

# Testimony of the Hunger Action Network of New York State

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To the Joint Budget Hearing of the

Senate Finance Committee and Assembly Ways and Means Committee

On Human Services

Tuesday February 5, 2008

The Hunger Action Network of New York State is a statewide membership organization of direct food providers, advocates and other individuals, whose goal is to end hunger and its root causes, including poverty, in NYS. Emergency food programs in our state provide food to more than two million New Yorkers annually.

Hunger Action Network helps coordinates the Empire State Economic Security Campaign (ES2), which represents several hundred communities, faith and labor organizations. ES2 focuses on universal health care; income security; education and workforce development; housing; and job creation.

## I. Raise the Basic Welfare Grant

We are deeply disappointed that for the 18th year in a row, there was no increase in the welfare grant in the SFY 2008-09 Executive Budget. While we realize that the State faces a \$4.4 billion budget gap, those who must face the worst consequences of downward economic trends are those who remain trapped in poverty. Families receiving welfare have been living on the SAME benefit level for over 18 years! At this point, the value of these benefits has fallen to only 50% of the Federal Poverty Level, or about \$8,800 per year for a family of three.

We urge the legislature to:

- Increase the non-shelter portion of the public assistance grant from \$291 to \$475 for a family of three to reflect increases in the cost of living since the last adjustment in 1990.
- Increase Fuel For Heating Allowances to account for inflationary increases since the last adjustments in 1987.
- Establish a commission to investigate the adequacy of all public assistance allowances and to recommend mechanisms to provide for annual cost adjustments.

The state should consider raising public assistance benefits in the form of a **food allowance**. This would reflect that food costs are now rising at a much higher rate than inflation. In addition, a food allowance would not count as income for the purpose of determining food stamp benefits. Every three dollars of income, including from welfare, reduces food stamp benefits by \$1.

Another potential approach is a wage supplement. We have included information about this at the end of our testimony.

The reduced value of public assistance has led to increased homelessness and poverty, unsafe living conditions, hunger and malnourishment in children, and loss of workforce productivity. When families cannot meet their basic needs for shelter, energy, transportation, food, and clothing, their lives are in constant turmoil. Families cannot make progress toward economic security when they are always unsure about their housing situation and worry about whether they will be able to feed and clothe their children.

Low welfare benefits contribute to the growing problem of poverty in our state. Three in ten residents in upstate cities like Albany, Buffalo, Rochester and Syracuse live below the official poverty line – probably half live

below the real poverty level. And nearly 10% live on less than half of poverty – what is known as extreme poverty.

It is also important to remember that since the last grant increase in 1990, there has been a major transformation of the state's welfare system. Those now on welfare can be described as the working poor, the disabled and children. Those who are able-bodied on welfare are required to participate in various work-related activities. Thus, individuals receiving public assistance are working at mostly low-wage or unpaid job assignments. They are playing by the rules and raising their child/ren mostly as single mothers. Those not working are elderly or disabled and cases where only the child is receiving assistance. They are all struggling trying to live on an average of \$9.50 (for a family of 3) – that's \$3 a day per person to pay for travel, clothing, school supplies, toilet paper, etc.

We see a terrible loss of hope among those who depend on the State for the necessities of life. We see the despair of families pressed to the limits of endurance. New York's inadequate support for the poor and the marginalized has developed into a social crisis. The Jewish, Christian and Islamic traditions all speak for the dignity of people in poverty, that it is society's responsibility to address and alleviate such inequities. We as a state are failing. Clearly, you made a priority to negotiate substantial pay raises for judges, who currently earn over \$130,000 per year. If you are also going to consider raises for State legislators, we ask that you support an increase in essential benefits for welfare recipients, who need the assistance now more than ever. Former New York Governor President Franklin Delano Roosevelt once remarked, "The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little."

Despite New York's reputation for widely enjoyed prosperity and generosity to the poor, our State in fact has some of the worst child poverty rates in the U.S. According to recent Census data, 888,000 (20%) of our State's children are living in poverty. New York ranks 36th in the country on child poverty rates – not far from states like Alabama, Kentucky, and West Virginia. Our Northeastern neighbors are far ahead of New York, because they have realized that the critical years of early childhood development should not be spent in poverty. Furthermore, in many areas of New York State, the overall poverty rate is far above the national and statewide averages. In 2006, New York City's poverty rate was 19.1%, and upstate cities fared even worse. In fact, Buffalo and Syracuse are listed among those with the lowest income levels and highest poverty rates in the country, and a significant number of families in New York's cities are deemed "extremely poor."

Five times the State's courts have ruled that welfare benefits are illegally low – yet the case continues without a final resolution on benefits. Welfare recipients are NOT receiving a "hand-out," since they are required to work as a condition of eligibility. In fact, many are helping to sustain the economy during these uncertain times as low-paid laborers. Struggling to make ends meet on below poverty wages, they turn to the welfare system only as a means of making up the difference.

Cash assistance should provide at least enough for these families to survive in New York in the 21st century but current benefit levels are far below any common sense notion of subsistence. In 1975 public assistance for a three-person family was equal to 110% of the Federal Poverty Level. Today it has fallen to less than 51% of the poverty level. Within the past two years, there has been a modest, inadequate, increase in the shelter portion of the public assistance grant, but the basic allowance for all other expenses has been unchanged for almost 18 years. To keep pace with the rising cost of living, the \$291 a family of three received in the non-shelter portion of its public assistance grant in 1990 would today have to be increased by 63% to \$475.

In addition, many families must use a portion of their basic allowance to pay the rent, because the shelter allowance in the public assistance grant is rarely sufficient to meet the housing cost. Comparing the HUD Fair Market Value for rent throughout New York State to OTDA's Shelter Allowance Schedule, there was an average \$317 disparity between the allowance and the fair market rent. This gap is more than the maximum

cash grant for a family of three. (A table is attached at the end). For example, in Monroe County a family of three with children heating with gas has a shelter allowance of \$397 per month, while the HUD Fair Market Rent for a two-bedroom apartment is \$773. In New York City, a family of three with children has a shelter allowance of \$400 per month, while the HUD fair market rent for a two-bedroom apartment is \$1,318. In New York City it is estimated that by 2007, 86% of families living in private housing will have a rent level that is higher than the amount provided for rent in their welfare grant.<sup>1</sup>

The use of the basic grant to supplement the shelter allowance also creates problems with respect to food stamps. It is expected that one-third of a household's income, outside of deductions for various costs such as rent, will be used to supplement food stamps. Unfortunately, since many public assistance households have to use a portion of their basic grant to pay housing costs, this leaves less money for food than expected. Many low-income New Yorkers also spend more on rent than what food stamps artificially allow as a deduction for housing costs, so their food stamps are further lowered. Thus many food stamp recipients on public assistance run out of food by the third week of the month.

Fuel for Heating allowances have not been increased since 1987. Since that time average prices for electricity have increased 72 percent and the cost of natural gas has increased by 135 percent.<sup>2</sup> For example, public assistance families in Albany using fuel oil to heat their homes are given only \$828 per year to pay for all home heating costs. Families heating with natural gas are given only about \$700.

**How to pay for a grant increase.** Due to large welfare caseload reductions since the Temporary Assistance for Needy Families (TANF) program was created in 1996, New York now spends more than \$1 billion a year out of its total federal TANF block grant for purposes other than funding direct public assistance to needy families. Unlike many other states, New York has failed to use this funding to raise our menial welfare grant levels. While a broad-based Earned Income Tax Credit (EITC) for low-income working families is important, it shouldn't substitute for providing basic assistance to those who need it most. The EITC like other tax credits should be funded out of the general revenue portion of the budget, not out of TANF. Unfortunately, the Governor wants to go in the opposite direction.

EITC is a highly effective tool in supporting work and in alleviating poverty, but should not be supported with TANF dollars. While there is no question that the State EITC is a permissible use of federal TANF funds, given the fixed nature of the federal TANF block grant and the unfixed nature of the EITC, continued funding of the EITC with this limited resource pool is an unsustainable policy approach that jeopardizes the continuance of all programs and benefits supported by TANF. Instead, New York's EITC should be funded as it was at its inception, through a reduction in general revenues just as any other tax credit.

## **II. Raise the Earned Income Disregard for Welfare Participants who work**

New York should increase its Earned Income Disregard (EID) levels. The EID encourages employment by ensuring that a welfare recipient's grant is not decreased one dollar for every dollar of earnings.

All earned income should be disregarded until a family's income is equal to the federal poverty guidelines for its family size. Above that point, 50% of income should be disregarded until families reach 135% of the federal poverty guidelines. Childless public assistance recipients should be given the same earned income disregard as households with children.

<sup>1</sup> U.S. Department of Housing and Urban Development (<http://www.huduser.org/datasets/fmr.html>)

<sup>2</sup> According to the Bureau of Labor Statistics, CPI for New York -New Jersey metropolitan area.

In effect, welfare families face a marginal tax rate of approximate 80%, e.g. for every dollar they earn they lose 80 cents in cash assistance and food stamps. Only the first \$90 of earnings (an amount that has not been increased for 18 years) is disregarded in calculating cash assistance benefits and only 20 percent of earnings are disregarded for calculating food stamp benefits. Beyond the initial \$90, the grant is reduced by 53 cents for every additional \$1.00 earned.

For example, a recipient working 30 hours a week, at a wage of \$7.15 an hour, would earn \$930 a month. The first \$90 of earnings would be disregarded but the welfare grant would be reduced by \$445 --- 53% of the remaining \$840. If the recipient were entitled to a \$691 monthly grant without earnings, the grant with earnings would be reduced to \$246. The recipient keeps the \$930 from wages and \$246 (\$691 minus \$445) in TANF benefits for a total monthly income of \$1,176, 15% below the federal poverty guideline of \$1,383 for a family of this size.

The Connecticut Jobs First program adopted an enhanced EID that allowed welfare recipients to keep the full amount of their earnings as well as their cash assistance up to the Federal Poverty Level for up to 21 months in addition to their full welfare and Food Stamp grant, leading to increased employment, earnings and income.

Even if the legislature fails to raise the Earned Income Disregard to better promote work, at least it should keep the promise made by Governor Pataki to allow recipients to earn their way to poverty before their benefits are cut off. Since the welfare grant – and the Standard of Needs upon which it and eligibility is based – has not been increase, participants with wages now lose all benefits well before they get to the poverty level.

### **III. Increase the Child Support Pass Through for Welfare Participants**

The Governor has proposed increasing the amount of child support passed through to custodial parents from a maximum of \$50 to \$100. This will help approximately 27,000 families with an estimated \$12 million in additional child support payments, though do to upcoming federal changes (i.e., the feds waive any share in the child support), the cost to the state will be only \$900,000.

New York should take advantage of the new federal rules and increase the maximum to \$200 for two or more children.

### **IV. Increase HPNAP Funding by \$7 million.**

We urge an increase of \$7 million in the Hunger Prevention Nutrition Assistance Program (HPNAP) funding for fiscal year 2008-2009. The Governor is proposing to maintain the existing funding at \$28.64 million.

We however support the Governor's proposal to move the \$12 million in additional funding provided by TANF into the Department of Health's funding allocation with the rest of the HPNAP appropriation.

The Food Bank Association and other anti-hunger advocates last year develop a nine year funding restoration and increase effort to restore prior cuts and reflect the increasing rates of poverty and demand for emergency food. This would involved increased the \$22.8 million in state funding to \$56.30 million in 2011-12. We appreciated the \$5.15 million increase in last year's budget by the Governor. In addition, shortly before Thanksgiving, the state released an additional \$5 million in funding to deal with the rising cost of food and the delay in federal funding for emergency food related to the ongoing deliberations over the Farm Bill.

Increases in HPNAP (including that just realized) will better enable us to combat the ever increasing reality of hunger and poverty. America's Second Harvest estimates that 14.6% of New Yorkers (2003-2005) live in poverty; 10.4% live in food insecurity (choosing between food and other costs of living). Half of the over 2 million who seek food assistance in this state each year are children.

## **V. Oppose Increasing County Reimbursement Rates for Welfare**

Governor Spitzer is proposing to increase by 2% the share that the counties contribute for the TANF and Safety Net program. We disagree.

We would go in the opposite direction, namely a state takeover of the administration of the programs from the counties.

New York is unusual in that it has the counties administer various welfare and food stamp programs. Most states administer this directly. Our system of county administration increases overall costs for taxpayers while reducing the level of services provided to poor New Yorkers. New York in effect has 58 different welfare districts with conflicting rules and practices. The state itself has shown little interest in enforcing county compliance with state and federal regulations, with the result that many individuals fail to receive the benefits they are entitled to. There are not enough nonprofit advocates and legal service attorneys to enforce county compliance. The quality of staff training varies widely from county to county. After two decades on working on the issue of expedited food stamps, the state still can not get counties to consistently code these benefits so that they can be tracked. Taxpayers pay for 58 high levels of bureaucracy (e.g., county commissioners, deputy commissioners, counsel, etc.) and computer systems.

A major disadvantage of requiring counties to pay part of the cost of welfare is that they then have a financial incentive to deny access to these programs. Some counties such as Monroe has been quite vocal in seeking to throw people off of welfare as a means to control local costs. Increasing the share paid by the counties unfortunately will increase their incentive to deny access.

## **VII. Reforming TANF Spending to Better Target Lifting Families Out of Poverty and Helping Individuals Move into Employment**

We support the Governor's proposal to fund \$112.37 million in programs previously funded with the TANF block grant with General Fund dollars. This move demonstrates his support for these important programs and will help to secure the continuance of these services.

We are concerned that the Governor is proposing to increase the size of the Flexible Family Fund to the counties to \$1.1 billion. This includes shifting more than \$365 million in child care funds into the FFF. Since the counties are given great discretion in spending FFF dollars, there is very large possibility that child care funding will be cut in at least some counties. This was the case a number of years ago when some of the child care funding was block granted to the counties.

Unfortunately, New York State has used the TANF surplus funds much as it has done with Lotto Funds. The funds are technical spent in ways that seek compliance with federal rules. However, too often the motivation seems to be less about how to best help welfare participants but more about how to transfer existing funded programs into the TANF block grant so more general revenue funds can be freed up to spend in ways the legislature wants. The losers unfortunately are the poor who are supposed to be prime beneficiaries of these funds.

The counties have similar reasons for treating the FFF as an avenue for "fiscal relief" rather than to invest in lifting families out of poverty.

One, we believe that the prime purpose of TANF funds should be to improve the economic well-being of TANF participants. That starts with raising benefits.

Second, the funds should be invested in ways that directly assist TANF participants move out of poverty and become economically self-sufficient. The proposed allocation of TANF funds completely ignores the fact the New York's welfare-to-work programs are a major failure, with the federal government ranking New York almost dead last in the country (47th) in terms of the overall effectiveness of its welfare-to-work efforts. New York is failing to provide individuals who have significant barriers to employment with the support services, education and training they need to overcome such barriers. Only slightly more than 10% of TANF participants are now leaving welfare for private employment and virtually none are finding sustainable jobs that enable them to support their families and move them out of poverty. More than half of the TANF participants who leave do so because they have reached their five year limit on federal benefits and merely transfer over to the state-county funded safety net program.

While it is an encouraging sign that OTDA has directed the counties to strengthen its educational and vocational training efforts – and we await the details – far more fundamental change is needed. TANF dollars should be used to drive those changes.

### **VIII. TANF Funds Should be Invested in a NY State Career Pathways Fund**

We support a \$50 million NYS Career Pathways Fund with money from the state's TANF block grant and other federal, state, and private funding sources.

The Fund would allocate funds on a competitive basis to public-private partnerships that demonstrate a plan to connect low-income workers to education and training programs with integrated support services, enabling them to combine training and work and advance over time to higher levels of education and occupational skills and to living-wage jobs in targeted industry sectors. We view this as a win-win for workers in need of skills and better jobs and employers in industry sectors critical to the state's economic development, which are badly in need of skilled workers.

The proposed Career Pathways Fund would also have the advantage – in a year of tight state budgets – of providing the potential to leverage and align other public and employer funding sources at the local level, and to tap into the interest of New York's philanthropies in innovative workforce development strategies.

In addition, this initiative would help New York achieve its work participation rate under the reauthorized federal TANF law, which recalculated the caseload reduction credit in a way that makes it more difficult to meet than in previous years. As a result, New York needs to increase the number of TANF-eligible participants in work activities that count toward the federal participation rate. With this career pathways initiative, New York can meet its participation rate and avoid possible federal penalties, while meeting the skills demands of workers and businesses.

What are "Career Pathways"? Career Pathways link basic education to occupational training and connect educational programs with integrated support services, enabling participants to combine education and training with work and advance over time to higher levels of education and training and to living-wage jobs in targeted industry sectors. These initiatives have generated promising results in New York (a project in New York City<sup>3</sup> focused on the information technology sector and one in Albany<sup>4</sup> focused on the biotechnology sector), as well as in other states that have adopted them.

<sup>3</sup> More information at: [www.workforcestrategy.org/publications/WSCstrength\\_6.23.06.pdf](http://www.workforcestrategy.org/publications/WSCstrength_6.23.06.pdf).

<sup>4</sup> More information at: [http://www.workforcestrategy.org/publications/Greater\\_Capital\\_Region\\_CP\\_Report.pdf](http://www.workforcestrategy.org/publications/Greater_Capital_Region_CP_Report.pdf).

I will spend most of the rest of my time outlining a Career Pathways initiative that a group of New York-based organizations—representing business, labor, workforce development, public welfare, and literacy—has been developing since last summer.<sup>5</sup>

### Career Pathways Proposal

**Eligible Grantees:** The proposal envisions eligible grantees as community or technical colleges, other training providers (such as community-based organizations, labor-management partnerships, or apprenticeship programs), local workforce investment boards or one-stop centers, employer or industry associations, social services districts, lead educational agencies or any other organization serving as the designated “intermediary” to bring together stakeholders and staff the effort.

**Funded Activities:** Grantees could use funds for a number of activities, including convening partners and planning strategies, paying tuition for trainees when other public or private funds are insufficient or unavailable, funding training organizations that are part of the collaboration to improve or enhance their curricula or add new instructors, financing supportive services (such as soft skills, case management, mentoring, and work supports), and paying for stipends, internships or work release time for trainees.

**Funding Priorities:** Priority would accrue to applicants that could demonstrate (among other things) their ability to work collaboratively with key stakeholders in the regional economy, use industry or labor market analysis to select industry sectors that demonstrate a demand for skilled workers and advancement opportunities, involve employers and unions to validate career pathways and determine relevant skills and competencies, ensure that training results in an industry-recognized certificate or credential, and leverage additional public and private philanthropic and employer resources to fund program partnership strategies.

**Performance Outcomes:** The proposal would require grantees to measure their success in employment placement and retention, credential/degree attainment, and short- and long-term earnings change. In addition, the proposal envisions that grantees would work with the state to try to develop measures of “return-on-investment” and the effectiveness of partner collaborative relationships.

### Success in Other States

Other states have achieved remarkable results with Career Pathways strategies.

Arkansas used TANF dollars to fund half of the state’s two-year colleges to develop and implement career pathways, connecting post-secondary training to local labor market and employer needs and including a remedial curriculum redesign and comprehensive student support services. The program has placed between 76 and 88 percent of graduates annually either in jobs or the next step on the pathway, achieved employment retention rates of 64 to 81 percent, and placed participants in jobs paying an average starting wage of between \$7.43 (nursing assistants) and \$18.84 (registered nurses) per hour.<sup>6</sup>

Kentucky. With a grant from the Ford Foundation, the Kentucky Community and Technical College System (KCTCS) provided funding in 2003 to all 16 of its institutions to work with other partners and build career

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<sup>5</sup> Current endorsers of the proposal are: the Brooklyn Chamber of Commerce, Center for an Urban Future, Community Service Society, Community Voices Heard, Consortium for Worker Education, Federation of Protestant Welfare Agencies, Fiscal Policy Institute, Hunger Action Network of New York State, Literacy New York, New York Association of Training and Employment Professionals, New York City Employment and Training Coalition, and Schuyler Center for Analysis and Advocacy. The Workforce Alliance, a national organization representing key stakeholders in the workforce field, has also been supporting these efforts.

<sup>6</sup> More information at: [www.southerngoodfaithfund.org/pdf/pub\\_pp/pp\\_v27\\_6\\_06.pdf](http://www.southerngoodfaithfund.org/pdf/pub_pp/pp_v27_6_06.pdf) and [www.southernfff.org/pdf/pub\\_ipe/cp\\_impact\\_4\\_07.pdf](http://www.southernfff.org/pdf/pub_ipe/cp_impact_4_07.pdf).

pathways. From 2003-2006, KCTCS granted \$3.5 million, with an additional \$4.0 million of in-kind support from employers, agency partners, and the federal government. The more than 5,000 students who participated in career pathways between fall 2004 and spring 2007 earned 573 credentials (including 155 associate's degrees, 91 diplomas, and 327 certificates) and had higher retention rates (71%) than other Kentucky community college students (46%).<sup>7</sup>

A Career Pathways initiative would have numerous benefits to New York State and its taxpayers. We estimate (based on return-on-investment methodologies developed in Michigan with the TANF population) that the proposed \$50 million investment would generate more than \$200 million in benefits to state taxpayers, including reductions in welfare assistance and increases in tax revenues related to increases in earnings for participants.<sup>8</sup>

The proposal taps into the current interest of New York's philanthropies in innovative workforce development strategies, such as the New York City Workforce Development Funders Group, which has committed to invest in industry sector-focused initiatives. A career pathways approach would be consistent with that focus, so this initiative has the potential to catalyze an exciting and unprecedented public-private partnership to expand the state's workforce development efforts.

The emphasis of Career Pathways on system and funding alignment and building ladders to opportunity would build on the Governor's Economic Security agenda to strengthen and grow the middle class by helping New York's low-income, working families achieve financial security through educational and workforce development opportunities for a highly competitive economy and improving services that target low-income, working New Yorkers at risk of falling into or through the social safety net.

A Career Pathways initiative would also help New York achieve its work participation rate under the reauthorized federal TANF law, which requires New York to increase the number of TANF-eligible participants in work activities that count toward the federal participation rate (specifically by increasing the below-the-national-average 13% of participants in vocational education in federal fiscal year 2004) and avoid possible federal penalties, while also meeting the skills demands of workers and businesses. It will also promote long-term self-sufficiency for those transitioning from welfare to work, thus preventing repeated cycles of financial crisis and welfare use.

## **IX. Invest in Public Jobs Creation**

We support investing TANF Funds in direct job creation.

It is true that jobs programs that combine actual work experience with education and training programs are the most effective in increasing the employability of participants. That was the alleged rationale behind the work first approach adopted by the state: get them into a job, any job, and then we will get them training and education to improve the skills. Unfortunately, very little of such skill development has taken place once the welfare participants does find a job, so there long term employability is not improved and they invariably end up in poverty-wage jobs, requiring ongoing public financial assistance.

The state's workfare programs are expensive to administer and are ineffective in increasing employability. Their failures are widely acknowledged. It is why most of the rest of the country shuns the model that New York is so reliant upon.

<sup>7</sup> More information at: [www.kctcs.edu/student/careerpathways/CCTI%20New%20Orleans%200307.ppt](http://www.kctcs.edu/student/careerpathways/CCTI%20New%20Orleans%200307.ppt) and [www.kctcs.edu/student/careerpathways/About%20KCTCS%20CP.cfm#History](http://www.kctcs.edu/student/careerpathways/About%20KCTCS%20CP.cfm#History).

<sup>8</sup> Michigan Works! Association, *Return on Investment* (Lansing, 2007).

A different approach would be to invest in creating transitional jobs for the hardest to employ.

The Empire State Jobs Program would establish about 8,000 temporary wage-paying jobs in the public and non-profit sectors and would provide the individuals placed in those positions with the supportive services, such as education and training, necessary for them to move into unsubsidized employment, while protecting existing workers from displacement and increasing the opportunities that current workers in entry-level jobs have for career advancement. The Empire State Jobs Program is a five-year demonstration project and has a requirement for an annual evaluation of the program's operation. This demonstration approach is intended to provide a reasonable test of the effectiveness of this approach to facilitating the welfare-to-work transition.

The model of wage-based transitional employment is likely to be a more effective means of helping hard-to-employ welfare recipients make the transition from welfare to work than large-scale workfare programs are. Programs providing wage-based transitional employment allow participants to take advantage of the Earned Income Tax Credit to supplement their earnings, and they instill the expectations of the working world in participants. Wage-based programs typically supplement job placements with training, education, or counseling to assist participants in overcoming obstacles to employment, and they also benefit employers and communities. The most successful wage-based transitional jobs programs incorporate the following elements: (1) generous work supports and post program transitional services; (2) flexible, performance-based administration under a public/private model; and (3) safeguards against displacement of existing workers

Research shows that closely-supervised community service jobs increase both the chances that such individuals have of obtaining unsubsidized employment and their earnings potential. The establishment of such community service jobs also protects existing low-wage workers against potential displacement. Finally, residents of the areas served benefit from the improvements and services that workers in these jobs provide.

### **Appendix I. Considering a Wage Supplement to Raise PA Benefits**

Another potential approach to raise the benefits provided to welfare participants is a wage supplement program, which are cash payments given on top of earnings from wages, usually intended to raise a participant's income to a certain level (such as 135% of the federal poverty line). Supplements can be a flat amount to all participants, or they can vary based on work hours, number of family members, or other criteria.

In a wage supplement program, the participant keeps all of his or her earnings from wages and receives the supplement on top of that amount. States and localities, including Connecticut and Milwaukee, have designed programs in which those receiving wage supplements are still in the TANF program. The other programs required the individual to leave traditional TANF assistance entirely in order to receive the supplement. In the past, states have used federal TANF funding and state MOE funds to pay for wage supplement programs. Generally, these programs ran for short durations, usually paying supplements for 2-3 years before terminating. In general, wage supplement programs have seen considerable success. A report by the Manpower Research Demonstration Corporation (MDRC) details three state programs and the Canadian program; according to the report these programs increased incomes, employment, and earnings of participants as much as 10-15% above that of traditional TANF participants. Some of the programs managed to achieve these results at a considerably lower cost for the state than traditional TANF assistance, the catch being that the benefits did not last beyond the duration of the supplement program.

#### **Why Institute a Wage Supplement Program?**

Supplement programs will certainly not be helpful for all TANF participants in New York, a number of who are disabled or have serious barriers to employment. However, for those able to work or currently employed part-time, wage supplements have several advantages over traditional TANF assistance. In addition, a supplement program could be useful for the state, as well. Potential benefits include:

**Increases in Income, Earnings, and Employment:** the MDRC research found that wage supplements typically increased earnings by about \$200-\$300 per month, and income by about \$350-\$500 per month, above traditional assistance. Note that this was the result even with the traditional welfare work control group receiving the earned income tax credit (EITC) incentive. Employment was also increased by between 10-15%. Importantly, this increase in employment was not only due to previously unemployed individuals getting jobs but also currently part-time employed persons increasing their work hours. For many program participants, this meant a switch from part-time to full-time work.

Most notably, the wage supplements had the most positive impacts for welfare participants receiving welfare for more than 5 years and with one or more barriers to employment. They saw income increases of nearly \$200 a month and employment increases of 7%. These modest improvements are impressive considering the multiple barriers often faced by these individuals.

**Cost:** depending on program design, a wage supplement program can be fairly modest, largely due to the fact that the payment structure for the supplements is more streamlined and administrative costs are much lower than traditional assistance programs. The Canadian program, for example, only cost \$200 per participant per year, not including the costs of the supplements themselves. Other state programs were more expensive: the Minnesota program spent about \$1,900 more per year for each family over and above what was spent on the control group. The costs came primarily from the program's more generous earnings disregard and the ability of families to continue receiving Medicaid. The Milwaukee program was more costly because eligibility was expanded to include working poor families who would not have received welfare. The program spent about \$4,000 per group member on its services and work supports, net of savings to various public assistance programs.

**Reduced Caseloads:** if the supplement program is designed so that participants leave TANF assistance, the state can close these cases. Thus a large-scale wage supplement program could result in a significantly reduced caseload for New York state. With the new regulations making work participation rates much more difficult to achieve, any program with the potential to reduce caseloads may be attractive to the state.

On the other hand, the state could benefit from still counting individuals receiving supplements as part of its TANF program since these individuals can be counted towards the participation rates. Wage supplements typically increase work hours and boost full-time employment.

### How Can New York Design a Wage Supplement Program?

There is no one way to distribute wage supplements, and design will vary based on the size and nature of the population receiving the supplement, the budget available, and the other services offered by the program, if any. That said, programs in the other states have revealed several features any wage supplement program must include if it is to be successful. These include:

A. The supplement must offer a sizeable economic advantage over traditional assistance to convince TANF participants to switch off of welfare.

While what constitutes a "sizeable advantage" needs to be determined for New York, the supplement amount utilized in the programs studied ranged from \$278 more than the welfare grant to \$140 each month.

Participants in the wage supplement program must remain eligible for child care subsidies, paid at the same level as TANF participants and not subject to waitlists.

The child care subsidy is incredibly valuable for working parents; often it is larger than the shelter allowance and basic grant combined. The subsidy for a single parent with two children over six, for example, would be \$704 per month; the basic grant and shelter allowance together pay only \$691. The amount of subsidy varies based on number and age of children and whether they are in full or part-time care, but very few TANF participants would leave that program for a wage supplement if it meant losing child care assistance. Once the supplement program ends, low-income child care subsidies should be made available to these individuals.

B. The wage supplement program must be linked to a career advancement plan for its participants, one that includes vocational training and education intended to produce higher earnings and move the participant up the job ladder.

Unfortunately, wage supplement programs do not produce lasting gains on their own: the beneficial effects of wage supplements fade quickly once the program itself ends. The MDRC report reports that the gains in employment, income, and earnings produced by the wage supplement programs had all but disappeared one year after the programs terminated.

Career advancement meant to produce long-term increases in earnings and employment could take a variety of forms, including vocational educational training, on-the-job training, or career counseling and assistance (or some combination of these). The Arkansas Work Pays wage supplement program, for example, has participants and caseworkers work one-on-one to develop and implement an extensive career advancement plan, including strategies to earn promotions and pay increases, and assistance in accessing training opportunities.

In addition, the programs in the other states provided additional options which New York may want to incorporate into its wage supplement program. These include:

1. The supplement can be designed to reward individuals working part-time to gain full-time employment, as well as encouraging new employment.

The program can be tailored so that full-time work is rewarded. This can be done by increasing the supplement amount as the number of work hours increase.

2. Make available community service jobs or transitional employment program jobs for individuals who cannot find sufficient paid employment.

The Milwaukee New Hope Project provided, in addition to the monthly earnings supplement, community service jobs for up to six months for individuals who could not find jobs or were not able to increase their part-time hours. As a result of the community service jobs, New Hope experienced large initial employment effects wherein about 32% of the program group took advantage of such jobs in the first 2 years for an average of 6 months.

Open up eligibility for the wage supplement to low-income people who are not receiving welfare assistance.

The Milwaukee New Hope Project was designed for households with income less than 150% of the federal poverty threshold at the time of program entry who were interested in working 30 hours or more per week – including non-welfare recipient households. The program was not designed to neither explicitly discourage nor encourage welfare receipt. Working might have allowed some households to receive welfare benefits by helping them fulfill Wisconsin's requirement that welfare recipients work.