THE WHITE HOUSE

WASHINGTON

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Attached is paper OMB is going to use to brief Frank Raines on 18-50 waiver guidance. Comments to Matthew on Monday morning.

ORIG TO JBA

— Jeremy

FAX COVER

Date/Time:

Income Maintenance Branch

Executive Office of the President
Office of Management and Budget
Washington, DC 20503

TO: Jeremy Ben-Ami

FROM: Matthew McKearn

Fax Destination

Organization:

Fax Number:

Number of Attached Pages: *Cover +* 3

Notes:

Attached is a draft memo outlining OMB concerns with USDA's 18-50 guidance. Ken Apfel has not yet reviewed it. You can provide comments to me at 5-7760. Please let us know if you have concerns with our proposed options.

Income Maintenance Fax Number: 202/395-0851
Voice Confirmation: 202/395-4686

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MEMORANDUM FOR FRANKLIN RAINES

THROUGH: Ken Apfel

FROM: Matthew McKearn

SUBJECT: USDA Guidance for States Seeking 18-50 Waivers -- DECISION

ISSUE

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-438) limits able-bodied adults to three months of food stamp participation in a 3-year period. Individuals are exempt from the time limit if they are: under 18 or over 50 years of age; responsible for the care of a child or incapacitated household member; medically certified as physically or mentally unfit for employment; pregnant; or exempt from the food stamp work requirements. In addition, the law permits the Secretary of Agriculture to grant State requests for waivers for any group of individuals residing in: an area with an unemployment rate above 10 percent; or an area that "does not have a sufficient number of jobs to provide employment for the individuals." Note that the "insufficient jobs" waiver can apply to a geographic area or to a group of individuals within an area.

The Administration strongly opposed provisions to limit food stamp benefits to households that seek work, but are unable to find jobs, due to the lack of employment opportunities during welfare reform negotiations. The President noted his dissatisfaction with this provision in his signing statement for P.L. 104-438. He also highlighted this issue in reviewing your October 2 welfare reform implementation memo, asking how high unemployment areas will be defined in guidance.

Per OMB's request, USDA has prepared draft guidance to States on what types of information would be acceptable for these waiver requests. The Agency guidance is responsive to OMB's direction to examine a wide range of alternatives to define areas of insufficient jobs. However, we would like make you aware of an issue regarding scoring and we have concerns with the proposed guidance which will require your review. A decision is needed on how broadly this waiver provision should be extended. An outer bound estimate suggests that as many as 75% of all individuals subject to the provisions could be exempted under the guidance as currently proposed by USDA, if all States elect the full range of options.

BACKGROUND

Estimated Savings. At the time of enactment USDA estimated these provisions would deny benefits to 1.1 million persons monthly and OMB scored the proposal at $4.1 billion over seven years. Actual savings are unlikely to reach this level for two reasons. States will have

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considerable discretion to implement the medical exemptions described above. States likely to interpret the exemptions more broadly than OMB assumed in its estimate which will reduce the number of persons affected by approximately by 25% monthly and decrease savings by $1 billion. In addition, the scoring estimates did not include the impact of the 10% waiver. If all eligible counties request this waiver it would reduce the number of persons subject to the time limits by 10% and decrease savings by an additional $300 million over 7 years. Together, these two factors reduce estimated savings from $4.1 to $2.8 billion.

Proposed Guidance. The proposed guidance would establish parameters for what States should consider submitting as justification for a waiver. Federal policy requires that all USDA waivers determinations must be based on the use of Bureau of Labor Statistics (BLS) data or BLS standard methodologies. The procedures for determining which areas are eligible for a waiver because they meet the 10% unemployment threshold are straightforward. USDA proposed six alternatives to document waivers for areas without sufficient jobs: Lack of Jobs in Designated Labor Surplus Areas; Lack of Jobs in States with Extended UI Benefits; Lack of Jobs Based on Education or Skill Levels; Lack of Jobs Due to Lagging Job Growth; and Lack of Jobs in Declining Occupations or Industries. We have concerns with two of the criteria, which are outlined below.

Waivers Based on Education or Skill Level. The legislation permits waivers for groups of individuals who are unable to obtain work because of insufficient jobs, even though they live in areas with less than 10% unemployment. USDA has interpreted the language to allow waivers for most individuals without a high school education because these individuals face a marked lack of jobs appropriate to their skill levels. Data from BLS suggest that the unemployment rate among individuals without a high school diploma is 2.3 times higher than the average unemployment rate. Providing waivers for individuals without a high school diploma would exempt as many as 45% of all recipients subject to the time limits.

Labor Surplus Areas. USDA also proposes allowing waivers for approximately 1,300 jurisdictions designated as Labor Surplus Areas by BLS, because their unemployment rate exceeds the national average by 20% for a period of two years. This measure would expand the number of areas eligible for a waiver far beyond the straight 10% unemployment measure. Very preliminary estimates suggest that as many as half of all food stamp recipients subject to the provisions live in labor surplus areas. For example, the entire city of Los Angeles, with an unemployment rate of 9.2% would qualify for a waiver.

OPTIONS

Option 1: Approve guidance as proposed by USDA. If States take full advantage of the waiver criteria proposed by USDA it could excluded as many as 75% of the able bodied childless adults from the work provisions, and reduce the law's estimated savings by as much as $2 billion over seven years, if all States requested the full range of waivers. It could exempt virtually all individuals without high school diplomas, even those in geographic areas with low unemployment. It also could exempt all individuals in some geographic areas with unemployment rates well below 10%.

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Option 2: Modify the criteria to allow waivers based on lack of education or Labor Surplus Area, but with additional conditions. Individuals with limited education do face more difficultly in finding employment and probably merit special consideration. However, USDA's guidance could be interpreted as granting a waiver to these individuals even if they live in an area with as low as 4.4% unemployment. We propose to tighten the scope of the waiver by allowing it only in areas with unemployment rates in excess of the national average or in designated labor surplus areas. Similarly, USDA has proposed using Designated Labor Surplus Areas as a sole determinant of "insufficient jobs". Labor Surplus Areas currently must have an unemployment rate in excess of 7.5%, well below the legislated threshold of 10%. This designation would provide waivers to all groups of individuals in a large expanse of areas with unemployment rates well below the 10% threshold -- almost doubling the number of food stamp recipient eligible for the waiver. We recommend using this criteria only in combination with other provisions. A very rough estimate suggests that this option would reduce savings by between $0.7 - $1 billion over 7 years if all States requested this waiver for all eligible areas in a State.

Option 3: Exclude lack of education or Labor Surplus Area from the list of guidance. Relatively few areas are likely to meet the remaining four criteria for establishing areas without sufficient jobs. It seems unlikely that these criteria will provide any significant relief to large urban areas that may have high unemployment among groups of individuals, while the overall unemployment rate remains low.

RECOMMENDATION: ***Option 2*** This option provides relief for some individuals facing limited employment activities because they don't have a high school diploma, but limits the waiver to areas that have higher unemployment rates. It also suggests that in areas with unemployment less than 10%, waivers should not be granted to all individuals subject to the work provisions. If all States fully implemented this option it could reduce the projected 7 years savings to an estimated $1.8 billion, although it is unlikely the impact would be this large.

from Dorothy Craft

CENTER ON BUDGET AND POLICY PRIORITIES

October 17, 1996

Food Stamp Provisions of Welfare Law May Have Harsher Effect on Unemployed Adults Than Congress Intended

The new welfare law limits food stamp receipt by jobless adults without minor children to three months in a three-year period, with possible receipt of a second three months of benefits in certain circumstances. In passing this provision, Members of Congress who supported it intended to move these individuals from unemployment to work.

It now appears, however, that the provision may have substantially harsher consequences than Congress intended. This could be the case for three reasons. First, the number of food stamp workfare slots appears to be only a small fraction of what key Congressional proponents of the provision thought it to be. Second, recent research indicates that in the cities, there are far fewer very-low-skilled jobs available in the private sector than there are very-low-skilled individuals seeking such jobs. Third, the tax provisions of the new minimum wage law give employees a tax credit for hiring *other* disadvantaged individuals, but not most of those affected by the food stamp three-month cut-off provision; this effectively moves many of those terminated from food stamps to the back of the hiring queue — and makes it still less likely they will be able to secure jobs. The combined effect of these developments could be severe hardship the Congress did not intend or contemplate.

The Legislative Background: What Did Congress Have in Mind?

The three-month cut-off provision in the final welfare bill is based in substantial part on an amendment successfully offered to the bill on the House floor by Reps. John Kasich and Robert Ney on July 18, 1996. The statements that Reps. Kasich and Ney made during the floor debate on their amendment show they believed that these individuals would be able either to find a job in the private sector or to secure a food stamp workfare slot. People willing to work would not have their food stamps taken away.

Rep. Kasich declared on the floor: "...let me make clear what the amendment does so there is no confusion. If you are able-bodied, single, between the ages of 18 and 50, and you get food stamps, we are saying you have to work 20 hours a week. It is no more complicated than that. If you cannot get a job, you go to a workfare program; 45 out of 50 states have a workfare program."

Later in the debate, Rep. Kasich underscored this point: "So, if you are able-bodied, you go and you have to work 20 hours to get your food stamps. Then of course if you cannot find a job then you do workfare. That is what it is."

Rep. Ney recently underscored this point. He told the *Los Angeles Times* there is no excuse for states not to establish workfare programs that would allow jobless people to continue receiving food stamps.[1]

As their statements indicate, Reps. Kasich and Ney visualized the amendment as one under which people would be prodded to look for work and would generally be provided a workfare slot if they could not find a private sector job. What they apparently did not realize is that there are few food stamp workfare slots in the United States.[2]

The Availability of Food Stamp Workfare Slots for Individuals Who Are Willing to Work but Cannot Find a Job

U.S. Department of Agriculture (USDA) data show that most states have no workfare programs for food stamp recipients and that those states that do have such programs generally operate them on a small scale. The data demonstrate that the overwhelming majority of food stamp recipients do not have workfare programs available to them.

Specifically, only 10 states operated food stamp workfare programs in 1995. And while California's program enrolled more than 100,000 people, most other state programs were quite small, and many operated in just a few counties. Wisconsin's program enrolled only 52 recipients.[3] The median state among these 10 states enrolled about 300 to 350 individuals in food stamp workfare programs. (See Table 1.) Moreover, these figures include the total number of recipients in food stamp workfare programs. The number who are between the ages of 18 and 50 and are not raising minor children would often be smaller.

It appears unlikely that many states will respond to the new legislation by starting, or significantly expanding, food stamp workfare programs. The legislation provides no change in federal funding for the food stamp employment and training program, other than an adjustment for inflation, to pay for new or larger workfare programs. To increase the resources for its food stamp employment and training program, a state must expend state funds.[4]

Furthermore, the requirements that the new welfare block grant places on states to enroll large numbers of block grant recipients in work programs will push states to generate substantial numbers of work slots for welfare families; states that do not create sufficient numbers of work slots for their welfare block grant recipients will face fiscal penalties. In the food stamp program, by contrast, states are under no requirement to provide work slots for recipients who otherwise would be affected by the three-month limit, and states face no fiscal penalty if they fail to create food stamp work slots. Since the number of work slots that states will need to develop to meet the requirements of the welfare block grant will exceed the number of slots many states are able to create, states can generally be expected to use all — or nearly all — of the work slots they create for welfare families, rather than for childless adults on food stamps.

Table 1
States with Food Stamp Workfare Programs

State	Participants*
Arizona	202
Arkansas	98
California	112,717
Colorado	259
Florida	920
Idaho	1,310
Illinois	19,164
Mississippi	290
North Carolina	358
Wisconsin	52

* Some of these states operate food stamp workfare programs under Section 20 of the Food Stamp Act, while other states operate it under Section 6 of the Food Stamp Act. For states operating workfare under Section 20 of the Act, the number of participants shown here is the largest number of individuals assigned to workfare jobs in any quarter of fiscal year 1996 for which data are available. For the other states, the number shown is total annual workfare participation in fiscal year 1995, the latest year for which such data are available.

The Availability of Jobs

With so few workfare slots available, the ability of these individuals to find jobs in the private economy takes on added importance. Are there enough jobs for them?

The economy is strong. Some policymakers have looked at data comparing the total number of jobs the economy is creating to the total number of individuals seeking jobs and concluded there are enough jobs to meet the needs the welfare bill will create. Such a comparison, however, cannot answer the question of whether there will be adequate jobs to absorb those individuals receiving welfare or food stamps who have very limited skills. Local economies can simultaneously have a greater number of jobs requiring high degrees of skill and technical knowledge than there are qualified individuals to fill them and fewer low-skilled jobs than there are jobless individuals with low skill levels. To know whether jobless food stamp recipients who are not raising minor children can find employment, we need to know what labor market conditions look like for those with low skill levels.

Two recent pieces of research examine the extent to which there are sufficient jobs for low-skilled individuals to find employment. The findings are instructive.

In the first of these studies, Katherine Newman (who then was at Columbia University and has since moved to Harvard) examined applicants for fast-food jobs in Harlem over a five-month period. She found that for every individual hired during the five-month period, there were 14 applicants.[5]

Newman followed the unsuccessful applicants. She found that of those who applied but were not hired, 73 percent had not found work of any kind a year later.

She also examined how diligently the people who were turned town tried to find work. She found that those who applied for fast-food jobs but did not

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get them had typically applied and been rejected for a number of other jobs.

Newman observed that "the oversupply of job seekers is pushing up credentials which successful applicants must possess to find even a minimum wage job"; faced with a large pool of applicants for each job slot, she noted, "employees can afford to be fairly choosy." Newman concluded that in Harlem, "there are many more people pounding the pavement looking for work than there are jobs to be found."

Newman commented on the potential efforts of welfare reform on these conditions. She noted that long-term AFDC recipients "will be joining an inner-city labor market that is already saturated...by people who are more desirable from the employer's perspective because they possess better educational or work experience credentials." She wrote that "unless special efforts are made to increase the number of jobs available in the area, it seems unlikely that the low wage private sector can absorb the extra flow of applicants that would appear if present AFDC recipients are moved in to the labor force." These remarks would appear also to apply to low-skilled food stamp recipients without minor children.

The second — and most important — piece of recent research was conducted by Harry Holzer, a highly regarded labor economist of Michigan State University. Holzer conducted a detailed survey of 3,000 employers in four major metropolitan areas. The results are found in his new book, *What Employers Want: Job Prospects for Less-Educated*

Workers.[6] The book is widely considered to be the leading piece of research on this issue.

Holzer's findings are sobering. He finds that workers near the back of the hiring queue, particularly those who have limited education and are lacking in labor market skills, experience long periods of unemployment and have difficulties finding jobs even when the economy is strong.

"Overall," Holzer writes, "only 5-10 percent of the jobs in central-city areas for non-college graduates require very few cognitive skills or work credentials. In these same areas, it appears that a much larger percentage of residents lack at least one or more of the credentials required by employers."

Holzer observes that if welfare reform adds hundreds of thousands of poor women to the labor force, the effect in the large cities will be to increase substantially the number of low-skilled workers competing for a limited supply of low-skilled jobs, thereby aggravating the shortage of jobs for low-skilled workers:

Most of these women entering the labor force will therefore be competing for the very small fraction of available jobs in the central cities that have few serious requirements in terms of skills and credentials, and where there is currently no evidence of any shortage of workers. Nonemployment spells among young black males and females in inner-city areas are already very lengthy, even among those who are not in school and who participate in the labor force; unemployment rates for less-educated men and women more generally are quite high; and very significant periods of nonemployment are currently observed among poor single female heads of households, even when they are not receiving aid....Moreover, these employment difficulties for minorities and the least-skilled are apparent at all points in the business cycle, even when the labor markets appear to be relatively tight....Thus, it seems highly probable that the imbalance between job availability and the number of people with low skills and credentials that already exists in many central-city areas will worsen over the next few years.

The Tax Provisions of the Minimum Wage Law

Holzer's and Newman's research suggests that those childless adults receiving food stamps who have limited education and skills could encounter serious difficulty finding steady employment, especially if they live in the cities. Unfortunately, the tax provisions of the new minimum wage law are likely to have the unintended effect of exacerbating this problem.

These provisions reinstate and modify a tax credit that reduces the cost to employers of hiring certain types of individuals. Called the Work Opportunity Tax Credit, it provides employers with a tax credit equal to 35 percent of the first $6,000 in wages paid to new hires who fall into any of several categories. These categories include welfare recipients, youth living in certain low-income areas, certain ex-felons with low incomes, and certain low-income veterans, among others.

In designing this tax credit, however, Congress left out most of the individuals affected by the three-month food stamp cut-off. The only individuals subject to the cut-off who are covered by the new tax credit are food stamp recipients aged 18 to 24 who have been receiving food stamps continuously for the six months before they are hired and recipients aged 18 to 24 who have been terminated from food stamps in the past 60 days because they reached their three-month limit. The following groups of individuals affected by the new food stamp provision are *not* covered by this tax credit:

- Individuals aged 25 through 49 who are affected by the three-month food stamp cut-off. The vast majority of those affected by the food stamp cut-off are between the ages of 25 and 49. USDA data show that those age 40 or over, by themselves, make up nearly one-third of those affected.

- Individuals aged 18 to 24 who are in their three months of food stamp receipt and are

"An unintended side-effect of the new Work Opportunity Tax Credit is to penalize most of the individuals affected by the three-month food stamp limit — and to make it harder for them to find work."

looking for work. An employer may *not* get a tax credit for hiring an 18-24 year-old food stamp recipient unless the individual has been terminated from food stamps because he or she has hit the three-month limit or the individual has been able to receive food stamps for six consecutive months, which generally would occur only if the individual remained on the program after his or her three-month period ended because he or she has obtained a workfare position.

- Individuals aged 18 to 24 who were terminated from food stamps more than 60 days ago. Although these individuals may be experiencing severe hardship, employers receive no tax credit for hiring them.

An unintended side-effect of the new Work Opportunity Tax Credit thus is to penalize most of the individuals affected by the three-month food stamp limit — and to make it harder for them to find work. Since numerous other categories of low-income individuals qualify for the tax credit, the childless adults affected by the food stamp cut-off will become relatively less attractive to employers and will be pushed farther to the back of the hiring queue. As a result, they can be expected to have more difficulty finding work than they already do.

Conclusion

In passing this food stamp provision, Congress intended to prod more of these individuals to go to work. The assumption was that these people could either find a job or secure a workfare slot. Unfortunately, food stamp workfare slots are rare. In addition, the research suggests that low-skilled, poorly educated individuals in many cities already have considerable difficulty finding employment. And the new Work Opportunity Tax Credit will reduce rather than enhance the job prospects of these individuals by pushing them farther back in the hiring queue. At the present time, we appear to be headed toward harsh outcomes in this area and a likely increase in severe poverty among this population.

Notes

[1] "Food Stamp Cuts to Take Toll on Jobless Poor," *Los Angeles Times*, October 5, 1996.

[2] The legislation allows waivers from this provision to be granted in certain circumstances (*i.e.*, if the unemployment rate exceeds 10 percent or there are insufficient jobs in the economy). It is not clear how the waiver provisions will be applied.

[3] Some of these states and some other states also operate "work experience" programs for limited numbers of food stamp recipients. In some cases, participation in these work experience programs would qualify as "work" and enable a recipient to continue receiving food stamps after the end of the three-month period. In other circumstances, that would not be the case; for example, in some cases, "work experience" may be a grant diversion program that provides fewer than 20 hours a week of work. Some of these states may be able to convert their work experience programs to workfare programs. Other states may not be able to do so without fundamentally altering their work experience programs in ways they or local employers do not favor. Most of the state "work experience" programs are very small. In 1995, only six states operated work experience programs with more than 1,000 enrollees. Of the other states, six had fewer than 20 work experience participants each.

[4] States providing increased funds for the food stamp employment and training program receive federal funds on a 50-50 matching basis.

[5] Katherine Newman and Chauncy Lennon, "Finding Work in the Inner City: How Hard is it Now? How Hard Will it be for AFDC Recipients?" Russell Sage Foundation, Working Paper #76, October 1995.

[6] Harry T. Holzer, *What Employers Want: Job Prospects for Less-Educated Workers*, Russell Sage Foundation, 1996.