
**Temporary Assistance for Needy
Families Program
Program Instruction**

U.S. Department of
Health and Human Services
Administration for Children & Families
Office of Planning, Research & Evaluation
Washington, D.C. 20447

Memorandum No. TANF-ACF-PI-98-

Date:

TO: State Agencies Administering the Temporary Assistance for Needy Families (TANF) Program and Other Interested Parties

SUBJECT: Formula for Awarding the First High Performance Bonus in Fiscal Year (FY) 1999

REFERENCES: Section 403(a)(4) of the Social Security Act

PURPOSE: The purpose of this transmittal is to advise States and other interested parties of the measures and formula the Department of Health and Human Services (DHHS) intends to use for awarding High Performance bonuses for FY 1998. We are also submitting a clearance package to the Office of Management and Budget that addresses the data collection necessary to award these bonuses.

This transmittal addresses only the first-year bonus. We are currently drafting a notice of proposed rulemaking (NPRM) that will address the formula applicable for future years.

BACKGROUND: Statutory Context

Section 403(a)(4) of the Social Security Act makes \$1 billion available over a five-year period to reward States that achieve high performance levels under the new welfare block grant program, known as TANF. It provides that the first award will be made in FY 1999 based on performance above a threshold level in FY 1998. It calls for the Secretary -- in consultation with the National Governors' Association (NGA) and the American Public Welfare Association (APWA) -- to develop a formula within one year of enactment (or by August 22, 1997). The formula should reflect performance in achieving the goals of the TANF program. The total award to a State cannot exceed 5 percent of

its TANF grant, known as the State Family Assistance Grant (or SFAG).

DHHS Efforts to Date

Following enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, the Administration for Children and Families (ACF) developed a strategy for broad consultation with the States and other interested parties to inform its development of proposed rules on major policy issues. General consultation on the TANF regulations began in the fall of 1996.

Consistent with the specific statutory language on consultation regarding the High Performance Bonus, we developed a process for ongoing consultation with the NGA, APWA, National Conference of State Legislatures (NCSL), and State representatives who agreed to participate in a work group. From February through July 1997, we scheduled biweekly discussions with this work group covering the principles underlying a performance system, the viability of individual measures and data options, and the general allocation and distribution rules. In the interest of moving the process forward, in July we shared a "preliminary proposal" with our State partners and other interested parties, which also included advocates and technical and policy experts. This proposal provided the framework for additional, more focussed consultations on the possible elements of the bonus formula. At these consultations we received wide-ranging and very helpful feedback on the draft proposal.

NGA and APWA also provided feedback in the form of policy statements presenting their views on how the formula should be drafted. There were several important similarities between these policy statements and ACF's draft proposal--including similar principles and goals for the bonus system and a similar focus on work measures--but there were also differences.

Based on these consultations, we incorporated a number of changes to our initial proposal in this first-year formula.

Need for Interim Measures

1. States need to know how we will be assessing their performance this year. We have a responsibility to give them this information as soon as possible.
2. We want to ensure that States have the capacity to provide the information needed to qualify for these bonuses. Based on our discussions with States and the analysis we have done, we believe this capacity exists. The notice now will increase the chance that a particular State will be able to make any necessary adaptations to correct any data shortcomings and compete.

Although the statute does not require it, we would strongly prefer to set the formula through rulemaking. However, the time frames involved in issuing proposed and final rules are not compatible with providing timely notice to States of the policies that will apply during the first bonus year. Thus, we have decided to issue this policy announcement governing the determination of bonuses for this first bonus year.

In the absence of regulations, and in taking into consideration the input we received during our consultations, we will use a simplified and streamlined formula. The measures for the first year focus on work (excluding workfare and fully subsidized employment) and are closely tied to the statutory goals.

We will give States some flexibility on how they collect the data on each measure.

Substance of Interim Measures

We intend to award \$200 million in High Performance Bonus funds to States in FY 1999. We believe that providing a full share of the bonus funds during the first year will give important impetus to State implementation efforts, particularly in the welfare-to-work area. We understand there are limitations in the first year formula and data, but we do not believe these are sufficient to warrant deferring the award of the bonus monies.

We will award funds to States on the basis of their rankings on each of four work-related

measures. Two of these measures will address absolute State performance, and two will address State performance improvement. The four measures are:

- 1) Job Entry Rate
- 2) Success in the Work Force Measure:
 - a) Job Retention Rate
 - b) Earnings Gain Rate
- 3) Increase in Job Entry Rate
- 4) Increase in Success in the Work Force Measure:
 - a) Increase in Job Retention Rate
 - b) Increase in Earnings Gain Rate

(Note that the "success in the work force" measure is a combination of two work-related measures.)

In different ways, all four measures reflect a State's success in moving families from welfare to work. Full success requires not only getting recipients into jobs, but also keeping them in jobs, and increasing earnings in order to reduce dependency and enable families to support themselves. Our measures address all these aspects of success.

The multiple measures also support State flexibility in designing their TANF programs. They enable States that have different work philosophies to fairly compete for bonuses. Compared to a single measure, they are less likely to distort State policy decisions or to cause unintended negative consequences. (The TANF work participation rates also serve to counterbalance the potential effect of the individual measures by encouraging States to be expansive in their efforts to move recipients from welfare to work and discouraging creaming.)

In the case of the first two measures, we will look at State rankings on absolute performance in FY 1998; for the latter two measures, we will rank States based on the extent to which their performance in FY 1998 exceeded their performance on that same measure in FY 1997. By including improvement measures, we intend to:

- 1) provide a mechanism by which all States can compete;
- 2) motivate all States to improve their performance; and
- 3) moderate problems associated with uneven playing fields.

65/35

For this first year, we will make the ten States with the best scores on each measure eligible for bonus monies. Sixty-five percent, or \$130 million, of the \$200 million will be available to the ten best States on each State performance measure. The remaining 35 percent, or \$70 million of the award money, will be available to the ten best States on each State improvement measure. The following percentages and amounts have been allocated to each measure.

Job Entry Rate	40%	(\$80 million)
Success in the Work Force	25%	(\$50 million)
Increase in Job Entry Rate	20%	(\$40 million)
Increase in Success in the Work Force	15%	(\$30 million)

As previously mentioned, the law requires that no State may receive a high performance bonus greater than 5 percent of its SFAG. If the 5 percent cap on an individual State's award prevents the full allocation of these individual award pools, we plan to re-allocate the extra funds.

For all four measures, we plan to look at performance over the course of an entire year. We made this decision, in large part, to avoid any potential bias in work data due to seasonal differences in employment.

In all cases, we will compute State performance only with respect to adults who were receiving assistance [as defined in the policy guidance we issued January 31, 1997 (TANF-ACF-PA-97-1)].

In order to compete for the High Performance Bonus, States must report comparable data for adults receiving assistance in separate State programs for FY 1997 and FY 1998. This means reporting the data requirements in Sections 1, 2 and 3 of the Emergency TANF Data Report

(Form ACF-198) for the separate State programs beginning with the month the State is subject to the TANF reporting requirements, as well as reporting the seven HPB data elements in Section D of the Appendix for adults in separate State programs.

As indicated in the January 1997 guidance, we are requesting data on separate State programs to assess States overall performance in moving recipients from welfare to work. The success in meeting TANF performance goals may be affected by State choice in funding separate State programs with Maintenance of Effort (MOE) dollars, thus advantaging one State over another. For example, if a State had a separate State assistance program similar to TANF in which it put more difficult to employ recipients, its TANF performance results could be unfairly inflated. In such cases, we would need to consider including outcomes for the caseload in separate State programs in the performance measures.

We will analyze separate State program data required above, as well as other information we receive on the characteristics of the caseload and the nature of benefits provided in separate State programs, in assessing how and whether to adjust a State's TANF performance data.

We are willing to consider arguments by States that they should not be required to report all the data outlined above for certain specific separate State programs because:

- 1) the scope and nature of the specific separate State program will not unfairly inflate performance under TANF or the High Performance Bonus; and
- 2) the State is incapable of meeting the reporting requirements due to the nature of the benefits.

Under such limited circumstances, we may conclude that a State may report a more limited subset of the required Data on that separate State program and still compete for the High Performance Bonus. States that wish to be considered for this limited exception will need to provide detailed information about the nature and scope of their

separate State programs for our consideration, along with a detailed explanation of what data cannot be provided and why. We will determine whether the exception is appropriate and, if so, what data must still be provided.

The Appendix to this transmittal includes five Sections: Section A - a description of the formula we will use in calculating the FY 1999 High Performance Bonus; Section B - how the best 10 States will be determined for each measure; Section C - how the bonus monies will be calculated for the ten best States on each measure; Section D - the specific data collection requirements; and Section E - the reporting dates.

We will shortly publish an emergency form clearance for comment and may make technical changes to the content of Sections D and E based on comments we receive.

Flexibility in Data Sources

For this first year, we will allow States to submit the best data they have available on each measure. Thus, they may use matches with quarterly Unemployment Insurance (UI) data, surveys, administrative records or a combination of these data sources.

We will be requiring States to report quarterly data on a quarterly basis. We believe quarterly reporting is necessary in order to provide us with sufficient feedback as to how well the system is working and whether States are on track to report the data and compete this year.

Because of the lags associated with using UI subsequent quarterly periods to measure job retention and earnings gain of employed adult recipients, we will not ask States to report the new performance data in the same time-frames as specified for other TANF program and financial data. In essence, they will have additional time to report their performance data to us.

Along with aggregate reporting on the measures, we will require each State to:

- 1) specify the data sources and methodology it has used to determine the aggregate numbers;

- 2) include a certification that it has provided the best data available on the measures in the formula;
- 3) maintain records that adequately document the derivation of its performance data; and
- 4) provide access to such records, for validation purposes, upon request.

If a State opts to use sampling to comply with the reporting requirements, it must use an acceptable sampling methodology and sufficiently large samples to make estimates over various sub-populations, e.g., the earnings gain rate of employed recipients in the second subsequent quarter. The samples must be representative of the entire calendar quarter; it is not appropriate to use only one month to represent activity for the quarter.

A State need not submit data if it does not want to compete on any particular measure. However, as indicated previously, to the extent that a state wants to compete on a given measure, it will need to submit comparable performance and caseload characteristics data for separate State programs in order to qualify for a High Performance Bonus, as described above.

Future Bonuses

As mentioned earlier, the formula and data collection presented in this transmittal apply only to the performance awards made in FY 1999. We are committed to issuance of an NPRM and final rule that will cover the High Performance Bonuses to be awarded in future years, i.e., fiscal years 2000 through 2003. The schedule for this rulemaking provides for NPRM publication in the spring and final rules in early FY 1999.

As we work towards publication of proposed and final rules, we will be looking at possible refinements to the performance measures used this first year. The rulemaking process will allow ample opportunity for all interested parties to comment on the formula we will implement for future bonuses.

In this further work we remain committed to our process of consultation and collaboration with the NGA, APWA, NCSL, individual States, and other organizations and individual experts. We also remain committed to developing a performance system that is simple to understand and administer, has integrity, and fosters the goals of the TANF program.

EFFECTIVE

DATE: Immediately

ATTACHMENT: Appendix - High Performance Bonus Award

INQUIRIES: For further information, you should contact the appropriate Regional Administrator.

Diann Dawson
Acting Director
Office of Family Assistance

Howard Rolston
Director
Office of Planning, Research, and Evaluation

APPENDIX

HIGH PERFORMANCE BONUS AWARD

SECTION A. BONUS FORMULA

We will use the FY 1997 and FY 1998 data reported by the States (see Section D) in the calculations for the FY 1999 High Performance Bonus Awards.

1. Performance Measures

(a) **FY 1998 Job Entry Rate**

This is the unduplicated number of adult recipients who entered employment for the first time in FY 1998 (job entries) as a percent of the total unduplicated number of FY 1998 recipient adults unemployed for the first time in FY 1998. **Adult recipients participating in workfare or in fully subsidized employment are considered as unemployed adult recipients.**

Should not be included

----- x 100
Unduplicated number of unemployed adult recipients

all
they
entries

(b) **Success in the Work Force Measure** (a composite measurement of the following two rates)

(1) **FY 1998 Job Retention Rate**

This is the FY 1998 average of the sum of the unduplicated number of employed adult recipients in one quarter who were also employed in the first subsequent quarter, as a percent of the sum of the unduplicated number of employed adult recipients in each quarter. (At this point, they might be former recipients). **Adult recipients participating in workfare or in fully subsidized employment are not to be included as employed adult recipients.**

Sum of employed adult recipients in each of Qtrs 1 thru 4 who continue employment

$$\frac{\text{in each subsequent Qtrs}}{\text{Sum of employed adult recipients in Qtrs 1 thru 4}} \times 100$$

(2) FY 1998 Earnings Gain Rate

This is the sum of the gain in earnings between the initial and second subsequent quarter in each of quarters 1 through 4 of FY 1998 adult recipients employed in both these quarters as a percent of the sum of their initial earnings in each of quarters 1 through 4. (At this point, they might be former recipients.)

$$\frac{\begin{array}{l} \text{Sum of total dollars earned in second} \\ \text{subsequent quarter in each of Qtrs 1 thru 4} \\ \text{minus sum of total dollars earned in initial} \\ \text{quarter in each of Qtrs 1 thru 4 of adult} \\ \text{recipients employed in both these quarters} \end{array}}{\text{Sum of total dollars earned in initial quarter in each of Qtrs 1 thru 4}} \times 100$$

2. Improvement Measures

(a) Increase in FY 1998 Job Entry Rate

This is the percentage change between FY 1997 and FY 1998 job entry rates.

$$\frac{\text{FY 1998 job entry rate} - \text{FY 1997 job entry rate}}{\text{FY 1997 job entry rate}} \times 100$$

(b) Increase in the Success in the Work Force Measure

(1) Increase in FY 1998 Job Retention Rate

This is the percentage change between FY 1997 and FY 1998 job retention rates.

$$\frac{\text{FY 1998 retention rate} - \text{FY 1997 retention rate}}{\text{FY 1997 retention rate}} \times 100$$

**(2) Increase in FY 1998 in Earnings
Rate**

Gain

This is the percentage change between FY 1997 and
FY 1998 in the earnings gain rates.

$$\frac{\text{FY 1998 earnings gain rate} - \text{FY 1997 earnings gain rate}}{\text{FY 1997 Earnings gain rate}} \times 100$$

**SECTION B. HOW THE 10 BEST STATES FOR HPB MONEY ON EACH
MEASURE WILL BE DETERMINED**

High Performance Bonus monies will be awarded to States on the basis of their rankings in two absolute State performance measures (job entry rates and the success in the work force measure), and in two State improvement measures (increase in the job entry rates and increase in the success in the work force measure).

Job Entry Measure

The rates for States submitting data for this measure will be ranked from high to low with "1" being the rank for the State with the best score. States not submitting data for this measure will each be assigned a rank which is the number following the last rank for States that submitted data. States with rankings 1-10 will share in the bonus dollars allocated to this performance measure.

Success in the Work Force Measure

This is a composite weighted score of the job retention and the earnings gain measures. A separate ranking of each of the two rates will be made for the States that submit the required data. Each State that does not submit data for one of these measures will be assigned a rank which is the number following the last rank for States that submitted data for that particular measure.

Because it is a more familiar measure with a more substantial history, we will weight each State's job retention ranking score by 2. The weighted job retention score will then be combined with the earnings gain score for each State. The sum of these two scores will then be ranked from low to high with "1" being the rank for the State with the best score. States ranked 1-10

will share in the bonus dollars assigned to this performance measure. (See example below.)

The same procedure will be followed for the two improvement measures, i.e., increases in the job entry and in the success in the work force measures.

Example:

Assume that --

- 49 States submitted data for the Job Entry and Job Retention rates.
- 42 States submitted data for the Earnings Gain rate.
(States that did not submit data, e.g., State C, will be assigned "43" as their rank.)
- State Job Retention Ranks have a weight of "2".

Job Entry Measure

(States ranked from 1 to 49; States with ranks 1-10 receive bonus money.)

Success in the Work Force Measure

	<u>Ranks</u>	<u>State A</u>	<u>State B</u>	<u>State C</u>
(a) Job Retention Rank (best=1; worst=49; non-reporters=50)		10	13	2
(b) Earnings Gain Rate (best=1; worst=42; non-reporters=43)		2	24	43

Weighted Ranks

(c) Job Retention [(a) x 2] ...	20	26	4
(d) Earnings Gain [(b) x 1] ...	2	24	43
(e) Sum of (c) plus (d)	22	50	47

(States with the lowest 10 ranks, after ranking the combined weighted scores in

item
(e)
for
all
State
s,
will
recei
ve
bonus
money
for
the
Succe
ss in
the
Work
Force
measu
re.)

**SECTION C. HOW THE FY 1999 HPB DOLLARS WILL BE CALCULATED FOR
THE 10 BEST STATES IN EACH MEASURE**

The 10 States with the best ranked scores on each of the following measures will be eligible for bonus monies. For each measure, the percent and total amount of the available \$200 million award money will be as follows:

Job Entry Rate	40%	(\$80 million)
Success in the Work Force	25%	(\$50 million)
Increase in Job Entry Rate	20%	(\$40 million)
Increase in Success in the Work Force ...	15%	(\$30 million)

Bonus dollars for each measure will be distributed based on each State's percentage of the total SFAG of the 10 States that will receive a bonus. For example, if the total SFAG of the 10 best States for the Job Entry measure is \$1,737 million, and if State A's SFAG of \$229 million is 13.2% of all the awarded States' SFAG, then State A will receive 13.2% of the \$80 million, or approximately \$10,560,000 of the bonus money. However, if State A is also eligible for bonus money for any of the other measures, the total amount of the award monies State A receives cannot exceed \$11,450,000 (5% of the SFAG amount of \$229 million).

SECTION D. HPB DATA REQUIREMENTS

[Reporting requirements will become effective after clearance by the Office of Management and Budget.]

In order to compete for the High Performance Bonus, States must report comparable data for adults receiving assistance in separate State programs for FY 1997 and FY 1998. This means reporting the data required in Sections 1, 2, and 3 of the Emergency TANF Data Report (Form ACF-198) for the separate State programs beginning with the month the State is subject to the TANF reporting requirements, as well as reporting the seven HPB data elements specified in this section for adults in separate State programs. (Data for FY 1997 are necessary in order to measure the extent to which the FY 1998 performance of each measure exceeded its FY 1997.)

Separate information by calendar quarter must be submitted for the TANF and the TANF-MOE programs for FY 1998. (Comparable information is also required for FY 1997.)

- (1) Cumulative unduplicated number of unemployed adults receiving assistance in FY 1998. (For example, the Qtr 1 report will show the unduplicated count only in Qtr 1; the Qtr 2 report will show the unduplicated count in the first two quarters; Qtr 3 will show the unduplicated count for first 3 quarters; and Qtr 4 will show the total unduplicated count for all 4 quarters.)
- (2) Total unduplicated number of adult recipients entering employment for the first time in FY 1998.
- (3) Total unduplicated number of adult recipients employed in each quarter.
- (4) Total number of adult recipients reported in item (2) who were also employed in the subsequent quarter.
- (5) Total number of adult employed recipients reported in item (3) who were also employed in the second subsequent quarter.
- (6) Total earnings in the initial quarter of adult recipients reported in item (5).
- (7) Total earnings in the second subsequent quarter of adult recipients in item (5).

Examples:

Adult Recipients Employed for the First Time in--	1st Subsequent Quarter	2nd Subsequent Quarter
Oct-Dec 1997	Jan-Mar 1998	Apr-June 1998

Jan-Mar 1998	Apr-June 1998	July-Sept 1998
Apr-June 1998	July-Sept 1998	Oct-Nov 1998
July-Sept 1998	Oct-Dec 1998	Jan-Mar 1999

SCHEDULE E. HPB REPORTING DATES

Data will be reported on a quarterly basis. Each quarterly report will contain the Emergency TANF Data Report for the separate State programs and the tables of performance data covering TANF and TANF-MOE data for the FY 1997 and FY 1998 specific quarter.

<u>FY 1997 and FY 1998 Separate TANF and TANF-MOE Data for--</u>	<u>Report Due Date</u>
--	------------------------

Quarter 1: (Oct-Dec 1996 and Oct-Dec 1997)	September 30, 1998
---	--------------------

Quarter 2: (Jan-Mar 1997 and Jan-Mar 1998)	December 31, 1998
---	-------------------

Quarter 3: (Apr-Jun 1997 and Apr-Jun 1998)	March 31, 1999
---	----------------

Quarter 4: (July-Sept 1997 and July-Sept 1998)	June 30, 1999
--	---------------

A report form and instructions will be sent to the States after clearance by the Office of Management and Budget.

High Performance Bonus

Talking Points

- This high performance bonus will provide states with a powerful incentive to move even more people from welfare to work -- something the President fought hard for during the welfare reform debate.
- In fact, the President told the National Governors' Association as far back as June of 1995 "If we're going to change the culture of welfare, we have got to reward success, we've got to depart from the status quo. I want a performance bonus...that will force the welfare bureaucracy...to focus on work." When he signed the legislation into law in August of 1996 he praised the bill for giving states "powerful performance incentives to place more people on welfare in jobs."
- The performance bonus will spur states to continue welfare reform's stunning success -- welfare caseloads have declined by 2.4 million in the first 13 months of the new law.
- The new high performance bonus rules will award \$200 million a year to states that do the best job of placing welfare recipients into jobs and helping them succeed in the work place.
- HHS will shortly be releasing formal guidance to the states -- described in the attached summary dated 2/10/98 -- which defines the measures of success on which the bonuses will be awarded. Sixty percent of the funds will be distributed based on states' success in placing people in jobs and forty percent of the funds will be distributed based on how well former recipients succeed in the work place, a measure based on job retention and earnings.

Key Facts about the Bonus Competition

- A total of \$80 million would be awarded to the 10 states that are able to move the highest percentage of their welfare population into jobs.
- An additional \$50 million would go to the 10 states with the best records of helping welfare recipients achieve success in the work force. To measure this, HHS will examine each state's success in ensuring that welfare recipients keep jobs once they get them, and helping their earnings to climb over time.
- Finally, \$70 million will be distributed to the 20 states that show the most

improvement in these measures over time. The Administration felt it was important to include these measure to spur improvement in states that have only just begun to reform welfare.

- The Administration developed this proposal after extensive consultation with states on these measures. Details will be released to states in the form of state guidance, applicable to the first year of the competition, to be followed by a regulation that will govern future years. States must submit relevant data to HHS to enter the competition, but participation in the high performance bonus competition is voluntary. The first awards are expected to be made in mid-1999.

**High Performance Bonus
Statements by President Clinton**

"Welfare reform should have real incentives to reward the states who do succeed in putting people to work, not for cutting them off...If we're going to change the culture of welfare, we have got to reward success, we've got to depart from the status quo. I want a performance bonus, but one that will force the welfare bureaucracy and the welfare recipients to focus on work."

June 6, 1995 remarks to the National Governors Association National Summit on Young Children

"The final welfare reform legislation should provide sufficient child care to enable recipients to leave welfare for work; reward States for placing people in jobs; restore the guarantee of health coverage for poor families; require States to maintain their stake in moving people from welfare to work; and protect States and families in the event of economic downturn and population growth."

January 9, 1996 message to House of Representatives

"As you know, Congress sent me a welfare reform bill last year that fell short of my principles as well as those expressed by the NGA in your February resolution.

After my veto and your

unanimous resolution, I am pleased that the Congressional leadership has made several significant improvements that have made this a much better bill. They've added \$4 billion in child care, included a \$1 billion work performance bonus to reward states for moving people

from welfare to work. They removed the spending cap on food stamps so that states don't come up short in tough times. Their original bill made cuts in structural changes that were tough on children -- a school lunch block grant, a 25 percent cut in SSI for disabled children, cuts in foster care. The current bill drops all these provisions."

July 16, 1996 statement to the National Governors Association

"The new bill restores America's basic bargain of providing opportunity and demanding in return responsibility...It requires states to maintain their own spending on welfare reform and gives them powerful performance incentives to place more people on welfare in jobs."

August 12, 1996 statement at welfare bill signing ceremony

High Performance Bonus Issues

Decisions

Measures of High Performance

Practical problem
of states that
don't want to submit
eg

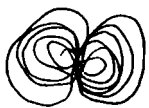
Can only
agree if
all 3 agree

	Option 1	Option 2	Option 3
Job Entry	✓	✓	✓
Job Retention	✓	✓	✓
Earnings Gain		Combined as one "success in the workforce" measure	✓
Increase in Job Entry	✓	✓	✓
Increase in Job Retention	✓	✓	✓
Increase in Earnings Gain		Combined as one "success in the workforce" measure	✓

Weighting Measures of High Performance

	Weigh Absolute Performance More	Weigh Absolute Performance and Improvement the Same
Weigh job entry more than job retention/earnings gain	Option 1	
Weigh job entry the same as job retention/earnings gain	Option 2	Option 3

200m/yr.
33m
ea H/S
pot



20% -
80%

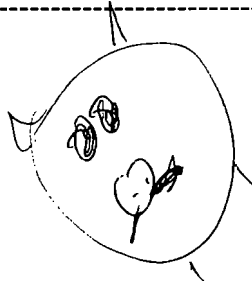
40m → 100m
200m

60/40

Examples

Job entry rate	50%
Job retention rate	25%
Increase in Job entry rate	12.5%
Increase in Job retention rate	12.5%

Job entry rate	30%
Job retention rate	20%
Earnings gain rate	20%
Increase in Job entry rate	10%
Increase in Job retention rate	10%
Increase in Earnings gain rate	10%



Job entry rate	40%
Combined measure for Job retention/Earnings gain	40%
Increase in Job entry rate	10%
Increase in combined measure for Job retention/Earnings gain	10%

Job entry rate	16.7%
Job retention rate	16.7%
Earnings gain rate	16.7%
Increase in Job entry rate	16.7%
Increase in Job retention rate	16.7%
Increase in Earnings gain rate	16.7%

Handwritten notes and calculations:

- ① 40% 30 20 20
- ② 40% 30 20 20
- ③ 40% 30 20 20
- ④ 40% 30 20 20
- ⑤ 40% 30 20 20
- ⑥ 40% 30 20 20
- ⑦ 40% 30 20 20
- ⑧ 40% 30 20 20
- ⑨ 40% 30 20 20
- ⑩ 40% 30 20 20
- ⑪ 40% 30 20 20
- ⑫ 40% 30 20 20
- ⑬ 40% 30 20 20
- ⑭ 40% 30 20 20
- ⑮ 40% 30 20 20
- ⑯ 40% 30 20 20
- ⑰ 40% 30 20 20
- ⑱ 40% 30 20 20
- ⑲ 40% 30 20 20
- ⑳ 40% 30 20 20
- ㉑ 40% 30 20 20
- ㉒ 40% 30 20 20
- ㉓ 40% 30 20 20
- ㉔ 40% 30 20 20
- ㉕ 40% 30 20 20
- ㉖ 40% 30 20 20
- ㉗ 40% 30 20 20
- ㉘ 40% 30 20 20
- ㉙ 40% 30 20 20
- ㉚ 40% 30 20 20
- ㉛ 40% 30 20 20
- ㉜ 40% 30 20 20
- ㉝ 40% 30 20 20
- ㉞ 40% 30 20 20
- ㉟ 40% 30 20 20
- ㊱ 40% 30 20 20
- ㊲ 40% 30 20 20
- ㊳ 40% 30 20 20
- ㊴ 40% 30 20 20
- ㊵ 40% 30 20 20
- ㊶ 40% 30 20 20
- ㊷ 40% 30 20 20
- ㊸ 40% 30 20 20
- ㊹ 40% 30 20 20
- ㊺ 40% 30 20 20
- ㊻ 40% 30 20 20
- ㊼ 40% 30 20 20
- ㊽ 40% 30 20 20
- ㊾ 40% 30 20 20
- ㊿ 40% 30 20 20

Talking Points on High Performance Bonus Guidance

I. Distribution of Funds

- Our preference is Option 1 -- 50% job entry, 25% job retention, and 25% for improvement in these two measures.
- Problems with the HHS proposal (Option 3):
 - It creates too many winners -- 60. This is too complex and will not send a clear message about what we consider to be high performance
 - It overemphasizes improvement by awarding 50% of the money that way. Absolute performance is far more important than improvement.
 - It overemphasizes earnings gain, particularly at this early point in the process of moving people from welfare to work. We do not know how reasonable it is to expect increases in earnings only six months after people start work.

We do agree that we need to go beyond job entry and include some measure of continuing success in the workplace. However, we can use job retention for this purpose. We know that job retention after 3 months is a good predictor of long-run job retention.

- If we must include earnings gain, our preference is to combine it into one measure with job retention -- a "Success in the Workforce" measure (Option 2). Under Option 2, we would award 40% of the money for this combined measure, equally weighted between job retention and earnings gain, plus an additional 10% for improvement in this measure.
 - Option 2 awards a very significant portion of the bonus based on earnings gain -- 25%, between both absolute performance and improvement. HHS's Option 3 would award 33% for earnings gain. Since our opening position was not to include any earnings gain measure (Option 1), we have already moved most of the way to HHS's position.
 - Option 2 also reduces the number of bonus winners from 60 to 40. OMB argues that we could reduce the number of winners by dropping the number of winners in each category to 6 or 7, but six measures of success still sends out a muddled message.

II. Treatment of Workfare

- Guidance should tell states to exclude workfare from definition of success, by counting all jobs except those funded 100% by TANF. (OMB agrees with us on this.)

III. Reference to Upcoming Regulation

- Guidance should drop speculation on what regulation will include. (OMB agrees with us on this.)

- Will we know whether they're on or off welfare → Can it be modeled?
 → States req'd to submit data even if they don't want to compete → If no abuse, new NPRM needed
 → only fresh entries - duplicates improvement meas.

High Performance Bonus Options

Overview: The statute says that the Secretary, in consultation with NGA and APWA, "shall develop a formula for measuring state performance in operating the state program under this part so as to achieve the goals set forth in section 401(a)."

Those 4 goals are:

- "(1) provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- (3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- (4) encourage the formation and maintenance of two-parent families."

HHS's draft guidance includes 6 work-related measures: absolute performance on job entry, retention, and earnings gain and improvement on the same three measures. The \$200 million pot for FY99 would be split evenly among these 6 measures. The resulting pots of \$33 million each would be distributed to the top 10 states in each category. The amount any individual state would receive would be proportional to its size.

Possible Measures	HHS Draft Guidance	HHS NPRM Preference	Options on Guidance
Job Entry Rate	The number of recipients who entered employment in 1998, as a percentage of all families on assistance	Same as guidance	Do single composite measure for job entry and job retention
Job Retention	The number of 1998 job entries in each quarter who are still employed the next quarter, as a percentage of all job entries	Same as guidance	
Earnings Gain	The percentage gain in earnings of all recipients who entered employment in 1998, measured from the initial quarter to 2 quarters later.	Same as guidance	Could drop or delay until NPRM
Improvement Measures	The improvement in each of the 3 measures above from 1997 to 1998.	Same as guidance	Could do separate, smaller pot for improvements (25% of total?) to encourage all states to participate
Non-work Measures	None	Working on teen births measure; may propose other child well-being measures in future	

fewer
- weigh entry
more than
retention

- less variation
in retention;
states can't
influence

50/25/25?

Skeptical re
retention
measure

What if
5 people
enter, but
retained
5 top in
ea mpr.
50/25/25

High Performance Bonus Options

	HHS Draft Guidance	HHS NPRM Preference	Options on Guidance
Distribution	Top 10 states for each of 6 measures. Size of bonus related to size of TANF block grant. (HHS chose not to do a composite measure, but instead to spread the money around and award 60 separate bonuses.)		Develop composite work measure and award to 10 top states on absolute performance and 10 top states on improvement (Option of more money to higher performers)
Issues:			
Treatment of Workfare	Depend on whether the data states choose to use includes those on workfare. UI data would not.	Unknown	(1) Unsubsidized work only -- but this creates a problem with UI data; or (2) All subsidized and unsubsidized, but exclude work subsidized 100% by TANF
Include those working while on welfare?	Yes	Yes	
Include State-only programs in measure of performance?	States are required to report data on state-only programs, but are not measured on the performance of these programs. States are warned that abuse of state-only could lead HHS to include them in the future.	Same as guidance	States that abuse state-only programs could not receive a bonus. (Must define abuse.)
Excess funds above 5% cap	Statute limits any state's bonus to 5% of the TANF grant. This creates a potential 'cap problem' depending on the size of the winning states. Guidance indicates HHS may reallocate extra funds to states that qualify for bonuses on other measures and are not at their cap.	Unknown	Carry excess funds to next year or award to next highest performing state(s) in same category.
Data to Measure Performance	Whatever states want to submit, as long as they certify they are using the best data possible	Prefer UI data (for work measures)	Get data to measure progress toward goal of 1 million to work by 2000.

OK?
when about -
can take action

Other issues:

- State-selected, optional measures: recommended by states, mentioned in HHS concept paper, not addressed in guidance.
- Adjustment for state economic and other circumstances: recommended by states, mentioned in HHS concept paper, not addressed in guidance.

6 measures - but fewer winners
 - most of \$ to \$1

Composite measures

avg
~~avg~~ %'s
 rankings

JE	50	40	50
Comb	25	20	25
Imp.	12.5%	20/20	12.5/12.5

Weird # on multiple
 Drop NPRM preview

What allowed to spend 10^2
What data for $1m$?

~~Atlanta 12-50~~

High Performance Bonus Options

Overview: HHS draft guidance includes 6 measures. The \$200 million pot for FY99 would be split evenly among these 6 measures. The resulting pots of \$33 million each would be distributed to the top 10 states in each category. The amount any individual state would receive would be proportional to its size.

Possible Measures	HHS 2-page Concept Paper	NGA/APWA Position	HHS Draft Guidance	HHS NPRM Preference	Options on Guidance
<i>What to m</i> <i>As.</i> Job Entry Rate	Similar to guidance; composite work score presented as one option	Generally similar to guidance, as part of composite work measure with retention	The number of recipients who entered employment in 1998, as a percentage of all families on assistance	Same as guidance	Composite
Job Retention	Similar to guidance; composite work score presented as one options	Similar to guidance, as part of composite work measure with job entry	The number of 1998 job entries in each quarter who are still employed the next quarter, as a percentage of all job entries	Same as guidance	<i>More \$ to higher perf?</i>
Earnings Gain	Similar to guidance; composite work score presented as one option.	Mentioned as possibility in future when UI data could be used.	The percentage gain in earnings of all recipients who entered employment in 1998, measured from the initial quarter to 2 quarters later.	Same as guidance	Could delay until NPRM
Improvement Measures	Similar to guidance	Similar to guidance, composite of improvement in job entry and retention	The improvement in each of the 3 measures above from 1997 to 1998.	Same as guidance	Could weigh these lower (e.g., 75% on absolute, 25% on improvement) <i>Sep pot</i>

How to m

404^{cl+2} - something 403 -

*Privates
+ c-
+ division*

10/200m

What allowed to spend it on?

High Performance Bonus Options					
Non-work Measures	Teen births; mentions developing child well-being measures in future	Reduction in teen births similar to guidance; other non-work measures as optional, state-selected measures	None	Working on teen births measure; may propose other child well-being measures in future	
Distribution	Not addressed	Small enough number of states to reward excellence and retain significance. Size of bonus related to size of TANF block grant.	Top 10 states for each of 6 measures. Size of bonus related to size of TANF block grant.		Develop composite work measure and award to 10 top states on absolute performance and 10 top states on improvement
Issues:					
Treatment of Workfare	Not explicitly addressed	Not explicitly addressed. Refer to paid employment. Intent was to exclude work experience/community services.	Would depend on whether the data states chose to use included those on workfare 1) Subsid. but not 100% TANF subsidy 2) Unsub (VI data prob)	Unknown Only on subsid (hard to track sub. out of UI)	Specify whether included or excluded. \$ 3.35 / 1000 = 3.35 / 180 = 200
Include State-only programs in measure of performance?	Stated as a possibility??	Not addressed	States are required to report data on state-only programs, but are not measured on the performance of these programs. States are warned that abuse of state-only could lead HHS to include them in the future.	Same as guidance N/A only states that are not one	60 320m 16m ave 5%

~~50~~
 50 / 16.00 = 3.125
 16.00
 100.00
 100.00
 0

320m
 16m ave 5%



High Performance Bonus Options					
Include those working while on welfare?	Yes	Yes	Yes	Yes	
Data to Measure Performance	Use UI data	Generally, data should be consistently available. Recommend exploring UI, and new hire directory, for the future. Probable support for state option in Year 1 as proposed in guidance.	Whatever states want to submit, as long as they certify they are using the best data possible	Prefer UI data (for work measures)	Get data to measure progress toward goals eg 1 m to work by yr 2000.

Other issues:

- State-selected, optional measures: recommended by states, mentioned in HHS concept paper, not addressed in guidance.
- Adjustment for state economic and other circumstances: recommended by states, mentioned in HHS concept paper, not addressed in guidance.

Spread thin if want data.

Leavers → Ask HHS for enough

THE WHITE HOUSE
WASHINGTON

2 vs 4 @'s

\$ has to be out in '93

1st or 4th & 7 98

Could truncate

The statute says that the Secretary, in consultation with NGA and APWA, "shall develop a formula for measuring State performance in operating the State program."

High Performance Bonus Options

Overview: HHS draft guidance includes 6 measures. The \$200 million pot for FY99 would be split evenly among these 6 measures. The resulting pots of \$33 million each would be distributed to the top 10 states in each category. The amount any individual state would receive would be proportional to its size.

under this part so as to achieve the goals set forth in section 401(a)11

Possible Measures	HHS 2-page Concept Paper	NGA/APWA Position	HHS Draft Guidance	HHS NPRM Preference	Options on Guidance
Job Entry Rate	Similar to guidance; composite work score presented as one option	Generally similar to guidance, as part of composite work measure with retention	The number of recipients who entered employment in 1998, as a percentage of all families on assistance	Same as guidance	<i>composite</i>
Job Retention	Similar to guidance; composite work score presented as one options	Similar to guidance, as part of composite work measure with job entry	The number of 1998 job entries in each quarter who are still employed the next quarter, as a percentage of all job entries <i>take average of all quarters?</i>	Same as guidance	
Earnings Gain	Similar to guidance; composite work score presented as one option.	Mentioned as possibility in future when UI data could be used.	The percentage gain in earnings of all recipients who entered employment in 1998, measured from the initial quarter to 2 quarters later. <i>Count only those still employed?</i>	Same as guidance	Could delay until NPRM or <i>drop</i>
Improvement Measures	Similar to guidance	Similar to guidance, composite of improvement in job entry and retention	The improvement in each of the 3 measures above from 1997 to 1998.	Same as guidance	Could weigh these lower (e.g., 75% on absolute, 25% on improvement)

those guidance list

Chronology:

HHS Position	JE	16%
	JR	16%
	EG	16%
	Improv -- JE	16%
	Improv -- JR	16%
	Improv -- EG	16%

JE = job entry
JR = job retention
EG = earnings gain

Original DPC Position	JE	50%
	JR	25%
	Improv -- JE/JR	25%

OMB Response: Desire for earnings gain
Desire to count only those exiting welfare
Willingness to compromise on #2 if we compromise on #1

DPC 2nd Position:	JE	50%
	JR/EG	25%
	Improv -- JE	12.5%
	Improv -- JR/EG	12.5%

OMB Response:	JE	30%
	JR	20%
	EG	20%
	Improv -- JE	10%
	Improv -- JR	10%
	Improv -- EG	10%

DPC 3rd Position:	JE	40%
	JR/EG	40%
	Improv -- JE	10%
	Improv -- JR/EG	10%

OMB Response: No, still want separate measure for JR and EG

Measure	DPC Original Pos.	DPC Current Pos.	HHS
JE	50%	40%	16%
JR	25%	20%	16%
EG	0%	20%	16%
Improv -- JE	12.5%	10%	16%
Improv -- JR	12.5%	5%	16%
Improv -- EG	0%	5%	16%

Handwritten notes in the table:
 - Next to JR 20%: "in one"
 - Next to EG 20%: "combined measure"
 - Next to Improv -- JE 10%: "50% in one"
 - Next to Improv -- JR 5%: "more combined"
 - Next to Improv -- EG 5%: "is measure"

OMB stated that they would compromise on welfare exit if we compromised on earnings gain. The following chart shows that we did so, but it is still unacceptable to OMB.

Measure	HHS Position	DPC Original Pos.	DPC Current Pos.
Earnings Gain	16%	0%	20%
Improv -- Earnings Gain	16%	0%	5%
Total Earnings Gain	32%	0%	25%

High Performance Bonus Options					
Non-work Measures	Teen births; mentions developing child well-being measures in future	Reduction in teen births similar to guidance; other non-work measures as optional, state-selected measures	None	Working on teen births measure; may propose other child well-being measures in future	
Distribution	Not addressed	Small enough number of states to reward excellence and retain significance. Size of bonus related to size of TANF block grant.	Top 10 states for each of 6 measures. Size of bonus related to size of TANF block grant.		Develop composite work measure and award to 10 top states on absolute performance and 10 top states on improvement
Issues:					
Treatment of Workfare	Not explicitly addressed	Not explicitly addressed. Refer to paid employment. Intent was to exclude work experience/community services.	Would depend on whether the data states chose to use included those on workfare <i>So</i>	Unknown	Specify whether included or excluded. <i>Count only unsubsidized</i> ~~Count subsidized~~ <i>unsubsidized so long as it's not 100% subsidized</i> ~~TANF~~
Include State-only programs in measure of performance?	Stated as a possibility??	Not addressed	States are required to report data on state-only programs, but are not measured on the performance of these programs. States are warned that abuse of state-only could lead HHS to include them in the future.	Same as guidance	

move to after welfare

High Performance Bonus Options					
Include those working while on welfare?	Yes	Yes	Yes	Yes	
Data to Measure Performance	Use UI data	Generally, data should be consistently available. Recommend exploring UI, and new hire directory, for the future. Probable support for state option in Year 1 as proposed in guidance.	Whatever states want to submit, as long as they certify they are using the best data possible	Prefer UI data (for work measures)	Get data to measure progress toward goals of one million hired by year 2000

Other issues:

- State-selected, optional measures: recommended by states, mentioned in HHS concept paper, not addressed in guidance.
- Adjustment for state economic and other circumstances: recommended by states, mentioned in HHS concept paper, not addressed in guidance.

High Performance Bonus Options

Overview: HHS draft guidance includes 6 measures. The \$200 million pot for FY99 would be split evenly among these 6 measures. The resulting pots of \$33 million each would be distributed to the top 10 states in each category. The amount any individual state would receive would be proportional to its size.

Possible Measures	HHS 2-page Concept Paper	NGA/APWA Position	HHS Draft Guidance	HHS NPRM Preference	Options on Guidance
Job Entry Rate	Similar to guidance	generally similar to guidance ~~revenue~~ see note	The number of recipients who entered employment in 1998, as a percentage of all families on assistance	Same as guidance	
Job Retention	Similar to guidance	Generally similar to guidance	The number of 1998 job entries in each quarter who are still employed the next quarter, as a percentage of all job entries	Same as guidance	
Earnings Gain	Similar to guidance	mentioned as possibility in future	The percentage gain in earnings of all recipients who entered employment in 1998, measured from the initial quarter to 2 quarters later.	Same as guidance	Could delay until NPRM
Improvements in Measures	Similar to guidance	similar to guidance	The improvement in each of the 3 measures above from 1997 to 1998.	Same as guidance	Could weigh these lower (e.g., 75% on absolute, 25% on improvement)
Non-work Measures	Teen births; mentions developing child well-being measures in future	~~Education~~ Social reduction in teen births	None	Working on teen births measure; may propose other child well-being measures in future	

other non-work measures
be incorporated into measure

Id just call →

High Performance Bonus Options					
Data to Measure Performance	Use UI data; ~~data~~ should be consistently available; probable support for state option in Year 1 (is this still applicable, Andrea? You gave me this to add, but not sure it's right column)	<i>generally</i> <i>mention UI data as possible in future</i>	Whatever states want to submit, as long as they certify they are using the best data possible	Prefer UI data (for which <i>would</i> measures?)	Get data to measure progress toward goals

Note: ~~Not~~ policy recommends 2 composite work measures: one for absolute perf. + one for improvement

adjustment (absolute perf) on job entry + annual increase

2 + one for progress or increase

combining the extent to which
various
measures
reflect
total
perf



HR-41. HIGH PERFORMANCE BONUSES AND OUTCOMES

41.1 Preamble

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, P.L. 104-193, provides \$1 billion over five years for bonuses to reward high performing states. The law requires the U.S. Department of Health and Human Services, in consultation with the National Governors' Association (NGA) and the American Public Welfare Association (APWA), to develop a formula by August 22, 1997, for measuring state performance in achieving the goals of the Temporary Assistance for Needy Families (TANF) program. The amount awarded to each high performing state shall not exceed 5 percent of the state's TANF grant.

41.2 Legislative Goals

The Governors generally support the broad goals stated in the federal welfare reform law. Federal law states that the purpose of TANF is to increase the flexibility of states in operating a program designed to:

- provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- encourage the formation and maintenance of two-parent families.

41.3 Principles for a High Performance Bonus System

The Governors believe that states should continue to play a leading role in providing input on this critical issue and support the following principles developed by a joint NGA/APWA workgroup of states. The high performance bonus system should:

- be simple, credible, quantifiable, understandable to the public, and consistent with the goals of the law;
- focus on outcomes rather than process;
- take varying state economic circumstances and policies into account and not impede the flexibility provided to states under P.L. 104-193;
- minimize double jeopardy or reward (for example, the law already provides bonuses for reducing out-of-wedlock births, a caseload reduction credit, and penalties and incentives related to child support enforcement and paternity establishment);
- avoid additional data collection requirements and costs and build on existing systems;
- avoid unintended consequences;
- focus on positive rather than negative measures; and
- reflect the strong emphasis on employment and self-sufficiency in the federal law and in the Governors' implementation of the law. This emphasis should influence the measures included in the system and the distribution of bonus funds.

41.4 Measures

The high performance bonus system should reward two important types of performance: achievement and progress. Achievement measures compare states' performance to each other during a given year, while progress measures compare a state's performance over time to its past performance to measure improvement. In some cases, data on achievement must be adjusted to recognize different state circumstances, such as economic factors, that are beyond the control of the program. These two types of measures will allow all states to have a fair opportunity to compete, while at the same time encouraging and rewarding excellence.

The performance system should include two groups of measures: core national measures and state-selected measures.

- 41.4.1 **Core National Measures.** The core measures should include a small number of measures consistent with the broad goals of the federal law and state programs. These measures should use data that are consistently available in all states.

The majority of core measures, and of bonus funds, should be employment-related. Measures should recognize the extent to which parents are making the transition from welfare to paid employment and moving toward self-sufficiency. To promote balance between these two objectives, and avoid unintended consequences, Governors recommend two composite work measures combining both employment-related objectives. Given that states are in different stages of implementation and face diverse circumstances, there should be one composite work measure for achievement and one for progress.

2 goals

In addition, it is appropriate to measure and reward reductions in births to teenagers. There is extensive evidence that teenage mothers are more likely to become dependent on public assistance for long periods of time and their children are disadvantaged in a variety of ways.

- 41.4.2 **State-Selected Measures.** The system should also include a "menu" of optional state-selected measures related to the status of families and children. States could choose to compete from among these measures according to their policy priorities and their ability to provide needed data. State-selected measures would supplement core measures in several important ways: they would highlight the importance of working toward the accomplishment of these policy goals for all states while providing some information on the performance of selected states on these goals in the interim. They also would serve a developmental function by allowing a select group of states to focus on refining data collection and measurement. Areas for optional measures might include, but not be limited to: diversion from cash assistance, school attendance, long-term self-sufficiency, child support collections, household income, and reductions in dependency.

41.5 Formula and Distribution Issues

The Governors believe the \$1 billion provided for high performance bonuses should be allocated evenly across the five-year period referenced in federal law. The formula used to award high performance bonuses should allocate the majority of funds to core measures. Within the core measures, primary weight should be given to measures related to employment and self-sufficiency. In order to promote high performance, awards within the core measures should be available both to the states with the greatest achievement and to the states demonstrating the greatest progress in improving performance.

The number of states receiving awards in each core and optional category should be small enough to promote excellence and to maintain awards of significant size. For the core measures, the Governors prefer determining the number of states eligible for awards rather than the size of each award. The number of states receiving awards on each state-selected measure, and the size of those awards, should take into account the number of states competing on each measure. The size of the bonus provided to each high performing state should account for the size of the state's TANF block grant. In light of these considerations, prorated adjustments may be necessary to accommodate the fixed funding level provided for bonuses and the 5 percent statutory cap on each state's award.

41.6 Other Considerations

The federal performance bonus system is only one of the available accountability tools and therefore does not have to address all policy issues addressed by the federal legislation. Many states have extensive performance management, evaluation, or benchmarking systems in place or under

development. In addition, there are extensive reporting requirements and mechanisms throughout the federal law.

The high performance bonus system must be flexible and allow evolution in order to incorporate lessons learned over time about measures, data sources, and distribution issues. The system should also promote and support continual improvement and sharing of best practices among states. It may be appropriate to implement interim measures for the first several years, which could be further developed with substantial state input over time.

*Time limited (effective Annual Meeting 1997-Annual Meeting 1999).
Adopted Annual Meeting 1997.*



AMERICAN PUBLIC WELFARE ASSOCIATION

Cornelius D. Hogan, President
A. Sidney Johnson III, Executive Director

August 12, 1997

Howard Rolston
Director, Office of Policy and Evaluation
Department of Health and Human Services
Administration for Children and Families
Aerospace Building, Suite 600
370 L'Enfant Promenade, S. W.
Washington, DC 20447

Dear Mr. Rolston:

On behalf of the American Public Welfare Association and the National Governors' Association, I am pleased to submit our recommendations for the TANF High Performance Bonus (HPB). These recommendations are provided in fulfillment of P. L. 104-193, which directed that the Department of Health and Human Services should develop an HPB formula in consultation with NGA and APWA.

As you know, these recommendations are the product of much intensive work on the part of states and of the Department. We are grateful for the cooperation and attention you and your colleagues have given to this issue and to our viewpoints.

We believe these recommendations provide a beginning framework for the HPB that will be both valid and administratively feasible. We urge you to incorporate these recommendations into the proposed HPB regulations now under development.

We look forward to continuing our productive dialogue with you as the HPB regulatory process continues. If you have any questions about these recommendations, please contact Andrea Kane of NGA at 624-7857, or Larry Goolsby of APWA at 682-0100.

Best regards,

A handwritten signature in dark ink, appearing to read "A. Sidney Johnson III".
A. Sidney Johnson III
Executive Director

Attachment

APWA

American Public Welfare Association
810 First Street, N. E., Suite 500 -- Washington, DC 20002-4267
Phone: (202) 682-0100, ext. 239 -- Fax: (202) 289-6555

FAX TRANSMITTAL - AUGUST 12, 1997 - 10 PAGES

TO: APWA/NGA High Performance Bonus Workgroup

FROM: Larry Goolsby and Andrea Kane

SUBJECT: HPB Recommendations Submitted to HHS

Mary Brogdon, MN	(612) 282-6120	Doug Howard, IA	(515) 281-7791
Steve Gold, VT	(802) 241-2830	Carlia Williams, IN	(317) 232-3443
Ray Castro, NJ	(609) 292-6837	Diane Hancock, KY	(502) 564-6684
Carmen Schulze, MO	(573) 751-8949	Kathy Tobin, MI	(517) 335-5007
Jody Westerberg, IL	(217) 785-2742	Kathy Walker, NH	(603) 271-4637
Amber Totten, IL	(217) 524-0083	Pheon Beal, NC	(919) 733-7058
Curtis Howard, CA	(916) 654-1295	Kevin Iverson, ND	(701) 328-1545
Mary Jo Thomas, WV	(304) 558-3240	Marge Reinhart, OR	(503) 373-7032
Dave Meara, DE	(302) 577-4654	Jennifer Garity, PR	(787) 721-5336
Michael Thomas, NY	(518) 402-0021	Linda Martin, SC	(803) 734-5597
Dave Gibson, WA	(206) 593-2025	Dot Shelton, TN	(615) 741-4165
Ben Levine, AZ	(602) 542-5339	Ron Borg, TX	(202) 628-1943
Liz Ryan, DE	(302) 577-4510	Robin Arnold-Williams, UT	(801) 538-4016
Tiffany M. Lynn, FL	(904) 922-9356	Andrea Kane, NGA	(202) 624-5313
Ann Shirra, GA	(404) 651-9377	Larry Goolsby, APWA	(202) 289-6555

We are pleased to attach the workgroup's final HPB recommendations as transmitted to HHS on this date. This concludes an important phase of the states' involvement in development of HPB policy. We expect to call on you again soon when HHS issues its proposed HPB regulations. At last report, the agency expected to have these out perhaps as early as next month.

Thank you very much for all your dedication, time, and hard work on this difficult but very vital issue. We will keep you posted as the next steps of the process evolve.

If you have any questions please contact Andrea Kane of NGA at (202) 624-7857 or Larry Goolsby of APWA at (202) 682-0100.

Recommendations

Joint APWA/NGA Work Group on High Performance Bonus Fund and Outcome Measures

PURPOSE

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, P.L. 104-193, provides \$1 billion over five years to provide bonuses to reward high performing states. The law requires the U. S. Department of Health and Human Services, in consultation with the National Governors' Association (NGA) and the American Public Welfare Association (APWA), to develop a formula by August 22, 1997 for measuring state performance in achieving the goals of the Temporary Assistance for Needy Families (TANF) program. The amount awarded to each high performing state shall not exceed five percent of the state's TANF grant.

LEGISLATIVE GOALS

Federal law states that the purpose of TANF is to increase the flexibility of states in operating a program designed to:

1. Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
2. End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
3. Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies;
4. Encourage the formation and maintenance of two-parent families.

PROCESS

NGA and APWA convened work groups on high performance bonuses and outcome measures that worked beginning in late 1996 to identify principles for a high performance bonus system, and explore possible measures and formulas on which bonuses would be awarded. In January 1997, the two groups met jointly for a consultation with HHS. Subsequently, a joint APWA/NGA work group formed which has worked closely with HHS through biweekly conference calls. The work group includes representatives from 26 states, including Governor's welfare reform policy advisors, program administrators, quality control directors, and agency policy staff. This workgroup is prepared to continue working with HHS for ongoing consultation and assessment as this important issue works its way through the regulatory process.

The work group's general recommendations have been adopted by the respective NGA and APWA policymaking bodies.

WORKING PRINCIPLES

The high performance bonus system should:

- Be simple, credible, quantifiable, understandable to the public, and consistent with the goals of the law.
- Focus on outcomes rather than process.
- Take varying state economic circumstances and policies into account and not impede the flexibility provided to states under P.L. 104-193.
- Minimize double jeopardy or reward. For example, the law already provides bonuses for reducing out of wedlock births, a caseload reduction credit, and penalties/incentives related to child support enforcement and paternity establishment.
- Avoid additional data collection requirements and costs, and build on existing systems.
- Avoid unintended consequences.
- Focus on positive rather than negative measures.
- Reflect the strong emphasis on employment and self-sufficiency in the federal law and in the states' implementation of the law. This emphasis should influence the measures included in the system, and the distribution of bonus funds.

GENERAL AGREEMENTS

- There is general support among states for a two-tier system that includes several core national measures and a menu of optional state-selected measures on which states may choose to compete.
- The primary focus of bonus awards should be on work-related measures. The welfare reform law contains four broad goals, but the central focus of state welfare reform efforts is on promoting the transition to work. States are most likely to be able to impact and track work-related progress, and are not already rewarded or penalized elsewhere in the Act for work-related measures. Further, work-related measures contribute to the achievement of the first, second, and fourth goals of the law.
- To ensure credibility and minimize the potential for disputes among states, bonuses should be awarded on measures with common definitions and consistent data sources.
- Recognizing variation in state policies, practices and circumstances, measures need to be credibly applied to diverse states without impeding state flexibility. In other words, they should be policy neutral.

- States should be allowed to compete both on *achievement* (actual performance of states compared to one another during a given year) and on *progress* (compare performance of a state over time). This recognizes that states are in different stages of implementing welfare reform, and will encourage a greater number and diversity of states to compete.
- On some measures, adjustments must be made for state differences. This is necessary for core economic/work-related measures. However, it would be preferable to avoid adjustment on optional measures in order to keep the process simple. There is some interest in considering adjustment factors similar to those used for JTPA.
- The majority of funds should be awarded for core measures, and within core measures, the majority of funds should be awarded for employment-related measures.
- There is general agreement that the size of a state's TANF grant should be a factor in calculating the size of bonus awards.
- States could win in more than one category. The five percent cap on award should apply to awards received in all categories.
- States prefer setting the number of states who win in each category rather than the size of the awards. Given a fixed amount for awards, the amount of each award may need to be adjusted depending on the size of the high performing states.
- States are concerned about the impact of welfare reform on children. However, it is not feasible or appropriate to include broad "child well being" measures in the formula for high performance bonuses due to a lack of valid and comparable state-level data at this time and concerns about possible unintended consequences of measures such as changes in foster care caseloads. Several groups are currently working on measures related to child outcomes. We suggest continuing to participate in and learn from this process about other potential measures. However, we should be careful to distinguish between outcomes for evaluation and those which are appropriate as performance measures on which bonus funds are awarded.

SPECIFIC RECOMMENDATIONS

A. CORE MEASURES

For the short-run (FY 98-99), the group recommends a total of four core measures: two related to work and two related to teen births.

Work-Related Measures

The group recommends two composite work-related measures: one for achievement on job entry and movement toward self-sufficiency (see below) and one for progress on job entry and movement toward self-sufficiency.

1. Job Entry

Description: Percent of TANF participants entering paid employment during a month, averaged over the year.

Numerator: Number of people who entered employment in a calendar month. Employment is defined as any paid job, including unsubsidized or subsidized, private or public, full time or part time.

Denominator: Number of cases not working on the first day of the calendar month. Or, number of ongoing cases not working in previous month and new recipients who have not become employed in the first month. Case is defined as a family or household who received any TANF assistance in the month. Applies only to those cases subject to work participation rate as calculated by HHS

2. Movement Toward Self-Sufficiency

Description: Combination of retention and non-recidivism to be used as interim measure. Percent of those who entered employment at a point in time who are still working or have not returned to assistance.

Numerator: cases who entered employment in month 1 who, at the end of month 4, are either: (a) still working or (b) not on TANF caseload. Use job entrants from Measure 1 as cohort. 'Still working' is defined as on assistance and working, or off assistance but employment can be confirmed through receipt of transitional assistance. For those who have not returned to assistance, we are not assuming they are still working but we do know they were working 4 months ago.

Denominator: new entrants from month 1.

Rationale for 4 month period as interim measure: a longer period would delay data too much for FY 98 bonuses; a shorter period reflects too much volatility. DOL analysis found that 13 weeks is a good proxy for longer-term follow up.

For longer term measure, recommend exploring Unemployment Insurance (UI) wage records and federal new hire directory for employment status and earnings at future date. Recommend match occur at least 6 months following job entry. This could result in two retention measures (employment and earnings), increasing the number of work-related measures to 3. For the interim, recommend including longer-term retention as an optional state-selected measure (see below).

Reduce births to teenagers

Reducing teenage births is a high priority for many states and a major emphasis in the federal law. The Out-of-Wedlock Birth bonus includes the entire population, whereas most states are focusing primarily on teens. Two measures should apply to this topic, an achievement measure and a progress measure to recognize to allow the maximum number of states to compete and to recognize that states are starting from very different places on this issue. The group also recommends that this measure not be limited to the TANF population or to births to unwed teens.

Description: Reduction in birth rate to teens 18 and under over previous year for which data available.

The teen birth rate is defined as births to teens as a portion of total teen population .

B. STATE-SELECTED MEASURES

1. Diversion

Description: The monthly number of applicants diverted (with a financial payment) from the cash assistance program divided by the number of newly approved cash assistance cases. The purpose is to capture both how much diversion occurs and how successful it is in keeping people off assistance.

Most states suggest that this measure should not be awarded until 2000 in order to allow states to check whether people come back within 12 months; the 12 month period would not end until 1999. Other states believe a return period of six months should be used.

This measure should begin as a comparison measure. States are generally starting from a similar level on the use of diversion. Also, there are questions about the extent to which improvement is likely as states get to the harder part of their caseloads. Improvement should be explored in future years.

Definition: Includes only diversion through the use of a diversion payment.

Numerator: Number of applicants diverted in the month, adjusted downward by the number of individuals who received diversion payments within the last six or 12 months and then received cash assistance in the current month.

Denominator: Number of cash assistance applicants in the month plus number of cases approved for diversion, adjusted downward for applicants that had received ongoing cash assistance in the previous three months (to remove administrative re-opens).

Background: At least 20 states offer diversion payments, typically for two to three months. The longest period allowed is four months. Some states require repayment, others prohibit families from receiving another diversion payment for a specified period of time. While states recognize the importance of non-financial diversion strategies such as applicant job search, it was agreed that this was difficult to track and monitor in the initial year. In the future, it is worth exploring whether the measure could be expanded to include a broader definition of diversion.

2. School attendance

Description: Percent of children in TANF households who are required to attend school who are attending school. This measure recognizes the importance of education in preventing welfare dependency and also addresses issues of child well-being.

Definition: Number of children meeting school attendance requirements (as defined within the state or school district) divided by total number of children in TANF households from the required age of school enrollment through age 15.

The rationale for excluding children 16 and over is that it is harder to hold parents responsible for attendance of students in this age group; state policies differ particularly around school attendance for older teens, and there are already school attendance requirements for teen parents. The rationale for the attendance proposal is that it is easier and more consistent to track than progress or achievement.

3. Long Term Self-sufficiency Progress.

NOTE: Most states have suggested that this measure should be dropped from the optional list if ACF goes forward with its recommended core measure on retention.

4. Child support

The state IV-D directors have discussed a proposed optional measure and agree that it is important to include a measure related to child support within the HPB system. This helps elevate the importance of child support in achieving self-sufficiency for TANF clients. It also helps address the TANF goal of family formation and maintenance of two parent families.

The IV-D directors make the following preliminary recommendations. The new child support incentive system, which is planned to begin in FY 2000 based on FY 99 performance, will already provide a range of performance incentives. If a performance measure other than those in the incentive formula is to be used, the directors recommend that it not require establishing new data and not place new burdens on information systems.

A possible measure could be developed as follows:

- Measure the percentage (%) of TANF and former TANF cases in which a support order has been established.
- Apply the measure as an improvement measure, not a comparative measure.
- Implement this as an optional measure when the new incentive formula is implemented—expected in FY 2000, based on data collected in FY 99—or whenever the incentive formula is effective. This is important for several reasons, including that the IV-D program does not currently collect data about former TANF clients, but will in the future if the new child support incentive formula is implemented as currently drafted.
- Exclude from the formula those child support cases that are defined by the State-Federal Office of Child Support Enforcement (OCSE) Definitions Workgroup (for example, those child support cases with good cause exemptions and those cases that are not in the jurisdiction of the state agency such as tribal and international cases).

5. Household income improvement

Description: The percent increase in total income of a cohort of current and former TANF recipients over a six month period. This should be an improvement measure. It recognizes the importance of broader sources of income than earnings in achieving self-sufficiency. This measure might need to be delayed until 2000 in order to capture longitudinal improvement. It also lends itself to a sampling methodology.

Definition:

- Include earnings, EITC and child support. Publicly-funded assistance income should not be counted for the purpose of this measure. While food stamps, child care, etc. are important for illustrating that work pays, the public and some policy makers might not be receptive to this approach. For EITC, the measurement period would need to accommodate EITC received throughout the year as well as in a lump sum.
- The measure should include income from all adult household members. This encourages family formation, which is one of four broad goals of the law.
- Yearly score would be average of 12 months.
- Measure would change as reporting and tracking mechanisms became more sophisticated.

6. Reduction in dependency.

Number of TANF cases per 1,000 families with children. This would be an improvement measure only.

NOTE: Several states have suggested they would not choose this measure because of concern over the unintended consequences of doing so. They point out that caseload reduction is already rewarded through pro-rata reduction—there is already substantial focus on caseload reduction and states will continue to track these trends. Other states, however, indicate they want to retain this as an option.

General notes

States could compete on as many of the optional state-selected measures as they choose to in a given year, depending on their policy priorities and data availability.

These measures cannot be core measures due to the diversity of policies among states and lack of consistent data. By allowing some states to test these measures, important lessons will be learned about the measurement process and data sources that could possibly lead to adding these as core measures in the future. At the same time, key information will be gleaned about welfare reform implementation in a selected number of states.

To address issues of comparable data, each state competing on one of the optional measures should prepare and have on file a one-page description of the methodology and source for gathering data for that measure.

States recommend to HHS the establishment of an ongoing process, to include APWA and NGA, to work towards consensus on future measures and continually assess and revisit whether the measures and the system are working.

FORMULA AND DISTRIBUTION

- Award bonuses to approximately top ten states in each of four core categories.
- Award bonuses to approximately top ten percent of those competing on each state-selected measure.
- Approximately seventy-five percent of total funds should go to core measures and twenty-five percent to state-based measures.
- Within core measures, no more than twenty-five percent of funds should go for teen birth measure, with at least seventy-five percent going to work-related measures.

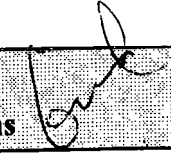
OTHER CONSIDERATIONS

- The HPB system will be highly visible; states should be mindful of public relations implications.
- The federal performance bonus system is only one of the available accountability tools and therefore does not have to address all issues. Many states have extensive performance management, evaluation, and/or benchmarking systems in place or under development. There are also extensive reporting and monitoring requirements in the federal law.
- The system may need to use interim measures for the first several years while longer-term measures and data sources are identified. It is preferable to identify the direction the longer-term measures might take now, so that the system can plan and prepare to implement them in the future.
- States would like HHS to explore the idea of setting aside a small portion of the HPB funds to support sharing of best practices by those who win the bonuses each year. APWA and NGA could convene an annual conference with funding by HHS to pay for attendance by at least one person from each state. States who win the awards would share with other states what they have done to achieve high performance. These states might also get money to support their dissemination/technical assistance activities. This would promote innovation, continuous improvement and state-to-state learning.

PHOTOCOPY PRESERVATION

High Performance Bonus Options

Overview: HHS draft guidance includes 6 measures. The \$200 million pot for FY99 would be split evenly among these 6 measures. The resulting pots of \$33 million each would be distributed to the top 10 states in each category. The amount any individual state would receive would be proportional to its size.

Possible Measures:	HHS Draft Guidance	HHS/NGA/APWA Concept Paper	HHS NPRM Preference	Options 
Job Entry Rate	The number of recipients who entered employment in 1998, as a percentage of all families on assistance	Similar to guidance	Same as guidance	
Job Retention	The number of 1998 job entries in each quarter who are still employed the next quarter, as a percentage of all job entries	Similar to guidance	Same as guidance	
Earnings Gain	The percentage gain in earnings of all recipients who entered employment in 1998, measured from the initial quarter to 2 quarters later.	Similar to guidance	Same as guidance	Could delay until NPRM
Improvements in Measures	The improvement in each of the 3 measures above from 1997 to 1998.	Similar to guidance	Same as guidance	Could weigh these lower (e.g., 75% on absolute, 25% on improvement)
Non-work Measures	None	Teen births; mentions developing child well-being measures in future	Working on teen births measure	
Distribution	Top 10 states for each of 6 measures	Small enough number of states to reward excellence and retain significance		Develop composite work measure and award to 10 top states
Issues:				
Treatment of Workfare	Would depend on whether the data states chose to use included those on workfare	Not explicitly addressed, but intent was not to include	Unknown	

High Performance Bonus Options

Overview: HHS draft guidance includes 6 measures. The \$200 million pot for FY99 would be split evenly among these 6 measures. The resulting pots of \$33 million each would be distributed to the top 10 states in each category. The amount any individual state would receive would be proportional to its size.

Possible Measures:	HHS Draft Guidance	HHS/NGA/APWA Concept Paper	HHS NPRM Preference	Options <i>Brk</i>
Job Entry Rate	The number of recipients who entered employment in 1998, as a percentage of all families on assistance	Similar to guidance	Same as guidance	
Job Retention	The number of 1998 job entries in each quarter who are still employed the next quarter, as a percentage of all job entries	Similar to guidance	Same as guidance	
Earnings Gain	The percentage gain in earnings of all recipients who entered employment in 1998, measured from the initial quarter to 2 quarters later.	Similar to guidance	Same as guidance	Could delay until NPRM
Improvements in Measures	The improvement in each of the 3 measures above from 1997 to 1998.	Similar to guidance	Same as guidance	Could weigh these lower (e.g., 75% on absolute, 25% on improvement)
Non-work Measures	None	Teen births; mentions developing child well-being measures in future	Working on teen births measure	
Distribution	Top 10 states for each of 6 measures.	Small enough number of states to reward excellence and retain significance		Develop composite work measure and award to 10 top states
Issues:				
Treatment of Workfare	Would depend on those included those <i>Wage prog</i> <i>Core meas?</i>	Those to use	Not explicitly addressed, but intent was not to include	Unknown

High Performance Bonus Options				
Include State-only programs in measure of performance?	States are required to report data on state-only programs, but are not measured on the performance of these programs. States are warned that abuse of state-only could lead HHS to include them in the future.	Stated as a possibility	Same as guidance	
Include those working while on welfare?	Yes	Yes	Yes	
Data to Measure Performance	Whatever states want to submit, as long as they certify they are using the best data possible	Use UI data; data should be consistently available; probable support for state option in Year 1	Prefer UI data (for which measures?)	Get data to measure progress toward goals

High Performance Bonus Options

Overview: HHS draft guidance includes 6 measures. The \$200 million pot for FY99 would be split evenly among these 6 measures. The resulting pots of \$33 million each would be distributed to the top 10 states in each category. The amount any individual state would receive would be proportional to its size.

Possible Measures:	HHS Draft Guidance	HHS/NGA/APWA Concept Paper	HHS NPRM Preference	Options
Job Entry Rate	The number of recipients who entered employment in 1998, as a percentage of all families on assistance	Similar to guidance	Same as guidance	
Job Retention	The number of 1998 job entries in each quarter who are still employed the next quarter, as a percentage of ~~all families on assistance~~ <i>job entries</i>	Similar to guidance	Same as guidance	
Earnings Gain	The percentage gain in earnings of all 1998 recipients who entered employment in 1998, measured from the initial quarter to 2 quarters later. <i>(Can be former recipients at the end point.)</i>	Similar to guidance <i>did not actually rec. this as a core measure (initial)</i>	Same as guidance	<i>could delay w/ NPRM</i>
Improvements in Measures	The improvement in each of the 3 measures above from 1997 to 1998.	Similar to guidance	Same as guidance	<i>could weight these later (see below)</i>
Non-work Measures	None	Teen births; mentions developing child well-being measures in future	Working on teen births measure	
Issues:				
Treatment of Workfare	Would depend on whether the data states chose to use included those on workfare	<i>(recommended measure as paid employment)</i> Not explicitly addressed, <i>intent was to</i> but assumed not included	Unknown	
Include State-only programs in measure of performance?	States are required to report data on state-only programs, but are not measured on the performance of these programs. States are warned that abuse of state-only could lead HHS to include them in the future.	Stated as a possibility	Same as guidance	
Include those on welfare?	<i>working while</i> Yes	Yes	Yes	

50% more 75% on absolute/25% on improvement, might also want to say that a state not get \$ 62M on absolute + improvement

add: Distribution Top 10 states ^{for} each of 6 measures

Small enough to
prevent challenge
to maintain significance

High Performance Bonus Options				
Data to Measure Performance	Whatever states want to submit, as long as they certify they are using the best data possible	Use UI data? Data should be consistently available through third party (if not for 1st yr)	Prefer UI data (for which measures?)	Get data to measure progress toward goals

One option on the 3 work measures is to wrap into one composite measure ^{called work} + award to 10 states who do best on the combined 3 measures.
In other words, 10 states will get awards for absolute performance on an aggregate work measure + 10 states will get awards for improvement on absolute measure.
This ^{allocates} ~~spreads~~ money, which may ^{or may not} be appropriate in 1st year when ~~the~~ the issues are still being worked out.
It also sends message about importance of balancing these three measures of work, which again, we may or may not want to do. Some states may do well on entries + poorly on earnings - should they be penalized?

Is this an option?

(not policy)
concept paper recommended exploring UI + new hire survey for employment statistics.
earnings at a future date.
(at least 6 mos after 1st entry)

Note: NEA policy actually recommended composite measures (1 absolute work, 1 improvement work) ~~Be simple~~

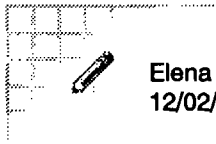
States argued for some adjustment for economic circumstances - looks like HHS has ignored that for interim

High Performance Bonus Options

Overview: HHS draft guidance includes 6 measures. The \$200 million pot for FY99 would be split evenly among these 6 measures. The resulting pots of \$33 million each would be distributed to the top 10 states in each category. The amount any individual state would receive would be proportional to its size.

Possible Measures:	HHS Draft Guidance	HHS/NGA/APWA Concept Paper	HHS NPRM Preference	Options
Job Entry Rate	The number of recipients who entered employment in 1998, as a percentage of all families on assistance	Similar to guidance	Same as guidance	
Job Retention	The number of 1998 job entries in each quarter who are still employed the next quarter, as a percentage of all families on assistance	Similar to guidance	Same as guidance	
Earnings Gain	The percentage gain in earnings of all 1998 recipients who entered employment in 1998, measured from the initial quarter to 2 quarters later. Can be former recipients at the end point.	Similar to guidance	Same as guidance	
Improvements in Measures	The improvement in each of the 3 measures above from 1997 to 1998.	Similar to guidance	Same as guidance	
Non-work Measures	None	Teen births; mentions developing child well-being measures in future	Working on teen births measure	
Issues:				
Treatment of Workfare	Would depend on whether the data states chose to use included those on workfare	Not explicitly addressed, but assumed not included	Unknown	
Include State-only programs in measure of performance?	States are required to report data on state-only programs, but are not measured on the performance of these programs. States are warned that abuse of state-only could lead HHS to include them in the future.	Stated as a possibility	Same as guidance	
Include those on welfare?	Yes	Yes	Yes	

High Performance Bonus Options				
Data to Measure Performance	Whatever states want to submit, as long as they certify they are using the best data possible	Use UI data	Prefer UI data (for which measures?)	Get data to measure progress toward goals



Elena Kagan
12/02/97 11:24:00 AM

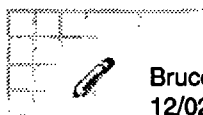
Record Type: Record

To: Diana Fortuna/OPD/EOP

cc: Bruce N. Reed/OPD/EOP, Cynthia A. Rice/OPD/EOP, Andrea Kane/OPD/EOP, Laura Emmett/WHO/EOP

Subject: Re: High performance bonus

We should make sure we're fully comfortable with the substance because (1) not much is likely to change between the guidance and the reg and (2) we're never going to have better leverage. I'm still where I was -- wanting to know the answer to the workfare question (though not sure how I feel about it) and skeptical about the earnings gain measure. But I don't at all have strong views. What's your recommendation?



Bruce N. Reed
12/02/97 12:57:54 PM

Record Type: Record

To: Diana Fortuna/OPD/EOP
cc: Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP, Andrea Kane/OPD/EOP, Laura Emmett/WHO/EOP
bcc:
Subject: Re: High performance bonus 

I would like to see more detail about what they mean, and talk with all of you about it. I agree with Elena's concerns, esp. that the criteria are simple so that states will know what to shoot for and the competition will be fair. I wouldn't do earnings -- that will arbitrarily punish lower-wage states, and encourage the old, failed welfare-office myth that if we just keep people in training long enough, \$12 an hour jobs will magically appear. (This myth will become even more ridiculous as the caseload is reduced to the hardest cases.) Welfare reform won't work unless we get everybody involved to understand that any job is better than welfare. Besides which, earnings is hard to keep track of and largely beyond the welfare office's control.

I also see no reason to give states extra credit for improvement. The statute makes very clear that the Secy is supposed to establish a threshold for performance, and any state that passes that threshold gets a bonus. That's an absolute standard, with good reason. Let's say the threshold for FY2000 is 50%, and my state performs at 45% in FY99 and 45% in 2000. I had two pretty good years, but get nothing. Let's say your state performs at 10% in FY99 and 30% in 2000. I've done more than twice as well as you. Why should you get \$ for improvement? That just invites states to dog it in FY98, so they'll look better later.

Diana Fortuna



Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP
cc: Cynthia A. Rice/OPD/EOP, Andrea Kane/OPD/EOP, Laura Emmett/WHO/EOP
Subject: High performance bonus

The high performance bonus regulation is not ready yet. HHS is concerned that we are now in the first year whose performance is supposed to be measured ('99 grants will be based on '98 performance), and states have nothing to go on. Even if the reg is published in the next few months, it will be "proposed" and therefore not binding in any way.

Therefore, HHS wants to issue guidance very soon that will govern this year, but not later years. They have sent us a draft and want our comments ASAP.

They propose 6 measures -- actually 3 items where they would measure both absolute performance and improvement in performance:

- | | |
|-----------------------|------------------------------|
| 1. job entry rate | 4. increase in job entries |
| 2. job retention rate | 5. increase in job retention |
| 3. gain in earnings | 6. improved earnings gains |

HHS would let states use whatever data they had handy to measure these. They still want to pursue requiring UI data, but acknowledge that that will have to be part of the reg. These are basically the same measures they developed this summer with NGA, etc., minus teen pregnancy. Any guidance? HHS is pushing us hard for a reaction. I know you had earlier raised points about whether workfare counts as a job (we'll check), were skeptical about the earnings gain measure, and thought simpler was better.

OMB:

1) Exit (w/ entry)

2) Earnings gain

also tracks job aspiration

subsidized vs. unsubsid.

Data

cc Sandy Foreman
Maria Hanratty



APB

cc Andrea

C-L ↓ ?

BR-w/cfare?
only UI

Date: 11/24/97

Total pages: Cover + 12 pages

Abortion neutr.

Illeg. bonus

Job ret-July-Complex

Administration for Children and Families
Office of Planning, Research and Evaluation
370 L'Enfant Promenade, SW
Washington, DC 20447

APWA -
week from

today

Tuesday 9th

Earnings meas. prog-usual

TO: CYNTHIA RICE
DIANA FORTUNA

PHONE: _____

FAX: _____

FROM: Howard Rolston

PHONE: 401-9220

FAX: (202) 205-3598

MESSAGE:

- 1-Goal
- 2-Data for Im
- 3-5-0

Helps or
w/c but not
earnings gain
w/cfare much
smaller than
other w/c
da never
said?
UI

depend on
stat

Talked to 16?

Wk fare

JTPA - today = retention
must pay bonus

TP delay
do more later
not worth \$

Abortion ← TP
Data goals
What jst wanted
to count 5-0?

DRAFT -- FOR DISCUSSION PURPOSES ONLY
11/24/97

TO: State Agencies Administering the Temporary Assistance for Needy Families (TANF) Program and Other Interested Parties.

SUBJECT: Formula for Awarding the First High Performance Bonus in Fiscal Year (FY) 1999.

REFERENCES: Section 403(a)(4) of the Social Security Act.

PURPOSE: The purpose of this transmittal is to advise States and other interested parties of the formula the Department of Health and Human Services (DHHS) intends to use for awarding High Performance Bonuses for State performance in FY 1998. We are also submitting a clearance package to the Office of Management and Budget that addresses the data collection necessary to award these bonuses.

This transmittal addresses only the first-year bonus. We are currently drafting an NPRM that will address the formula applicable for future years.

BACKGROUND: Statutory Context

Section 403(a)(4) of the Social Security Act makes \$1 billion available over a five-year period to reward States that achieve high performance levels under the new welfare block grant program, known as TANF. It provides that the first award will be made in FY 1999 based on performance above a threshold level in FY 1998. It calls for the Secretary -- in consultation with the National Governors' Association (NGA) and the American Public Welfare Association (APWA) -- to develop a formula within one year of enactment (or by August 22, 1997). The formula should reflect performance in achieving the goals of the TANF program. The total award to a State cannot exceed 5 percent of its TANF grant, known as the State Family Assistance Grant (or SFAG).

DHHS Efforts to Date

Following enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, the Administration for Children and Families (ACF) developed a strategy for broad consultation with the States and other interested parties to inform its development of proposed rules on major policy issues. General consultation on the TANF regulations began in the

fall of 1996.

Consistent with the specific statutory language on consultation regarding the High Performance Bonus, we developed a process for ongoing consultation with the NGA, APWA, National Conference of State Legislatures (NCSL), and State representatives who agreed to participate in a work group. From February through July 1997, we scheduled biweekly discussions with this work group covering the principles underlying a performance system, the viability of individual measures and data options, and the general allocation and distribution rules.

In the interest of moving the process forward, in July we shared a "preliminary proposal" with our State partners and other interested parties, which also included advocates and technical and policy experts. This proposal provided the framework for additional, more focused consultations on the possible elements of the bonus formula. At these consultations we received wide-ranging and very helpful feedback on the draft proposal.

NGA and APWA also provided feedback in the form of policy statements presenting their views on how the formula should be drafted. There were several important similarities between these policy statements and ACF's draft proposal -- including similar principles and goals for the bonus system and a similar focus on work measures -- but there were also differences.

Based on these consultations, we incorporated a number of changes to our initial proposal in this first-year formula.

Need for Interim Measure

1. We have just entered FY 1998, the first performance year. States need to know how we will be assessing their performance this year. We have a responsibility to give them this information as soon as possible.
2. We want to ensure that States have the capacity to provide the information needed to qualify for these bonuses. Based on our discussions with States and the analysis we have done, we believe this capacity exists. Early notice will increase the chance that a particular State will be able to make any

necessary adaptations to correct any data shortcomings and compete.

Although the statute does not require it, we would strongly prefer to set the formula through rulemaking. However, the timeframes involved in issuing proposed and final rules are not compatible with providing timely notice to States of the policies that will apply during this first bonus year. Thus, we have decided to issue a policy announcement governing the determination of bonuses for this first bonus year. Consistent with the statute and the ongoing consultation process we have initiated with the States, we have consulted with APWA, NGA and NCSL on the content of this interim formula.)?

In the absence of rules, and in response to the unofficial comments we received during our consultations, we are proposing a simplified and streamlined formula. The measures we are proposing for the first year focus on work, are closely tied to the statutory goals, and are generally consistent with existing data collection efforts in the States.

We are also proposing to give States some flexibility on how they collect the data on each measure.

Substance of Interim System

We intend to award \$200 million in High Performance Bonus funds to States in FY 1999. We believe that providing a full share of the bonus funds during the first year will give important impetus to State implementation efforts, particularly in the welfare-to-work area. We understand there are limitations in the first year formula and data, but we do not believe these are sufficient to warrant deferring the award of the bonus monies.

We expect to award funds to States on the basis of their rankings on each of six work-related measures. Three of these measures will address State performance, and three will address improvement in State performance. The six measures we are proposing are:

$$\begin{array}{r} 39 \\ 6 \overline{) 200} \\ \underline{18} \\ 20 \\ \underline{18} \\ 2 \end{array}$$

WIC

Fam Pres

Ch w/Fams

TP

→ Private LTC
ins for elderly

Issue	² ~~Pr~~ Guidance	NPRM	Rec
-	top 10 ~~Grass~~ each six		
-			
-			
-			
Non-wk			
S →			
Date			
Woly			

- 1) Job Entry Rate
- 2) Job Retention Rate
- 3) Gain in Earnings
- 4) Increase in Job Entries
- 5) Increase in Job Retention
- 6) Improved Earnings Gains

In different ways, all measures reflect a State's success in moving families from welfare to work. Full success requires not only getting recipients into jobs, but also keeping them in jobs, and achieving earnings that reduce dependency and enable families to support themselves. Our measures address all these aspects of success.

The multiple measures also support State flexibility in designing their TANF programs. They enable States that have different work philosophies to fairly compete for bonuses. Compared to a single measure, they are less likely to distort State policy decisions or to cause unintended negative consequences. (The TANF work participation rates also serve to counterbalance the potential effect of the individual measures by encouraging States to be expansive in their efforts to move recipients from welfare to work and discouraging creaming.)

In the case of the first three measures, we will look at State rankings on absolute performance in FY 1998; for the latter three measures, we will rank States based on the extent to which their performance in FY 1998 exceeded their performance on that same measure in FY 1997. By including improvement measures, we intend to: 1) provide a mechanism by which all States can compete; 2) motivate all States to improve their performance; and 3) moderate problems associated with uneven playing fields.

For this first year, we propose to make the ten States with the highest scores on each measure eligible for bonus monies. For each measure, the total amount of award money available will be one-sixth of \$200 million, or \$33.3 million. Each State's share of this bonus amount will be proportional to the size of its basic TANF grant (or SFAG).

As previously mentioned, the law requires that no

State may receive a high performance bonus greater than 5 percent of its SFAG. If the 5 percent cap on an individual State's award prevents the full allocation of these individual award pools (of \$33.3 million), we may re-allocate the extra funds to States that qualify for bonuses on other measures (and are not at their caps).

For all six measures, we plan to look at performance over the course of an entire year. We made this decision in large part out of concern about any potential biases in work data related to seasonality in employment.

In all cases, we anticipate computing State performance only with respect to families that are receiving assistance (as defined in the policy guidance we issued January 31, 1997 (TANF-ACF-PA-97-1)) and would be subject to work requirements under Federal law.

In order to compete for the High Performance Bonus, States must report comparable data for families receiving assistance in separate State programs for FY 1997 and 1998. This means reporting the data required in Sections One through Three of the Emergency TANF Data Report (Form ACF-198), as well as the five new data elements in Section B of the Attachment, for the TANF as well as the TANF-MOE programs. *How compare*

We will analyze this information, as well as other information we receive on the characteristics of the caseload and the nature of benefits provided in separate State programs, in assessing how to deal with these cases within this performance system.

One matter of particular concern is whether different State approaches to funding separate State programs with Maintenance of Effort (MOE) dollars exert a significant influence on performance scores (i.e., create an uneven playing field). If so, we would need to consider including outcomes for the caseload in separate State programs in the performance measures. *vs reg?*

See the attachment for a full description of the formula we intend to use in calculating the FY 1999 High Performance Bonus awards, the specific data collection requirements, and the reporting dates.

Flexibility in Data Sources

For this first year, we will allow States to submit the best data they have available on each measure. Thus, they may use matches with quarterly Unemployment Insurance (UI) data, surveys, administrative records or a combination of these data sources.

We will be requiring States to report quarterly data on a semi-annual basis. We do not believe quarterly reporting is necessary, and annual reporting will not provide us with sufficient feedback as to how well the system is working and whether States are on track to report the data and compete this year.

Because of the lags associated with using UI data, we will not ask States to report the new performance data in the same time-frames as specified for other TANF program and financial data. In essence, they will have additional time to report their performance data to us.

Along with aggregate reporting on the measures, we will require each State to: 1) specify the data sources and methodology it has used to determine the aggregate numbers; 2) include a certification that it has provided the best data available on the measures in the formula; 3) maintain records that adequately document the derivation of its performance data; and 4) provide access to such records, for validation purposes, upon request.

A State need not submit data if it does not want to compete on any particular measure. However, as indicated previously, States will need to submit comparable performance and caseload characteristics data for separate State programs in order to qualify for a High Performance Bonus.

Future Bonuses

The proposed formula and data collection presented in this paper apply only to the performance awards made in FY 1999. We are committed to issuance of an NPRM and final rule that will cover the High Performance Bonuses to be awarded in future years (i.e., fiscal years 2000 through 2003). The schedule for this rulemaking provides for NPRM publication in February of 1998 and final rules in

September of 1998.

The rulemaking process will allow ample opportunity for all interested parties to comment on the formula we will implement for future bonuses.

As we work towards publication of proposed and final rules, we will be looking at possible refinements and expansions to the basic performance measures proposed for this first year. In particular we expect to do further work exploring:

- 1) potential measures that address other TANF goals -- such as teen birth rates and other indicators of family formation and stability;
- 2) possible inclusion of the optional measures proposed by the APWA/NGA, including measures of diversion and child support enforcement;
- 3) the viability of relying solely on quarterly UI data as the data source for tracking employment and earnings (in the interest of improving the comparability and reliability of data and reducing overall data collection burdens);
- 4) possible methodologies for leveling the playing field for States facing different economic and demographic circumstances; and
- 5) how to provide flexibility to refine the system over time as program knowledge grows and data collection improves.

As we continue to do this further work, we remain committed to our process of consultation and collaboration with the NGA, APWA, and NCSL. We also remain committed to developing a performance system that:

- o is simple to understand and administer;
- o has integrity and is fair; and
- o fosters the goals of the TANF program.

**EFFECTIVE
DATE:**

Implementation of this proposal is contingent upon

OMB approval of the requisite data collection. We will send out a policy instruction advising States of specific actions they must take once we receive OMB approval.

ATTACHMENTS: Section A: Bonus Formula
Section B: Data Requirements
Section C: Reporting Dates

INQUIRIES: For further information, you should contact the appropriate Regional Administrator.

Howard Rolston
Director
Office of Planning, Research, and Evaluation

Lavina Limón
Director
Office of Family Assistance

HIGH PERFORMANCE BONUS AWARDS IN FY 1999

SECTION A: BONUS FORMULA

We intend to use the FY 1997 and 1998 data reported by the States in the calculations for the FY 1999 High Performance Bonus awards.

1. Performance Measures

(a) FY 1998 Job Entry Rate

This is the unduplicated number of recipients who entered employment in FY 1998 as a percent of the unduplicated number of families receiving assistance in FY 1998.

$$\frac{\text{Unduplicated number of job entries}}{\text{Unduplicated number of families receiving assistance}} \times 100$$

(b) FY 1998 Job Retention Rate

This is the number of FY 1998 recipients newly employed in one quarter who were also employed in the first subsequent quarter, as a percentage of all newly employed recipients. (At this point, they might be former recipients.)

$$\frac{\text{Sum of job entries in each of Q1 thru Q4 who continue employment in each of the first subsequent quarters}}{\text{Sum of job entries in each of Q1 thru Q4}} \times 100$$

(c) FY 1998 Earnings Gain Rate

This is the percentage gain in earnings of FY 1998 newly employed recipients between initial quarterly earnings and earnings in the second subsequent quarter. (At this point, they might be former recipients.)

pt → ft

Annual earnings per?

why only
1 Q - data

Sum of total dollars earned in second
subsequent quarter by job entries in each of
Q1 thru Q4 minus sum of total dollars earned
in initial quarter in each of Q1 thru Q4
----- x 100
Sum of total initial dollars earned by job
entries in each of Q1 thru Q4

2. Improvement Measures

(a) FY 1998 Job Entry Improvement Rate

This is the percentage change between FY 1997 and
FY 1998 of the unduplicated number of recipients
who entered employment.

FY 1998 job entry rate - FY 1997 job entry rate
----- x 100
FY 1997 job entry rate

(b) FY 1998 Job Retention Improvement Rate

This is the percentage change between FY 1997 and
FY 1998 in the job retention rate of newly employed
recipients in one quarter who were also employed in
the first subsequent quarter. (At this point, they
might be former recipients.)

FY 1998 retention rate - FY 1997 retention rate
----- x 100
FY 1997 retention rate

(c) FY 1998 Improvement Rate in Earnings Gain

This is the percentage change between 1997 and
FY 1998 in earnings gain of newly employed
recipients in the second subsequent quarter, at
which point they might be former recipients.

FY 1998 gain rate - FY 1997 gain rate
----- x 100
FY 1997 gain rate

SECTION B: DATA REQUIREMENTS

States will need to submit the data in Sections One through Three of the Emergency TANF Data Report for the TANF and the separate State (TANF-MOE) programs for FY 1997 and FY 1998. In addition, it will need to collect and report semi-annually the following data by calendar quarters. (Data for FY 1997 are necessary in order to measure the extent to which the FY 1998 performance of each measure exceeded its performance in FY 1997.)

- (1) Unduplicated caseload for FY 1998.
- (2) Total unduplicated number of recipients entering employment in the quarter (i.e., newly employed in the fiscal year).
- (3) Total earnings in the quarter of the newly employed recipients in the quarter.
- (4) Number of newly employed recipients in the quarter who were also employed in the first subsequent quarter.

[For example, if this is a report for the second quarter of FY 1998 (i.e., Jan/Mar 1998), enter in this item the number of recipients shown in item (2) who were also employed in the third quarter of FY 1998 (i.e., Apr/June 1998).]

- (5) Total earnings in the second subsequent quarter of recipients newly employed in the quarter.

[For example, if this is a report for the fourth quarter of FY 1998 (i.e., July/Sept 1998), enter in this item the total earnings in the second quarter of FY 1999 (i.e., Jan/Mar 1999) of recipients shown in item (2).]

SECTION C: REPORTING DATES

Data are to be reported on a semi-annual basis. The first semi-annual report will be due December 31, 1998. It will contain the Emergency TANF Data Report for the separate State programs and eight quarterly tables of performance data - four covering TANF data for the first and second quarters of FY 1997 and FY 1998 and four covering TANF-MOE data for the same two quarters of FY 1997 and FY 1998.

TANF Data

FY 1997 -- Oct-Dec 1996
Jan-Mar 1997

FY 1998 -- Oct-Dec 1997
Jan-Mar 1998

TANF-MOE Data

FY 1997 -- Oct-Dec 1996
Jan-Mar 1997

FY 1998 -- Oct-Dec 1997
Jan-Mar 1998

Data for the second semi-annual report will be due June 30, 1999. This report will also contain the Emergency TANF Data Report for separate State programs and eight quarterly tables of performance data, but the performance data will cover the third and fourth quarters of FY 1997 and FY 1998 for the TANF and the TANF-MOE programs.

TANF Data

FY 1997 -- Apr-June 1997
July-Sept 1997

FY 1998 -- Apr-June 1998
July-Sept 1998

TANF-MOE Data

FY 1997 -- Apr-June 1997
July-Sept 1997

FY 1998 -- Apr-June 1998
July-Sept 1998

A report form and instructions will be sent to the States in the near future, following OMB approval⁴.

DRAFT FOR DISCUSSION ONLY - 7/14/97**Preliminary Concept Proposal
High Performance Bonus (HPB) Measures**

The following proposal is substantively consistent with suggestions we have received from individual States and a group of States working with NGA and APWA. However, the scope and some of the details differ.

The core of the system would incorporate three work measures; employment, job retention, and wage progression. The three work measures would reward different aspects of high performance with respect to moving recipients from welfare to work. The work measures would look at both TANF and former TANF recipients (and perhaps other MOE cases) to give State credit for recipients who have worked their way off assistance and to remove any potential bias associated with benefit levels and other program eligibility differences. Based on State performance on each of the three measures, we would determine a composite work score for each State. An alternative approach would be to reward high performance under each work measure and also reward States with the highest composite score. Under either approach, the bulk of the HPB money available would be distributed based on a State's "work" performance.

As reflected by the specific work measures below, we are proposing to use State Unemployment Insurance (UI) records as the data source. States would match the social security numbers of their caseload to the to UI record to determine employment and earnings for each quarter used for the work measures. We believe that UI records provide an objective data source that would be less subject to reporting bias. UI data is generally recognized as reliable and is uniformly collected across States, with one exception, reducing concern about data quality. We also note that UI data allows us to measure employment and earnings for adults no longer on assistance; this would be difficult with State administrative data. In recognition of State concerns about use of UI data, we plan to issue a contract shortly to further assess the operational feasibility of this data source.

The proposed teen birth measure is identical to suggestions from the NGA/APWA work group, with the exception of the age cut-off. We are suggesting the 15-17 cut-off because of the greater negative impacts of teen births to this age group. Mothers 17 and under are more likely to be on welfare and less likely to have completed high school or be married. Children born to mothers in this age group are more likely to be of very low or moderately low birth weight and more likely to have to overcome

high odds to thrive.

For the "core" measures (i.e., work and teen births), we are looking to award bonus monies based on both absolute performance and improvement.

We view the proposed measures as an initial set of measures that would be used in the HPB system. As new data sources come on line and as we better understand individual State design choices, we plan to modify the HPB system. For example, we will be looking at the feasibility of doing adjustments for State and caseload characteristics that would help level the playing field.

Additionally, we are interested in the concept of inclusion of optional measures where States can selectively compete for the HPB. These optional measures would enable us to begin broadening the system to reward States for their performance on measures of child and family well-being. However, the details of the measures will need to be significantly more refined in order to give consideration to their inclusion in the initial system.

Proposed Measures*

Employment: The number of adults who were on assistance in the second quarter of year 1 who are working in the second quarter of year 2 (on or off assistance) divided by the number of adults on assistance in the second quarter of year 1. *Seap*

Job Retention: The number of adults on assistance who were employed in quarter 2 who were also employed in quarters 3 and 4 (on or off assistance) divided by the number of adults on assistance and employed in quarter 2.

Earnings Progression: The average earnings of employed adults in quarter 2 year 2 who ^{were working} ~~received assistance~~ in quarter 2, year 1, divided by the average earnings of employed adults on assistance in quarter 2, year 1.

Teen Births: Birth rate of all female teens age 15 through 17 per 1000 females age 15 through 17 in the State.

* Note that for the work measures we are proposing the use of particular quarterly information. This is our preliminary view of what information provides the best picture of performance we are trying to measure. This could change as we further assess this data source.

not a qualifying State clause (i).

DEEMED QUALIFYING paragraph, a State is for fiscal years 1998,

spending per poor person in year 1994 is less than average level of State person for fiscal year

the State increased by April 1, 1990 to July population estimates in Bureau of the Census. is paragraph:

ENDING PER POOR PERSON welfare spending per person to a State and a

ent required to be paid under section 403 (as in effect for fiscal year

any) paid to the State for the immediately preceding

individuals, according to who were residents whose income was below the

EL OF STATE WELFARE term 'national average spending per poor person' for each fiscal year, an amount

quired to be paid to section 403 (as in effect for fiscal year 1994;

iduals, according to who were residents whose income was below the

' means each of the and the District of

ny money in the otherwise appropriated, for fiscal years 1998, 1999, 2000, for grants under it not to exceed

INSUFFICIENT APPROVED pursuant to this the total amount

of payments otherwise required to be made under this paragraph for the fiscal year, then the amount otherwise payable to any State for the fiscal year under this paragraph shall be reduced by a percentage equal to the amount so appropriated divided by such total amount.

"(G) BUDGET SCORING.—Notwithstanding section 257(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, the baseline shall assume that no grant shall be made under this paragraph after fiscal year 2001.

"(4) BONUS TO REWARD HIGH PERFORMANCE STATES.—

"(A) IN GENERAL.—The Secretary shall make a grant pursuant to this paragraph to each State for each bonus year for which the State is a high performing State.

"(B) AMOUNT OF GRANT.—

"(i) IN GENERAL.—Subject to clause (ii) of this subparagraph, the Secretary shall determine the amount of the grant payable under this paragraph to a high performing State for a bonus year, which shall be based on the score assigned to the State under subparagraph (D)(i) for the fiscal year that immediately precedes the bonus year.

"(ii) LIMITATION.—The amount payable to a State under this paragraph for a bonus year shall not exceed 5 percent of the State family assistance grant.

"(C) FORMULA FOR MEASURING STATE PERFORMANCE.—Not later than 1 year after the date of the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the Secretary, in consultation with the National Governors' Association and the American Public Welfare Association, shall develop a formula for measuring State performance in operating the State program funded under this part so as to achieve the goals set forth in section 401(a).

"(D) SCORING OF STATE PERFORMANCE; SETTING OF PERFORMANCE THRESHOLDS.—For each bonus year, the Secretary shall—

"(i) use the formula developed under subparagraph (C) to assign a score to each eligible State for the fiscal year that immediately precedes the bonus year; and

"(ii) prescribe a performance threshold in such a manner so as to ensure that—

"(I) the average annual total amount of grants to be made under this paragraph for each bonus year equals \$200,000,000; and

"(II) the total amount of grants to be made under this paragraph for all bonus years equals \$1,000,000,000.

"(E) DEFINITIONS.—As used in this paragraph:

"(i) BONUS YEAR.—The term 'bonus year' means fiscal years 1999, 2000, 2001, 2002, and 2003.

"(ii) HIGH PERFORMING STATE.—The term 'high performing State' means, with respect to a bonus year, an eligible State whose score assigned pursuant to subparagraph (D)(i) for the fiscal year immediately preceding the bonus year equals or exceeds the

performance threshold prescribed under subparagraph (D)(ii) for such preceding fiscal year.

"(F) APPROPRIATION.—Out of any money in the Treasury of the United States not otherwise appropriated, there are appropriated for fiscal years 1999 through 2003 \$1,000,000,000 for grants under this paragraph.

"(b) CONTINGENCY FUND.—

"(1) ESTABLISHMENT.—There is hereby established in the Treasury of the United States a fund which shall be known as the 'Contingency Fund for State Welfare Programs' (in this section referred to as the 'Fund').

"(2) DEPOSITS INTO FUND.—Out of any money in the Treasury of the United States not otherwise appropriated, there are appropriated for fiscal years 1997, 1998, 1999, 2000, and 2001 such sums as are necessary for payment to the Fund in a total amount not to exceed \$2,000,000,000.

"(3) GRANTS.—

"(A) PROVISIONAL PAYMENTS.—If an eligible State submits to the Secretary a request for funds under this paragraph during an eligible month, the Secretary shall, subject to this paragraph, pay to the State, from amounts appropriated pursuant to paragraph (2), an amount equal to the amount of funds so requested.

"(B) PAYMENT PRIORITY.—The Secretary shall make payments under subparagraph (A) in the order in which the Secretary receives requests for such payments.

"(C) LIMITATIONS.—

"(i) MONTHLY PAYMENT TO A STATE.—The total amount paid to a single State under subparagraph (A) during a month shall not exceed $\frac{1}{12}$ of 20 percent of the State family assistance grant.

"(ii) PAYMENTS TO ALL STATES.—The total amount paid to all States under subparagraph (A) during fiscal years 1997 through 2001 shall not exceed the total amount appropriated pursuant to paragraph (2).

"(4) ANNUAL RECONCILIATION.—Notwithstanding paragraph (3), at the end of each fiscal year, each State shall remit to the Secretary an amount equal to the amount (if any) by which the total amount paid to the State under paragraph (3) during the fiscal year exceeds—

"(A) the Federal medical assistance percentage for the State for the fiscal year (as defined in section 1905(b), as in effect on September 30, 1995) of the amount (if any) by which—

"(i) if the Secretary makes a payment to the State under section 418(a)(2) in the fiscal year—

"(I) the expenditures under the State program funded under this part for the fiscal year, excluding any amounts made available by the Federal Government (except amounts paid to the State under paragraph (3) during the fiscal year that have been expended by the State) and any amounts expended by the State during the fiscal year for child care; exceeds in state program

"(II) historic State expenditures (as defined in section 409(a)(7)(B)(iii)) (excluding the expenditures by the State for child care under subsection