

Policy Texas Public Policy Foundation

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Perspective

Continuing Welfare Reform in Texas

by **Mary Katherine Stout**, director of the Center for Health Care Policy Studies

Background of Welfare Reform

In 1996, the United States Congress passed sweeping legislation to reform the nation's welfare system. In welfare's more than 60 year history until that point, the program had seen modest reforms attempting to integrate a work component, but none were as far reaching as the reforms contained in the *Personal Responsibility and Work Opportunity Reconciliation Act of 1996*.

The federal welfare system was born during the New Deal era as the nation struggled with the Great Depression. Until that time, the federal government had remained largely outside the provision of such assistance to needy families, instead relying on individual and private charities to meet these needs. However, President Franklin Roosevelt made financial assistance a priority in the passage of the *Social Security Act* in 1935 in an effort to buoy the nation's condition.

The *Social Security Act* included the creation of the federal welfare program Aid to Dependent Children, which began in 1936 and later became known as Aid to Families with Dependent Children (AFDC). As its name implies, the focus of the program was to deliver assistance to children, and often to children in the care of widows. Although the program was to serve only single-parent families, in the early 1960s the federal government expanded the AFDC program to cover two-parent families and created additional

Key Considerations

- Texas should maintain the full-family sanction for non-compliance with Choices work requirements and the Personal Responsibility Agreement, as well as the adult Medicaid sanction for non-compliance with work requirements.
- Texas should work to reduce the number of TANF recipients exempted from work, though still receiving time-limited benefits, by using strategies to fully engage all TANF recipients in work activities.

assistance programs like Medicaid, receipt of which was contingent on eligibility for AFDC.

In the years that followed, the welfare caseloads grew and the federal government frequently attempted to introduce stronger work components, though without success in decreasing the caseload. The federal government set broad eligibility criteria, but allowed the states to set more specific eligibility requirements and benefit levels. As a result, benefits varied widely across the country.ⁱ

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ⁱA RAND study published by Harvard University Press identified the maximum monthly benefits paid to a family of three with no other income at the time of federal welfare reform in 1996. Alaska had the highest benefit at \$923/month and Mississippi had the lowest at \$120/month; Texas monthly benefit was \$188/month. In 2003, Alaska's benefit remained unchanged at the national high of \$923/month, Mississippi was still the lowest at \$170/month, and Texas' had increased to \$201/month.

In the late 1980s and early 1990s, the attitude toward welfare began to shift. In a study by the RAND Corporation, Jeffrey Grogger and Lynn Karoly argue that the shift in policy was due in part by changing attitudes toward women in the workplace, driven by the increase in women working outside the home from 36 percent in 1960 to almost 60 percent in 1990.¹ Grogger and Karoly found that “the movement of large numbers of mothers into the labor market raised concerns about idleness on the part of welfare mothers, who rarely sought employment.”²

Still other research built the case that welfare programs created dependence on government assistance and a generational cycle of poverty and welfare dependence driven largely by the collapse of the family.³ In 1995, the Heritage Foundation’s Robert Rec- tor urged Congress to reform welfare by highlighting the long-term dependence on the program, finding that based on 1995 data:

- Combining past and estimated future receipt of benefits, families that were receiving AFDC benefits were estimated to stay on the program an average of 13 years; and
- Of the 4.7 million families on AFDC, more than 90 percent would spend more than two years on the caseload and three quarters of the families would remain on AFDC for more than five years.⁴

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With public opinion shifting and research highlighting the program’s negative impact, welfare discussions took on a new tone. By the late 1980s federal law began to focus on providing employment-related services to likely long-term welfare recipients through the Job Opportunities and Basic Skills program. At the same time, Wisconsin was emerging as a

leader in welfare reform by implementing workfare programs requiring welfare recipients to do unpaid work in the community in return for welfare benefits.

Throughout the early 1990s, Wisconsin received federal waivers giving the state flexibility to end welfare as an entitlement by making welfare payments contingent on participation in work activities and time-limiting benefits. By 1995, Wisconsin had created a model for reforming welfare which served as a model for other states’ reform efforts, as well as a model for federal welfare reform proposals working through Congress.

While campaigning for president in 1992, Bill Clinton famously declared that he would “end welfare as we know it.” Although he vetoed two welfare reform bills earlier in his first term, in 1996 President Clinton signed the *Personal Responsibility and Work Opportunity Reconciliation Act* (PRWORA) to make good on his earlier promise.

PRWORA, which created the Temporary Assistance for Needy Families program to replace AFDC, represented a seismic shift in health and human services programs by stripping the entitlement from the program and replacing it with a system of reciprocal obligation—one that required work to receive welfare benefits. Among the major changes PRWORA made through the creation of TANF:

- Time-limited benefits to a lifetime limit of 5 years (with some exceptions), with a state option of using a lower lifetime limit;
- Required TANF recipients to work and measures states on performance in moving people to work;
- Allowed states to cap the amount of the TANF benefit without regard to additional children born into the family; and
- Block granted federal welfare funds to the states.

Until welfare reform, the program had spent more than 60 years focused on providing cash payments to eligible families, while 1996’s PRWORA emphasized the provision of work-related services to assist with both job readiness and long-term self sufficiency.

Originally set to expire in 2002, PRWORA was reauthorized in 2006 following years of temporary exten-

sions passed by Congress to keep it alive. Along with reauthorization, Congress made several major changes through the *Deficit Reduction Act of 2005* to tighten the work participation requirements and recalibrate the benchmark for measuring the reduction in caseload, which is a direct measure of the state’s performance. These changes will have a significant impact on Texas, which has already performed well in reducing the caseload through aggressive implementation of reforms, but will now face a real test in meeting the new requirements under federal law.

TANF in Texas

Texas passed its own version of welfare reform in 1995, which was authorized to continue under a federal waiver following the passage of PRWORA in 1996. That waiver grandfathered the Texas program until the waiver expired in 2002 and the state was forced to comply with the requirements of PRWORA.

For certain beneficiaries Texas has elected to use more stringent lifetime limits on TANF benefits, providing TANF benefits for one, two, or three years depending on a recipient’s work experience and education. Federal lifetime limits allow recipients a maximum of 60 months of benefits. These limits are not applied across-the-board and children continue receiving benefits for the full 60 months even if the adult caretaker or second parent is subject to the time limit.

Texas has historically maintained very low income eligibility levels for TANF, today providing benefits

to only those who make less than 14 percent of the federal poverty level.ⁱⁱ

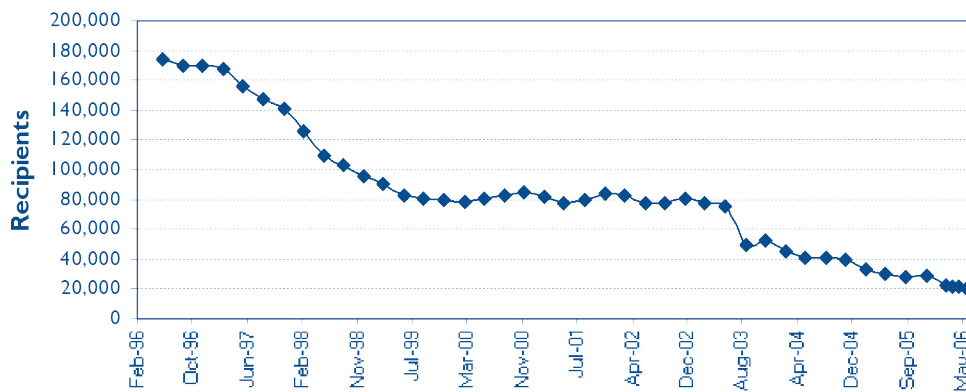
Texas TANF Caseload Reduction

Statistics from the U.S. Department of Health and Human Services’ Administration for Children and Families show a significant decline in the percentage of people receiving TANF benefits since welfare reform. In 1960, the percentage of the U.S. population receiving TANF benefits was 1.7 percent.⁵ This increased to an all-time high of 5.5 percent in 1993 and 1994, and then began to decline when welfare reform was implemented.⁶

Consistent with welfare reform’s goal of eliminating the generational cycle of poverty and welfare dependence, Texas has made tremendous strides in reducing the number of people receiving TANF benefits and has been recognized nationally for its performance. According to the Texas Workforce Commission’s 2005 Annual Report, Texas had received almost \$80 million in high-performance bonuses from the U.S. Department of Health and Human Services.⁷

Texas welfare caseload has been in steady decline since welfare reform began, with continued declines following implementation of House Bill 2292 of the 78th Legislature which made additional changes to the state’s welfare program. Since April 1996, Texas data shows roughly an 89 percent decline in adult TANF recipients, and a 72 percent decline since August 2003, which best illustrates the impact of HB 2292.⁸ These significant declines are illustrated in **Figure 1** below.

Figure 1: Adult TANF Recipients By Selected Months



Source: Information requested from the Texas Workforce Commission, “Adult TANF Recipients,” 19 June 2006.

ⁱⁱIn 2006, the federal poverty level for a family of four is \$20,000 annually. Texas income eligibility level for TANF is set at 14 percent of the poverty level, or roughly \$2,800 annually for a family of four.

Work Pays

Ending the welfare entitlement was a critical step in creating the incentive to work. Whereas welfare recipients once received benefits without any shared responsibility to find and maintain employment, welfare reform refocused the program with the underlying theme that work pays. Today, non-compliance with work requirements often results in strong sanctions that reinforce the importance of work, but that has not always been the case.

Research by the Brookings Institution follows the changes in sanction policies since the early 1990s. Their research highlights a shift from sanctions in the early 1990s that penalized failure to meet process-oriented eligibility requirements (for example, appearing for a redetermination hearing) to sanction policies today that strongly penalize failure to work.⁹ The authors note that the early sanctions were often ineffective because decreases in cash assistance benefits would lead to increases in other assistance programs such as food stamps, thereby negating the impact of the sanction. Welfare reform, however, started to reverse all of that. States must establish sanctions for non-compliance or risk losing part of their federal TANF-grant, although each state has flexibility in determining the sanction's structure.

Texas' welfare and other health and human services programs reform efforts have consistently focused on promoting work and self sufficiency through personal responsibility. Accordingly, the state's TANF program rewards compliance with program requirements and penalizes non-cooperation.

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Among the tools Texas uses is the Personal Responsibility Agreement (PRA) which outlines the responsi-

bilities of both the state and the individual TANF recipient. The PRA is signed by TANF recipients and requires individuals to: cooperate in establishing paternity and child support for dependent children; ensure that children receive necessary medical checkups and immunizations; meet outlined work requirements; not quit a job voluntarily; participate in parenting classes if referred; refrain from abusing drugs or alcohol; and ensure children are attending school.¹⁰ Failure to comply with the PRA requirements (without good cause for noncompliance) results in the loss of benefits.

Full-Family Sanction/Pay for Performance

Prior to September 2003, the state sanctioned non-compliant TANF adults by reducing the family's total TANF grant by the adult-portion of the grant only. This arrangement, as the Comptroller's *e-Texas* report pointed out in 2003, was relatively toothless as non-compliant adults continued to receive the financial benefits for their children, and the period of non-compliance would often stretch for months. According to the *e-Texas* report, there were 23,000 parents sanctioned for non-compliance with work requirements each month, and 40 percent of those lacked "good-cause" for non-compliance, while a third of these remained under sanction for four months or more.¹¹ The *e-Texas* report concludes that "recipients who remain under sanction for that length of time without attempting to meet work requirements appear to have accepted the lower monthly payment and are unlikely to comply in the future."¹²

The 78th Legislature approved stronger sanction measures which took effect September 1, 2003 and the state now terminates the entire family's TANF grant for non-compliance. This "full-family sanction" applies until the family demonstrates compliance or for one full month, whichever is longer.¹³ Also called "pay for performance," the new sanctions require that TANF adults meet their work and PRA requirements in order to receive the family's TANF benefit.

The number of adults under sanction has declined dramatically since the tougher penalties took effect. From August 2003 to April 2006, the number of individuals sanctioned for non-cooperation with Choicesⁱⁱⁱ declined by 92 percent.¹⁴ In addition, the number of

ⁱⁱⁱChoices is the TANF work program and participation is mandatory for TANF recipients with a work requirement. Cooperation with Choices is outlined in the Personal Responsibility Agreement signed by the TANF recipient

families sanctioned for non-cooperation with other aspects of the PRA dropped by 84 percent between September 2003 and June 2004.¹⁵ Similarly, the percentage of adults participating in work activities climbed 55 percent between State Fiscal Year 2003 and April 2006 when 45 percent of TANF adults participated in work activities.¹⁶

Figure 2 illustrates the decline in the percent of TANF adults with mandatory work requirements who are under sanction, and **Figure 3** (see page 6) illustrates the percentage of TANF adults participating in work activities. As the figures show, the greatest gains in compliance occurred in the first months after implementation of the full-family sanction/pay for performance model and the number of sanctions has remained relatively flat since that time. Figure 3 shows a significant increase in participation in work activities with continued gains since the first quarter of State Fiscal Year 2004 (beginning September 1, 2003—the month changes from HB 2292 were implemented).

Some have suggested that the state’s success in welfare reform and the declining number of recipients under sanction is simply the result of sanctioning “hard to serve” or non compliant people off the program, but such an interpretation fails to account for

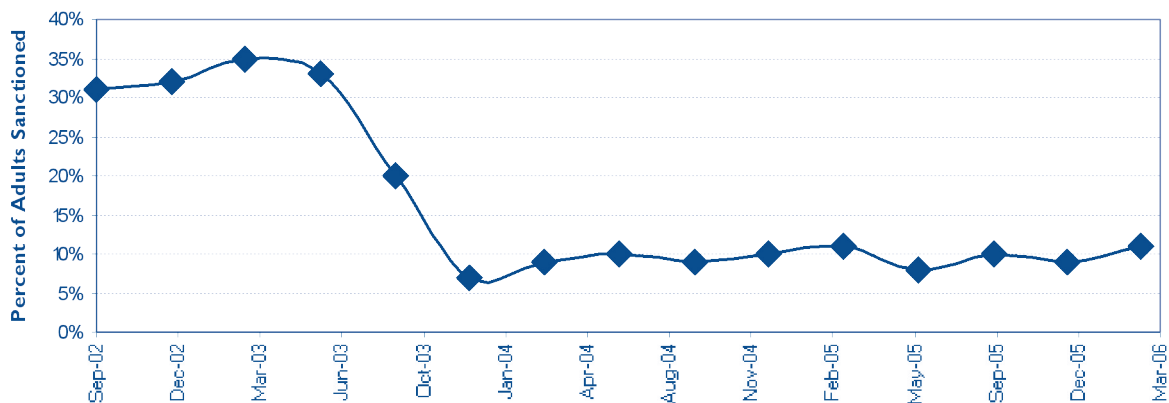
the increase in participation. Indeed, as the percentage of adults under sanction has declined, the work participation percentage has increased steadily. In reality, the stronger sanctions have created an incentive for more responsible behavior, driving greater compliance with work requirements to ensure clients earn the full benefit for their family.

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Adult Medicaid Sanction

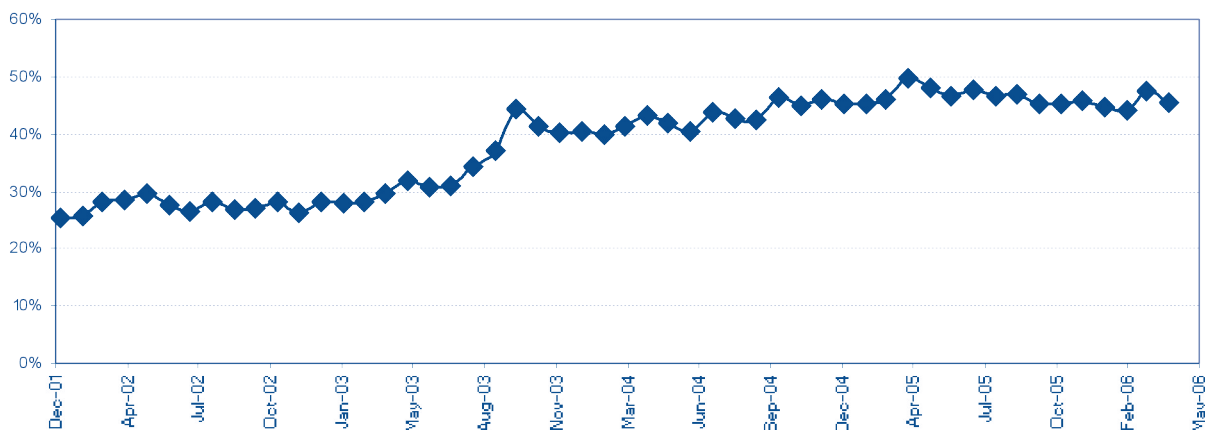
Under PRWORA, states have the option to terminate a TANF adult’s Medicaid benefit for failing to meet the state’s work requirements. Texas began to do this under the full-family sanction policy adopted in 2003.

Figure 2: Percent of TANF Adults with Mandatory Work Requirements Under Sanction By Selected Months



Source: Information requested from the Texas Workforce Commission, “Individuals Sanctioned for Choices Non-Cooperation,” 30 May 2006.

Figure 3: Percent of TANF Adults Participating in Work Activities
January 2002-April 2006



Source: Information requested from the Texas Workforce Commission, "Percent of TANF Adults Participating in Work Activities," 30 May 2006.

Again, the results of the stronger sanctions showed dramatic results. In September 2003, more than 17,000 TANF adults lost their Medicaid benefit because of non-cooperation with either work requirements or child support, or both; almost 15,000 were shown as non-cooperating with work requirements.¹⁷ A month later, roughly 3,000 adults were denied Medicaid coverage for non-compliance with Choices work requirements, and in December 2005 the number of TANF adults who lost Medicaid benefits due to non-compliance with Choices work requirements dropped to approximately 2,400.¹⁸ Similar to the experience with the full-family sanction, the more serious sanctions created bigger incentives for adults to comply with TANF work requirements, ultimately resulting in fewer adults under sanction.

TANF Reauthorization and What It Means for Texas

TANF reauthorization finally gained Congressional approval in 2006 following years of six-month temporary extensions to keep it alive. In addition, the *Deficit Reduction Act of 2005 (DRA)* made significant changes to TANF work requirements and strengthened the concepts that began with PRWORA in 1996.

Among the two most significant changes made through the DRA are a recalibration of the way states count their TANF caseload reduction and a tightened definition of

allowable work activities that states can count toward its TANF work participation rate. These changes are designed to more uniformly measure participation among states. States that fail to institute the required changes face losing a portion of their TANF block grant.

Although welfare reform made tremendous strides in reducing the caseload nationwide since 1996, many raised legitimate concerns that states were coasting on their early success without reaching those considered harder to serve. Some also raised concerns that some states had relaxed work requirements that didn't comply with the spirit of welfare reform, much less prepare the recipient for self sufficiency and work once their benefits ran out.

A recent press release from Health and Human Services Secretary Mike Leavitt underscored the need for the reforms contained in the DRA, noting that although the welfare rolls declined by 57 percent since PRWORA, there were too many people who were not being served by the work component of welfare reform.¹⁹ PRWORA required that at least 50 percent of welfare recipients participate in work activities, but it also allowed states to reduce the required participation rate by the percent decline in their caseload since 1995 (before welfare reform). As a result, the release notes that "in a typical month in FY 2004, nearly 60 percent of adults on the TANF caseload did not participate in any work or work preparation activities."²⁰

Such data is more disappointing when considered with the broad, relaxed definitions of the federal work activities that many states use.

An August 2005 report from the U.S. Government Accountability Office (GAO) highlighted the work activities allowable in some states. Under PRWORA, states were given considerable flexibility in defining the specific activities that fall under 12 broad, federally-defined categories of work activities^{iv} in order for states to meet federal work participation requirements.²¹

The GAO report reviews countable work activities in 10 states and notes that each state accepts different activities for each category. According to the survey three of the states counted domestic violence counseling as an allowable activity, while seven of the ten allowed English as a Second Language (ESL) classes.²² While state flexibility allows states to design a program that best aligns with the individual state needs, it also allows states significant room to inflate their participation rate by using a low standard for countable activities. For instance, the GAO found that some states' definition of a federal work activity included "activities to promote a healthier life style that will eventually assist the recipient in obtaining employment, such as personal journaling, motivational reading, exercise at home, smoking cessation, and weight loss promotion" as a job search/job readiness activity.²³ Still another state defined a commu-

nity service work activity as "helping a friend or relative with household tasks and errands."²⁴

Through interim final regulations adopted by the U.S. Secretary of Health and Human Services as required by the DRA, the definitions of allowable work activities have been tightened. For instance, the interim final regulations add the word "programs" to the community service activities to suggest a structured activity with oversight.²⁵ It similarly excludes specific activities like children's dental checkups, smoking cessation, and bed rest from being counted as job search/job readiness activities, saying "these are valuable and important things for a family to address, but they do not constitute work or direct preparation for work."²⁶ Such tightened definitions are important to ensuring fairness and uniformity in measuring recipient participation and performance across the states.

While the tightened definitions of work activities will have a significant impact in some states, the most significant challenge for Texas under the DRA's changes will be the recalibrated caseload reduction credit. Under PRWORA, states are held to two work participation requirements: a 50 percent work participation rate among all TANF families and a 90 percent requirement for two-parent families. These participation rates remain unchanged, however, states have been able to reduce their participation rate by the same percentage point caseload reduction each state realized since 1995, which they will no longer be able to do.^v Under the DRA, the base year is reset and credit for reducing the caseload is now given for declines after 2005.

While the participation rate itself has not increased, the change in the caseload reduction credit will force Texas and other states to re-double their efforts to serve much of their TANF population.

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^{iv}The 12 federal work activities include "core activities:" unsubsidized employment, subsidized private sector or public sector employment, work experience, on-the-job training, job search and job readiness assistance, community service programs, caring for child of community service participant, and vocational education training. "Supplemental activities" include job skills training directly related to employment, education directly related to work, and satisfactory attendance at high school or equivalent. Some time limits apply to each.

^vTexas' base caseload reduction is calculated by taking the difference between the caseload in a given year and the caseload in 1995, and then dividing by the 1995 caseload. For example, the Federal Fiscal Year 1995 (FFY 1995) caseload was 274,606, which is subtracted from the FFY 2004 caseload of 109,373 to get the difference of -165,233. The caseload reduction credit then takes the difference, less any adjustments from the net reduction since federal and state policies were implemented after 1995, and divides by the FFY 1995 caseload of 274,606. For FFY the caseload reduction credit included a net reduction of -23,711, making the calculation: $((109,373-274,606)-(-23,711))/274,606=51.54\%$.

For Texas the reality is that achieving the participation rate without its previous caseload reduction credit may be difficult. First, Texas has realized continued declines in the TANF caseload over the course of the last 10 years as state legislation has put real teeth to the work requirements. In particular, the full-family sanction and the adult Medicaid sanction for non-compliance with work requirements or the PRA have contributed to declining caseloads. Since August 2003, the month before the tougher sanctions from HB 2292 were implemented, Texas has experienced a 72 percent reduction in the number of adult TANF recipients.²⁷ Accordingly, Texas will not receive any credit for its caseload reduction resulting from the 2003 changes made by the Texas Legislature, and therefore will face a tougher standard for work participation in the future.

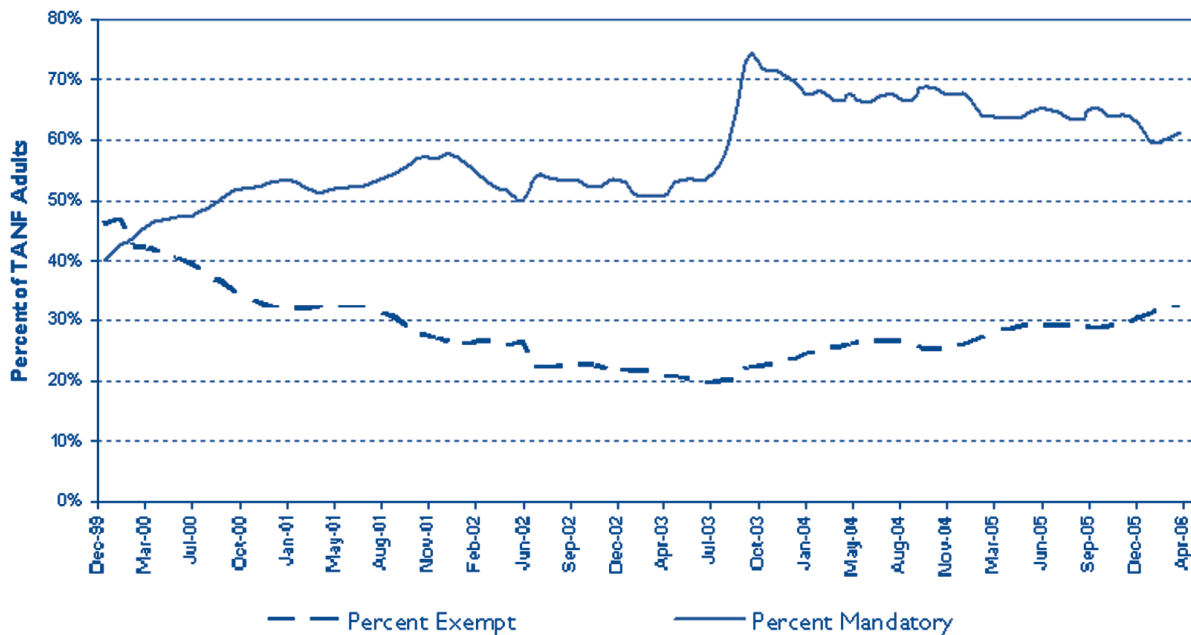
Achieving this tougher standard will be made all the more difficult because Texas continues to exempt some recipients from work. As a consequence of the declining caseload, the proportion of the caseload that is exempt from participation in work activities has grown significantly as illustrated in **Figure 4**. Without engaging those TANF recipients who are currently exempt, the state will have difficulty in reaching the new participation requirement.

If Texas does not meet its participation rates for both categories, it faces losing a portion of the state’s TANF grant that would likely require additional revenue to meet Maintenance of Effort requirements for TANF. Under the DRA, states face losing 5 percent of their block grant for failure to meet the new state requirements. For Texas, this could mean the loss of up to \$25 million from the block grant, plus any additional General Revenue that would be required to “back-fill” the loss to meet federal Maintenance of Effort requirements.

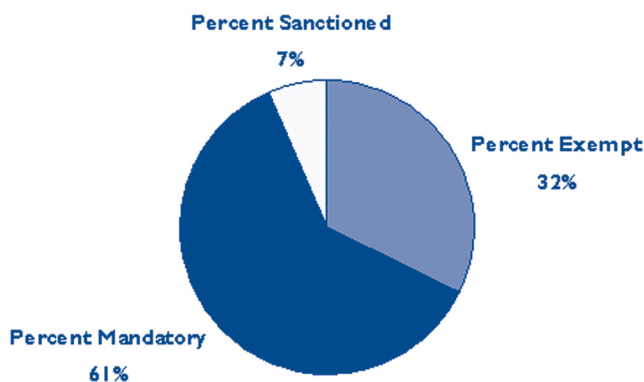
State law currently exempts TANF adults from participating in the work program if they are the caretaker for an ill or disabled child, or a single parent/caretaker with a child under age one (applies only to the first child). In addition, the Health and Human Services Commission exempts children age 18 or younger; adults who are unable to work due to physical or mental disability for 180 days or more; adults age 60 and older; an adult caring for a disabled adult; a woman who is pregnant and unable to work; or a single grandparent, age 50 or older, caring for a child under age three.²⁸

Figure 5 (see page 9) illustrates the breakdown in the Texas TANF caseload for April 2006 according to cases that are exempt from work, have mandatory work requirements, and cases under sanction.

Figure 4: TANF Adults By Work Participation Status



Source: Information requested from the Texas Workforce Commission, “Proportion of Choices Eligible Adults by Work Participation Status,” 19 June 2006.

Figure 5: TANF Caseload: April 2006

Source: Information requested from the Texas Workforce Commission, "Adult TANF Recipients," 10 June 2006.

Although state law exempts these TANF recipients from work, the federal work participation calculation counts them in determining the total caseload and the participation rate.^{vi} If there are more families in the caseload who are exempt from work requirements than there are mandatory participants in the work program, the state will fail to meet the new participation rate. This is a very real concern for Texas, and it is likely that the state will need to move some of the currently exempted caseload into the mandatory group to ensure that there are enough people with a work requirement to allow the state to continue meeting the federal requirement. With the recalibrated caseload reduction credit, the state may not be able to achieve the federal participation rate with the state's current exemption policies in place.

Conclusion

While failure to meet the federal participation rate would result in a loss of some TANF block grant funding, it is also important to consider the impact of

exempting large numbers of TANF recipients from work requirements, despite their lifetime limit on benefits. It is imperative that TANF recipients who exhaust their benefits have some preparation for work and self sufficiency. It is no service to TANF recipients to allow them to receive benefits without preparing them for self sufficiency once they no longer receive TANF benefits. Congress was right to strengthen the state requirements to ensure states are

Texas is up to the challenge presented in the DRA, having been a recognized leader in welfare reform by reducing its caseload significantly and consistently over the last 10 years while increasing work participation among recipients.

^{vi}For example, in December 2005 the two-parent caseload was 2,520. Using the participation rate without the caseload reduction credit, the state would need to have 2,268 two-parent cases participating, but only 1,804 of the two-parent families are mandatory. Using these numbers, 31 percent of the caseload is exempt from work, which makes it impossible for the state to reach the 90 percent participation rate even if it had 100 percent participation among those two-parent families with a work requirement.

operating their TANF programs in accordance with the original intent of welfare reform to prepare people for work and self sufficiency.

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- Texas should maintain the full-family sanction for non-compliance with Choices work requirements and the Personal Responsibility Agreement, as well as the adult Medicaid sanction for non-compliance with work requirements.
- Texas should work to reduce the number of TANF recipients exempted from work, though still receiving time-limited benefits, by using strategies to fully engage all TANF recipients in work activities.

Exemptions in agency rule and in statute should be reviewed and justified if they are to remain. With the myriad support services available to TANF recipients (such as child care) and other programs for which TANF recipients are eligible (such as Medicaid), single-grandparents caring for a child under age three, or pregnant women, for example, should not be exempted from working as an entire category. Instead, the Texas Workforce Commission, through its Local Workforce Development Boards, should work to assist these individuals to determine their individual needs and connect them with the workforce. ★

About the Author

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Endnotes

¹Jeffrey Grogger and Lynn Karoly, “Welfare Reform: Effects of a Decade of Change,” Harvard University Press (2005) 11-13.

²Ibid, 13.

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¹³Section 21.0032 Texas Human Resources Code.

¹⁴Information requested from the Texas Workforce Commission, “Individuals Sanctioned for Choices Non-Cooperation,” 19 June 2006.

¹⁵Information requested from the Texas Workforce Commission, “Families Sanctioned for PRA Non-Cooperation,” 19 June 2006.

¹⁶Information requested from the Texas Workforce Commission, “Percent of TANF Adults Participating in Work Activities,” 19 June 2006.

¹⁷Information requested from the Texas Workforce Commission, “Number of Families and Recipients Denied TANF Because of Non-Cooperation,” as of 1 July 2004, and information requested from the Health and Human Services Commission, 23 Jan. 2005 from the TANF-PRA Full-Family Sanction Statewide Report as of 21 Nov. 2005.

¹⁸Ibid.

¹⁹U.S. Department of Health and Human Services, “Press Release: Bush Administration Releases Interim Final Regulation Implementing The Next Phase Of Welfare Reform” (28 June 2006) <http://www.dhhs.gov/news/press/2006pres/20060628.html>, accessed 1 July 2006.

²⁰Ibid.

²¹U.S. Government Accountability Office, “Welfare Reform: HHS Should Exercise Oversight to Help Ensure TANF Work Participation Is Measured Consistently across States,” GAO-05-821 (Aug. 2005) 8.

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²³Ibid.

²⁴Ibid, 12.

²⁵Ibid.

²⁶U.S. Department of Health and Human Services, “TANF Interim Final Regulations,” <http://www.acf.hhs.gov/>, accessed 6 July 2006.

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²⁸Texas Administrative Code, Title 1, Part 15, Section 372.1154(g).

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