

March 2007

Between Welfare Reform and Reauthorization Income Support Systems in Cuyahoga and Philadelphia, 2000 to 2005

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In 1996, Congress passed and President Clinton signed federal welfare reform legislation, replacing the nation's primary welfare program, Aid to Families with Dependent Children (AFDC), with a new program called Temporary Assistance for Needy Families (TANF). Designed to replace an entitlement with a temporary benefit, TANF transformed the nation's welfare program in several important ways: it gave states annual, fixed block grants that offered them greater flexibility to design and administer their own welfare programs; it created a five-year lifetime limit on cash benefits; and it required recipients to work and called for states to impose sanctions (financial penalties) on those recipients who did not.

Anticipating that welfare reform might pose particular challenges to urban areas — where poverty and welfare receipt are most concentrated — MDRC launched the Project on Devolution and Urban Change (Urban Change, for short) in 1997 to chronicle TANF programs and the resulting changes in the lives of low-income families and in the institutions that serve them in four urban counties: Cuyahoga (Cleveland), Los Angeles, Miami-Dade, and Philadelphia. Between 2002 and 2005, MDRC released reports on each of the four cities to tell the stories of welfare reform up until 2001.¹

These reports found four different approaches to welfare reform but remarkably similar results. In all four counties, welfare caseloads were down; conditions improved in high-poverty and high-welfare neighborhoods; and welfare recipients who were surveyed at two points in time were more likely to be working and to be financially better off in 2001 than in 1998, even though most remained poor.

¹See Brock et al., *Welfare Reform in Cleveland* (New York: MDRC, 2002); Michalopoulos et al., *Welfare Reform in Philadelphia* (2003); Brock et al., *Welfare Reform in Miami* (2004); and Polit et al., *Welfare Reform in Los Angeles* (2005).

This report updates the story of welfare reform in two of the four Urban Change cities: Cleveland and Philadelphia. As it turned out, the 1990s represented the best environment in which to implement welfare reform. Poverty rates among children reached record lows during the decade, and employment levels among single-parent women reached a record high. By March 2001, the national economy fell into a recession that would officially last eight months, although employment continued to decline through August 2003. Welfare-to-work budgets and civil service workforces were scaled back in response to state budget deficits. It was during this period of job losses and budget deficits that families started reaching the federal five-year time limit on cash assistance, in 2002.

How have state service delivery systems evolved as a result of these changing conditions? And how have the longer-term effects of welfare reform played out in caseload dynamics and in social and health indicators in low-income neighborhoods? To address these questions, this report extends three sets of analyses from the earlier Urban Change studies of Cleveland and Philadelphia: an implementation analysis examines the policies and programs that welfare agencies put into place through 2005; an analysis of administrative records estimates the effects of welfare reform on caseload trends in welfare receipt and employment through 2003 for Cleveland and through 2001 for Philadelphia;² and a neighborhood indicators analysis describes the changing conditions of low-income communities in both counties through 2003.

Findings on Program Implementation

State welfare agencies nationwide confronted three primary operational challenges in implementing the TANF program: how to assist recipients in moving from welfare to work, how to serve recipients who have multiple or severe barriers to employment, and how to provide work supports to low-income families — both those on and off the welfare rolls.

Cuyahoga: Emphasizing Participation Requirements and Work Supports

- **Ohio adopted a strict interpretation of time limits and work participation rates that was designed to encourage recipients to leave welfare for work.**

Ohio embraced the federal intention of welfare reform as temporary assistance; the state adopted a time limit that was shorter than required (three years instead of five) and combined this policy with stringent work participation requirements for recipients. Cuyahoga County's

²For Philadelphia, administrative records were available only for recipients who *began* receiving TANF, food stamp, or Medicaid benefits between 1992 and 1999 — meaning that this analysis does not include recipients who came onto the rolls after July 1999 in Philadelphia.

welfare agency, Employment and Family Services (EFS), took responsibility for developing services for recipients that would count toward the participation rate while assisting them to transition quickly from welfare to work. In late 2003, Cuyahoga reported a work participation rate that was over 50 percent of the adult TANF caseload.

- **Following the initial phase of welfare reform, Cuyahoga focused on improving the work-related services that it offered to recipients. However, policy restrictions, budgetary limitations, and organizational fluctuations posed challenges to assisting some groups of recipients into work.**

Prompted by caseload declines, staff reductions, and a limited budget in the early 2000s, Cuyahoga's administrators continually reconsidered how best to use their TANF resources. The county put considerable efforts into improving its system of awarding contracts for work-related services and into developing a comprehensive assessment tool to identify recipients' barriers to employment. However, staff reported that the pressure to meet narrow participation requirements within limited time frames constrained their ability to provide more intensive services for recipients who had severe or multiple barriers to employment. Ironically, the state of Ohio had restricted the amount of TANF funds distributed to the counties in order to create a "rainy day" reserve; by 2003, Ohio had the largest unobligated reserve of any state: \$342 million.

- **As the cash assistance caseloads continued to decline and the economy faltered early in this decade, Cuyahoga shifted its focus to administering other income supports.**

As Cuyahoga implemented the state TANF time limit in late 2000, and as the national recession began in March 2001, the number of families in Cuyahoga who were receiving other work and income supports — such as Medicaid, food stamps, and child care — increased. To meet the needs of this growing population, Cuyahoga began to shift its focus toward administering these supports. The county implemented extensive outreach efforts to target eligible families; however, state and local budgetary and organizational constraints limited ongoing outreach and the distribution of supports.

Philadelphia: Emphasizing Works Supports and Intensive Services

- **Welfare reform in Pennsylvania evolved through three fairly distinct administrative phases.**

Between 1997 and 1999, the Department of Public Welfare (DPW) realigned case management and employment services with the new work participation requirements. Between 2000 and 2002, DPW strictly enforced those requirements but at the same time offered new services to families who were "playing by the rules." Following a gubernatorial change in January

2003, the state expanded education and training opportunities, tried to prevent unnecessary sanctions, and redesigned case management services.

- **Pennsylvania imposed the minimum participation requirements allowable under federal law: 20 hours per week for recipients with 24 months of cash assistance receipt.**

Although state law authorized more severe sanctioning policies than required by federal legislation — full-family sanctions and a lifetime ban on cash assistance for the third infraction — in practice, these enforcement tools were used sparingly during most periods. Reflecting the state’s moderate participation requirements (and changing enforcement policies), Pennsylvania has consistently been listed at the bottom of annual federal reports on all-family participation rates.

- **Pennsylvania provided new services for recipients with employment barriers, and it created an “Extended TANF” program for recipients who reached the federal five-year time limit.**

In 2001, DPW launched several special programs for recipients with severe or multiple employment barriers, including the Maximizing Participation Project, which offered voluntary assessment and behavioral health services to recipients who were exempt from the work requirements for medical or physical disabilities. In 2002 (when the federal time limit hit), DPW created the “Extended TANF” program, which provided benefits to adults who were participating as required in work-related activities. By the end of 2004, less than 20 percent of the caseload were in this program.

- **Broad coalitions provided intensive services and work supports.**

DPW formed broad coalitions of Philadelphia advocates and service providers to supply specialized services for recipients who had severe employment barriers and to provide access to work supports for low-wage workers. DPW also piloted neighborhood service centers in order to provide more continuity and coordination in case management. Administrators have also acknowledged the need to move toward immediate, universal engagement of recipients in work-related activities.

Findings on the Effects of Welfare Reform

This report presents a number of findings on the effects of welfare reform related to caseload and employment outcomes, by comparing trends before TANF in Cuyahoga and Philadelphia Counties with trends after reforms were implemented. Many of the results are quite similar to what was found in earlier reports, including the markedly increased exit rates among long-term recipients.

- **During the 1990s and into the early 2000s, welfare caseloads declined by record levels in both counties.**

Cuyahoga County experienced an 84 percent decline in the number of cases with at least one adult between 1993 and 2002, while Philadelphia experienced a 69 percent decline between 1993 and 2001; both declines were larger than the nationwide caseload decline of about 59 percent over a similar period. The behavior of welfare recipients in both counties changed over time in offsetting ways that were consistent, on average, with reduced caseloads. For instance, fewer people came onto the rolls at the end of the period than in 1993, and cases closed faster at the end of the period than in 1993.

- **Although long-term recipients shortened their stays on TANF, the rate of case closures among all recipients did not change much after the implementation of reform.**

Before the implementation of welfare reform, the proportion of cases that closed in Cuyahoga County within a specified period of time — say six months — was gradually increasing, and the closure rate was fairly stable in Philadelphia County. After 1997, these trends changed, and cases closed slightly slower than expected. These outflows may have been associated with a policy change that encouraged work but allowed longer welfare spells by allowing recipients to receive benefits even with increased earnings. Long-term recipients — defined as those cases that received cash assistance for 18 of the first 24 months after opening — are the exception to these findings. Long-term recipients left welfare at faster rates after reform than was predicted by earlier trends, in both Cuyahoga and Philadelphia Counties.

- **Employment levels and trends differed between the two counties.**

Earlier MDRC reports suggest that employment among welfare recipients was steady and did not increase in Cuyahoga County after TANF was implemented. After 2000, however, the proportion of new welfare recipients who went to work declined in Cuyahoga County, and there was a decrease in stable employment, perhaps reflecting the recession that occurred at that time. Although employment levels among welfare recipients were lower in Philadelphia than in Cuyahoga, they grew over time and accelerated after TANF, suggesting that welfare reform encouraged a movement to work. Unfortunately, data for new welfare recipients in Philadelphia for the period after 2000 were not available for this analysis.

Findings on Neighborhood Poverty and Social Distress

Indicators of social distress are often several times greater in high-poverty than in low-poverty neighborhoods. At the outset of welfare reform in the 1990s, many observers reasoned that high-poverty neighborhoods would be more vulnerable to policy changes that could harm

them or would be more likely to benefit from policies that had a positive effect (because high-poverty neighborhoods would have more room to improve). Prior Urban Change reports show that neither the worst fears of welfare reform's opponents nor the highest ambitions of its proponents were realized. This report examines trends in neighborhood indicators — including levels of poverty, cash assistance and food stamp receipt, maternal and infant health measures, crime statistics, and prevalence of home ownership — to portray how Cuyahoga and Philadelphia changed in the 1990s and early 2000s. To understand outcomes for three different classes of residents, the analysis divides census tracts (called “neighborhoods”) into three categories of decreasing poverty: poor, working-poor, and nonpoor.

- **Overall poverty rates declined in Cuyahoga and increased in Philadelphia between 1990 and 2000.** Cuyahoga's overall decline in poverty was concentrated in its poorest neighborhoods, where the female labor force participation rate increased by 17 percent. Although poverty increased across Philadelphia, increases were smallest in poor neighborhoods. Child poverty rates in *poor* neighborhoods declined in both counties.
- **While the number of Cuyahoga's poor neighborhoods remained stable, Philadelphia's share of poor neighborhoods increased.** Several nonpoor neighborhoods in Cuyahoga's inner suburbs became working-poor. Meanwhile, conditions worsened in some Philadelphia working-poor neighborhoods, and several shifted from working-poor to poor status.
- **Despite differences in neighborhood poverty rates, trends in receipt of food stamps and cash assistance were similar across neighborhoods.** Cash assistance and food stamp caseloads declined in both counties in the 1990s. In Philadelphia, both types of caseloads declined faster in nonpoor than in poor neighborhoods. Differences in neighborhood poverty were not associated with substantial differences in long-term receipt rates in either county.
- **Neighborhood indicators of social distress improved in the 1990s and early 2000s, particularly in poor neighborhoods and in the early reform period of strong economic growth (from 1997 to 1999).** In both counties, teen birthrates and rates of homicide declined to record lows, and the proportion of mothers receiving adequate prenatal care increased.
- **Although poor families are highly mobile and are likely to change residences, few welfare recipients who lived in poor neighborhoods in 1995 escaped poor neighborhoods by 2000.** Among families receiving welfare and living in poor neighborhoods in 1995, many moved at least once between 1995 and 2000. But most did not move far. Those who moved three miles or more

were significantly less likely to live in poor neighborhoods in 2000. In Philadelphia, their new neighborhoods were also safer, and residents were more likely to describe them as “good” or “very good” places to raise children.

Conclusions and Policy Implications

Despite different priorities, policies, and contexts, administrators in Cuyahoga and Philadelphia Counties faced the same three main challenges of welfare reform: how to assist recipients in moving from welfare to work, how to serve recipients who have multiple or severe barriers to employment, and how to provide work supports to low-income families.

- **Cuyahoga and Philadelphia took different basic approaches to moving welfare recipients to work, although both counties strove to increase recipients’ engagement, create an appropriate mix of education and training versus employment services, and implement sanctioning policies fairly and effectively.**

While Ohio implemented strict work participation requirements for recipients and Pennsylvania allowed recipients more flexibility, both counties struggled with determining the right combination of employment and education and training services to offer. Both counties also used performance-based contracting to monitor the quality of the services offered by outside providers, and they contracted with third-party organizations to review how they implemented their sanctioning policies.

- **As welfare caseloads declined, both counties sought new ways to serve recipients who had severe or multiple employment barriers.**

They designed new assessment and referral procedures and developed specialized services, including transitional jobs programs.

- **To help low-income families (whether on the TANF rolls or not), both counties worked to increase access to work support programs, including child care, food stamps, health insurance, and tax credits.**

They established telephone hotlines and Internet-based benefit-eligibility screeners to disseminate information about work supports, aligned TANF and food stamp eligibility requirements, and sought to make high-quality child care more accessible to working families.

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In the wake of the early 2006 federal reauthorization of the TANF program — which has effectively increased the caseload participation requirements that states must meet, starting in Fis-

cal Year 2007 — it is likely to become even more important for TANF agencies across the country to address all three of the operational challenges. Essentially, reauthorization pushes states to immediately engage 50 percent of all TANF families and 90 percent of two-parent TANF families in work-related activities. Not surprisingly, there is a great deal of uncertainty about the implications of the more binding participation standards. States are now more experienced in designing and running their own welfare programs than they were in 1996, but the labor market is not as tight as it was then. Arguably, many families who can afford to do without cash assistance have already left the rolls. And despite the fact that most states have implemented work requirements and quick-employment services, Ohio is one of the few that met the 50 percent all-family participation standard. Few have met the 90 percent two-parent family standard.

The findings from this report suggest several observations about the next phase of welfare reform:

- **Participation requirements accelerated welfare-to-work transitions, but more can be done to “make work pay.”**

Many cash assistance leavers remain poor or near poor, essentially trading low monthly cash assistance grants for low monthly paychecks. Past research shows that welfare programs that combine participation requirements with incentives to make work pay (such as generous earned income disregards) promote employment *and* increase family income. Outreach campaigns in both Cuyahoga and Philadelphia publicized the federal Earned Income Tax Credit and other benefits. Looking forward, policymakers might consider additional investments in work incentive policies, and they might consider including enhanced earned income tax credits (such as Pennsylvania’s TAX BACK) and expanded earnings disregards for federal work supports, such as food stamps, and state-administered supports, such as TANF and child care. Strengthening these work incentives along with participation requirements is more likely to help families not just get off welfare but also get out of poverty.

- **Clearer evidence and better incentives are needed to improve services for recipients with severe or multiple employment barriers.**

While TANF has offered little guidance about how to serve recipients who have severe or multiple employment barriers, many states and counties have worked hard to prepare the most-at-risk families for the prospect of time-limited welfare. This report describes the steps that Cuyahoga and Philadelphia took to screen for employment barriers and to provide effective service models. While many adults with severe or multiple barriers *can* work successfully, the challenge for researchers and policymakers is to understand which combination of standard welfare-to-work services, transitional employment and on-the-job case management, and mental and behavioral health treatment works most effectively for participants with various barriers to employment. As evidence builds about the most effective combination of treatments for

adults with various employment barriers, policymakers at the federal and state levels can budget and respond accordingly. Until then, policymakers might consider how to design incentives that generate a creative and thoughtful range of service models — and then how to build a learning agenda to determine what works best.

- **More can be done to coordinate work support policies and to broaden outreach and eligibility.**

Federal, state, and local policymakers tried to improve coordination between cash assistance and work support policies. Federal reforms delinked TANF and Medicaid, to make it easier for low-income families to receive Medicaid without relying on TANF. Federal policymakers dramatically increased resources for other work supports, such as children’s health insurance and child care. In some cases, states offered supplemental policies, such as Pennsylvania’s Adult Basic Coverage health insurance program. State and local agencies established telephone hotlines and online benefit-eligibility screeners, which enabled families to find out easily if they qualified for work supports. But administrators in both counties argued that simple modifications to existing programs could further improve coordination.