Executive Summary

Subsidizing Employment Opportunities for Low-Income Families

A Review of State Employment Programs Created Through the TANF Emergency Fund

OPRE Report 2011-38

December 2011

Office of Planning, Research and Evaluation (OPRE)
Administration for Children and Families
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Overview

Subsidized employment programs provide jobs to people who cannot find employment in the regular labor market and use public funds to pay all or some of their wages. In 2009 and 2010, states could access funding from the Temporary Assistance for Needy Families (TANF) Emergency Fund, which was established under the American Recovery and Reinvestment Act (ARRA) to create or expand subsidized employment programs. When the fund expired on September 30, 2010, states had placed more than a quarter of a million people in subsidized jobs, making this the largest subsidized employment initiative in the country since the 1970s.

The Subsidized and Transitional Employment Demonstration (STED) project, sponsored by the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services, will conduct rigorous evaluations of several subsidized employment programs for disadvantaged workers over the next few years. This report presents findings from the first phase of the STED project — a review of subsidized employment programs that operated with support from the TANF Emergency Fund. It is based on telephone interviews with administrators in 48 states, tribes, and territories that received Emergency Fund support for subsidized employment; site visits to eight programs; and reports that states provided to the research team.

Key Findings

- **While states and localities often had less than one year to create or expand their subsidized employment programs, many were able to mount relatively large-scale efforts.** In all, 15 states placed over 5,000 people in jobs. Four of those states — California, Illinois, Pennsylvania, and Texas — each placed more than 25,000 people, accounting for over half of the national total. Nationwide, about half the placements were summer jobs for youth.

- **Responding to the flexibility allowed under the Emergency Fund, states and localities implemented a wide range of programs.** Programs differed in the participants targeted (most were not limited to TANF recipients), the type of employers recruited, the structure of the subsidy, and the size of the program.

- **In many programs, participants worked for private employers, who were reimbursed for all or part of participants' wages.** This model contrasted with that of most earlier subsidized employment initiatives, which placed participants in nonprofit or public agencies.

- **After funding ended, many of the programs also ended, and others sharply reduced the number of people served.** Only a few states continued to operate at the same levels as previously, and these were states that, for the most part, were operating subsidized employment programs using TANF funds before ARRA was enacted.

States' experiences with the TANF Emergency Fund subsidized employment programs may yield valuable lessons for future efforts to create jobs for disadvantaged groups.

Acknowledgments

This report is the result of an extraordinary collaboration between the funder, the U.S. Department of Health and Human Services, the research team — made up of MDRC and partners MEF Associates, Branch Associates, and DIR, Inc — and dozens of state and county officials and program administrators. Over the course of just a few months, the research team conducted phone interviews with individuals in over 50 states, territories, and localities, and visited eight programs in seven states. The process required flexibility and cooperation on the part of all involved. Unfortunately, space does not permit us to name everyone who contributed their knowledge, background documents, and perspective to this undertaking.

Officials at the U.S. Department of Health and Human Services provided support, guidance, and assistance contacting the appropriate state and program administrators. In the Office of Planning, Research, and Evaluation at the Administration for Children and Families, we wish to thank Deputy Assistant Secretary Mark Greenberg, Mark Fucello, Girley Wright, Erica Zielewski, and Clare DiSalvo.

We owe a particular debt to LaDonna Pavetti and Liz Schott at the Center on Budget and Policy Priorities and Elizabeth Lower-Basch at the Center for Law and Social Policy. This report draws upon research they conducted for the 2011 report, *Creating Subsidized Employment Opportunities for Low-Income Families: The Legacy of the TANF Emergency Fund*. In addition to providing early drafts of their report, they also generously shared interview notes and background materials with the research team in the earliest stages of this project.

Over a dozen program administrators and state and local officials coordinated with the research team to arrange research visits to programs and introduce us to state and local approaches. We would like to thank the following people for their generosity and guidance in arranging and scheduling our visits: in Los Angeles, Lorraine Sinelkoff and Luther Evans; in San Francisco, Steve Arcelona and James Whelly; and in Hawaii, Scott Nakasone and Geneva Candeau. In Minnesota, administrators at four contractors gave their time to arrange visits: at the RISE program, Truc Pham; at Goodwill Easter Seals, Boyd Brown; at the Tree Trust, Jessica Kuenzli; and at HIRED, Barb Dahl. In New York, we thank Elizabeth Ehrlich and Robert L. Garafola; in North Carolina, Dean Simpson; and, in Mecklenburg County, Darrell Cunningham and Mary Wilson; in Oregon, Xochitl Esparza and Marge Reinhart; in Lane County, Elizabeth Lindbloom; in Multnomah County, Carol Lamon. Finally, in Washington, thanks to Eva Greenwalt.

Research for this report was conducted by a large team at MDRC and its partner agencies. At Branch Associates, James Klasen and Barbara Fink led several site visits and interviews with officials and program administrators. Siobhan Cooney assisted in documenting these visits for the report. At DIR, Inc, Russell Jackson and Nancy Dawson conducted and documented interviews with a number of state and program administrators. And at MEF Associates, Mike Fishman, Asaph Glosser, Jenna Stearns, and Jessica Wille led and wrote up the majority of interviews and visits conducted for this report. Jenna Stearns also played a key role in creating exhibits and helping to format the report.

At MDRC, Bret Barden, Ada Tso, and Arielle Sherman conducted interviews with several officials. David Butler, Gayle Hamilton, and Richard Hendra reviewed drafts of the report. Margaret Bald edited the report, Stephanie Cowell and David Sobel prepared it for publication, and Arielle Sherman and Joseph Broadus provided assistance with references, formatting, and report coordination.

We would also like to thank John Wallace, a former vice president at MDRC who returned to consult for the project. He conducted key interviews and provided many helpful comments throughout the process.

The Authors

Executive Summary

Subsidized employment programs provide jobs to people who cannot find employment in the regular labor market and use public funds to pay all or some of their wages. In fiscal years (FY) 2009 and 2010, states and localities could access funding from the Temporary Assistance for Needy Families (TANF) Emergency Fund, which was established under the American Recovery and Reinvestment Act (ARRA) of 2009 to create or expand subsidized employment programs. When the fund expired on September 30, 2010, states had placed more than a quarter of a million people in subsidized jobs, making this the largest subsidized employment initiative since the 1970s.

The Subsidized and Transitional Employment Demonstration (STED) project, sponsored by the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services, will conduct rigorous evaluations of several subsidized employment programs for disadvantaged workers over the next few years. This report presents findings from the first phase of the STED project — a review of subsidized employment programs that operated with support from the TANF Emergency Fund. It is based on telephone interviews with administrators in 48 states, tribes, and territories that received funding for subsidized employment under the Emergency Fund; site visits to eight programs; and documentation that states provided to ACF.[1]

Key Findings

- **While states and localities often had less than one year to create or expand their subsidized employment programs, many were able to mount relatively large-scale efforts.**

The availability of funding for subsidized employment provided by the TANF Emergency Fund spurred an extraordinary effort by states and localities to create or expand programs. Some states were able to build on existing programs that served TANF recipients, while others had to design and implement new programs.

State and local administrators had to make decisions quickly regarding their programs' goals, the organizations to involve, the individuals to target for placement, and the subsidy structure. While many of the state and program administrators who were interviewed for this

[1]The report also draws on earlier research conducted by the Center on Budget and Policy Priorities and the Center for Law and Social Policy. See LaDonna Pavetti, Liz Schott, and Elizabeth Lower-Basch, *Creating Subsidized Employment for Low-Income Parents: The Legacy of the TANF Emergency Fund* (Washington, DC: Center on Budget and Policy Priorities and Center for Law and Social Policy, 2011).

report wished that they had had more time to make some of these decisions, they were generally pleased with what they were able to achieve and were energized by the experience.

- **Responding to the flexibility allowed under the TANF Emergency Fund, states and localities implemented a wide range of programs.**

State and local administrators made decisions regarding their design of programs based in part on the outcomes they sought to affect. Many programs focused on countering the effects of the downturn in the economy by placing recently laid-off workers in subsidized jobs until the economy rebounded and businesses started rehiring. Others sought to place particular groups of individuals in jobs, especially those who had an especially difficult time finding work in the economic downturn because they had limited work experience or barriers to employment. States also cited secondary goals, including helping small businesses and, for a few states, protecting the unemployment insurance (UI) trust fund. Most states also hoped that subsidized jobs would help participants move into permanent, unsubsidized employment, although most programs provided few additional services to help participants prepare for unsubsidized employment beyond job search assistance.

- **Unlike many earlier subsidized and transitional employment programs, those created with funding from the TANF Emergency Fund emphasized private sector positions.**

Many earlier subsidized employment models that had been operating with TANF and other funds were designed to make placements in nonprofit social service agencies or government offices. These programs relied on environments in which participants could receive strong work supports and job coaching and where there could be more flexibility as less job-ready participants adapted to the workplace. The programs that states operated using the Emergency Fund targeted a wider mixture of positions with public, private for-profit, and private nonprofit employers. State administrators cited a range of reasons for targeting the private sector, including a desire to help local businesses and a slower process of developing public sector placements because of union rules. In addition, because the participants in Emergency Fund programs tended to have fewer barriers to finding employment than those served by earlier programs, placement in private sector jobs was thought to be more likely.

Program Design Decisions

In line with their overall program goals, as discussed above, program designers made decisions about who was eligible for the program; how best to subsidize employers, including the percentage of wages to reimburse and the length of the subsidy; and which types of employers were eligible for the subsidy.

- **ARRA limited participants' eligibility to low-income parents or youth, although states defined low income in different ways; most states did not limit eligibility to TANF recipients.**

In about a third of the states, only TANF recipients could participate in the subsidized employment program. In the remaining states, TANF receipt was not a condition of eligibility. Many of the states that targeted a broader population limited eligibility to families with income below 200 percent of the federal poverty level. Some states targeted particular populations (for example, UI claimants, ex-offenders, youth, and noncustodial parents).

- **Generally, states reimbursed employers for all or part of participants' wages, but there was substantial variation in the amount to be reimbursed, the length of the subsidy, the number of subsidized hours of work, and the nonwage costs that were reimbursed.**

Table ES.1 shows the subsidy structure for wages reimbursed and the length of the subsidy. In over one-third of the states with adult programs, employers were reimbursed for 100 percent of the wages they paid, although in some cases, there was a limit on the total amount that could be reimbursed. The other more common strategy was to pay employers for the number of hours a participant worked multiplied by a set wage, usually the state minimum wage or slightly higher, or to reimburse less than 100 percent of the wage. Employers could pay wages above this amount but would receive reimbursement only for the set wage. Less common strategies included a flat payment regardless of the wages paid and paying 100 percent initially and reducing the percentage over time.

Most states limited reimbursement to a set number of months, somewhere between three and 12 months. Some states allowed individual counties to determine the length of the subsidy, and some programs that were ending on September 30, 2010, reimbursed employers for any amount of time up to this date.

States set different limits on the number of hours reimbursed (generally 30 to 40 hours per week) and decided which nonwage costs they would reimburse (for example, UI, workers' compensation, FICA, and medical assistance).

Program Implementation

Given that most states did not create or expand their programs until 2010, large numbers of participants would have to be placed in jobs in less than a year. States used a number of interesting strategies to address this challenge.

The Subsidized and Transitional Employment Demonstration

Table ES.1

State and Territory Policies Regarding Wage Reimbursement and Length of Subsidy

	Number of states and territories	Percentage (%)
Wage reimbursed		
100 percent	14	38.9
Set wage or less than 100 percent of wage[a]	14	38.9
Flat payment[b]	3	8.3
Varies by county	2	5.6
Declining reimbursement	2	5.6
Up to level of benefits	1	2.8
Length of subsidy		
3-6 months	17	47.2
8-12 months	7	19.4
12-18 months	1	2.8
Variable	3	8.3
Through September 30, 2010	7	19.4
Total number of states and territories reporting information	36	100.0

SOURCE: Survey of state administrators and program directors.

NOTES:
[a]Most states in this category reimbursed employers the minimum wage for each hour employed. Hawaii reimbursed 100 percent of the minimum wage, but only reimbursed 50 percent of additional wages beyond the minimum wage.
[b]Texas and Utah paid employers $2,000; Virginia paid employers $300 per month plus $500 if the participant was hired after six months.

- **In many states, strong support from political leaders fueled the subsidized employment initiative; in other states, strong advocates at the local level were the driving force.**

Several states — Alabama, Florida, and Mississippi — benefited from their respective governors' support and the media attention they brought to the initiatives. The governors' backing legitimatized the program and drew support from other organizations, such as Chambers of Commerce and workforce agencies, and helped to recruit employers and participants. Similarly, mayoral support was significant in expanding programs in Philadelphia and San Francisco. On the local level in other states, a few key staff got the program up and running.

- **Given that many state programs targeted populations beyond TANF participants, they had to make special efforts to let the general public know about the program.**

Staff had to develop processes for reaching this new population and convincing them to participate. State and program administrators reported that there were potential participants who were reluctant to become involved because they saw the program as "welfare." Administrators in some states also reported that they found it especially difficult to attract individuals to the program who had another means of support, such as UI benefits. They said that some people who were receiving UI benefits, particularly those who had recently begun to receive them, might have hoped to return to their former jobs and were reluctant to accept temporary employment that paid less than they had previously earned.

Programs used outreach strategies such as advertising the program and job positions on the Internet and in job banks, as well as holding job fairs. Outreach strategies targeting UI claimants included using the U.S. Department of Labor's Rapid Response teams, which help dislocated workers after large layoffs, to promote the program, and mailing information to UI claimants. One state relaxed the requirement that eligible individuals be recently unemployed; instead they could be closer to exhausting their benefits.

- **Programs met the challenge of recruiting enough employers to provide appropriate jobs for participants by using a variety of outreach strategies.**

Programs had to both let employers know about the new opportunity and address their concerns. State administrators said that some private sector employers were worried about participating in a large government program that could involve additional paperwork and oversight and about the timeliness of reimbursement for participants' wages. Some also had doubts about the qualifications of the job candidates they would receive through the program. Many programs used job developers to sell the programs to employers. Others conducted media campaigns (for example, placing advertisements on television and radio and in newspapers), engaged the business community to help ensure that the program was implemented in a way that appealed to employers, and held events and workshops. A few programs asked participants themselves to market the program to employers during their job search. As employers began to participate in the program, word spread to others and recruitment became easier.

- **After the programs were implemented, administrators found that their benefits went beyond income gains to families to include local businesses and governmental agencies.**

While the overarching goal of the TANF Emergency Fund subsidized employment programs was to provide income support to low-income families, the state and local administrators interviewed mentioned other benefits of the programs. For example, some said that their program helped the struggling small businesses they recruited to continue operations, while other businesses were able to expand their labor pool. Additionally, TANF agencies developed new relationships with employers and gave them a better understanding of the services the agency could provide. Some TANF agencies also developed closer relationships with workforce agencies.

Program Placements and Expenditures

Data collected by the ACF Office of Family Assistance (OFA) and the research team suggest the following regarding the number of participants placed and the cost of the program.

- **States and localities were successful in placing thousands of individuals in jobs.**

More than a quarter of a million individuals were placed in jobs through programs that were supported by the TANF Emergency Fund, though slightly more than half of this total were summer youth participants. While over half of all participants lived in four states — California, Illinois, Pennsylvania, and Texas, which each made more than 25,000 placements — smaller states also placed thousands of individuals in jobs. Some 14 states and the District of Columbia placed over 5,000 individuals in jobs, and another 10 states and Puerto Rico made between 1,000 and 5,000 placements.

While these numbers are impressive, particularly given how quickly states had to scale up to access the federal funding, this initiative was smaller than earlier federally funded programs that provided work-based support to people who were unable to find jobs in a weak labor market. For example, the Depression-era Works Progress Administration employed about 8 million people during its life span, and the 1970s Public Service Employment program, which operated under the Comprehensive Employment and Training Act, employed about 700,000 people at its peak in 1978.[2] It is important to note that when the TANF Emergency Fund expired, the subsidized employment programs were already successfully operating at high capacity and could have continued at these levels with additional funding.

- **Across all states, spending on subsidized employment increased more than tenfold, from about $109 million before ARRA was enacted to $1.6 billion in FY 2010.**

Of the $5 billion the Emergency Fund provided to reimburse states, tribes, and territories for increased TANF spending during the recession, about $1.3 billion went to cover increases in spending on subsidized employment. In some states, the increase in spending was substantial. These states included Illinois, which increased spending from about $163,000 in the

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[2]Dan Bloom, *Transitional Jobs: Background, Program Models, and Evaluation Evidence* (New York: MDRC, 2010).

base year to $234 million in FY 2010; California, which increased spending during the same period from about $36 million to $554 million; and Mississippi, which reported no expenditures on subsidized employment in the base year but spent $40 million in FY 2010.[3]

- **In most states, TANF recipients placed in subsidized employment were not counted toward state TANF work participation rates, but a few states designed their programs in ways that allowed participants to be counted.**

Most state administrators did not place individuals in subsidized jobs in order to meet work participation requirements established by the Personal Responsibility and Work Opportunity Reconciliation Act. Subsidized employment is an allowable work activity for TANF recipients, so those working in subsidized jobs could conceivably have contributed to the state's participation rate if they had remained on TANF. However, in most states, the subsidized jobs provided family earnings high enough to make participants ineligible for TANF, so that they were not counted in the rate. In states with caseloads below their FY 2005 levels, such cases leaving TANF could contribute to a higher caseload reduction credit. Some states designed their programs with features to ensure that subsidized employment participants would still contribute to the participation rate. For example, a few states continued to provide participants a small amount of cash assistance to keep them on the rolls and, therefore, in the work participation calculation. Other states provided part-time subsidized employment (work-study jobs) to TANF recipients enrolled in education programs so that they would be in countable work activities while receiving TANF.

After ARRA

Despite an effort by many state and county officials and advocates who campaigned for a one-year extension of the TANF Emergency Fund for subsidized employment programs, states were reimbursed only for expenditures related to work performed on or before September 30, 2010.

- **After funding ended, many of the programs also ended, and others sharply reduced the number of families served.**

Only a few states continued to operate at the same levels as previously, and these were states that, for the most part, were operating programs using TANF funds before ARRA was enacted. At the time of the interviews, many program administrators were seeking ways to keep

[3]These reported expenditure data are based on all data the OFA received by June 2011. In August 2011, the OFA extended the deadline for submitting qualifying expenditure for the TANF Emergency Fund to September 30, 2011. These data do not include any expenditures submitted after June 2011.

their programs going, even at a reduced level. Given state budget shortfalls, however, there was great uncertainty about the future existence or likely operating levels of these programs.

Next Steps

The availability of funding for subsidized employment programs, the flexibility it provided to states, and the limited research that guided program designers resulted in a great deal of experimentation under the Emergency Fund. Most studies of subsidized employment programs have focused on those that placed disadvantaged participants in nonprofit and government agencies to improve their employability and increase the odds that they would find unsubsidized jobs with other employers. While some of the existing programs that were expanded with the Emergency Fund took this approach, many of the newly created programs placed broader groups of unemployed workers, rather than solely disadvantaged populations, in private for-profit jobs. Among these, some incorporated components designed to encourage the host employer to hire the participant after the subsidy ended; others focused more on short-term work-based income support.

This report does not attempt to assess the effectiveness or impact of the TANF Emergency Fund subsidized employment programs. For example, it does not address whether some of the people who received subsidized jobs could have found jobs without subsidies. It also does not estimate the cost of the programs relative to what would have been spent on participants in the absence of the programs. Finally, it does not examine who might benefit the most from these types of programs — those who are more disadvantaged or those with some job skills. These questions will be addressed in the second phase of the STED project, which will include random assignment evaluations of several subsidized employment programs.

About MDRC

MDRC is a nonprofit, nonpartisan social and education policy research organization dedicated to learning what works to improve the well-being of low-income people. Through its research and the active communication of its findings, MDRC seeks to enhance the effectiveness of social and education policies and programs.

Founded in 1974 and located in New York City and Oakland, California, MDRC is best known for mounting rigorous, large-scale, real-world tests of new and existing policies and programs. Its projects are a mix of demonstrations (field tests of promising new program approaches) and evaluations of ongoing government and community initiatives. MDRC's staff bring an unusual combination of research and organizational experience to their work, providing expertise on the latest in qualitative and quantitative methods and on program design, development, implementation, and management. MDRC seeks to learn not just whether a program is effective but also how and why the program's effects occur. In addition, it tries to place each project's findings in the broader context of related research — in order to build knowledge about what works across the social and education policy fields. MDRC's findings, lessons, and best practices are proactively shared with a broad audience in the policy and practitioner community as well as with the general public and the media.

Over the years, MDRC has brought its unique approach to an ever-growing range of policy areas and target populations. Once known primarily for evaluations of state welfare-to-work programs, today MDRC is also studying public school reforms, employment programs for ex-offenders and people with disabilities, and programs to help low-income students succeed in college. MDRC's projects are organized into five areas:

- Promoting Family Well-Being and Children's Development
- Improving Public Education
- Raising Academic Achievement and Persistence in College
- Supporting Low-Wage Workers and Communities
- Overcoming Barriers to Employment

Working in almost every state, all of the nation's largest cities, and Canada and the United Kingdom, MDRC conducts its projects in partnership with national, state, and local governments, public school systems, community organizations, and numerous private philanthropies.