shall be deposited in the reserve pool.

7. An adult account holder may transfer all or part of the assets the adult account holder has deposited in the account to any other account holder's account. However, an account holder who is less than eighteen years of age is prohibited from transferring account assets to any other account holder. Moneys contributed by a charitable or individual contributor are not subject to transfer except as authorized by the contributor. Amounts transferred in accordance with this subsection are not subject to a penalty.

8. If approved by the federal government, moneys in an individual development account and any earnings on the moneys shall not be considered by the department of human services

for determining the eligibility of an individual under the family investment program under chapter 239 or the work and training program under chapter 249C.

9. In the event of an account holder's death, the account may be transferred to the ownership of a contingent beneficiary or to the individual development account of another account holder. An account holder shall name contingent beneficiaries or transferees at the time the account is established and a named beneficiary or transferee may be changed at the discretion of the account holder. If the named beneficiary or transferee is deceased or otherwise cannot accept the transfer, the moneys shall be transferred to the reserve pool.

10. The total amount of sources of principal which may be in an individual development account shall be limited to fifty thousand dollars.

Sec. 18. NEW SECTION. 541A.3 INDIVIDUAL DEVELOPMENT ACCOUNTS -- REFUND AND TAX PROVISIONS.

All of the following state tax provisions shall apply to an individual development account:

1. Payment by the state of a savings refund on amounts of up to two thousand dollars per calendar year that an account holder deposits in the account holder's account. Moneys transferred to an individual development account from another account shall not be considered an account holder deposit for purposes of determining a savings refund. Payment shall be made directly to the account in the most appropriate manner as determined by the administrator. The state savings refund shall be the indicated percentage of the amount deposited:

a. For an account holder with a household income, as defined in section 425.17, subsection 6, which is less than one hundred fifty percent of the federal poverty level, twenty percent.

b. For an account holder with a household income which is one hundred fifty percent or more but less than one hundred sixty percent of the federal poverty level, eighteen percent.

c. For an account holder with a household income which is one hundred sixty percent or more but less than one hundred seventy percent of the federal poverty level, sixteen percent.

d. For an account holder with a household income which is one hundred seventy percent or more but less than one hundred eighty percent of the federal poverty level, fourteen percent.

e. For an account holder with a household income which is one hundred eighty percent or more but less than one hundred ninety percent of the federal poverty level, twelve percent.

f. For an account holder with a household income which is one hundred ninety percent or more but less than two hundred percent of the federal poverty level, ten percent.

g. For an account holder with a household income which is two hundred percent or more of the federal poverty level, zero percent.

2. Income earned by an individual development account is not subject to tax until withdrawn.

3. Amounts transferred between individual development accounts are not subject to state tax.

4. The administrator shall work with the United States secretary of the treasury and the state's congressional delegation as necessary to secure an exemption from federal taxation for individual development accounts and the earnings on those accounts. The administrator shall report annually to the governor and the general assembly concerning the status of federal approval.

5. The administrator shall coordinate the filing of claims for savings refunds authorized under subsection 1, between account holders, operating organizations, and the department of revenue and finance. Claims approved by the administrator may be paid by the department of revenue and finance to each account or for an aggregate amount for distribution to the accounts in a particular financial institution, depending on the efficiency for issuing the refunds. Claims shall be initially filed with the administrator on or before a date established by the administrator.

Sec. 19. NEW SECTION. 541A.4 INDIVIDUAL DEVELOPMENT ACCOUNT -- PILOT PHASE.

A state human investment reserve pool is created in the state treasury under the authority of the administrator. The governor shall name an executive branch agency as administrator to have authority over the reserve pool. Interest on moneys in the reserve pool shall remain in the reserve pool and notwithstanding sections 8.33 and 8.39, moneys in the reserve pool are not subject to reversion or transfer. Moneys in the reserve pool shall be used for administrative expenses of the administrator. The administrator shall perform all of the following duties or may delegate the performance of the duties to a suitable entity in administering the individual development accounts:

1. For the five-year pilot phase period beginning March 1, 1994, and ending February 28, 1999, the total number of individual development accounts shall be limited to ten thousand accounts, with not more than five thousand accounts in the first calendar year of the period, and to individuals with a household income which does not exceed two hundred percent of the federal poverty level. The administrator shall ensure that the family income status of account holders at the time an account is opened proportionately reflects the distribution of the household income status of the state's population up to two hundred percent of the federal poverty level.

2. Issue a request for proposals for operating organizations to be involved with the operation of individual development accounts on behalf of a specific target population. The administrator shall determine the review criteria used to select operating organizations. The initial review criteria used to evaluate organizations' proposed projects and requirements associated with operating organizations shall include but are not limited to all of the following:

a. Provision of a safe and secure investment mechanism for the individual development accounts utilizing a financial institution approved by the administrator.

b. The proposed project has a strong relationship to goals established by other initiatives deemed a priority by the administrator.

c. The proposed project links the making of an account holder's contributions to an individual development account with other services or outcomes identified by the operating organization in the proposal. The proposed project includes mechanisms for the operating organization to monitor and enforce the identified outcomes and services.

d. The operating organization is capable of performing the project as proposed. Minimum capabilities shall include an ability to provide financial counseling, familiarity and ability to work with the proposed target population, and a strong record of successful management.

e. The operating organization proposes to provide a significant amount of matching funds for individual development accounts.

f. The proposal includes a monitoring and evaluation plan for certifying the proposed project's outcomes.

g. The responsibilities of an operating organization shall include but are not limited to all of the following:

(1) Certifying that a financial instrument is an individual development account based upon its having the characteristics described in section 541A.2.

(2) Certifying the income status and the amount of contributions to an individual development account by an account holder during a tax year which are eligible for a savings refund authorized under section 541A.3, subsection 1.

(3) Calculating the adjusted contribution principal amounts for the account holder, state, and individual and charitable contributors as required for purposes of section 541A.2, subsections 4 and 5.

3. Utilizing guidelines established in law for this purpose, the administrator shall contract for an independent evaluation of the implementation of the individual development accounts. The evaluation shall consider the following: implementation and process used for the implementation, program impact, and financial effectiveness.

Sec. 20. EFFECTIVE DATE AND APPLICABILITY PROVISIONS. Sections 14 and 15 of this Act are effective January 1, 1994. Section 14 applies to tax years beginning on or after January 1, 1994. Section 15 applies to decedents dying on or after January 1, 1994.

DIVISION VIII
IOWA NETWORK INITIATIVE

Sec. 21. IOWA NETWORK INITIATIVES. The Wallace technology transfer foundation, in cooperation with the department of economic development, shall establish a statewide initiative to encourage businesses to develop cooperative networks. The statewide initiative may include but is not limited to all of the following:

1. A plan to educate businesses and the public on the nature of the international challenge Iowa faces, and the ways in which network activities have been used elsewhere to enhance competitiveness.
2. Training for individuals to act as brokers in helping to organize networks.
3. Establishing programs for networks to study or implement specific collaborative ideas.
4. Conducting surveys of Iowa employer practices designed to attract and encourage high performance work organizations.

DIVISION IX
FAMILY INVESTMENT PROGRAM

Sec. 22. Section 10A.202, subsection 1, paragraph a, Code 1993, is amended to read as follows:

a. Hearings and appeals relative to foster care facilities, child day care facilities, administration of the state medical assistance program, administration of the state supplementary assistance program, administration of the food stamps program, and administration of the aid-to-dependent children-program family investment program, and other programs administered by the department of human services. Decisions of the division in these areas are subject to review by the department of human services.

Sec. 23. Section 10A.402, subsection 7, Code 1993, is amended to read as follows:

7. Investigations relative to the administration of the state supplemental assistance program, the state medical assistance program, the food stamp program, the aid-to-dependent-children-program family investment program, and any other state or federal benefit assistance program.

Sec. 24. Section 217.8, Code 1993, is amended to read as follows:

217.8 DIVISION OF CHILD AND FAMILY SERVICES.

The administrator of the division of child and family services shall be qualified by training, experience, and education in the field of welfare and social problems. The administrator is charged with the administration of programs involving neglected, dependent and delinquent children, child welfare, aid-to-dependent-children, family investment program, and aid to disabled persons and shall administer and be in control of other related programs established for the general welfare of families, adults and children as directed by the director.

Sec. 25. Section 217.11, subsection 8, Code 1993, is amended to read as follows:

8. Two recipients or former recipients of the aid-to-dependent-children-program family investment program, selected by the other members of the committee.

Sec. 26. Section 217.12, subsection 1, subsection 3, paragraph a, and subsection 8, Code 1993, are amended to read as follows:

1. Identify the factors and conditions that place Iowa families at risk of long-term dependency upon the aid-to-dependent-children-program family investment program. The council shall seek to use relevant research findings and national and Iowa specific data on the aid-to-dependent children-program family investment program.

a. Designation of families to be served that meet some criteria of being at risk of long-term welfare dependency, and agreement to serve clients that are referred by the department

of human services from the aid-to-dependent-children-program family investment program which meet the criteria. The criteria may include, but are not limited to, factors such as educational level, work history, family structure, age of the youngest child in the family, previous length of stay on the aid-to-dependent-children-program family investment program, and participation in the aid-to-dependent-children-program family investment program or the foster care program while the head of a household was a child. Grant proposals shall also establish the number of families to be served under the demonstration program.

8. Evaluate and make recommendations regarding the costs and benefits of the expansion of the services provided under the special needs program of the aid-to-dependent-children program family investment program to include tuition for parenting skills programs, family support and counseling services, child development services, and transportation and child care expenses associated with the programs and services.

Sec. 27. Section 222.78, Code 1993, is amended to read as follows:

222.78 PARENTS AND OTHERS LIABLE FOR SUPPORT.

The father and mother of any person admitted or committed to a hospital-school or to a special unit, as either an inpatient or an outpatient, and any person, firm, or corporation bound by contract hereafter made for support of ~~such the~~ person shall be and remain liable for the support of ~~such the~~ person. ~~Such The~~ person and those legally bound for the support of the person shall be liable to the county for all sums advanced by the county to the state under the provisions of sections 222.60 and 222.77. The liability of any person, other than the patient, who is legally bound for the support of any patient under eighteen years of age in a hospital-school or a special unit shall in no instance exceed the average minimum cost of the care of a normally intelligent, nonhandicapped minor of the same age and sex as ~~such the~~ minor patient. The administrator shall establish the scale for this purpose but the scale shall not exceed the

standards for personal allowances established by the state division under the aid-to-dependent-children-program family investment program. Provided further that the father or mother of ~~such the~~ person shall not be liable for the support of ~~such the~~ person after ~~such the~~ person attains the age of eighteen years and that the father or mother shall incur liability only during any period when the father or mother either individually or jointly receive a net income from whatever source, commensurate with that upon which they would be liable to make an income tax payment to this state. Nothing in this section shall be construed to prevent a relative or other person from voluntarily paying the full actual cost as established by the administrator for caring for ~~such-mentally-retarded the~~ person with mental retardation.

Sec. 28. Section 234.6, unnumbered paragraph 1, Code 1993, is amended to read as follows:

The administrator shall be vested with the authority to administer aid-to-dependent-children the family investment program, state supplementary assistance, food programs, child welfare, and emergency relief, family and adult service programs, and any other form of public welfare assistance and institutions that ~~may-hereafter-be are~~ placed under the administrator's administration. The administrator shall perform such duties, formulate and ~~make-such adopt~~ rules as may be necessary; shall outline such policies, dictate such procedure, and delegate such powers as may be necessary for competent and efficient administration. Subject to restrictions that may be imposed by the director of human services and the council on human services, the administrator ~~shall-have-power-to may~~ abolish, alter, consolidate, or establish subdivisions and may abolish or change offices previously created in-connection-therewith. The administrator may employ necessary personnel and fix their compensation; may allocate or reallocate functions and duties among any subdivisions now existing or ~~hereafter later~~ established; and may ~~promulgate adopt~~ rules relating to the employment of personnel and the allocation of their functions and duties

among the various subdivisions as competent and efficient administration may require.

Sec. 29. Section 239.1, subsections 1 and 5, Code 1993, are amended to read as follows:

1. "Administrator" means the administrator of the division of the department of human services to which the director of human services assigns responsibility for the aid-to-dependent children-program family investment program.

5. "Division" means the division of the department of human services to which the director of human services assigns responsibility for the aid-to-dependent-children-program family investment program.

Sec. 30. NEW SECTION. 239.1A FAMILY INVESTMENT PROGRAM.

Effective July 1, 1993, assistance provided under this chapter shall no longer be referred to as aid to dependent children but shall be referred to as assistance under the family investment program.

Sec. 31. Section 239.2, Code 1993, is amended to read as follows:

239.2 ELIGIBILITY FOR AID-TO-DEPENDENT-CHILDREN ASSISTANCE.

Assistance shall be granted under this chapter to a dependent child who:

1. Is living in a suitable family home maintained by a specified relative.
2. Is living in this state other than for a temporary purpose, with a specified relative who is living in this state voluntarily with the intent of making the relative's home in this state and not for a temporary purpose.
3. Is not, with respect to assistance applied for by reason of partial or total unemployment of a parent, the child of a parent who is subject to any of the following circumstances:
 - a. Has been unemployed for less than thirty days prior to receipt of assistance under this chapter.
 - b. Is partially or totally unemployed due to a work stoppage which exists because of a labor dispute at the

factory, establishment, or other premises at which the parent is or was last employed.

c. At any time during the thirty-day period prior to receipt of assistance under this chapter or at any time thereafter while assistance is payable under this chapter, has not been available for employment, has not actively sought employment, or has without good cause refused any bona fide offer of employment or training for employment. The following reasons for refusing employment or training are not good cause: Unsuitable unsuitable or unpleasant work or training, if the parent is able to perform the work or training without unusual danger to the parent's health; or the amount of wages or compensation, unless the wages for employment are below the federal minimum wage.

d. Has not registered for work with the state employment service established pursuant to section 96.12, or thereafter has failed to report at an employment office in accordance with regulations prescribed pursuant to section 96.4, subsection 1.

The division may prescribe requirements in addition to or in lieu of the foregoing requirements of this section, for eligibility for assistance under this chapter to children whose parents are partially or totally unemployed, which are necessary to secure financial participation of the federal government in payment of such the assistance.

Sec. 32. Section 239.12, Code 1993, is amended to read as follows:

239.12 AID-TO-DEPENDENT-CHILDREN FAMILY INVESTMENT PROGRAM ACCOUNT.

There is established in the state treasury an account to be known as the "Aid-to-Dependent-Children-Account" family investment program account to which shall be credited all funds appropriated by the state for the payment of assistance, and all other moneys received at any time for such these purposes. Moneys assigned to the department under section 239.3 and received by the child support recovery unit pursuant to section 252B.5 and 42 U.S.C. sec. § 664 shall be credited

to the account in the fiscal year in which the moneys are received. All assistance shall be paid from the account.

Sec. 33. Section 239.17, Code 1993, is amended to read as follows:

239.17 RECOVERY OF ASSISTANCE OBTAINED BY FRAUDULENT ACT.

A person who obtains, or attempts to obtain, or aids or abets any person to obtain, by means of a willfully false statement or representation, or by impersonation or any fraudulent device, assistance to which the recipient is not entitled, is personally liable for the amount of assistance thus obtained. The amount of the assistance may be recovered from the offender or the offender's estate in an action brought or by claim filed in the name of the state and the recovered funds shall be deposited in the aid-to-dependent-children family investment program account. The action or claim filed in the name of the state shall not be considered an election of remedies to the exclusion of other remedies.

Sec. 34. Section 239.19, Code 1993, is amended to read as follows:

239.19 TRANSFER OF AID FUNDS TO OTHER WORK AND TRAINING PROGRAMS.

The department of human services may transfer aid-to-dependent-children family investment program funds in its control to any other department or agency of the state for the purpose of providing funds to carry out the job opportunities and basic skills training program created by the federal Family Support Act of 1988, Title II, Pub. L. No. 100-485, as codified in 42 U.S.C. § 602 et seq. and administered under chapter 249C and this chapter.

Sec. 35. Section 239.20, Code 1993, is amended to read as follows:

239.20 COUNTY ATTORNEY TO ENFORCE.

Violations of law relating to the aid-to-dependent-children program family investment program shall be prosecuted by county attorneys. Area prosecutors of the office of the attorney general shall provide prosecution assistance.

Sec. 36. Section 249.13, Code 1993, is amended to read as follows:

249.13 COUNTY ATTORNEY TO ENFORCE.

It is the intent of the general assembly that violations of law relating to aid-to-dependent-children the family investment program, medical assistance, and supplemental assistance shall be prosecuted by county attorneys. Area prosecutors of the office of the attorney general shall provide such assistance in prosecution as may be required. It is the intent of the general assembly that the first priority for investigation and prosecution for which funds are provided by this Act shall be for fraudulent claims or practices by health care vendors and providers.

Sec. 37. Section 249A.3, subsection 1, paragraph e, subparagraphs (1) and (2), and paragraphs f and m; subsection 2, paragraphs c, d, f, and h, unnumbered paragraph 1, Code 1993, are amended to read as follows:

(1) The woman would be eligible for a cash payment under the aid-to-dependent-children-program-or-under-an-aid-to-dependent-children-unemployed-parent-program family investment program under chapter 239, if the child were born and living with the woman in the month of payment.

(2) The woman meets the income and resource requirements of the aid-to-dependent-children-program family investment program under chapter 239, provided the unborn child is considered a member of the household, and the woman's family is treated as though deprivation exists.

f. Is a child who is less than seven years of age and who meets the income and resource requirements of the aid-to-dependent-children-program family investment program under chapter 239.

m. Is an individual or family who is ineligible for aid-to-dependent-children the family investment program under chapter 239 because of requirements that do not apply under Title XIX of the federal Social Security Act.

c. Individuals who are receiving care in an institution for mental diseases, and who are under twenty-one years of age

and whose income and resources are such that they are eligible for aid-to-dependent-children the family investment program under chapter 239, or who are sixty-five years of age or older and who meet the conditions for eligibility in paragraph "a" of this subsection.

d. Individuals and families whose incomes and resources are such that they are eligible for federal supplementary security income or aid-to-dependent-children the family investment program, but who are not actually receiving such public assistance.

f. Individuals under twenty-one years of age who qualify on a financial basis for, but who are otherwise ineligible to receive aid-to-dependent-children assistance under the family investment program.

Individuals who have attained the age of twenty-one but have not yet attained the age of sixty-five who qualify on a financial basis for, but who are otherwise ineligible to receive, federal supplementary security income or aid-to-dependent-children assistance under the family investment program.

Sec. 38. Section 249A.14, Code 1993, is amended to read as follows:

249A.14 COUNTY ATTORNEY TO ENFORCE.

It is the intent of the general assembly that violations of law relating to aid-to-dependent-children the family investment program, medical assistance, and supplemental assistance shall be prosecuted by county attorneys. Area prosecutors of the office of the attorney general shall provide assistance in prosecution as required.

Sec. 39. Section 331.756, subsection 49, Code 1993, is amended to read as follows:

49. Prosecute violations of law relating to aid-to-dependent-children the family investment program, medical assistance, and supplemental assistance as provided in sections 239.20, 249.13, and 249A.14.

Sec. 40. Section 421.17, subsection 21, paragraph a, subparagraph (3), Code 1993, is amended to read as follows:

(3) Any debt which is owed to the state for public assistance overpayments to recipients or to providers of services to recipients which the investigations division of the department of inspections and appeals is attempting to collect on behalf of the state. For purposes of this subsection, "public assistance" means aid-to-dependent children assistance under the family investment program, medical assistance, food stamps, foster care, and state supplementary assistance.

LEONARD L. BOSWELL
President of the Senate

HAROLD VAN MAANEN
Speaker of the House

I hereby certify that this bill originated in the Senate and is known as Senate File 268, Seventy-fifth General Assembly.

JOHN F. DWYER
Secretary of the Senate

Approved _____, 1993

TERRY E. BRANSTAD
Governor