GAO REPORT ON DUPLICATION OF GOVERNMENT PROGRAMS; FOCUS ON WELFARE AND RELATED PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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GAO REPORT ON DUPLICATION OF GOVERNMENT PROGRAMS; FOCUS ON WELFARE AND RELATED PROGRAMS

TUESDAY, APRIL 5, 2011

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, DC.

The subcommittee met, pursuant to call, at 2:00 p.m., in Room B–318, Rayburn House Office Building, the Hon. Geoff Davis [chairman of the subcommittee] presiding.

[The advisory of the hearing follows:]

HEARING ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

Davis Announces Hearing on GAO Report on Duplication of Government Programs; Focus on Welfare and Related Programs

Tuesday, March 29, 2011

Congressman Geoff Davis (R–KY), Chairman of the Subcommittee on Human Resources of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on duplication in welfare and related programs under the Subcommittee's jurisdiction. **The hearing will take place on Tuesday, April 5, 2011, in Room B–318 Rayburn House Office Building, beginning at 2:00 P.M.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include the U.S. Government Accountability Office (GAO) and other experts on programs under the Subcommittee's jurisdiction. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

In a March 2011 *report* to Congress, GAO identified opportunities to reduce duplication in a broad spectrum of government programs. Their report identified 81 separate areas for Congress to review—including 34 areas in which programs and agencies have overlapping goals or provide similar services to the same population, and 47 other areas in which Congress may wish to take action to reduce program costs, among other goals.

As a part of this project, GAO reported that in Fiscal Year 2009 the Federal Government spent $18 billion operating 47 programs providing employment and training services, spanning nine agencies. GAO determined that 44 of the 47 programs overlapped with at least one other program, providing at least one similar service to a similar population. The report specifically mentioned overlap between the Temporary Assistance for Needy Families program under the Subcommittee's jurisdiction, the Employment Service supported by Federal unemployment funds, and Workforce Investment Act programs, indicating there may be opportunities to streamline the delivery of employment services across those and other programs. The report noted that overlapping programs may include different eligibility criteria or objectives, or that they may provide similar types of services in different ways.

In addition to the duplication GAO found, there are a number of income-tested programs and tax credits under the jurisdiction of the Committee on Ways and Means that provide similar income, child care, and child welfare services and supports to individuals with low or modest incomes.

In announcing the hearing, Chairman Davis stated, "The Government Accountability Office uncovered a tremendous number of Federal programs that provide overlapping services. Congress needs to review current programs to see how we can reduce that duplication and deliver better services to those who need them. This hearing seeks to do just that for welfare and related programs in this Subcommittee's jurisdiction, so we can ensure that taxpayer funds are well spent, and individuals receive the help they need to become self-reliant as efficiently as possible."

FOCUS OF THE HEARING:

The hearing will focus on overlap among welfare and related programs under the Subcommittee's jurisdiction, and consider recommendations for reducing such duplication and providing more effective services to low-income families.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on April 19, 2011.** Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721 or (202) 225–3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://www.waysandmeans.house.gov/*.

Chairman DAVIS. Good afternoon. Thank you for joining us.

We have three purposes in today's hearing: first, to learn about duplication in programs serving low income children and families; second, to ask whether, given that duplication, current programs are spending taxpayer money wisely; and third, to consider how we can better or what we can do better to help more of our neighbors in need become self-reliant.

The most recent data on program duplication came in a well publicized report GAO released in March, which found literally dozens of programs with similar or overlapping objectives and services provided. The report noted that by fixing this problem, "The Federal Government could potentially save billions of dollars annually and help agencies provide more efficient and effective services."

Another GAO report released in January focused on a subset of the larger overall problem: how the Federal Government spends

$18 billion on education and training programs across 47 different initiatives in nine different Federal agencies. Of these programs, GAO found that only one in ten had even been evaluated for effectiveness in the last seven years, and almost all of them overlapped with one or more programs.

Since one of the programs in question is the Temporary Assistance for Needy Families program under our jurisdiction and that program needs to be reauthorized this year, we should all take note of those facts.

Unfortunately, the redundancy does not stop there. Depending on how you count, the Ways and Means Committee oversees no less than six income support programs, four child care programs, and nine child welfare programs. That includes both spending and tax programs, which have mushroomed in number and expense in recent years.

One example of that duplication and overlap involves the Social Services block grant program, which provides $1.7 billion each year to States. This program has no eligibility criteria and requires no matching funds from States. States use almost a third of this money for services provided by other programs, such as foster care and child care.

While States rightly desire flexibility to meet the needs of the people they serve, common sense suggests that the Federal Government should not operate multiple programs serving the same purpose, each with different eligibility, reporting, and accounting requirements. Such duplication can create a complex labyrinth that States implementing programs, but more importantly, real people in need of help, are forced to navigate.

And helping those in need is the real point of this, after all. As President Obama stated in his Inaugural Address, “The question we ask today is not whether our government is too big or too small, but whether it works. Where the answer is yes, we intend to move forward. Where the answer is no, programs will end.”

Our goal today is to review how current programs in our jurisdiction work and how they can be made to work better. In the current fiscal climate, it is especially important to understand where duplication exists, how we minimize that duplication and achieve savings, and ultimately how we can provide better services in a more timely manner to those in need.

We look forward to all of our testimony on those points, and without objection, each member will have the opportunity to submit a written statement and have it included in the report at this point.

Mr. Doggett, do you care to make an opening statement?

Mr. DOGGETT. Yes, Mr. Chairman. Thank you.

I agree with you regarding the need to find effective answers to each of the three important questions that you pose for this hearing and stand ready to work with you on proposals to make programs more effective and efficient so we can maximize the impact of every taxpayer dollar in advancing some critical objectives, such as helping those unemployed through no fault of their own prepare and find work.

I do, however, vigorously oppose efforts to use terms such as “efficiency” and “streamlining” as an excuse to eliminate help to people that need it most. It is noteworthy that of the 34 areas that the Government Accountability Office included in its recent report reviewing overlap, duplication and fragmentation, only one of the 34 mentions a program within this subcommittee's jurisdiction, the appropriate focus of today's hearings.

As to that area, employment and job training services under TANF, the GAO suggestion about merging offices sounds to me to be constructive, and I look forward to hearing more about it. Providing a more unified administrative structure could potentially make it easier for clients to access services.

One initiative that might help the states move more forcefully in that direction is the President's Partnership Fund for Program Integrity that we have discussed before at a prior hearing. GAO focused on a number of areas within the jurisdiction of the Ways and Means Committee. One of the most important of those is better oversight of our tax revenue. Notably, GAO reiterated its longstanding recommendation that tax expenditures should be subject to increased scrutiny to help identify ineffective and redundant spending through the Tax Code.

I strongly agree with that recommendation and the need to take a look at corporate tax loopholes, such as those that allow General Electric to avoid paying its fair share for our national security.

In addition, there are several recommendations on tax compliance to close the $300 billion tax gap, including recommendations to stop tax shelters and abusive transactions, and outside the jurisdiction of the Ways and Means Committee, of course, some of the biggest savings were to be achieved at the Pentagon. GAO identifies six more areas, six areas out there where significant savings from program duplication can be achieved, and I hope progress can be made there.

As we look at potential duplication within our subcommittee's jurisdiction, it is important to recognize that often multiple programs, sometimes providing similar services, exist because the level of need far exceeded the limitations of the original program. For example, the Workforce Investment Act was meant to be the focal point for providing job training services to the unemployed and underemployed, but WIA only provides training to fewer than 300,000 workers across the whole country each year.

Since we have over 13 million unemployed looking for work, it is no surprise that other programs, including TANF, have become sources of vocational training. Unfortunately, the mindless cutting of a number of these programs under H.R. 1 that we have under consideration this year would result in the closure of two-thirds of the employment centers in my home State of Texas and raise other concerns across the country.

I hope we will avoid that path as we seek legitimate ways to achieve efficiency and effective use of taxpayer dollars that meet the legitimate needs of many struggling Americans.

And I thank you, Mr. Chairman.

Chairman DAVIS. Thank you, Mr. Doggett.

Before we move on to our testimony, I would like to remind the witnesses to limit their oral statements to five minutes. However, without objection, all of the written testimony will be made part of the permanent record.

Our distinguished panel this afternoon, we will be hearing from Kay Brown, Director of Education, Workforce, and Income Security at the U.S. Government Accountability Office; Dr. LaDonna Pavetti, Vice President of Family Income Support Policy, Center on Budget and Policy Priorities; and Robert Rector, Senior Research Fellow, Domestic Policy, The Heritage Foundation.

Ms. Brown, please proceed with your testimony.

STATEMENT OF KAY E. BROWN, DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. BROWN. Chairman Davis, Ranking Member Doggett, and Members of the Subcommittee, I am pleased to be here today to discuss our work on some of the Nation's key programs, those that help low income families, vulnerable children and others in need.

While they are essential, our work has shown that the multiplicity of different programs involved may be inefficient and unnecessarily costly. Given concerns about fragmentation, duplication and overlap in government programs today, I will discuss three points: key characteristics of these programs; problems in administering them; and actions to address these problems.

First, on the programs, multiple programs and tax credits under your jurisdiction provide income support, child care and child welfare services to individuals and families in need. Additional programs help meet needs in other areas, such as housing and nutrition, and are under the jurisdiction of other committees.

Some of these programs are funded by block grants that allow States flexibility in how they allocate the funds, while others are targeted to specific populations. In some cases, the programs are designed to service everyone who is eligible, while in others the funding is capped. Several require States to provide matching funds.

Moving on to problems in administering these programs, first, they are fragmented. That is, they serve some of the same broad areas of need, but are administered by at least six different Federal agencies.

Further, services are provided by numerous State and local agencies, as well as for profit and nonprofit organizations. In fact, this patchwork of programs is too fragmented and overly complex for clients to navigate, for program operators to administer efficiently, and for program managers and policy makers to assess program performance.

For example, low income families often receive aid from several programs, such as TANF, Child Care and Nutrition Assistance. However, the complexity and variation in eligibility rules and other requirements among these programs contribute to time consuming and duplicative administrative processes, complicate the work of case workers, and contribute to errors.

Also, information gaps can hinder program oversight. For example, our work on the TANF Program has shown that work participation rates, the key performance measure for the program, do not appear to be achieving their intended purpose.

Further, although States have shifted a large share of TANF funds from cash assistance to other supports, such as child care subsidies and child welfare, not enough is known about how these funds are used.

Moving on to what actions can help address these issues, first, simplifying policies and processes could save resources, improve productivity, and help insure the accuracy of benefits. However, when making this type of change, it is important to think about the effect on program benefits. That is, will more or fewer people be eligible with the changes?

Consolidating programs can also help ease Federal rules and requirements and save some administrative costs. However, in this case, care must be taken to insure that intended target groups can still receive benefits.

Facilitating technology enhancements, such as data sharing across programs can streamline eligibility processes and help identify fraud.

And, lastly, fostering innovation and evaluation by States and localities can help the Federal Government determine which strategies are most effective without investing time and resources in unproven strategies.

In conclusion, because these programs have evolved over time to meet various needs, it is not surprising to see some fragmentation of administration, overlap in populations served, and duplication of services offered. Some of these features may, indeed, be warranted, for example, to insure that certain populations are served. However, our work indicates that further exploration of the extent of fragmentation, overlap and duplication could help better identify ways to streamline and improve services and programs.

This concludes my statement. I am happy to respond to any questions.

[The prepared statement of Ms. Brown follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Tuesday, April 5, 2011

HUMAN SERVICES PROGRAMS

Opportunities to Reduce Inefficiencies

Statement of Kay E. Brown, Director
Education, Workforce, and Income Security

GAO Accountability * Integrity * Reliability

GAO-11-531T

April 5, 2011

HUMAN SERVICES PROGRAMS

Opportunities to Reduce Inefficiencies

GAO
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Highlights

Highlights of GAO-11-531T, a testimony to congressional requesters

Why GAO Did This Study

The federal government, often in concert with states, provides assistance to millions of individuals and families each year through a multiplicity of programs. These programs play a key role in supporting workers who have lost their jobs, families with low-incomes, and vulnerable children who have experienced abuse and neglect. However, given the fiscal pressures facing the federal government and the continued demands placed on assistance programs, it is critical that programs designed to serve those most in need provide benefits and services as effectively and efficiently as possible. In light of concerns about fragmentation, duplication, and overlap in government programs, this testimony addresses: (1) the key characteristics of some programs and tax expenditures that provide assistance to individuals and families; (2) problems in administering and providing services through multiple programs; and (3) actions that may help address these problems. We focused on programs under the jurisdiction of the Subcommittee of Human Resources and some related programs and tax expenditures for children and working-age adults; we developed an illustrative but not all-inclusive list of these programs. We relied on work conducted between 2001 and 2011, which employed an array of methodologies. These included surveys of federal and state officials; site visits to states and local areas; interviews with local, state, and federal officials; and analysis of agency data and documents.

View GAO-11-531T or key components.
For more information, contact Kay E. Brown at (202) 512-7215 or brownke@gao.gov.

What GAO Found

Various federal programs and tax expenditures exist to assist individuals and families by providing income support, child care, and child welfare services. Other programs help meet these households' needs in other areas, such as health and nutrition. Overall, several congressional committees as well as six federal agencies oversee these programs at the federal level, while federal agencies, state and local agencies, as well as for-profit and nonprofit agencies directly provide services at the local level. Families can receive benefits from one or more of these programs. For example, a low-income family may be eligible for and receive income support through Temporary Assistance for Needy Families (TANF), the Earned Income Tax Credit (EITC), and Child Support Enforcement, as well as subsidized child care assistance.

This array of programs plays a key role in supporting those in need, but our work has shown it to be too fragmented and overly complex—for clients to navigate, for program operators to administer efficiently, and for program managers and policymakers to assess program performance. Individuals often must visit multiple offices to apply for aid and provide the same information and documentation each time—a process that is cumbersome and inefficient. The complexity and variation in eligibility rules and other requirements among programs contribute to time-consuming and duplicative administrative processes that add to overall costs. Some programs provide similar services through separate programs, resulting in additional inefficiencies. For example, we recently reported that TANF, Workforce Investment Act Adult (WIA Adult), and Employment Service (ES) programs often maintain separate administrative structures to provide some of the same services and activities, such as job search assistance, to low-income individuals. In addition, gaps in information can hamper program oversight.

Approaches such as simplifying policies, improving technology, and fostering innovation and evaluation can improve services and reduce costs. Simplifying policies can improve productivity and help staff focus more time on activities such as ensuring the accuracy of benefits. Facilitating technology enhancements can streamline eligibility processes and improve program integrity. In addition, fostering state innovation and evaluation can help the federal government and policymakers determine which approaches are the most cost-effective and limit investment in unproven strategies.

Because federal programs have evolved over time to meet various needs, it is not surprising to see multiple programs with some fragmentation of administration, some overlap in populations served, and some duplication of services offered. These features may be warranted, for example, to ensure quality services are provided and certain populations are served. However, our work indicates that further exploration of the extent of fragmentation, overlap, and duplication could help better identify ways to streamline and improve programs and to reduce inefficiencies.

Chairman Davis, Ranking Member Doggett, and Members of the Subcommittee:

Thank you for the opportunity to discuss our work related to some of the nation's most essential programs—under the jurisdiction of this Subcommittee—designed to aid American households. The federal government, often in concert with states, provides assistance to those who have lost their jobs, families with low-incomes, and vulnerable children who have experienced abuse and neglect at the hands of their parents. As important as these programs are at all times, several of them have played key roles as the number of households in need has risen to record levels and program expenditures increased to meet this heightened need. At the same time, the federal government is facing a structural imbalance in its budget, causing policymakers to carefully consider the effectiveness and efficiency of all federal programs. In particular, concerns have been raised about the multiplicity of programs that may show signs of fragmentation, overlap, and duplication that could introduce inefficiencies and increase costs. I am pleased to be here today to help shed light on how these concerns pertain to this array of programs. My statement draws on our previous work that identified inefficiencies among several programs that, taken together, serve as the nation's safety net for children and working-age adults in need of temporary or longer-term aid. In this testimony, I will refer to these as human services programs.

My testimony today addresses three questions:

1. What are the key characteristics of some programs and tax expenditures that provide assistance to individuals and families in need?

2. What is known about problems in administering and providing services through multiple programs?

3. What actions may help address these problems?

For this testimony, we focused on several of the programs under the jurisdiction of the Subcommittee that provide assistance to individuals and families with low incomes, in need of child welfare services, and experiencing a job loss. We generally did not include programs targeted to the elderly. We also refer to a few related tax expenditures under the jurisdiction of the full committee.[1] In addition, we refer to some programs under the jurisdiction of other committees that often provide assistance to these types of households also. We had not previously developed a comprehensive list of programs, including outlay programs and tax expenditures, that is aligned with the Subcommittee's interests. For purposes of this hearing we have drawn upon prior work and our subject matter knowledge to develop an illustrative but not all-inclusive list of such programs. We generally sought to illustrate the wide variety of such programs that can help address the needs of this population. We did not conduct any legal analysis in order to identify the programs or to determine their administration, objectives, funding, requirements, or goals.

To address the objectives, we drew upon reports we issued between 2001 and 2011. In this work, we have employed an array of methodologies, including surveys of federal and state officials; site visits to states and local areas; interviews with local, state, and federal officials; and analysis of agency data and documents. We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions.

We issued a report on March 1, 2011,[2] outlining opportunities to reduce duplication across a wide range of federal programs, raising attention to these issues. That report was prepared in response to a new statutory requirement that GAO identify and report annually on federal programs, agencies, offices, and initiatives—either within departments or governmentwide—that have duplicative goals and activities.[3] In that work, we also considered fragmentation and overlap among government programs or activities as these can be harbingers of unnecessary duplication. Fragmentation of programs exists when programs serve the

[1]Numerous federal programs, policies, and activities are supported through the tax code. Tax expenditures are reductions in tax liabilities that result from preferential provisions, such as tax exclusions, credits, and deductions. They result in revenue forgone. For more information, see GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005).

[2]GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011).

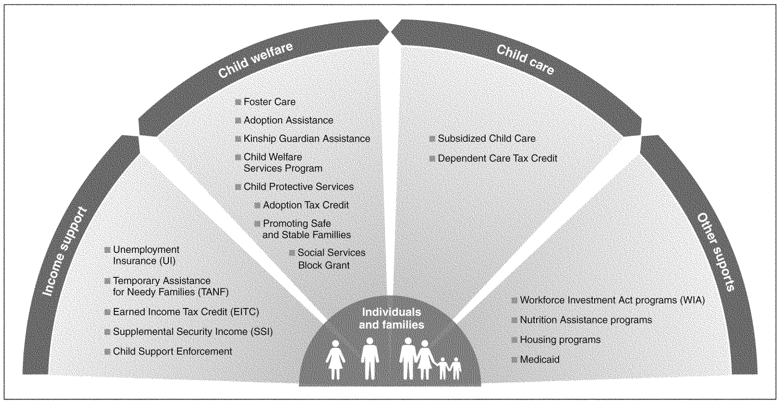
[3]Pub. L. No. 111-139, § 21, 124 Stat. 8, 29 (2010), 31 U.S.C. § 712 Note.

same broad area of need but are administered across different federal agencies or offices. Program overlap exists when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries. Unnecessary duplication of program services can occur when two or more programs are engaged in the same activities or provide the same services to the same beneficiaries, and this can in turn result in inefficient service delivery and unnecessary program costs.

A Multiplicity of Programs Exist to Meet the Needs of Individuals and families

A range of programs and tax expenditures assist individuals and families. Programs under the jurisdiction of the Subcommittee on Human Resources can roughly be grouped under three missions for children and working-age adults: providing income support, providing child care, and providing child welfare services. Other key programs address other needs of these households, such as Medicaid, housing, nutrition assistance, and Workforce Investment Act (WIA) employment and training programs. These programs fall under the jurisdiction of four other House committees. In addition, a wide array of tax expenditures assist individuals and families in these areas. Figure 1 shows an illustrative set of programs and tax expenditures.

Figure 1: Illustrative Human Services Programs and Tax Expenditures

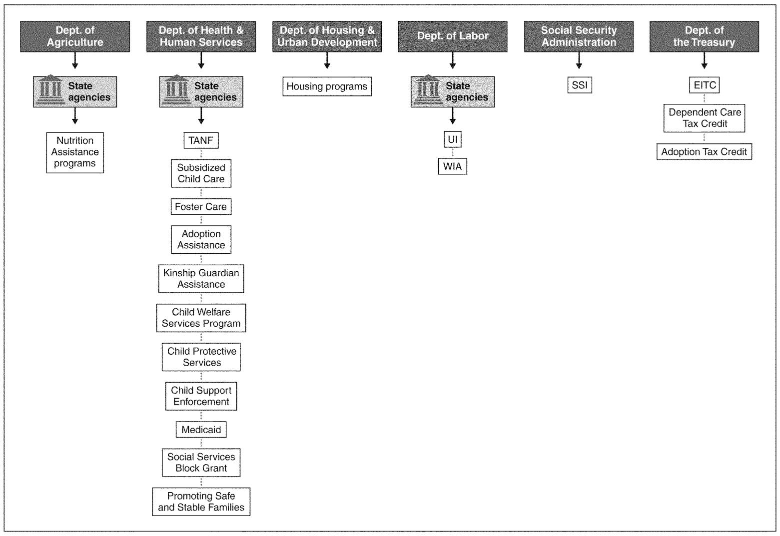


Source: GAO analysis of agency documents.

Note: This does not represent an exhaustive list of all relevant programs in these areas. In addition, while the figure includes a few of the related tax expenditures in the areas of income support, child welfare, and child care, it is not an exhaustive list of tax expenditures in these areas or of those related to other supports, such as health and housing. While TANF and the Social Services Block Grant funds may be spent in categories in which they appear, their funds may also be used to meet a variety of needs.

Various federal agencies are responsible for the oversight of these programs and tax expenditures, as shown in figure 2. In addition, while the federal government is involved in some aspects of the design and funding of each of these supports, state governments are sometimes responsible for directly administering the benefits and services. For example, while SSI is directly administered by federal employees within the Social Security Administration, UI, TANF, subsidized child care, and various other programs are overseen by state governments and directly administered by state and, in some cases, local government employees as well as by nonprofit and for-profit entities.

Figure 2: Roles of Federal and State Agencies in Oversight and Administration of an Illustrative Set of Human Services Programs and Tax Expenditures



Source: GAO analysis of agency documents.

Note: This does not represent an exhaustive list of all human services programs or related tax expenditures.

Across some of the programs and tax expenditures under the jurisdiction of the Subcommittee and Committee, key characteristics such as the population eligible for each and funding design vary. (See table 1.) For example, individuals and families are sometimes eligible for specific federal tax expenditures based on their employment or family-related circumstances, such as with an adoption. Further, SSI and TANF both provide monthly cash benefits to low-income people, but for SSI, individuals must be aged, blind, or disabled, and for TANF, a family must include dependent children. In terms of funding design, SSI benefits and the tax expenditures are provided to all who apply and meet eligibility requirements. So too is the case with the EITC, which has a refundable portion for those without enough income to owe income taxes. Similarly, federal funding for monthly payments to support children in foster care, adoption, and kinship guardianship placements is also not capped and is dependent on the number of children eligible for such assistance. On the other hand, the federal funding level is fixed for programs such as TANF and subsidized child care and does not increase with the numbers of eligible people who apply.

Table 1: Key Characteristics of Several Programs under the Jurisdiction of the Human Resources Subcommittee and a Few Related Tax Expenditures under the Jurisdiction of the Ways and Means Committee

Program or tax expenditure	Population eligible[a]	Funding
Income Support		
UI	Workers who become unemployed through no fault of their own	Federal funds and payroll taxes
EITC	Individuals and families with low levels of earned income	Federal tax expenditure and outlays
TANF	Low-income families with dependent children may receive cash assistance and other services	Capped federal funds matched by state funds
Child Support Enforcement	Children with non-custodial parents	Open-ended federal funds match state spending
SSI	Aged, blind, and disabled individuals	Open-ended federal funds
Child Care		
Subsidized Child Care	Low-income families with dependent children in which the parents are engaged in work or education and training	Capped federal funds, with matching state funds required to draw the maximum amount of federal funds
Dependent Care Tax Credit	Individuals and families with employment-related dependent care expenses	Federal tax expenditure
Child Welfare		
Foster Care	Children from low income families who are placed in licensed foster homes	Open-ended federal funds match state spending

Program or tax expenditure	Population eligible[a]	Funding
Adoption Assistance	Families who provide adoptive homes to children from low income families identified as having special needs that make placement difficult	Open-ended federal funds match state spending
Kinship Guardianship Assistance	Relatives who assume legal guardianship of certain children for whom they have cared while foster parents	Open-ended federal funds match state spending
Child Welfare Services Program	Funding can be used for broad child welfare purposes, including keeping families together	Capped federal funds to states with state match requirement
Promoting Safe and Stable Families	Funding can be used for family support, family preservation, time-limited family reunification, and adoption promotion and support	Capped federal funds to states
Child Protective Services	Funding provided to help states improve child protective service systems	Capped federal funds to states
Social Services Block Grant	Funding can be used for a range of services to individuals and families, such as foster care and child protective services	Capped federal funds to states
Adoption Tax Credit	Individuals and families who have adopted children	Federal tax expenditure and outlays

Source: GAO review of agency documents.

Note: We did not conduct any legal analysis in order to identify the programs and tax expenditures or determine their eligibility requirements or funding mechanisms. This does not represent an exhaustive list of all relevant programs and tax expenditures in these areas.

[a]This column generally describes the population eligible for each program and tax credit. However, these groups must meet additional eligibility criteria that are specific to each program and credit to fully qualify.

With this array of human services programs, a family and its members may receive benefits or services from one or more of these programs. Interactions between the programs vary, and in some cases, the programs are specifically designed to provide multiple sources of support for individuals and families. For example, a low-income family may be eligible for and receive income support through TANF, EITC, and Child Support Enforcement, as well as subsidized child care assistance. However, at the same time, another family may be eligible for only one of those supports, such as EITC, due to income or other eligibility requirements. Also due to varying eligibility criteria, a family may have several members who are receiving income support through TANF while another member receives such support through SSI.

Existing Array of Programs Leads to Cumbersome Service and Inefficient Administration

While these programs provide important supports and services to millions of households each year, they comprise a patchwork of support developed over time and under different circumstances. Some programs were begun under the original Social Security Act passed in 1935 and have evolved over time. Congress has added other programs to meet emerging needs. For example, to encourage more low-income women to move into the workforce, Congress created child care subsidy programs designed to support parents' work efforts.[4] Today, our work has shown this patchwork of programs to be too fragmented and overly complex—for clients to navigate, for program operators to administer efficiently, and for program managers and policymakers to assess program performance.

People Face Difficulties in Accessing Aid

People seeking aid often must visit multiple offices and provide the same information numerous times. The routes by which people access services varies by program, state, and sometimes locality, and can be cumbersome for those seeking aid from more than one program. Low-income individuals and families often receive aid from multiple programs to meet their income support, health, nutrition, employment and training, and housing needs. Typically, clients may access several programs through one office that administers TANF, the Supplemental Nutrition Assistance Program (SNAP), and Medicaid. However, clients may need visits to other offices to apply for housing assistance and SSI, while they must file a tax return with the Internal Revenue Service (IRS) for the EITC. Typically, clients have to provide the same basic information and required documentation multiple times if they are trying to access more than one program. Some states and localities have moved toward more use of call centers and online applications, though this varies among the programs and states.

[4]GAO, *Welfare Reform: States' Efforts to Expand Child Care Programs*, GAO/HEHS-98-27 (Washington, D.C.: Jan. 13, 1998).

Myriad Program Rules Foster Duplicate Administrative Processes and Inefficiencies

The complexity and variation in eligibility and other rules and requirements among the programs have contributed to time-consuming and duplicative administrative processes that are inefficient and add to overall costs. Separate eligibility processes for some programs result in considerable duplication of administrative activities because caseworkers in different offices collect and document much of the same personal and financial information. Even when programs are administered jointly, each has its own eligibility rules and reporting requirements, limiting the extent to which joint administration reduces administration costs. In our previous work, state and local officials reported that this complicated the work required of caseworkers to determine eligibility and also contributed to errors.[5] Excessive time spent working through complex procedures can consume resources and diminish staffs' ability to focus on other activities that might improve service quality or improve program integrity. In addition, other complex processes occur to meet federal cost allocation requirements. For example, we heard from some local staff that they track the amount of time they spend working on different programs and report this information to financial managers. Local financial managers then determine what portion of staffs' time is defined as administrative costs in each of the programs and charge the programs appropriately.

Providing similar services through separate programs can lead to additional inefficiencies. We recently reported on the potential overlap and duplication in employment and training programs.[6] Specifically, we found that TANF, Workforce Investment Act Adult (WIA Adult), and Employment Service (ES) programs often maintain separate administrative structures to provide some of the same services, such as job search assistance, to low-income individuals. Some individuals may be receiving similar services from each program, although the extent to which this is occurring is not known. We recommended that Labor and

[5]GAO, *Human Services Programs: Demonstration Projects Could Identify Ways to Simplify Policies and Facilitate Technology Enhancements to Reduce Administrative Costs*, GAO-06-942 (Washington, D.C.: Sept. 19, 2006).

[6]In 2011, we updated our prior reports that focused on programs whose primary purpose was employment and training. For fiscal year 2009, we identified 47 employment and training programs administered across nine agencies that spent approximately $18 billion on employment and training services. Forty-four of these programs, which include broad multipurpose block grants, overlap with at least one other program, in that they provide at least one similar service to a similar population. GAO, *Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies*, GAO-11-92 (Washington, D.C.: Jan. 13, 2011).

HHS disseminate information on state efforts to consolidate administrative structures and colocate services. Both agencies agreed with our recommendation and we will follow up on their efforts in the future.

Information Gaps Hamper Program Oversight

While we have not reviewed all of the accountability measures for the relevant programs, we have identified some information gaps that hinder oversight of some programs. For example, our work on the TANF program has shown that work participation rates—a key performance measure for TANF, as currently measured and reported, do not appear to be achieving the intended purpose of encouraging states to engage specified proportions of TANF adult recipients in work activities. In addition, although states have shifted a large share of their TANF funds from cash assistance to other programs, supports, and services such as child care subsidies and child welfare, existing oversight mechanisms continue to focus on cash assistance. As a result, there are gaps in the information available at the federal level on how many families received TANF services and on how states have used funds to meet TANF goals. While a key feature of the TANF program is flexibility in the use of federal funds, this flexibility must be balanced with mechanisms to ensure state programs are held accountable for meeting program goals. Information gaps hinder decision makers in considering the success of TANF and what trade-offs might be involved in making any possible changes to TANF through the reauthorization process. In addition, in our work on potential duplication of TANF and WIA, we noted that lack of data hindered our ability to assess the extent to which individuals may have received services from both programs.

We also identified information gaps that make it difficult to assess fully the federal role in supporting child care assistance for families. Such an assessment is also complicated by the use of tax expenditures in supporting families' child care needs. With the flexibility allowed under TANF, states have used a significant portion of their TANF funds to augment their child care subsidy programs. However, states do not need to report on the numbers or types of families provided TANF-funded child care, leaving an incomplete picture of the numbers of children receiving federally-funded child care subsidies, which would be useful information for policymakers. In addition, because tax expenditures do not compete overtly with other priorities in the annual budget process, policymakers do not typically consider tax expenditures along with other programs when making budgetary and programmatic decisions. Nevertheless, considerable resources are provided to families through the Dependent Care Tax Credit for their child care and other dependent care needs. A more complete picture of the federal role in child care subsidies and who benefits would include tax expenditure information. We identified the importance of paying more attention to tax expenditures in our recent work on opportunities to reduce duplication in federal government programs.[7]

Simpler Policies, Better Technology, and More Innovation and Evaluation Could Reduce Inefficiencies

The need for improving the administration of these programs has been voiced recurrently for the past several decades. Stretching as far back as the 1960s, studies and reports have called for changes to human service programs, and we issued several reports during the 1980s that focused on welfare simplification. Over the years, Congress has taken many steps to simplify programs and procedures. For example, in 1996 Congress replaced the previous welfare program with the TANF block grant and consolidated several child care programs into one program, which our previous work has shown provided states with additional flexibility to design and operate programs.[8] In addition, numerous pilot and demonstration projects have given particular states and localities flexibility to test approaches to integrating and coordinating services across a range of human service programs. Some states have taken advantage of recent changes and additional flexibility granted by the federal government to simplify eligibility determination processes across programs. For example, states may automatically extend eligibility to SNAP applicants based on their participation in the TANF cash assistance program—a provision referred to as "categorical eligibility."[9]

While the need for simplification of program policies and other improvements has been widely acknowledged, there has also been a general recognition that achieving substantial improvements in this area is exceptionally difficult. Many of these efforts have had limited success due, in part, to the considerable challenges that streamlining program processes entail, given the involvement of numerous congressional committees and federal agencies involved in shaping human service program policies. An additional challenge to systematic policy simplification efforts is the lack of information on the costs and effects of these efforts. Streamlining policies could expand client access and

[7]GAO-11-318SP.

[8]GAO, *Welfare Reform: States Are Restructuring Programs to Reduce Welfare Dependence,* GAO/HEHS-98-109 (Washington, D.C.: June 17, 1998).

[9]GAO, *Supplemental Nutrition Assistance Program: Payment Errors and Trafficking Have Declined, but Challenges Remain*, GAO-10-956T (Washington, D.C.: July 28, 2010).

increase caseloads and program costs, but it could also limit access for particular populations, depending on which policies were adopted. In addition, no definitive information exists to demonstrate the type and extent of changes that might result in reduced administrative costs or to demonstrate how strategies might work differently in different communities. To help address these issues, in 2001 and 2006, we recommended that Congress consider authorizing demonstration projects designed to streamline eligibility determination and other processes across federal human services programs.[10] In the Consolidated Appropriations Act, 2010, Congress appropriated funds for pilot projects that, in part, demonstrate the potential to streamline administration or strengthen program integrity.[11] Using the funds appropriated by Congress, the Partnership Fund for Program Integrity Innovation funds pilot projects that test and evaluate ideas for improving federal assistance programs through the following measures: reducing improper payments, improving administrative efficiency, improving service delivery, and protecting and improving program access for eligible beneficiaries.[12]

The current environment calls for continued and increased attention to this set of programs and opportunities to reduce inefficiencies. At both the federal and state levels of government, short-term and longer-term budgetary conditions require review of all federal programs and activities and efforts to make government more efficient and effective. Based on our review of our past and recent work, we have identified three approaches that warrant increased attention in this environment.

1. Simplifying policies and processes

Simplifying policies and processes—especially those related to eligibility determination processes and various federal funding sources—could potentially save resources, improve productivity, and help staff focus more time on performing essential program activities, such as providing quality services and accurate benefits to recipients. In our 2006 report, we noted that many believe that being able to draw funds from more than one federal assistance program while simplifying the administrative

[10]GAO, *Means-Tested Benefits: Determining Financial Eligibility Is Cumbersome and Can Be Simplified*, GAO-02-58 (Washington, D.C.: Nov. 2, 2001) and GAO-06-942.

[11]Pub. L. No. 111-117, 123 Stat. 3034, 3171.

[12]See http://partner4solutions.gov for more information.

requirements for managing those funds would ease states' administrative workload and reduce administrative spending.[13] This would also serve to help service providers better meet the complex needs of at-risk families. Such efforts are in keeping with the February 28, 2011, Presidential Memorandum issued for the heads of executive departments and agencies on the subject of administrative flexibility, lower costs, and better results for state, local, and tribal governments.[14] Another way to streamline programs is consolidation. Consolidation has been a useful approach in the past to easing the burdens of federal rules and requirements, though care must be taken to ensure intended target groups still have their needs meet. In addition, adequate accountability measures can be challenging to design.

2. Facilitating technology enhancements

Facilitating technology enhancements across programs may save administrative and benefit costs by creating more efficient processes and improving program integrity. Our previous work indicates that the federal government can help simplify processes and potentially reduce long-term costs by facilitating technology enhancements across programs and in states.[15] Technology plays a central role in the management of human service programs and keeping up with technological advancements offers opportunities for streamlining eligibility processes, providing timely services, and improving program integrity. Along with technology enhancements, data-sharing arrangements, where permitted,[16] allow programs to share client information that they otherwise would each collect and verify separately, thus reducing duplicative effort, saving money, and improving integrity. For example, by receiving verified electronic data from SSA, state human service offices are able to determine SSI recipients' eligibility for Food Stamp benefits without

[13]GAO-06-942.

[14]The memorandum instructs "agencies to work closely with state, local and tribal governments to identify administrative, regulatory, and legislative barriers in Federally funded programs that currently prevent states, localities, and tribes, from efficiently using tax dollars to achieve the best results for their constituents." http://www.whitehouse.gov/the-press-office/2011/02/28/presidential-memorandum-administrative-flexibility.

[15]GAO-06-942.

[16]The ability to share data across programs may be limited by laws that have been established to protect individuals' privacy, an important consideration.

having to separately collect and verify applicant information. According to officials we spoke with, this arrangement saves administrative dollars and reduces duplicative effort across programs. We also recently reported that more data matching of applicant information with existing databases could help prevent fraud in state CCDF programs.[17]

Progress on technology improvements could be further facilitated through greater collaboration across program agencies and levels of government as well as additional sharing of technology strategies among the states. For example, call centers and scanning of required documentation have been strategies used by some states to meet increasing workloads attributed to the weakened economy at the same time the states faced tightened budgets.

3. Fostering state innovation and evaluation for evidence-based decisionmaking

In our complex, decentralized intergovernmental system, states and localities have frequently served as laboratories that foster innovation and test approaches that can benefit the nation. Providing states and localities with additional demonstration opportunities would allow them to challenge the current stovepipes and open the door to new cost-efficient approaches for administering human service programs. Demonstration projects would allow for testing and evaluating new approaches that aim to balance cost savings with ensuring program effectiveness and integrity. The information from these evaluations would help the federal government determine which strategies are most effective without investing time and resources in unproven strategies. Congress can allow for such approaches to thrive by not only giving states opportunities to test these approaches but by following up to identify and implement successful strategies. While it may be difficult to fully determine the extent to which observed changes are the result of the demonstration projects, such projects would be useful to identify lessons learned and help identify possible unintended consequences.

Essential to all of these approaches is collaboration among many entities. We recently identified collaboration as a governmentwide management challenge. Achieving meaningful results in many policy and program areas

[17]GAO, *Child Care and Development Fund: Undercover Tests Show Five State Programs Are Vulnerable to Fraud and Abuse*, GAO-10-1062 (Washington, D.C.: Sept. 22, 2010).

requires some combination of coordinated efforts among various actors across federal agencies, with other governments at state and local levels, nongovernmental organizations, for-profit and not-for-profit contractors, and the private sector. Congress will increasingly need to rely on integrated approaches to help its decision making on the many issues requiring effective collaboration across federal agencies, levels of government, and sectors.[18]

In addition to collaboration, caution is urged in addressing any duplication and resulting inefficiencies in these programs that many individuals and families rely on. Because of the array of services provided to meet households' various needs, it is not surprising to see various entities involved, with some fragmentation of administration, some overlap in populations served, and some duplication of services offered. These features may be warranted, for example, to ensure quality services are provided and certain populations are served. However, our work indicates that further exploration of the extent of fragmentation, overlap, and duplication is warranted to better identify ways to streamline and improve programs. We are happy to work with the Subcommittee to meets its needs in this area.

We provided a draft of the reports we drew on for this testimony to the relevant agencies for their review and copies of the agency's written responses can be found in the appendices of the relevant reports.

Chairman Davis, this concludes my statement. I would be pleased to respond to any questions you, Ranking Member Doggett, or other Members of the Subcommittee may have.

GAO Contacts and Acknowledgments

For questions about this statement, please contact me at (202) 512-7215 or brownke@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony include Rachel Frisk, Gale Harris, Kathryn Larin, and Yunsian Tai. Additional staff who contributed to this testimony include James Bennett, Susan Bernstein, Alexander Galuten, and Carla Rojas.

[18]For more information on this topic, see http://www.gao.gov/highrisk/challenges/collaboration.php.

Related GAO Products

Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue, GAO-11-318SP, Washington, D.C.: March 1, 2011.

Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies, GAO-11-92, Washington, D.C.: January 13, 2011.

Child Care and Development Fund: Undercover Tests Show Five State Programs Are Vulnerable to Fraud and Abuse, GAO-10-1062, Washington, D.C.: September 22, 2010.

Temporary Assistance for Needy Families: Implications of Recent Legislative and Economic Changes for State Programs and Work Participation Rates, GAO-10-525, Washington, D.C.: May 28, 2010.

Supplemental Nutrition Assistance Program: Payment Errors and Trafficking Have Declined, but Challenges Remain, GAO-10-956T, Washington, D.C.: July 28, 2010.

Temporary Assistance for Needy Families: Implications of Recent Legislative and Economic Changes for State Programs and Work Participation Rates, GAO-10-525, Washington, D.C.: May 28, 2010.

Child Care: Multiple Factors Could Have Contributed to the Recent Decline in the Number of Children Whose Families Receive Subsidies, GAO-10-344, Washington, D.C.: May 5, 2010.

Domestic Food Assistance: Complex System Benefits Millions, but Additional Efforts Could Address Potential Inefficiency and Overlap among Smaller Programs, GAO-10-346, Washington, D.C.: April 15, 2010.

Temporary Assistance for Needy Families: Fewer Eligible Families Have Received Cash Assistance Since the 1990s, and the Recession's Impact on Caseloads Varies by State, GAO-10-164, Washington, D.C.: February 23, 2010.

Support for Low-Income Individuals and Families: A Review of Recent GAO Work, GAO-10-342R, Washington, D.C.: February 22, 2010.

Highlights of a Forum: Ensuring Opportunities for Disadvantaged Children and Families, GAO-09-18SP, Washington, D.C.: November 13, 2008.

Human Services Programs: Demonstration Projects Could Identify Ways to Simplify Policies and Facilitate Technology Enhancements to Reduce Administrative Costs, GAO-06-942 Washington, D.C.: September 19, 2006.

Child Care: Additional Information Is Needed on Working Families Receiving Subsidies, GAO-05-667, Washington, D.C.: June 29, 2005.

Means-Tested Programs: Information on Program Access Can Be an Important Management Tool, GAO-05-221, Washington, D.C.: March 11, 2005.

Welfare Reform: Information on Changing Labor Market and State Fiscal Conditions, GAO-03-977, Washington, D.C.: July 15, 2003.

Means-Tested Programs: Determining Financial Eligibility Is Cumbersome and Can Be Simplified, GAO-02-58, Washington, D.C.: November 2, 2001.

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Chairman DAVIS. Thank you very much, Ms. Brown. Dr. Pavetti, if you could give your testimony.

STATEMENT OF LADONNA PAVETTI, VICE PRESIDENT FOR FAMILY INCOME SUPPORT POLICY, CENTER ON BUDGET AND POLICY PRIORITIES

Ms. PAVETTI. Thank you. Thank you for inviting me to testify today.

I have spent my entire professional career assessing the implementation of user programs for low income Americans. Since the passage of welfare reform, I have visited hundreds of local welfare offices and job training programs and I have had the privilege in doing that of talking with many program participants and observing them as they participate in activities that are designed to help them find and sustain employment.

During my work, I have had the opportunity to witness first hand the development of a safety net that really is aiming to help low income families realize their dreams of bringing home a steady paycheck and of supporting their families and creating a brighter future for their children. And what I would like to do in my testimony today is to share with you some of what I have learned over the years of doing that work.

First of all, when we focus on program duplication, we tend to think of program duplication as having a negative connotation to it, and something that if we remedied, it could save government money, but that is not always the case, and that is not the case when program funds are limited. Right now States do not have sufficient funding to provide child care assistance to all low wage workers, and they do not have sufficient funds to adequately fund their child welfare programs, especially those programs that provide preventative services to at risk families.

Job training programs, which is one of the areas that is a particular interest of mine and where I have spent time because of my work on TANF, illustrates, I think, why duplication is not always what it seems on the surface. In their analysis, GAO identified 47 programs, many of which overlap in some way. But based on what I have seen in the field, it is not the case that individuals are receiving assistance from multiple employment and training programs. Rather, those programs exist to insure that people who face special employment needs actually have a greater chance of accessing programs and participating in programs that are designed to meet their specific needs.

So we have programs for ex offenders because they face special challenges. The same for TANF recipients, who often have serious barriers to entering the labor market. So by having specific programs, we increase the chance of them actually having success.

I also would like to give an example of what we have seen as being one of the most successful innovators in integrating programs, and that is Utah. Utah is a State that has one of the most integrated work-based network of services, and it provides an example of both the opportunities and, I think, the limits of reducing program duplication.

Utah houses all of its safety net programs and its employment assistance programs under one agency, and that means that individuals coming in who are applying for unemployment insurance and individuals coming in to apply for TANF have access and come through the same process, and they also have access to roughly the same set of services.

They have made that system work by trying to adopt comparable standards sometimes higher than the standards that programs require, and regardless of what makes people eligible. And what they have done is they have taken funding streams and tried to use them for different groups of people.

However, that system has come at a price, and differences in program goals and performance standards have prevented the agency from implementing a fully unified system that provides services based on individual needs.

For example, their WIA performance standards focus on employment outcomes, while their TANF standards actually focus on participation in a set of narrowly defined program activities with no real regard for the employment outcomes.

TANF also requires much stricter verification requirements, and if they were to apply those to everyone who came through that door, it would cost much more than it costs them now.

I think that Utah also stands out in the amount of their TANF funds that they have used to fund their employment training activities. In 2009 they spent about a quarter of their Federal and State TANF funds on their program, and if we were going to get to that level for all of the states, we would have to more than double the investment that we are actually making.

I think there is a number of things that Congress can do to make it easier to do what Utah has done and to integrate a broad range of programs. One is to develop a common set of goals for programs that serve similar services. The other is to reduce those cross-program barriers. Another is to increase the capacity of programs to serve people who have the greater barriers and to revamp the program performance measures so they are consistent across programs and so that programs have an easier time working together and trying to achieve the same thing.

I know these are difficult economic times, and there are real fiscal constraints facing our nation. However, we should not think we can solve our fiscal problems by decimating the safety net. Cutting funding deeply for programs to help low income Americans work, achieve self-sufficiency and secure jobs that can support their families would not represent a step forward.

Some of the cuts that have been proposed would make it harder for low income Americans to work, while also making it less likely that people who need training would actually get it.

I think there would also be risks for the economy. What we have seen is that these programs have worked the way we intend them to work during the economic downturn—they have increased their reach to be able to provide that safety net, and I think we want to do that.

So one more statement. Rethinking programs is important, but I think we need to think broadly about what we are trying to achieve and how to best achieve that, and make sure that we really are thinking not only of low income programs, but across the board of how we can make things better for all Americans.

[The prepared statement of Dr. Pavetti follows:]

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April 5, 2011

**TESTIMONY OF LADONNA PAVETTI, PH.D.
VICE PRESIDENT, FAMILY INCOME SUPPORT POLICY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE, SUBCOMMITTEE ON HUMAN RESOURCES**

Thank you for the opportunity to testify today.

In its recent report, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue," the U.S. General Accountability Office (GAO) examined programs throughout the government with an eye towards identifying opportunities for eliminating unnecessary duplication and reducing administrative inefficiencies that often occur when duplicative programs exist. The GAO focused on a variety of areas where government programs could be improved, including procurement within the Department of Defense and tax enforcement, both of which are likely to yield significantly more cost savings than changes in other areas the GAO examined, including programs that assist unemployed and low-income Americans.

But, we applaud the Subcommittee's interest in taking a careful look at overlap and potential duplication in programs within its jurisdiction. A re-examination of programs with a goal of maximizing the government's investments has the potential to improve program performance and the delivery of services to those who can most benefit from them.

My testimony will focus on four key points:

(1) In order to reduce program overlap and improve program effectiveness, we need to start with a common understanding of what we mean by "welfare and related programs."
(2) Program duplication is not *always* bad or unnecessary. In some cases, what appears as duplication is an explicit effort to ensure access to individuals who are underserved and/or whose needs differ from a larger targeted population.
(3) There are positive examples of state and local efforts to coordinate similar services and eliminate program overlap, although, there is no hard evidence that these efforts will save a significant amount of money in the short or the long term.
(4) Despite the limits of what can be accomplished through program coordination, there are actions that Congress can take to encourage greater program coordination and improve program performance.

Defining "Welfare and Related Programs"

Historically, "welfare" has referred to programs that provide economic assistance to persons in need to help them meet their basic needs. The recently introduced, "Welfare Reform Act of 2011," for example, would significantly expand this definition, creating a new budget category that would consist of all domestic programs targeted on people with low incomes. The legislation singles out low-income programs for cuts of unprecedented depth by requiring that total expenditures in this category not exceed the total amount spent on these programs in 2007, adjusted for inflation (i.e., increases in the Consumer Price Index). The majority of the expenditures for the programs in this category go for Medicaid and other health care programs like the Children's Health Insurance Program, but the category also includes many programs that are *not* designed to help people meet their basic needs and that extend far beyond the usual reach of the definition of welfare programs. Examples include: (1) Pell Grants, which help lower-income individuals attend college; (2) Title I grants, which provide additional resources to schools whose students disproportionately come from poor families; (3) Community Health Centers; (4) Foster Care Assistance for children from low-income families and Adoption Payments for children with special needs; (5) Child Care and Development Block Grants, which provide child care assistance to working families, including in many cases, child care that is necessary if a mother is to work rather than rely on public assistance; and (6) Community Development Block Grants, which help improve the economic infrastructure of local communities. The Center on Budget and Policy Priorities is preparing an analysis of what the proposed legislation will mean for low-income individuals and families and will provide it as an addendum to our testimony when it is complete.

A better approach for evaluating government investments would be an evidence-based strategy that uses reliable data to determine whether a program should be ended, modified, continued as is, or expanded. This would allow *all* programs to be considered on their merits and would not single out low-income programs for harsher treatment than programs targeted to other individuals or corporations. Evidence could be used to decide which programs are worthy of continuation as is, which show promise but need improvement, and which have failed to live up to their promise and should be eliminated.

Toward a More Detailed Understanding of Program Duplication

One program area that GAO points out in its report on reducing harmful duplication is employment and training, particularly the overlap between Temporary Assistance for Needy Families (TANF) and other employment and training programs. We will use it to illustrate what is behind some of the duplication that GAO found and what it would take to remedy it.

An important point regarding duplication that is critically important to keep in mind is that the existence of multiple programs that appear similar does not mean that the same people are receiving services from multiple similar programs. In fact, that is rarely the case. Instead similar programs are serving different segments of the population. Many programs designed to help individuals become self-sufficient are vastly underfunded, making it possible for them to serve only a fraction of the eligible population. There are tens of millions of people in need of job training to access better jobs, but only a fraction ever have the opportunity to access training. Similarly, the Child Care and Development Block Grant, which provides child care that makes it possible for many parents with children to work, serves only a small fraction of eligible families. Some states respond to excess demand by maintaining waiting lists and others simply turn families away when all their funds have been allocated.

GAO reported that in fiscal year 2009, the federal government spent $18 billion supporting 47 programs providing employment and training. Many of these programs are quite small and/or serve narrowly defined groups that face more significant employment barriers than the general population, such as individuals with disabilities, Native Americans, veterans, and disadvantaged youth. Programs with narrowly-defined target populations were created to ensure that populations with special needs receive employment services appropriate for them. Because funding for employment assistance is quite limited and only a small share of eligible individuals can be served, many of the individuals served in these more targeted programs would be far less likely to receive services if these programs did not exist — and there is no guarantee that they would receive services that would address their special needs.

Three of the 47 programs included in the GAO analysis — TANF, the Workforce Investment Act (WIA), and the Employment Service — account for majority of the people served by the workforce development system. On the surface, these three programs share similar goals and provide similar services: they focus on helping unemployed and underemployed individuals find and maintain employment, primarily by providing job search assistance and working with employers to identify job opportunities. However, the similarities end there. Different performance standards, participation requirements, and target populations all discourage program coordination, and even when programs are coordinated, encourage different approaches to providing employment and training assistance.

TANF agencies' performance is judged on their ability to meet a work participation rate (WPR) of 50 percent for all families and 90 percent for two-parent families.[1] WIA's performance for adults is judged by entirely different criteria, including the number of individuals served who enter unsubsidized employment, job retention after six months, earnings, and the attainment of recognized credentials. Because the performance measures are not adjusted based on the characteristics of the individuals served, WIA programs have been reluctant to serve the most disadvantaged job seekers, including TANF recipients (who tend to have significant employment barriers). The Employment Service's performance is judged, in part, on measures comparable to those used in WIA. Because job search assistance is a small component of the Employment Service's function and the program has limited funding for services, it provides only minimal individualized job search assistance; still, there is evidence that these services, which tend to be used by unemployed individuals with a strong labor force attachment, help to reduce the time individuals remain unemployed.

The extent to which the programs provide services beyond job search also differs quite dramatically. The employment assistance provided by the Employment Service is generally limited to job search assistance, much of it provided online or through self-service resource rooms. WIA provides three levels of services: (1) core services, that focus on job search assistance and are provided to all job-seekers requesting assistance; (2) intensive services, which are provided to those deemed in need of more personalized assistance; and (3) training services, that are reserved for those who experience the most difficulty finding unsubsidized employment. The services provided by

[1] This target rate can be adjusted downward if a state's TANF caseload in the prior year was less than its TANF caseload in 2005.

TANF agencies differ from state to state (in some states, from county to county); many focus on job search assistance but a few encourage participation in education and training and a few operate extensive community service or subsidized employment programs.

Of the three programs, state TANF agencies impose the most constraints on the activities in which individuals can participate, primarily because of the pressure to meet the federally-established WPR. In addition, federal TANF requirements on tracking and reporting work participation also are far stricter. TANF recipients participating in job search longer than six or 12 weeks (depending on the state of the economy) or vocational training longer than 12 months do not count as "engaged in work" for purposes of the state meeting its WPR. Additionally, every hour of participation must be verified in order to count toward the state meeting its WPR. This imposes greater burdens upon other programs (such as WIA) when TANF recipients participate in them. TANF funds can be used for work-related activities beyond those that count towards the WPR, but many states shape their permissible work activities to match what can count towards the work participation rate.

Finally, the programs serve different segments of the population. The limited employment assistance that the Employment Services provides is available to *all* job seekers. Eligibility for WIA is significantly more complicated and varies substantially among local providers. WIA requires states and local areas to provide core services to all job seekers, but to implement a priority of service for intensive and training services. When funding is limited, public assistance recipients and other low-income adults are supposed to receive priority. Still, states and local areas have considerable flexibility to define the policy and determine whether and how to implement it. In fact, low-income individuals represent less than half of those receiving intensive or training services.

The employment services provided by TANF agencies or their contractors are generally targeted to individuals who receive TANF cash assistance, although states can use federal and state TANF funds to serve needy families who are not receiving cash benefits, and some have done so. As TANF caseloads have declined, a substantial portion of the remaining caseload faces significant barriers to employment, including significant mental health and physical health issues. Limited funding and performance measures that discourage serving the most disadvantaged have discouraged WIA-funded programs from serving TANF recipients as a part of their regular programs. However, some WIA programs serve them under special arrangements using TANF funds.

Positive Examples of Creating Integrated Service Systems

This analysis suggests that states and/or localities that want to coordinate their programs must overcome a number of barriers. Some states have done so, however, and there is much that can be learned from their experiences. While some states have focused on creating fully integrated systems that aim to integrate and coordinate employment and training as well as other public benefit programs, others have focused primarily on improving access to benefits and services. Below, I provide two examples. Utah has long been recognized as a leader in fully integrating its TANF and workforce systems while Arizona provides an example of a state that has undertaken a major initiative to reengineer its work processes to ensure that individuals and families, including working families, are able to access public benefits when they are in need.

Example: The Utah Department of Workforce Services

When Utah implemented welfare reform, it not only changed its policies to better assist low-income families in entering the paid labor market, but it also changed its administrative structure to provide all employment-related and safety net services through one Department, the Utah Department of Workforce Services (DWS). The Department's primary goal is to help individuals and families improve their situation by providing the assistance that individuals need to participate in Utah's economy. To this end, Utah provides a broad range of employment-related services including job search assistance, training and works support for individuals who are looking for work. Individuals receiving unemployment insurance, TANF, Supplemental Nutrition Assistance Program (SNAP) benefits and child care assistance are all served by the same agency. The agency aims to provide whatever assistance is necessary to help individuals and families address any immediate crisis they may be facing and to help them find employment as quickly as possible. Utah has a long history of being an innovator in addressing the diverse needs of individuals and families who come to the agency for assistance, including those who face significant and personal family challenges that prevent them from working. They may be the only TANF program in the country that places a highly trained social worker or mental health counselor in every local employment service/welfare office in the state.

An important feature of Utah's approach is that it has identified ways in which it can leverage funds from multiple programs to provide more effective services to all who seek assistance. For example, following the program model set forth by the Workforce Investment Act (WIA), Utah provides core, intensive and training services to individuals who meet the TANF eligibility requirements, using TANF dollars to do so. Similarly, it provides the same set of services using Food Stamp Employment and Training dollars for those who meet that program's eligibility requirements. This makes it possible for Utah to use its WIA dollars for those who do *not* qualify for other programs. It also means that it does not have to meet the WIA performance standards for these other groups of individuals. DWS has found that the use of multiple funding streams has made it possible for it to provide more services to assist job seekers to develop the necessary skills to secure employment in demand occupations – the vast majority of Utah's WIA funds are dedicated to training. Workers benefit because the training qualifies them for better jobs, and employers also benefit as they have access to more skilled workers.

Although as noted in the GAO report, DWS officials believe that the integration of program services has reduced their administrative costs, this does not mean that consolidation of existing program services will save money. In fact, the opposite is possible. In designing its integrated system Utah decided to provide a comparable set of services to all individuals in need of assistance, regardless of which program eligibility rules make them eligible for services. As a result, it has devoted a significant portion of its federal and state TANF dollars to funding work activities. In 2009, Utah spent $32.6 million (about one-quarter of its federal and state TANF funds) on work activities. That amounts to an average of $830 for each poor family with children. (The average amount spent per family served is substantially higher as only a minority of all poor families with children receives services.) To get to that same average level of spending per poor family, other states would need to more than double their current total investment of $2.4 billion of federal and state TANF funds on work activities.

It is also important to note that while Utah aims to provide similar services to all regardless of the program for which they are eligible, in order to meet the required TANF work participation rate, it may not place TANF recipients in some activities staff feel they need and the state must provide a much higher level of monitoring of TANF recipients than for individuals who are not receiving TANF cash assistance. For TANF recipients, every hour of participation must be documented and verified. If all program participants outside of TANF were subject to this same level of documentation and verification, DWS would almost certainly need to spend substantially more than it currently does to administer its programs.

Example: Simplifying and coordinating enrollment in work support programs

For more than 15 years, federal and state governments have been working together in earnest to simplify enrollment in public benefit programs. Their work has been driven in part by the need to create more effective and efficient government services and also by the need to find better ways to deliver services to working families who make up a significant --and growing-- share of most public benefit programs. New technology also has played a role. For example, states that now scan all of clients' paper documents have more options as to how to support a clients' case. Caseworkers who have access to a client's records electronically can be located in a different part of the state than the client. In addition, on-line applications, call centers and the increasing ability to link human services computer systems to information in other government systems, such as the Department of Motor Vehicles and Vital Statistics can create efficiencies in state administration. These efforts have been successful in many ways. In some form or another, most states have embraced increasing access to benefits that help individuals find and maintain employment and simplifying policies. They have streamlined processes, made procedures more client-friendly, reduced paperwork, and sought to increase outreach to potentially eligible people. As a result, millions of low-income individuals who might not have obtained work supports now do. This achievement is no small feat.

Arizona provides an example of how these efforts are playing out in many areas. After experiencing a 60 percent increase in the number of public benefit cases in recent years because of the recession and a 30 percent *reduction* in the number of staff to process the work, Arizona recently embarked on an effort to redesign its eligibility processes for multiple public benefit programs. After discovering that a typical family had to make three to five in-person visits to the local office to secure benefits, the state sought to restructure its process to take care of as much business in as few visits as possible. Thus far, it has implemented the new process in two offices and has found that for 65 percent of its customers, it can complete the application in a single visit. In other words, in these two offices the state is saving two to four future visits per customer 65 percent of the time.

Recognizing that there is much to be learned about what is happening in this area, the Ford Foundation has embarked on a $15 million effort, "Work Support Strategies: Streamlining Access, Strengthening Families," to work with nine states to test innovative ways to streamline access and improve administrative efficiencies to work supports for low-income families. The states, Colorado; Idaho; Illinois; Kentucky; New Mexico; North Carolina; Oregon; Rhode Island; and South Carolina, were selected from 27 states that applied. Republican and Democratic governors alike have signed on to the initiative – states applying for grants had to secure the approval of their governors and the participation of key agency heads.

States participating in the initiative will design and—if chosen next year for an implementation grant— test new integrated approaches to delivering work supports to low-income families, including health coverage, nutrition benefits, and child care subsidies. Without such supports, low-income workers often drop out of the workforce to manage family, health, and other crises, leaving them stuck in poverty and unable to climb up the economic ladder. As the initiative unfolds, it will provide detailed information on ways in which other states can change their policies and businesses practices to create more efficient eligibility and benefit delivery systems.

Actions Congress Can Take to Encourage Greater Coordination and Reduce Duplication

A number of programs that serve low-income individuals are due for reauthorization. The current authorization for TANF ends on September 30, 2011. WIA, although not within the Committee's jurisdiction, is also due to be reauthorized (and has been due for reauthorization for a number of years). Congress should use these opportunities to consider programs in relationship to other programs that serve similar purposes, rather than considering each program in a vacuum. During the reauthorization deliberations, Congress should use these opportunities to:

- *Develop a common set of goals for programs that provide similar services.* Programs that provide similar services that appear duplicative are not necessarily aiming to achieve the same goals. For example, the primary goals of WIA are focused on employment, earnings, job retention, and the attainment of credentials while TANF is focused primarily on placing individuals in work activities without regard to whether participation in those activities leads to employment. If similar programs were all aiming for the same or related goals, it would be easier for them to coordinate and avoid duplication.

- *Reduce cross-program barriers in both TANF and WIA and other related employment and training programs to allow for better alignment between programs.* States would be able to align their TANF and WIA employment services better if the program structures were more in sync with one another. While WIA provides local agencies with considerable flexibility, TANF is far more prescriptive. The mismatch between the two programs has discouraged agencies from reducing program duplication and creating fully integrated systems. If conflicting rules related to the types of employment services that can be provided were eliminated, states could more easily operate a virtually seamless employment services program in which participants are matched to appropriate work-related programs. While there are many ways to reduce cross-program barriers, one option is to allow states to apply the same set of program requirements to all program participants if they agree to fully integrate program services.

- *Increase capacity and reward programs for serving individuals with the greatest barriers to employment.* When programs have broad flexibility to decide how to target services, individuals with the greatest needs often get left out. New programs (which often are very small with very limited funding) are then created to meet their needs. Programs should be rewarded for serving individuals who are likely to derive the greatest benefits. Random assignment studies have demonstrated that the programs with the greatest impact on employment and earnings are often not the ones that look best under simple outcome measures. While such evaluations are not appropriate for ongoing program monitoring, performance measures should be adjusted to ensure that states and localities are not penalized for serving individuals with barriers to employment.

- *Revamp program performance measures to allow for greater comparability across programs.* As history has shown, it is very complicated to develop performance measures that do not discourage programs from serving individuals who are most in need even if they may be the most likely to benefit from the services. It is difficult to get agreement on how program performance across one program should be measured, let alone across multiple programs. However, as long as programs are held to different standards, it will be difficult to reduce any duplication that may exist and to encourage better integration of programs. One strategy for moving forward would be to provide some states with demonstration authority to experiment with developing and using alternative measures that can be used across multiple programs to measure performance.

These are difficult economic times and there are real fiscal constraints facing our nation. However, we should not think we can solve our fiscal problems by decimating the safety net. Cutting funding deeply for programs to help low-income Americans work, achieve self sufficiency, and secure jobs that can support their families would not represent a step forward. In this vein, I am concerned both about the cuts in a number of these programs in H.R.1, and about the severe cuts that likely would have to be made under the Welfare Reform Act of 2011 in programs to help people achieve self sufficiency, including Pell Grants to help low-income students afford a college education, job training programs, and the Title I "education for the disadvantaged" program, among others. Under that legislation, steep cuts also would seem inevitable in programs that provide child care assistance that enables many low-income mothers to work. The bill consequently would make it harder for many low-income mothers to hold jobs, while also making it less likely that they and other low-income people would receive education and training they need to obtain adequate-paying jobs.

The legislation would also pose risks for the economy because it would effectively prevent many programs that economists call "automatic stabilizers" from functioning appropriately when the economy weakens. Today, when the economy weakens and the unemployment rate rises, the number of people in poverty swells, and programs such as food stamps and Medicaid respond automatically. They serve the additional people who qualify, and their costs rise accordingly. While the official poverty measure does not account for the important poverty-reducing role these benefits play, the new alternative poverty measures do – and they show how important these programs were in keeping poverty lower than it would otherwise have been during the current recession.

Reducing program duplication and increasing program coordination are important and laudable goals. They should be part of any effort to improve the effectiveness of government services. What can be accomplished in terms of budgetary savings, however, from reducing program duplication and increasing program coordination should not be overstated. And we should be careful not to apply a meat cleaver to low-income assistance programs and employment and training and other programs serving low-income families. As discussed in this testimony, various programs can be better coordinated, and efficiency and effectiveness can and should be improved. But programs should not be starved of resources they need to function effectively.

Chairman DAVIS. Thank you, Dr. Pavetti.

Mr. Rector.

STATEMENT OF ROBERT RECTOR, SENIOR RESEARCH FELLOW, DOMESTIC POLICY, THE HERITAGE FOUNDATION

Mr. RECTOR. I want to speak today about what I consider the greatest budgetary secret in the Nation and in Washington, which is the hidden means tested welfare state. Most people are completely unaware that the second largest category of Government spending across the nation happens to be spending on the poor. If you were to look in total, you find that the largest spending is, in fact, on Social Security and Medicare. The second largest is spending on more than 69 different Federal programs to assist poor people, which with their mandatory State contributions now approach about $940 billion a year. That is the second largest overall category of Government spending in the country. It outstrips spending on public education. It vastly dwarfs spending on national defense, but people are largely unaware of this.

They are unaware of this because all discussions about spending on the poor basically take these 69 programs and talk about them one at a time. It is as if in talking about the defense budget you talked about marine logistics and then you talked about Air Force personnel, and you never put it together to look at the total amount that is being spent.

This chart shows inflation adjusted spending on the poor on these 69 different programs starting back in 1950 and through 2008. A lot of people, when they think about welfare, think it is like a roller coaster: you spend a certain amount, then you have a recession, spending goes up, at the end of the recession spending comes back down.

Sorry. I do not see spending ever going back down. What happens in our system is that during a recession spending goes up. If we were to add the last two years on there, it is a 30 percent increase in spending, and at the end of the recession it never comes back down. What we do is increase spending slowly or increase spending rapidly. Spending never goes back down.

We are spending today 13 times as much after adjusting for inflation as when Lyndon Johnson launched the War on Poverty. About half of this spending goes to families with children, which is of particular concern to this committee. Another half of it goes to the indigent elderly and to the disabled. But that means that we are spending over $450 billion on low income families with children.

No one has any idea of this because you only examine one program at a time. You never add it up. Suppose we did the whole Federal budget like that. You simply spent on whatever seemed desirable, never added up the total amount of spending. That is what we do with the welfare state.

This next chart compares means tested welfare spending over the last 20 years compared to other categories, such as Social Security and medicare. The dark blue line is the increase in means tested welfare, which has grown by, I think, 300 percent over that period. This is, in fact, the fastest category of spending in the entire government for the last two decades, even before the current recession.

But if you were to talk to, for example, President Obama or anyone from the left, they would say that we have actually cut this spending. How do they possibly do that? They do that by focusing on one program at a time that may not increase as fast as inflation and ignoring the growth in the other 68 programs.

By that gimmick, we continue to have larger and larger spending, now approaching $1 trillion a year without the public or you as decision makers having any idea how much we are spending.

Now, most people see that over the last two years, President Obama has increased the spending by 30 percent in these 67 different programs. They say, "Well, of course. That makes sense because we have had a recession. We would expect the spending to go up."

But when you look at Obama's own budget projections for the next ten years, which are shown on the chart, combined Federal and State is on red in that chart and yellow is Federal only; this spending never goes back down. It goes up during the recession, and then it continues to climb. Within a few years, we will be spending $1 trillion a year at the same time that as a Nation we will be running deficits of roughly $1 trillion a year.

People talk about shredding the safety net. We should focus on the initial question. How did you expand the safety net by 50 percent and why isn't it coming back down after the recession?

Now, I would propose that, in fact, the United States running deficits of close to $1 trillion a year simply cannot afford this level of spending. It will not benefit poor people in the United States if we put this country into bankruptcy, which is quite clearly where we are going now and where we are going under Obama's proposed budgets, which projects $1 trillion a year deficits as far as the eye can see. That will not help the poor.

I propose that one of the ways that we can begin to bring the deficit down is to simply create some budget constraint in the amount that is being spent here. what I would——

Chairman DAVIS. Excuse me, Mr. Rector. Your time has expired.

Mr. RECTOR. Okay.

[The prepared statement of Mr. Rector follows:]

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CONGRESSIONAL TESTIMONY

Uncovering the Hidden Welfare State: 69 Means-tested Programs and $940 Billion in Annual Spending

Testimony before

The Subcommittee on Income Security and Family Support

Committee on Ways and Means
United States House of Representatives

April 5, 2011

Robert Rector
Senior Research Fellow
The Heritage Foundation

My name is Robert Rector. I am a Senior Research Fellow at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Summary

The means-tested welfare system consists of 69 federal programs providing cash, food, housing, medical care, social services, training, and targeted education aid to poor and low income Americans. Means-tested welfare programs differ from general government programs in that they provide aid exclusively to persons (or communities) with low incomes.

In FY2011, federal spending on means-tested welfare, plus state contributions to federal programs, will reach $940 billion per year. The federal share will come to around $695 billion or 74 percent, while state spending will be around $250 billion or 26 percent.

Combined federal and state means-tested welfare is now the second largest category of overall government spending in the nation. It is exceeded only by the combined cost of Social Security and Medicare. Welfare spending is greater than the cost of public education and is greater than spending on national defense.

In the two decades before the current recession, means-tested welfare was the fastest growing component of government spending. It grew more rapidly that Social Security and Medicare and its rate of increase dwarfed that of public education and national defense.

Despite the fact that welfare spending was already at record levels when he took office, President Obama has increased means-tested welfare spending by a third. This is a permanent, not a temporary, increase in spending. According to the President's budget plans, means-tested welfare will not decline as the recession ends but will continue to grow rapidly for the next decade. Obama plans to spend at least $10 trillion on means-tested welfare over the next ten years.

In FY 2008, means-tested welfare assistance amounted to around $7,700 for each poor and low income person in the U.S. population (those with non-welfare incomes below 200 percent of poverty.)

In FY 2011, total means-tested spending going to families with children will be about $470 billion. If this sum were divided equally among the lowest income one third of families with children (around 14 million families), the result would be around $33,000 per low income family with children.

Means-tested spending comprises a vast, hidden welfare state. The public is almost totally unaware of the size and scope of government spending on the poor. This is because Congress and the mainstream media always discuss welfare in a fragmented, piecemeal basis. Each of the 69 programs is debated in isolation as if it were the only program affecting the poor. This piecemeal approach to welfare spending perpetuates the myth that spending on the poor is meager and grows little, if at all.

The piecemeal, fragmented character of the hidden welfare system makes rational policy-making and discussion impossible. Sound policies to aid the poor must be developed holistically, with decision makers and the public fully aware of the magnitude of overall spending. To accomplish this, Congress should establish a cap or limit on the future growth of total means-tested spending.

When the current recession ends, or by 2013 at the latest, total means-tested welfare spending should be returned to pre-recession levels, adjusted for inflation. In subsequent years, aggregate welfare spending should grown no faster than inflation. This type of spending cap would save the taxpayers over $2 trillion dollars during its first decade. An aggregate welfare spending cap of this sort is contained in HR 1167, *The Welfare Reform Act of 2011* introduced by Congressman Jim Jordan (R-OH).

The Hidden Welfare State

Most discussion of government spending and deficits assumes that the federal budget consists of four principal parts: entitlements (meaning Social Security and Medicare); defense; non-defense discretionary spending; and interest. This perspective is misleading because it ignores the hidden welfare state: a massive complex of 69 federal means-tested anti-poverty programs.

Means-tested welfare spending or aid to the poor consists of government programs that provide assistance deliberately and exclusively to poor and lower-income people.[1] By contrast, non-welfare programs provide benefits and services for the general population. For example, food stamps, public housing, Medicaid, and Temporary Assistance to Needy Families are means-tested aid programs that provide benefits only to poor and lower-income persons. On the other hand, Social Security, Medicare, police protection, and public education are not means-tested; they provide services and benefits to persons at all income levels. Means-tested programs are anti-poverty programs: they are intended to increase the living standards of improve the capacity for self-support among the poor and near-poor.

The size of the federal means-tested aid system is particularly large because it is funded not only with federal revenue but also with state funds contributed to federal programs. Ignoring these matching state payments into the federal welfare system results in a serious underestimation of spending on behalf of the poor. Prior to the current recession, one dollar in seven in total federal, state, and local government spending went to means-tested welfare.

Combined federal and state means-tested welfare spending is in fact the second largest category of overall government spending in the nation today. The cost of means-tested welfare falls short of the combined cost of Social Security and Medicare but exceeds the cost of public education and national defense.

The 69 means-tested programs operated by the federal government provide a wide variety of benefits. They include:

[1] The only exception to this rule is a small number of means-tested programs that provide aid to low income communities rather than individuals.

12 programs providing food aid;
10 housing assistance programs;
10 programs funding social services;
9 educational assistance programs;
8 programs providing cash assistance;
8 vocational training programs;
7 medical assistance programs;
3 energy and utility assistance programs; and,
2 child care and child development programs.

A full list of these programs is provided at the end of this testimony. (Note: Social Security, Medicare, veterans programs, unemployment insurance and workmen's compensation are not considered means-tested aid and are not included in this list.)

In FY2011, federal spending on means-tested welfare, plus state contributions to federal programs, will reach over $940 billion per year. The federal share will come to around $695 billion or 74 percent, while state spending will be around $250 billion or 26 percent.

In recent years, 52 percent of total means-tested spending went to medical care for poor and lower-income persons, and 37 percent was spent on cash, food, and housing aid. The remaining 11 percent was spent on social services, training, child development, targeted federal education aid, and community development for lower-income persons and communities. Roughly half of means-tested spending goes to disabled or elderly persons. The other half goes to lower-income families with children, most of which are headed by single parents.

Welfare Spending: The Fastest Growing Component of Government Spending

For the past two decades, means-tested welfare or aid to the poor has been the fastest growing component of government spending, outstripping the combined growth of Medicare and Social Security spending, as well as the growth in education and defense spending. Over the 20-year period between FY 1989 and FY 2008, total means-tested spending increased by 292 percent over the period. The increase in combined Social Security and Medicare spending was 213 percent over the same period.

Means-tested spending on cash, food, and housing increased more rapidly (196 percent) than Social Security (174 percent). The growth in means-tested medical spending (448 percent) exceeded the growth in Medicare (376 percent).[2] The growth in means-tested aid greatly exceeded the growth in government spending on education (143 percent) and defense (126 percent). Aid to the poor is likely to continue to grow rapidly for the foreseeable future.

"Slashing" Spending on the Poor: The Perpetual Myth

Since the beginning of the War on Poverty, spending on the poor has increased 13-fold after

[2]Some have attributed the rapid growth in means-tested medical spending to inflation in medical prices. Medical prices only doubled during the period. The rest of the increase was due to expansions in the number of recipients and services provided.

adjusting for inflation. Yet throughout the steady 40-year climb in welfare spending, the Left has perpetually and shrilly claimed the opposite: that spending on the poor has been "slashed." A typical example of this occurred during the most recent presidential election cycle when candidate Barack Obama angrily proclaimed, "George Bush spent the last six years slashing programs to combat poverty."[3]

This charge was remarkable given that total annual means-tested spending actually increased by 68 percent under President Bush. Not only did total spending increase, but virtually every category of welfare aid increased dramatically: Cash spending grew by 67 percent, medical spending by 72 percent, food spending by 89 percent, housing by 34 percent, energy by 76 percent, targeted education by 50 percent, child development by 52 percent, and community development by 50 percent.[4] Of the nine categories of means-tested spending, eight increased dramatically. Only job training spending (which comprises one percent of total welfare) did not increase. After adjusting for inflation, total means-tested spending increased by 35 percent under President Bush. Cash, food, and housing grew by one-third. Although Obama's remarks were demonstrably false, he was never challenged by the press.

Obama's charges of "slashing" spending on the poor are symptomatic of the historic debate over welfare. Throughout the 40-year history of the War on Poverty, liberals have routinely charged that spending on the poor was being cut when in reality expenditures were climbing steadily to record levels. One oft-repeated ploy is to find one small program where spending has been recently trimmed, then denounce the cuts as evidence that overall spending on the poor is going down while conveniently ignoring the fact that spending in the other 68 means-tested programs is growing rapidly. The mainstream press generally amplifies this type of charge without challenge.

Throughout the War on Poverty, the mainstream press has treated spending on the poor as privileged and largely immune to criticism. Proposals to shave a minute fraction of spending growth off a single program, such as school lunch subsidies, have been met with a firestorm of media attention, but massive ongoing expansions in welfare overall are seldom, if ever, reported. As a result, means-tested aid has risen from 1.2 percent of GDP to 5.0 percent with virtually no public awareness or debate.

Growth of the Welfare State

Welfare spending has grown enormously since President Lyndon B. Johnson launched the War on Poverty. Welfare spending was 13 times greater in FY 2008, after adjusting for inflation, than it was when the War on Poverty started in 1964. (See chart 1.) Means-tested welfare spending was 1.2 percent of the gross domestic product (GDP) when President Johnson began the War on Poverty. In 2008, it reached 5 percent of GDP. Over the next decade, total means-tested spending is likely to average roughly 6 percent of GDP.

Annual means-tested welfare spending is more than sufficient to eliminate poverty in the United

[3]Barack Obama, "Changing the Odds for Urban America," speech in Washington, D.C., July 18, 2007, at *http://www.barackobama.com/2007/07/18/remarks_of_senator_barack_obam_19.php* (August 27, 2009).
[4]All figures refer to combined federal and state spending between FY 2000 and FY 2008 in current dollars. Since candidate Obama was speaking in 2007, one might infer that he was commenting on FY 2006 spending levels. Perhaps spending was dramatically lower in 2006. Examining spending changes between 2000 and 2006 reveals nearly the same pattern presented in the main text: Overall spending increased by half, and every sub-category of spending except training and community development increased substantially faster than inflation.

States. The U.S. Census Bureau, which is in charge of measuring poverty and inequality in the nation, defines a family as poor if its annual income falls below official poverty income thresholds. If total means-tested welfare spending were simply converted into cash benefits, the sum would be nearly four times the amount needed to raise the income of all poor families above the official poverty line.

Since the beginning of the War on Poverty, government has spent $15.9 trillion (in inflation-adjusted 2008 dollars) on means-tested welfare. In comparison, the cost of all other wars in U.S. history was $6.4 trillion (in inflation-adjusted 2008 dollars).

Welfare Spending Increases under the Obama Administration

Table 1 shows the growth in means-tested spending over recent years. In FY 2007, total government spending on means-tested welfare or aid to the poor was a record high $657 billion. By fiscal year 2011, total government spending on means-tested aid will rise to $944 billion, nearly a fifty percent increase.

Table 1. Growth in Means-Tested Spending

	Federal Spending (in billions)	State Spending (in billions)	Total Spending (in billions)
FY 2007	$468.7	$189.2	$657.9
FY 2008	$522.3	$191.6	$714.1
FY 2009	$612.7	$167.2	$779.9
FY 2010	$695.3	$192.7	$888.0
FY 2011	$694.9	$249.4	$944.4

President Obama's increase in federal means-tested welfare spending during his first two years in office is two and a half times greater than any previous increase in federal welfare spending in U.S. history, after adjusting for inflation.

Obama's Welfare Spendathon Versus the Cost of the Iraq War

Under President Obama, government will spend more on welfare in a single year than President George W. Bush spent on the war in Iraq during his entire presidency. According to the Congressional Research Service, the cost of the Iraq war through the end of the Bush Administration was around $622 billion. By contrast, annual federal and state means-tested welfare spending will reach $888 billion in FY 2010. Federal welfare spending alone will equal $695 billion in that year.

While campaigning for the presidency, Obama lamented that "the war in Iraq is costing each household about $100 per month." Applying the same standard to means-tested welfare spending reveals that welfare cost each household $638 per month in 2010.

Obama Plans Permanent Increases in Welfare

Supporters of the President's spending might counter that these spending increases are merely temporary responses to the current recession. But that is not the case; most of Obama's spending increases are permanent expansions of the welfare state. According to the long-term spending plans set forth in Obama's FY 2010 budget, combined federal and state spending will not drop significantly after the recession ends. In fact, by 2014, welfare spending is likely to equal $1 trillion per year.

According to President Obama's budget projections, federal and state welfare spending will total $10.3 trillion over 10 years (FY 2009 to FY 2018). This spending will equal over $100,000 for each taxpaying household in the U.S.

Means-Tested Welfare Spending on Lower-Income Persons

With 69 overlapping means-tested programs serving different low-income populations, it is difficult to determine the average level of benefits received by low-income persons. One way of estimating average welfare benefits per recipient would be to divide total means-tested spending by the total number of poor persons in the United States. According to the Census Bureau, there were 39.8 million poor persons in the U.S. in 2008. An additional 1.5 million persons lived in nursing homes. (These individuals, though mostly poor, are not included in the annual Census poverty and population survey.) Total means-tested spending in 2008 was $708 billion. If this sum is divided by 41.3 million poor persons (including residents in nursing homes), the result is $17,100 in means-tested spending for each poor American.

However, this simple calculation can be misleading because many persons with incomes above the official poverty levels also receive means-tested aid. Although programs vary, most means-tested aid is targeted to persons with incomes below 200 percent of poverty. Thus, a more a accurate sense of average total welfare spending per recipient can be obtained, if total welfare aid is divided among all persons within this larger group. Dividing total means-tested aid by all persons with incomes below 200 percent of poverty results in average welfare spending of $7,700 per person, or around $30,000 for a family of four.

Means-tested Spending on Families with Children

Another way of examining spending levels is to look at welfare spending on families with children. In FY 2011, total means-tested spending will be $940 billion. About half of this spending ($470 billion) will go to families with children. (Around one-third of this spending will go to medical care.)

If the $470 billion in welfare spending were divided equally among the lowest income one third of families with children (around 14 million families), the result would be around $33,000 per low income family with children.

In addition, most of these lower-income families have earned income. Average earnings within the whole group are typically about $16,000 per year per family, though in the midst of a recession, earnings will be lower. If average welfare aid and average earnings are combined, the total resources is likely to come to between $40,000 and $46,000 for each lower-income family with children in the U.S. It is very difficult to reconcile this level of spending with conventional claims that millions of lower-income families are chronically hungry, malnourished, or ill-housed.

Conclusion

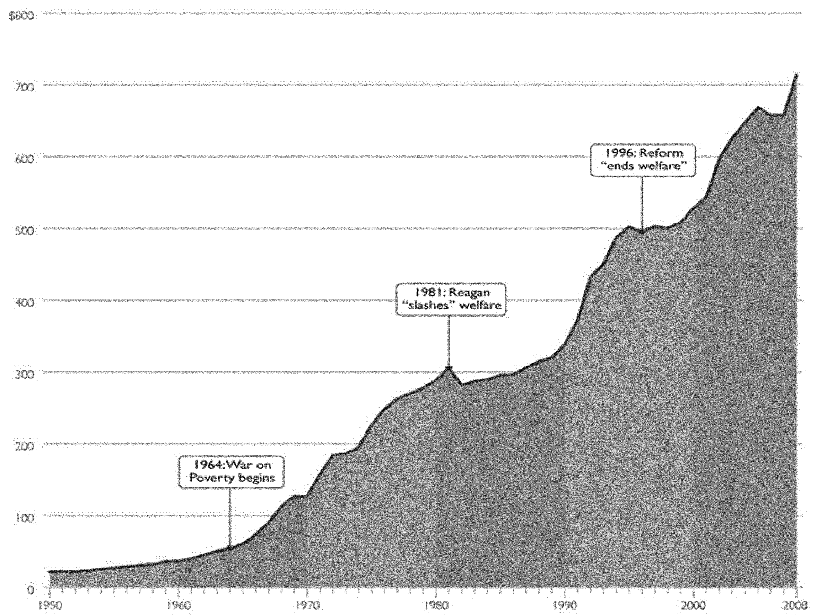
Means-tested spending comprises a vast, hidden welfare state. The public is almost totally unaware of the size and scope of government spending on the poor. This is because Congress and the mainstream media always discuss welfare in a fragmented, piecemeal basis. Each of the 69 programs is debated in isolation as if it were the only program affecting the poor. This piecemeal approach to welfare spending perpetuates the myth that spending on the poor is meager and grows little, if at all.

The piecemeal, fragmented character of the hidden welfare system makes rational policy-making and discussion impossible. Sound policies to aid the poor must be developed holistically, with decision makers and the public fully aware of the magnitude of overall spending. To accomplish this, Congress should establish a cap or limit on the future growth of total means-tested spending.

When the current recession ends, or by 2013 at the latest, total means-tested welfare spending should be returned to pre-recession levels, adjusted for inflation. In subsequent years, aggregate welfare spending should grown no faster than inflation. This type of spending cap would save the taxpayers over $2 trillion dollars during its first decade. An aggregate welfare spending cap of this sort is contained in HR 1167, *The Welfare Reform Act of 2011* introduced by Congressman Jim Jordan (R-OH).

History of Total Welfare Spending

Spending in Billions of 2008 Dollars



Source: The Heritage Foundation, from current and previous OMB budget documents and other official government sources.

Chart 3 • SR 67 heritage.org

Welfare Spending, FY 2008, in Millions of Dollars

	Categories	Budget Code	Federal Spending	State Spending	Total Spending
Cash					
01	SSI/Old-Age Assistance	75-0406-0-1-609; 28-0406-0-1-609	43,872.00	5,146.00	49,018.00
02	Earned Income Tax Credit (refundable portion)	20-0906-0-1-609	40,600.00		40,600.00
03	Child Credit (refundable portion)	20-0922-0-1-999; 20-0922-0-1-609	34,019.00		34,019.00
04	AFDC/TANF	75-1501-0-1-609; 75-1552-0-1-609	7,889.40	7,582.00	15,471.40
05	Foster Care Title IV-E	75-1545-0-1-506; 75-1545-0-1-609/.01	4,525.00	4,040.00	8,565.00
06	Adoption Assistance Title IV-E	75-1545-0-1-506/.04	2,038.00	1,316.00	3,354.00
07	General Assistance Cash	None		2,625.00	2,625.00
10	General Assistance to Indians	14-2100-0-1-452; 14-2100-0-1-999	118.00		118.00
11	Assets for Independence	75-1536-0-1-506/3.06	24.00		24.00
Cash Total			**133,085.40**	**20,709.00**	**153,794.40**
Medical					
01	Medicaid	75-0512-0-1-551	201,426.00	150,666.65	352,092.65
02	SCHIP State Supplemental Health Insurance Program	75-0515-0-1-551	6,900.00	2,021.00	8,921.00
03	Medical General Assistance	None		4,900.00	4,900.00
04	Indian Health Services	75-0390-0-1-551	2,925.00		2,925.00
05	Consolidated Health Centers/Community Health Centers	75-0350-0-1-550/.10	2,021.00		2,021.00
06	Maternal and Child Health	75-0350-0-1-550.18	666.00	499.50	1,165.50
06	Healthy Start	75-0350-0-1-550/.19	100.00		100.00
Medical Total			**214,038.00**	**158,087.15**	**372,125.15**
Food					
01	Food Stamps	12-3505-0-1-605	39,319.00	3,482.00	42,801.00
02	School Lunch	12-3539-0-1-605/.91	7,863.00		7,863.00
03	WIC—Women, Infant and Children Food Program	12-3510-0-1-605	6,170.00		6,170.00
04	School Breakfast	12-3539-0-1-6050/1.91	2,307.00		2,307.00
05	Child Care Food Program	12-3539-0-1-605/2.91	2,029.00		2,029.00
06	Nutrition Program for the Elderly, Nutrition Service Incentives	12-3503-0-1-605; 75-0142-0-1-506/1.07	756.00	105.84	861.84
07	Summer Program	12-3539-0-1-605/3.01	312.00		312.00
08	Commodity Supplemental Food Program	12-3512-0-1-605; 12-3507-0-1-605/.91	141.00		141.00
09	TEFAP—The Emergency Food Assistance Program	12-3635-0-1-351; 12-3507-0-1-605/2.01; 12-4336-0-3-999	190.00		190.00
10	Needy Families	12-3505-0-1-605.06	54.00		54.00
11	Farmers' Market Nutrition Program	12-3507-0-1-605/4.01	20.00		20.00
11	Special Milk Program	12-3502-0-1-605/3.02	15.00		15.00
Food Total			**59,176.00**	**3,587.84**	**62,763.84**

Welfare Spending, FY 2008, in Millions of Dollars (cont.)

Categories		Budget Code	Federal Spending	State Spending	Total Spending
Housing					
01	Section 8 Housing (HUD)	86-0302-0-1-604	24,467.00		24,467.00
02	Public Housing (HUD)	86-0304-0-1-604	7,526.00		7,526.00
03	State Housing Expenditures	None		2,085.00	2,085.00
04	Home Investment Partnership Program (HUD)	86-0205-0-1-999; 86-0205-0-1-604/.01	1,969.00		1,969.00
05	Homeless Assistance Grants (HUD)	86-0192-0-1-604/.01	1,440.00		1,440.00
06	Rural Housing Insurance Fund (Agriculture)	12-2081-0-1-371	1,312.00		1,312.00
07	Rural Housing Service (Agriculture)	12-0137-0-1-604	926.00		926.00
08	Housing for the Elderly (HUD)	86-0320-0-1-604	1,008.00		1,008.00
09	Native American Housing Block Grants (HUD)	86-0313-0-1-604	572.00		572.00
10	Other Assisted Housing Programs (HUD)	86-0206-0-1-999	584.00		584.00
11	Housing for Persons with Disabilities (HUD)	86-0237-0-1-604	320.00		320.00
Housing Total			**40,124.00**	**2,085.00**	**42,209.00**
Energy and Utilities					
01	LIHEAP Low Income Home Energy Assistance	75-1502-0-1-609/.01	2,663.00		2,663.00
02	Universal Service Fund—Susidized Phone Service for Low-Income Persons	27-5183-0-2-376	819.00		819.00
02	Weatherization	89-0215-0-1-999; 89-0215-0-1-272; 89-0224-0-1-999; 89-0321-0-1-270/.12	291.00	159.30	450.30
Energy and Utilities Total			**3,773.00**	**159.30**	**3,932.30**
Education					
01	Pell Grants	91-0200-0-1-502/1.01	18,000.00		18,000.00
02	Title One Grants to Local Education Authorities	91-0900-0-1-501	14,872.00		14,872.00
03	Special Programs for Disadvantaged (TRIO)	91-0201-0-1-502/2.01	885.00		885.00
04	Supplemental Education Opportunity Grants	91-0200-0-1-502/2.01	759.00		759.00
05	Migrant Education	91-0900-0-1-501/.13	425.00		425.00
06	Gear-Up	91-0201-0-1-502/2.02	303.00		303.00
07	Education for Homeless Children and Youth	91-1000-0-1-501/.09	64.00		64.00
06	LEAP, formerly State Student Incentive Grant Program (SSIG)	91-0200-0-1-502	64.00	64.00	128.00
07	Even Start	91-0900-0-1-501/.08	66.00		66.00
Education Total			**35,438.00**	**64.00**	**35,502.00**

Welfare Spending, FY 2008, in Millions of Dollars (cont.)

	Categories	Budget Code	Federal Spending	State Spending	Total Spending
Training					
01	TANF Work Activities and Training	75-1552-0-1-609	1,963.58	540.00	2,503.58
02	Job Corps	16-0174-0-1-1504/.18	763.00		763.00
03	WIA Youth Opportunity Grants (formerly Summer Youth Employment)	16-0174-0-1-504	984.00		984.00
04	WIA Adult Employment and Training (formerly JTPA IIA Training for Disadvantaged Adults & Youth)	16-0174-0-1-504/.01	827.00		827.00
05	Senior Community Service Employment	16-0175-0-1-504	483.00	53.13	536.13
06	Food Stamp Employment and Training Program	12-3505-0-1-605/.03	351.00	166.00	517.00
07	Migrant Training	16-0174-0-1-504/.11	83.00		83.00
08	YouthBuild	16-0174-0-1-504/.24	60.00		60.00
08	Native American Training	16-0174-0-1-504/.10	53.00		53.00
Training Total			**5,567.58**	**759.13**	**6,326.71**
Services					
01	TANF Block Grant Services	75-1552-0-1-609	5,704.09	1,383.00	7,087.09
02	Title XX Social Services Block Grant	75-1534-0-1-506	1,843.00		1,843.00
03	Community Service Block Grant	75-1536-0-1-506/3.01	654.00		654.00
03B	Social Services for Refugees Asylees and Humanitarian Cases	75-1503-0-1-609/.01	592.00		592.00
04	Title III Aging Americans Act	75-0142-0-1-506	351.00		351.00
05	Legal Services Block Grant	75-0142-0-1-506	346.00		346.00
06	Family Planning	75-0350-0-1-550/.32	300.00		300.00
07	Emergency Food and Shelter Program	58-0103-0-1-605; 70-0707-0-1-605/1.01	154.00		154.00
08	Healthy Marriage and Responsible Fatherhood Grants	75-1552-0-1-609/.09	150.00		150.00
09	Americorps/ Volunteers in Service to America	95-2728-0-1-506/.04	93.00		93.00
Services Total			**10,187.09**	**1,383.00**	**11,570.09**
Child Care and Child Development					
01	Headstart	75-1536-0-1-506/1.01	6,877.00	1,719.25	8,596.25
02	Childcare and Child Development Block Grant	75-1515-0-1-609/.01	4,164.00	2,176.00	6,340.00
03	TANF Block Grant Child Care	75-1552-0-1-609	1,735.67	1,045.00	2,780.67
Child Care and Child Development			**12,776.67**	**4,940.25**	**17,716.92**
Community Development					
01	Community Development Block Grant	86-0162-0-1-451	7,849.00		7,849.00
02	Economic Development Administration (Commerce)	13-2050-0-1-452	238.00		238.00
03	Appalachian Regional Development	46-0200-0-1-452	74.00		74.00
04	Empowerment Zones, Enterprise Communities, Renewal Communities	86-0315-0-1-451	17.00		17.00
05	UDAG—Urban Development Action Grant	86-0170-0-1-451	3.00		3.00
Community Development Total			**8,181.00**	**0.00**	**8,181.00**
2008 Total			**522,346.74**	**191,615.37**	**714,121.41**

Source: The Heritage Foundation, from current and previous presidential budget and OMB documents, and other historical data from official government agency Web sites and resources.

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Chairman DAVIS. I think we will have a chance to get into this a little bit more as we move to questions, which we are going to do now.

I will go ahead and open. First, for Ms. Brown, based on your March report and today's testimony thus far, what can you tell us about the current number of welfare and related programs this subcommittee oversees, along with complementary tax credit programs?

Is the current number of such programs at an all time high?

Ms. BROWN. When we prepared the testimony for today, we looked at a selected number of programs under this committee, and we actually are considering right now what our next steps will be for the next round of our mandatory reporting next year, and as we do that, one of the things that we are considering is whether we should be looking at the full gamut of programs in this committee.

Because I know there are certain programs at HHS, I have not mentioned, such as Runaway and Homeless Youth and Tribal TANF and a lot of smaller programs that we did not include in our testimony today.

Chairman DAVIS. Hopefully, we will be able to receive some more information on that as we continue on this dialogue.

How about spending on those programs? Have we ever spent more on those programs than in the past two years?

Ms. BROWN. Than in the past two years? We did not do a spending analysis, but I would assume that with the Recovery Act funds the spending was higher than it has been, and——

Chairman DAVIS. So you would say we are spending higher. We are at the highest all time level now.

Ms. BROWN. I do not know where the spending level is now, after the end of the Recovery Act funding or the partial end.

Chairman DAVIS. Okay, and finally, what do we know about current deficits? Have they ever been greater?

Ms. BROWN. GAO is on record as saying that we are very concerned about the deficit, and that we think there needs to be a serious effort to look at what changes need to be done in order to bring the deficit back in line.

Chairman DAVIS. But would you say that this is an all time high?

Ms. BROWN. I am not the budget expert either at GAO. Sorry.

Chairman DAVIS. Okay. Well, I think the numbers are fairly straightforward. We have some fairly substantial deficits.

Just in closing, Mr. Rector, would you care to comment specifically about welfare and related programs, their number and amounts spent and contributions to the deficit and debt?

Mr. RECTOR. Well, I only look at major welfare programs which spend more than, say, $15 million a year. Those are at a record high. The level of spending after adjustment for inflation is also at a record high.

I would also comment that it was at a record high before the recession began, and again, the trick about this is if you look at that pattern of spending, when you have a recession, this aggregate spending tends to jump up by 20, 30, 40 percent, and then it never comes back down.

So we are now at a record high, but each year in the future, it is going to continue to go up. We cannot afford that level of spending. We are basically borrowing from the Chinese in order to spend $1 trillion a year on means tested welfare here.

Chairman DAVIS. As we move forward in continuing discussions on reforms of the process and just looking at this from an engineering perspective in my professional background, I see so many of the challenges really have to do with not simply spending, but also the processes that do not communicate between the agencies and the lack of interlinkage. Integration done right could be a very powerful tool.

The challenge that we sometimes face in this is thinking that we will just keep pouring water into the swamp without actually addressing the issue of the obstacles that we face inside of that. I am hopeful that we can talk about integrated information systems, process improvements that would have a natural effect of removing redundancy as we continue the dialogue and working closely with my friend Mr. Doggett.

Would you like to inquire?

Mr. DOGGETT. I certainly would.

Thank each of you for your testimony.

Mr. Rector, your testimony refers to 69 means tested programs. Would it be convenient for you this week to supply the committee with the specific identity you described? You categorize them in your written testimony, of those 69 programs?

Mr. RECTOR. They are in the back of my testimony.

Mr. DOGGETT. Oh, okay. I just did not look far enough.

Mr. RECTOR. Okay.

Mr. DOGGETT. And you do note in your written testimony that over half of this money spent in these programs relates to health care and over half of it is spending devoted to the disabled and the elderly.

Mr. RECTOR. Yes.

Mr. DOGGETT. Dr. Pavetti, looking at the initiative of the Republican Study Committee, they include, and I will check here in the back to see if they are included in Mr. Rector's testimony, the Pell Grants, Head Start, among others. What will be the effect of the kind of reductions that the Republican Study Committee proposed in those programs on the folks that rely on them now?

Ms. PAVETTI. We estimate that you would see over $2 trillion in cuts for the low income people in six years from what is proposed, and they would have a disproportionate impact on elderly and disabled individuals, as well children who are the primary beneficiaries.

I think both what Mr. Rector presented and what is in the Republican Study Committee does something that I think we have never seen before, which is to apply the term "welfare" to programs that nobody really thinks of as welfare.

Mr. DOGGETT. Yes. Now that I have made it to the appendix to his testimony, the largest one in education, over half of the education expenditures of which he complains is in Pell grants.

Ms. PAVETTI. Pell grants is one.

Mr. DOGGETT. I do not think most students, most Americans view that student financial assistance so that someone can get all the education they are willing to work for as welfare.

Ms. PAVETTI. Right, and if you look at the income support ones, SSI is on there, and SSI is the way in which we provide assistance to people who go through a very lengthy process of demonstrating that they are disabled and not able to work and have not been able to enter the labor market.

So I think that, again, it lumps together a lot of things that I think have very different purposes, and I think rather than making clearer what we are spending, it actually muddies the waters and makes it harder to have a very informed discussion about what our priorities should be and how we want to try and help to make a difference in people's lives.

Mr. DOGGETT. As to the job training programs within this subcommittee's jurisdiction, you referenced Utah as an example of how we can, and we have actually had some testimony previously from Utah in the subcommittee, but you reference them as an example of what we can do and what the limits of what we can do in eliminating duplication might be.

To the extent that there are continued challenges in Utah with developing common goals for these different programs, is that something that you think we should be addressing at the Federal level or is this a matter of the States needing to do a better job?

Ms. PAVETTI. Well, the States can do a better job, but there are also constraints that are Federal constraints, and within this committee's jurisdiction is TANF, and that is up for reauthorization, and the TANF rules are incredibly restrictive, and they really do create huge constraints at the State level. So if those are not changed and if States are not given more flexibility to be able to make some changes so that they can be consistent with other programs, States really cannot come up with completely integrated systems and treat all people the same who come in their door based on their needs rather than whether they are eligible for one program or for another.

Mr. DOGGETT. Do you have some specific recommendations that you might supplement your testimony to the committee for what we should be doing in the reauthorization of TANF to accomplish that objective?

Ms. PAVETTI. Sure, I can do that. I can definitely do that.

Mr. DOGGETT. And, Ms. Brown, you mentioned that one of these areas for further study relates to not really being able to determine how the States are using their TANF money, and that is something we hopefully will get more information on this year, isn't it?

Ms. BROWN. Correct. We are concerned about the fact that the one major performance measure for TANF is focused on work, and work activities, and that is perfectly appropriate, but the fact that the other uses for the funding for TANF are not tracked is a concern. We would like to know how those funds are being used.

It is important because they have increased significantly over time.

Mr. DOGGETT. Thank you.

Chairman DAVIS. Thank you very much. The gentleman's time has expired.

Mr. Paulsen.

Mr. PAULSEN. Thank you, Mr. Chairman, and also thanks for holding this hearing and for our witnesses for being here today.

Mr. Rector, maybe you can just comment real quickly, just to follow up on Dr. Pavetti's statement, but would you clarify from your perspective? Is the definition of welfare that you use any different than the standard definition of welfare?

Mr. RECTOR. No, it is pretty much the same. For example, right here, this document in my hand is the Congressional Research Service. "Cash and non-cash benefits for persons with limited income." It lists means tested welfare.

There is a 98.5 percent overlap between the programs that I have in my list and what are in this CRS report. This other book is the most common book written on welfare. You would find various versions of this book in every college library for the last 30 years. It is titled, "Programs in Aid of the Poor." Every single program that is on my list is in this book. This is the standard text.

In fact, what she is talking about, which is what the center has done for 20 years, is any time you try to talk about massive total spending close to $1 trillion, they will pull out one or two programs and quibble. They used to pull out veterans programs that are about one percent of this total and try to obscure the issue by that.

The fact of the matter is 90 percent of this spending is cash, food, housing, medical care for low income people. Agreed, half of it does go to the elderly and disabled. Roughly the other half goes to families with children, but the bottom line is the public is totally unaware that we are spending virtually any of this money. People think we ended welfare aid to the poor back in the 1990s. When I tell them that we are spending close to $1 trillion a year, everyone is simply astonished. We do not report it.

Mr. PAULSEN. Thank you.

And I know beyond the wasted funds that, you know, we are talking about with this hearing and all of the duplicative programs, and I cannot imagine how confusing it must be for families to have to navigate some of these programs that they are applying for, but, Ms. Brown, can you comment?

I think maybe one of the most discouraging parts of your testimony that you mentioned is when you stated that the need for improving the administration of these programs has actually been voiced recurrently for several decades, and you talked about some of the changes in, I guess, the 1996 welfare reforms and what States have been going through in terms of granting, using more flexibility in implementing new programs would need to be looked at, and simpler policies, better technologies are available.

Knowing that that is the case and there is more innovation out there, and as you have looked at the evaluation, what can this subcommittee do or what should we be doing to improve the way these programs operate or the way they are administered so that we can actually reduce these inefficiencies and save taxpayer money?

Ms. BROWN. I think regardless of how many programs you want to consider, the most important thing is to be clear on what we want these programs to achieve and who we want to be served and how we are going to measure that.

And to the extent that there are barriers that were discussed as far as different kinds of performance measures or constraints in sharing data, those are the kinds of things that you could help with.

Mr. PAULSEN. Okay. Mr. Rector, do you have any follow-up to that in terms of measuring for this subcommittee to actually look at and dive into?

Mr. RECTOR. Well, the bottom line is you really have to have some awareness of how much is being spent. When I look at these numbers, it clearly suggests to me that you are spending close to $30,000 for each low income family with children. I cannot imagine where that money goes, but if you just take the total amount that is going out the door, which is over 400 billion, divide it by any measure of low income households, you come up with this very, very large number.

We have to begin to understand this, and we do not understand it because effectively the entire discussion about the welfare state is as if you had a jigsaw puzzle with 69 pieces. You threw them all over the room, and then you have hearings about one piece at a time.

I have been doing this for 25 years. When you have that hearing, you pretend that that single piece, that single program is the only thing that affects low income people. In fact it would be very difficult to find a family that receives assistance from only one program. They receive assistance from a half a dozen, a dozen programs piled on top of each other, and we have no idea what they are getting. We have no idea of basically how much we are spending, and we are spending ourselves into bankruptcy here. We have to get this under control.

Mr. PAULSEN. Well, obviously, if we were starting a brand new Government from scratch, I mean, do any of you think that we would have 47 education and training programs, nine child welfare programs, four child care programs, and six income support programs if we established a Government or set it up?

I mean, given where we are, I guess we are trying the task now of what is the best path forward. Any thoughts on that? I cannot imagine that we would have all of these duplicative programs if we were starting from scratch.

Ms. PAVETTI. I think we probably would not have those if we were starting from scratch, but I think what I tried to say in my testimony, and I think it is important is part of why we have multiple programs is because of limited funding that is not sufficient to serve all those in need. Targeted programs are created so that people who do not get access, have a greater chance of being served.

Chairman DAVIS. Thank you.

Ms. PAVETTI. If you had one program, you would have the issue of trying to make sure that there is equity in who gets access.

Chairman DAVIS. The gentleman's time has expired.

I think the gentleman raised a compelling question. Perhaps each of you would submit comments for the record.

Kay E. Brown Comments for the Record

April 5, 2011 Hearing

Subcommittee on Human Resources

Committee on Ways and Means

Q: Chairman Davis asked witnesses at the hearing to submit comments for the record to address a comment and question from Representative Paulsen. Rep. Paulsen commented that we would not likely have all of these programs if we were starting from scratch and asked about the best path forward, given where we are now.

A: As we know, the patchwork of programs that I described in my testimony was not specifically designed this way but instead evolved over time to meet new needs or, as Chairman Davis noted, to work around a problem in an existing program. As a result, and because of the wide array of services provided to meet individuals' and families' needs, it is not surprising to see various entities involved, with some fragmentation of administration, some overlap in populations served, and some duplication of services offered. In some instances, these features may be warranted, for example, when certain populations have a specific need for specialized services that the existing programs as structured cannot meet. In addition, the exact dollar savings that would accrue from changes are very difficult to calculate, in part because so many of these programs are operated at the state level and have varied administrative structures. However, I agree that we need to do more to identify and minimize the extent of fragmentation, overlap, and duplication to improve program administration.

In my testimony, I identified three approaches to reducing inefficiencies in human services program. I also highlighted the need to work collaboratively with other entities and to move cautiously. Millions of individuals and families rely on this complex system and there are no quick and easy solutions to simplify and improve this system. I have repeated these approaches here with some examples under each.

1. Simplifying policies and processes--Among related programs, look for ways to align definitions, performance standards, and reporting and verification requirements in law or in federal agency regulations for your programs and for related programs under the jurisdiction of other committees. This could occur during reauthorizations or budget deliberations. Many believe that simplifying the administrative requirements for managing program funds would ease states' administrative workload and reduce administrative spending.

2. Facilitating technology enhancements--At this Subcommittee's March 11, 2011, hearing on data sharing, Chairman Davis said in his opening statement that it will take working with other committees to increase data sharing among programs to improve program efficiency and save costs. Collaborative efforts like that will be important to making progress. The Subcommittee may also want to pay attention to federal rules and practices for overseeing and facilitating technology innovations that occur across programs in the states. For example, states have told us in the past that it is difficult to get federal approval for technologies that cut across multiple programs.

3. Fostering state innovation and evaluation for evidence-based decisionmaking--Look for ways to build in evaluations and consider rigorous studies of programs' effectiveness and efficiencies when reauthorizing programs and making budgetary decisions. Related to this, the Partnership Fund for Program Integrity Innovation project--noted in my testimony--that brings together federal agencies and state program administrators to identify, test, and evaluate ideas for improving federal assistance programs warrants attention as it moves forward.

Also related to program evaluation and performance, in January 2011, the President signed the GPRA Modernization Act of 2010, updating the almost two-decades-old Government Performance and Results Act (GPRA). Implementing provisions of the new act--such as its emphasis on establishing outcome-oriented goals covering a limited number of crosscutting policy areas--could play an important role in clarifying desired outcomes, addressing program performance spanning multiple organizations, and facilitating future actions to reduce unnecessary duplication, overlap, and fragmentation. Continued oversight by Congress will be critical to ensuring that unnecessary duplication, overlap, and fragmentation are addressed.

Recently, the Comptroller General, in testifying on GAO's governmentwide work on potential duplication, overlap, and fragmentation among federal programs and activities, said that careful, thoughtful actions will be needed to address many of the issues raised by our work. These are difficult issues to address because they may require agencies and Congress to re-examine within and across various mission areas the fundamental structure, operation, funding, and performance of a number of long-standing federal programs or activities with entrenched constituencies. As for so much of government, this applies in the area of human services programs designed to help people in need.

April 14, 2011

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To: Chairman Davis

From: LaDonna Pavetti, Vice President, Family Income Support

Date: April 14, 2011

Subject: Response to questions from hearing on program integration and duplication

Please find below answers to questions for which I indicated I would provide additional information at the hearing on program integration and duplication.

What is the best path forward if we are trying to integrate programs rather than simply create more overhead in the long run?

The best starting point for charting a path forward is to lay out clear goals for the income support and related programs under the Subcommittee's jurisdiction. Some goals they committee might want to consider include the following:

(1) Provide a safety net for families and individuals when they are unable to work, either because jobs are not available or because they are facing a personal or family crisis or short or long-term health or mental health issues that limit their ability to work.
(2) Provide resources to help disadvantaged families and individuals who are either unemployed or underemployed to improve their employment prospects, thereby reducing their reliance on government assistance over the long-term.
(3) Provide the resources necessary to protect children from harm and to ensure they are prepared to enter school ready to learn and to become the highly skilled workforce that the country needs to prosper.
(4) Provide work supports for individuals who earn too little to meet their basic needs and whose employers do not provide access to basic benefits such as health insurance.

With clear goals to guide deliberations, it would then be possible to examine what contribution each program makes to achieving those goals. Adopting an evidence-based approach would provide a systematic framework for decision making. This would allow *all* programs to be considered on their merits and would not single out low-income programs for harsher treatment than programs targeted to other individuals or corporations. Evidence could be used to decide which programs are worthy of continuation as is, which show promise but need improvement, and which have failed to live up to their promise and should be eliminated.

It is also important to consider why programs that appear to be duplicative exist. Were they created because other programs were not meeting some portion of the target population's needs, or were they intentionally created to expand the range of programs available to individuals or families? Is the rationale that led to the creation of the array of seemingly similar programs still valid? What are the costs and benefits of integrating and/or consolidating similar programs? Who are the winners and losers?

What appears duplicative in theory may not be duplicative in practice. In addition, program duplication is not always bad. Sometimes, duplication helps to make sure that groups who would otherwise be left out receive services. Or, they provided a somewhat different set of services to a group with special needs, even though they may aim to achieve the same goals as more broadly targeted programs.

Just from my own professional experience, oftentimes we will create a program around a program that is a work-around to a systemic flaw, and our hope, and Mr. Doggett and I have talked about this before, is looking at ways to integrate rather than simply create more overhead in the long run.

The efficient use of taxpayer dollars is a very important and germane discussion that members care about on both sides.

With that, I would like to recognize Ms. Black from Tennessee.

Mrs. BLACK. Thank you, Mr. Chairman.

And thank you, panel, for being here today.

I want to go to you, Mr. Rector, and your written comment and I think you also shared it with us verbally, is that since the beginning of the War on Poverty, spending on the poor has increased 13 fold after adjusting for inflation, and yet throughout the steady 40-year climb in spending there is still this shrill claim that the poor are being slashed.

What I have seen in my nursing days over the last 40 years is that we have these programs, and I have worked with people in these program, and yet I do not see that the programs really are doing what we want them to do. If our goal is to get people out of poverty and move them on, it does not appear that these programs are working.

So we seem to be doing the same things over and over and over again, and you are not getting results.

What I would like each of the panelists to talk a little bit about is about the measurement. I think, Ms. Brown, you just mentioned it, about measuring, and there is one particular program for infant mortality back in the State of Tennessee that we adopted, and the thing that excited me so much about that is it actually is evidence based. It has measurements. It can show through metrics that it does work. It is worth the dollars that we are putting into the program

And yet when we looked at this program on infant mortality, we had like 37 different programs that were addressing infant mortality in our state, and none of them had metric tools to really say they were being effective.

And so what I would like to know is moving forward, as we look at these programs and we certainly see in all of these testimonies we have duplications of programs, what do you think we need to do in order to, first of all, put measurement tools on them and then to narrow them down so we can find best practices and find those that are really working where it will be value on our dollar?

Mr. RECTOR. If I can take the first part of this question: how can you increase spending 13 fold and spend over $16 trillion and still have press reports and the President saying that you slashed spending?

You just saw an example of it here. Since 2007, aggregate means tested spending has been increased by 50 percent, but did you see that in the New York Times? Did you see that in the Washington Post? Did you see that on CBS News? No.

The spending went up 50 percent. Now, the Republican Study Committee bill simply says why don't we take that spending, adjust it for inflation and bring it back down to where it was before the recession, and what was that? It is slashing the safety net.

So when spending goes up, it is invisible. It is off the screen. No one acknowledges it. We hide it in Washington. Then a few people try to say, hey, let's take it back to where we were before the recession, oh, my gosh, kids will be dying.

You know, I have watched this for 20 years. It happens over and over again. When spending goes up, it is invisible. If you try to apply the slightest constraint, then you are victimizing the poor and slashing the safety net.

Basically what we are doing here is flim-flamming the American taxpayer.

Ms. PAVETTI. Just on the measurement issue, I think we have made major progress measuring poverty in a way that actually captures what the safety net does. So if you look at Supplemental Nutrition Assistance, health care, those do not get counted in our standard poverty measure, and when they are counted you see that they have reduced poverty.

And in 2005, if you take a group of means tested programs, the EITC, SNAP, SSI and TANF, they kept 14 million people out of poverty and six million of those were kids. So if we did not have those programs, we would have much higher rates of poverty than we have now.

The other thing that is important, there are two other points that I think are important of what is going on. One is that because income inequality has increased and the labor market is very sluggish, low income programs have to work much harder to help people to stay above the poverty line. So part of it is a labor market issue.

The other is that health care costs across the economy, not only those that are targeted to the poor, are also increasing at faster rates than other programs, and that gets counted in what is going on in the overall spending.

Mrs. BLACK. Doctor, in all of these programs that you have looked at over your years of investigating these, do all of these programs have measurement tools to say at the end of the day this is what we want to achieve and this is what is being achieved and when it is not being achieved, that we go back and revisit it and either get rid of it or bring in a better program that does work?

Ms. PAVETTI. They do not, but some of them do, and I would say it is a credit to welfare reform——

Mrs. BLACK. What percentage?

Ms. PAVETTI. Pardon?

Mrs. BLACK. What percentage?

Ms. PAVETTI. I cannot tell you the percentage, but in welfare reform we invested a lot of money to identify what works best for whom, and so we need to, I think, continue to do that. And I think you are right. We do need to be able to do more measurement and to be able to make those choices about what works and what does not.

Mrs. BLACK. I can only say that in the State of Tennessee, in the programs that we looked at on the health care and the family programs, very, very few of them actually had metrics tools, and they were around for a number of years where they never went away because somebody had a stake in them, and they did not want to get rid of them because they belonged to someone.

Chairman DAVIS. Thank you very much. The gentlewoman's time has expired.

Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Program duplication is obviously a concern, but we know that only one out of four poor children in this country is covered. We have got 15 million kids in poverty. So there is a gap. There is not an overlap. It is a gap really that you are talking about here.

You have got 13 million people unemployed, and the Work Investment Program only covers 300,000 of the 13 million. So it is hard for me to know what in the world this hearing is all about. It really ought to be about the gaps in the safety net that we have.

I was interested in listening to you, and I was thinking. I saw on television on 60 Minutes a program about a couple. She was 40 years old and he is about 45, and they had two jobs and they were making about $70,000 between them and they lost that. They lost their jobs. And then they ran out of their unemployment insurance, and they lost their home, and they moved into their car with their three kids. So they are living in their car.

And then they got a little money. They found a little job and they got a little bit of money. So they moved up. The kids said it was a lot better now that we are living in a motel room, five people living in a motel room.

Now tell me what programs they are eligible for. These are middle class people making $75,000 a year and suddenly go to nothing. Their unemployment runs out. What do they have available to them to keep their family together and keep their kids from being hungry?

The kids talked about taking their bath in the morning in the Walmart bathroom. They were parked in the Walmart parking lot. So they went in to use the bathroom, right?

What is available to them? What is available to somebody in these programs?

Ms. PAVETTI. Well, in every state they would be eligible for food stamps.

Mr. MCDERMOTT. Ah, food stamps. How much do they get in food stamps?

Ms. PAVETTI. It depends on their family size, but for a family of three, the maximum benefit is $526. The actual amount a family receives depends on their income and expenses.

Mr. MCDERMOTT. Okay. So they would be eligible for $300 a month worth of food.

Ms. PAVETTI. And then depending on their circumstances and what State they are in, they may or may not be eligible for TANF benefits, and that in the median State is $429 for the month.

Mr. MCDERMOTT. Depending on what State they're in. You mean it is different from State to State?

Ms. PAVETTI. It is. It is very different from State to State.

Mr. MCDERMOTT. You mean we allow the States to have different standards for people?

Ms. PAVETTI. Completely. In TANF, yes.

Mr. MCDERMOTT. So you have got to be careful where you are poor is what you are saying.

Ms. PAVETTI. Yes, and what we saw in the recession was some States actually responded to the recession quite well and others did not respond at all, and their case loads actually went down.

Mr. MCDERMOTT. Like Michigan that just reduced its unemployment benefits.

Ms. PAVETTI. Right, and in Michigan, their TANF case load did not go up even though their unemployment rate was very high. Their case load did not respond much to the recession.

Mr. MCDERMOTT. Now, I mean, we hear this testimony that all of these people are welfare cases, and I have never heard the elderly and the disabled called welfare cases before. That is a kind of pejorative term related to people who do not try, right?

Ms. PAVETTI. Right, and also Mr. Rector pointed to the books, but those say for the poor and not welfare. I think that term "welfare" is what is very misleading. It is often used as a very pejorative term for people who are not working and receiving public benefits, and I think that is the problem.

When you start talking about child care, which many people believe we should be providing to help people go to work, that we should be providing extra help to low income schools to help kids bridge the gap—those are not what people think about when they think about welfare programs, and that is what is included.

Yes, they are programs for the poor, but they are not what we think of as welfare.

Mr. MCDERMOTT. If I can get one other question here, the inflated figure he uses, this huge number, God, it just blows your socks off. Is any of that health care?

Ms. PAVETTI. A huge portion of that is health care. In fact, not only is it health care, but one of the problems is that Medicaid is actually a very lean program, and what we have seen in Medicaid is that about a quarter of the beneficiaries incurs about two-thirds of the cost because it includes elderly and disabled who have much higher Medicaid costs.

Mr. MCDERMOTT. In Medicaid?

Ms. PAVETTI. In Medicaid, yes.

Mr. MCDERMOTT. Okay. So the solution would be to get rid of the Medicaid program and just let people kind of go out and figure out whatever they can do, right? You could save a lot of money that way, right?

Ms. PAVETTI. Well, actually because Medicaid is a lean program, if you look at Medicaid per beneficiary cost in comparison to the private market, it actually is a lower cost. So if you put it into the private market, it would actually have increased costs, not lowered cost.

Mr. MCDERMOTT. Thank you.

Chairman DAVIS. Thank you. The gentleman's time is expired. I would like to recognize Mr. Berg from North Dakota.

Mr. BERG. Thank you, Mr. Chairman. Thank you for being here to present.

I just enjoy some of this perspective. Certainly Representative Paulsen said, you know, if we are going to start over we would not start this way. You know, it is kind of interesting. You look at how did we get here. Well, we get here because of Government.

I mean, how do you get more money? You do not get more money by increasing a program. You get more money by having a new program, and so it mushrooms out and mushrooms out.

I mean, I am sitting here, and I looked at Mr. Rector's chart, and I assumed it was a roller coaster, and I am sitting here just stunned that it is not, that it keeps going up, it keeps going up, it keeps going up.

I mean, I think our goal has been in North Dakota where we have three and a half percent unemployment; each State is different. There is on questions about it, and I think the ability to have a safety net that helps empower people, helps them be on their own is huge.

I think what has not been said is one of the biggest problems in this whole situation is if you have 69 different programs, think of the beneficiary. How do they maneuver from program to program to program? It seems to me that the benefit of having this more consolidated and uniform would prevent people from falling through the cracks and falling through the gaps.

So a couple of questions. One question is you had mentioned, Mr. Rector, about the $30,000 per family. When you just take the top line, here is the number.

Mr. RECTOR. Right.

Mr. BERG. And here are the people. Could you just restate that? Then, Doctor, I would like you to respond to that.

Mr. RECTOR. Well, the bottom line is I have written a fairly long monograph about this. If you do not want to call this spending "welfare," which liberals do not, okay. You can call it aid to the poor, but the fact to the matter is that we are spending about $940 billion on means tested aid, which are programs targeted toward poor and low income people. Basically any document would show.

And all of this discussion is usually one program at a time. We just heard Mr. McDermott say one out of four children are covered. Covered by what? It would be very difficult to find any poor child in the United States who is not covered by multiple programs. But if you look at one program at a time, you can always discover, oh, look. Somebody is not covered. It is just ridiculous.

But the bottom line is that roughly half of this spending, over $400 billion a year, clearly goes to families with children, say $450 billion a year. Now, there are only 44 million families with children in the whole United States. So if you gave every single family this money just in cash it would come to $10,000 a family.

Now, this spending is concentrated on the poor. So if you take this money and give it to the bottom third, the lowest income third of families with children, that is about 14 million families. Okay? You divide 450 million by that amount; you come up to something that is a very, very large number per family.

The problem is not so much duplication in my mind as the simple massive fragmentation of spending which makes it impossible for you as decision makers to even understand where this money is going. And I have been doing this for 30 years. I do not know where this money is going, but it is an amazing amount of money.

When it goes up, it is off the charts. If you try to bring it down, it is——

Mr. BERG. Dr. Pavetti.

Ms. PAVETTI. I think that Mr. Rector does not provide enough detail to know what is included, what he includes when he talks about money going to children with families, but as I said, you know, if you think about what the amount of cash that is going to families, it is very low. The amount of food stamps is very low. So the amount of money that low income families actually have in their hands is actually quite small.

But I think that what gets counted is community development block grants. What gets counted is Title I money that goes to schools. So that is going to pay teacher. You are getting health care in there. That is going to pay doctors and hospitals. So a lot of that money is going to pay for services, and it is not actually going directly to poor people.

So I think it is a misleading number of what it actually means, and I think that if we had more detail we could have a better conversation about——

Mr. BERG. It is kind of a stark contrast to look at that big number and say what could you do if that were really focused on a family. It seems huge.

But I have another question. Earlier this week we had Dr. Lazera who was in, and he really talked about as the size of Government grows, it put a damper on the private sector, and really that is kind of what we are talking about here. How do we reverse that?

And really to cut to the quick, Mr. Rector, looking at this report, which programs would you recommend that we look into first in terms of consolidating?

Mr. RECTOR. The first thing you need to do is just what a family would do. The way that you have been running the welfare system for 40 years is as if you are a supermarket and you go down the aisle and say, “Oh, that looks good and that looks good,” and you put it in the cart and you never add up the total amount of the cost in the cart.

Would you be spending too much money then? Of course you would. Suppose you ran the entire Federal budget that way. Just we identify this problem; we identify that problem; and we spend money. We never add it up.

You have got to get this total package under control or you will bankrupt the country. Just roll back this spending to where it was before the recession began.

Chairman DAVIS. Thank you, Mr. Rector. The gentleman’s time has expired.

Mr. Boustany, you are recognized for five minutes.

Mr. BOUSTANY. Thank you, Mr. Chairman.

Dr. Pavetti, Mr. Rector has testified that we currently spend $940 billion on means tested programs. A simple question: is that amount enough?

Ms. PAVETTI. I think it goes back to what we were talking about. I think that is a question that needs to be answered by what are we trying to accomplish, and are we accomplishing it. So I think it is just the wrong way to start with that question. I think we want to ask what do we want to accomplish for our country for low income Americans to help them move up the economic ladder, and then think about are we spending money in the right ways, and where can we get better savings so that we can achieve our goals.

Mr. BOUSTANY. So I was thinking about this, and just listening to the discussion. You know we talk about defining poverty, and I was thinking about the distinction between poverty and being poor, and then the whole idea of dependency on these programs, which is what leads to the cost.

If we say, okay, we are going to put people of limited means on these programs to take them out of poverty, yet they are still dependent, we are still spending money and we are not helping them move up the ladder to get off of the rolls of the dependency.

Mrs. BLACK. was talking about having the proper metrics in place, and so let's have a little discussion about that. I am asking all of the panel this question. Should we take each of these programs and devise metrics with an eye toward designing the program to get people off these programs? Is that what we should be doing?

I would like all of you to comment on that.

Ms. PAVETTI. I think that we need to think about what has happened in recent years. Our safety net is very different now than it was before, and we have much of our safety net that is really going to support low income working families because they cannot make enough to be able to meet their basic needs.

So what happened with welfare reform is that we saw the case loads decline and people move into the labor market, and the belief was that if people got on the first rung of the ladder they would move up, and that has not been borne out. There has been lots of research.

Mr. BOUSTANY. Mr. Rector, could you comment on that?

Mr. RECTOR. Sure. I would like to quote from my favorite welfare expert, President Lyndon Johnson. When Lyndon Johnson launched the War on Poverty back in 1964, he said (and we spent over $16 trillion on this, four times the amount we spent on all other wars in U.S. history after adjusting for inflation), he wanted a War on Poverty that would strike at "the causes, not just the consequences of poverty." He said, "Our aim is not only to relieve the symptoms of poverty but to, above all, prevent it."

I was just looking at the 1964 President's economic report where they said, you know, we could just take $25 billion and give it to the poor people and eliminate poverty, but that would be wrong. We do not want to do that. What we want to do is make the poor prosperous and self-sufficient.

Now, I would say we put $16 trillion into the War on Poverty, and everything is dramatically worse today than it was when we started out. The poor have less capacity for self-support than they ever have primarily because the poor do not work very much, even in good economic times. Able bodied heads of households work very little. Moreover, when Lyndon Johnson launched this War on Poverty, six percent of children were born outside of marriage. Today that number is 42 percent. About 75 percent of the welfare assistance for families with children is going to single mothers. The welfare system has enabled that decline of the family. The family's capacity for self-support has plummeted, and the taxpayer is stuck with the tab.

Mr. BOUSTANY. So you mentioned a couple of the factors that cause an increase in dependence and poverty. Are there others? Could you mention some others? Those are the big ones, obviously.

Mr. RECTOR. Those are the two biggest ones. The two major reasons that families are poor and on welfare are low levels of parental work and the high levels of single parenthood primarily among poorly educated mothers.

A third problem is immigration. We basically have imported vast numbers of poor people from abroad. We have about ten million immigrants in this country who do not have a high school degree.

About 15 to 20 percent of total welfare spending goes to those individuals.

If you bring people in from abroad who are high school dropouts, guess what. They cost a fortune. Those families cost about $10,000 a year in means tested welfare through their entire lives. Overall, they get about $30,000 a year in Government benefits, pay maybe eight, $10,000 in taxes. Every one of those families' is a net cost of $20,000 a year.

If you keep importing people who cannot support themselves, both poverty and welfare have to go up.

Chairman DAVIS. Thank you. The gentleman's time has expired.

Mr. Crowley.

Mr. CROWLEY. My grandfather came here without a high school diploma. So did all of my grandmothers.

Mr. RECTOR. Would you like me to comment?

Mr. CROWLEY. I am not asking you a question, sir, and the point I am making is that but for them coming to this country and working hard, I would not be a member of Congress today.

So I do not like the way in which people are being broadly disparaged based upon their immigration status in this country.

But thank you, Mr. Chairman, for holding this hearing today, and while I appreciate your focus on reducing unnecessary duplication and waste, I think we need to take a careful look at what we consider unnecessary duplication. I am concerned that some of the proposals we have heard would consider any programs that help families to be unnecessary duplicates, even if they are as widely different as heating assistance and job training.

It is not unnecessary to help American families; in fact, very necessary that we help American families, especially during these very difficult times.

Dr. Pavetti, we have heard a lot about increases in what some call welfare spending, and you have spoken about the Republicans' Welfare Act of 2011. This legislation would take a variety of Federal programs that provide benefit especially to low and middle income Americans and combine them into one program and cap funding for that program.

Is it correct that this bill includes Pell grants as so-called welfare spending?

Ms. PAVETTI. Yes, it does.

Mr. CROWLEY. Pell grants, as you know, provide a critical financial aid to students attending college. In many cases, they are the primary piece of the financial aid package that makes it possible for students in lower income and middle income families to attend college, to help make college affordable, especially private college, more affordable, not affordable, more affordable.

Sacrifice goes into that; working on the side to support a family and to also pursue your dreams. At a time when it became more difficult for families to afford a college education for their children, Democrats in Congress raised the amount of Pell grants and insured that more students can benefit from this assistance. So over 22,000 students in my district have been benefitted from Pell grants, and I think most of them would be shocked to see this counted as welfare, particularly since by going to college, they are working towards a better future where they hope to be self-sufficient.

We have even seen new data from the Department of Education that says Pell grant recipients are more likely to stay in school and complete their college education than their non-Pell receiving counterparts. I would even wonder how many of my colleagues on the other side of the aisle used Pell grants to make college affordable for themselves or for their families.

Maybe that is something for the Fourth Estate to investigate or to ask.

In your experience though, Doctor, have you found that Pell grants and a college education help sustain and allow students to improve their lives?

Ms. PAVETTI. Actually I have not done work on Pell grants, but I think one thing that is important is that one thing that we do know is that when people have the opportunity to get even short-term training that prepares them for better jobs, they have a better trajectory which allows them to go into higher paying jobs, which means they become less dependent.

Mr. CROWLEY. So would you suggest possibly that a lot of the talk about people in poverty being poor, wouldn't a college education help lift these individuals out of poverty?

Ms. PAVETTI. Yes, it would.

Mr. CROWLEY. Would you consider this excessive welfare spending that needs to be cut?

Ms. PAVETTI. No, not at all.

Mr. CROWLEY. The Republicans' proposal would combine the Pell grant program with other valuable but unrelated programs, such as Foster Care Assistance and Community Health Centers. Would you consider these programs to be duplicates or do they serve different goals?

Ms. PAVETTI. They serve very different goals.

Mr. CROWLEY. Let me delve further into this issue of funding for each of these programs under the Republican proposal. Would funding for Pell grants likely increase or decrease under this proposal?

Ms. PAVETTI. They would be almost certain to decrease.

Mr. CROWLEY. What about Community Health Care Centers?

Ms. PAVETTI. Same, they would almost certainly decrease.

Mr. CROWLEY. Thank you, Doctor.

We are already seeing Republican plans to cut Pell grants in their budget resolution released today which would cut the annual Federal allocation for Pell grants by about half, reducing the amount of the grant for those who do receive it and deny the grant completely to many American families today.

It seems to me the Republican target is not duplicative programming, but vital lifelines for millions of struggling American families today.

And with that I yield back the balance of my time.

Chairman DAVIS. I thank the gentleman, and I just remind him that Pell grants and Community Health Centers are not in our jurisdiction, nor are they a primary focus of our hearing today.

Mr. CROWLEY. I am sorry about that, Mr. Chairman.

Chairman DAVIS. But they are a worthy point for discussion at another moment.

Having the last word and not the least today will be the gentleman from Nebraska, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman, and our witnesses.

Dr. Pavetti, could you speak to how efficient the technology has been in terms of delivering some of the services? Have we been able to achieve any savings?

Ms. PAVETTI. You know, there are some States that have definitely achieved savings, and in my written testimony I have an example of Arizona that was facing increases in their case loads for public benefits because of the recession and they have lower staff available to do that because of budget cuts. And so what they did was to really re-engineer their process to do much more efficient services.

The other thing, there are a number of States that are really interested in trying to figure out how can they use technology better. How can they really avoid the duplication?

So there is a lot going on in States around this effort. The Ford Foundation has a major initiative. There are, I think, 27 States that applied to be part of that, to, again, try and really bring those programs together and make them much more efficient and particularly for working families, again, who really do not often make enough to make ends meet and need those supports to be able to continue to work.

Mr. SMITH. And I speak as a former State legislator, that sometimes these Federal mandates that have occurred over the last several years have been met with some consternation at the State level or at, say, the retail level as well.

I mean, can you speak to how necessary it has been for the Federal Government to mandate or how that has been leveraged?

Ms. PAVETTI. I think sort of "mandate" is the wrong word. I think one of the things that we have learned over the years is that States do not really understand how much flexibility they have to coordinate programs. So I think there is a lot that can be accomplished by really trying to create an environment where that is promoted, and the Obama administration has done that.

We saw that particularly with the TANF Emergency Fund where they worked very hard to make sure the Department of Labor and the Department of Agriculture and HHS were working together to provide guidance. So they really did work together, and there are agencies that said they had never worked together before and that really did bring them together.

So I think there are things that they can do, and they need sort of some guidance on how to actually do that.

Mr. SMITH. Now I hear you saying that there might be some situations where or there are some situations where the request for assistance did not follow the same trend lines as the economy itself. Is that accurate?

Ms. PAVETTI. That is very true, and I can provide you with a paper we did that shows State by State where we look at what happened where States did have increases and people did have access to assistance and where they did not. So you do see this. It really is a 50-State story, where some States, really their programs were very responsive, and there are other States that were not responsive at all.

Mr. SMITH. So is it fair to say that even in unprecedented times of economic growth there was still increasing requests for public assistance?

Ms. PAVETTI. There was not. In fact, what you see is that the case loads, and I can provide this to the committee as well; you see what happened is that the increase in employment was really quite striking shortly after welfare reform was implemented, and that really tracked the economy and what was going on.

When the economy started to falter, we see that increase going down, and we saw very slight increases in the TANF case load, but in general the trend of the TANF case load has been going down.

Food stamps tend to track much more the economy. So it goes up when the economy is very weak and it comes back down when the economy recovers. So that there are people who really turn to it when they have no other sources of income.

And one thing we have seen in both of those programs is there are a very large fraction of people who use those programs who either are employed or have been previously employed and have lost their employment.

Mr. SMITH. Okay. So reflecting on Mr. McDermott's scenario where I believe he knows of an actual family who was living out of their car, I mean was that more a function of no programs or services available or what needs to be done to address something like that?

Ms. PAVETTI. Well, I think that one of the issues is that for a family, the resources are so low that it's hard to find even a—you know, when you get a median of $426, to find a place to live on that so that even if they did get the benefits, it does not mean that it could help them to get out of that situation. They probably would have needed more assistance at least at the initial to be able to figure out how to make that initial transition.

They could have gotten food assistance to be able to at least have food to be able to feed their family. But, again, it depends on what State they were in, and there are half of the States that they would have gotten less than $426.

Mr. SMITH. They were from Florida.

Ms. PAVETTI. They were from Florida. I do not know exactly off the top of my head, but I think Florida's benefit is around $300. So I do not know if you can find a place to live in florida for $300 a month, but my guess is it would be quite difficult.

Chairman DAVIS. I thank the gentleman. His time has expired.

And I would like to thank all of you for taking the time to come in and appear today. These are very complex issues. It would be nice if we had an unlimited amount of time. Unfortunately, we do not on this day, but we look forward to a continuing dialogue and we look forward to your continued comments.

If members have any additional questions, they will submit them to you in writing directly, and we would appreciate your responses back to the committee for the record.

With that, thank you, and the committee stands adjourned.

[Whereupon, at 3:29 p.m., the subcommittee was adjourned.]

[Submissions for the Record follow:]

Elizabeth Lower-Basch, statement

CLASP
policy solutions that work for low-income people

Elizabeth Lower-Basch
Center for Law and Social Policy
Testimony for the Record

April 5, 2011

Hearing on GAO Report on Duplication of Government Programs
Focus on Welfare and Related Programs

Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives

1200 18th Street NW • Suite 200 • Washington, DC 20036 • p (202) 906.8000 • f (202) 842.2885 • www.clasp.org

Mr. Chairman, Members of the Committee, thank you for the opportunity to testify regarding how the Temporary Assistance for Needy Families (TANF) block grant fits into the range of federal programs that provide income support and workforce services. CLASP develops and advocates for policies at the federal, state and local levels that improve the lives of low income people. In particular, we focus on policies that strengthen families and create pathways to education and work.

We believe that income support programs should meet basic needs, reward work, and strengthen families. These programs should be coordinated into a system of benefits that is easy to access, unstigmatized, responsive to economic hardship, open to all, and fully funded. Education and training are drivers of economic mobility and opportunity, and low-wage workers and low-income individuals need access to them to enter and advance in the labor market.

In his testimony before the committee, Mr. Rector suggested that most poor families receive benefits from six or twelve different programs. This is simply not true. The most commonly received benefits for low-income families are the Earned Income Tax Credit (EITC), and public health insurance, particularly for children, through either Medicaid or the Children's Health Insurance Program (CHIP). An Urban Institute study using data from the 2002 National Survey of America's Families found that 73.5 percent of poor families with children received health insurance from one of these programs, and 71.6 percent of poor families with children received the Earned Income Tax Credit (EITC). Just under half of poor families with children received both, but about 20 percent received one but not the other.[1] This is not particularly surprising, given that one is administered through state health or social service agencies, using monthly income data, and the other is received through filing an income tax return, and is based on annual earned income.

Perhaps more surprising is that almost a quarter of poor children receive SNAP but not public health insurance, or vice versa. A recent Center on Budget and Policy Priorities analysis found that 58 percent of poor citizen children received both SNAP benefits and health insurance from Medicaid or CHIP. Just under one-fifth (19 percent) received health insurance but not food stamps; 9 percent received food stamps but not health insurance, and 14 percent received neither.[2] This means that a significant share of poor families who have interacted with the system enough to establish eligibility for one program were not simultaneously enrolled in the other, even though almost all of these children were likely eligible for both.[3]

That said, it is true that a small share of families do receive benefits from multiple programs. The Urban Institute found that 5.6 percent of poor families with children received EITC, Medicaid, food stamps, and assistance paying for child care. Strikingly, this was five times more

[1] Calculated from Table 5 in S. Zedlewski, et al, *Is There a System Supporting Low-Income Families, Urban Institute*, February 2006, http://www.urban.org/health_policy/url.cfm?ID=311282.
[2] D. Rosenbaum and S. Dean, *Improving the Delivery of Key Work Supports: Policy & Practice Opportunities at a Key Moment,* Center on Budget and Policy Priorities, February 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=3408. Similar patterns of cross-program participation, although lower levels, were found in the earlier Urban Institute study.
[3] While eligibility for CHIP goes to much higher income levels than for SNAP, these figures only refer to poor families, whose income is under the SNAP limits. Some might have been ineligible either because the SNAP household is not the same as the family or due to asset limits.

common among families that had recently left cash assistance than among families that had never received welfare.[4] Only part of this difference is explained by states giving priority for limited child care funding to families transitioning from welfare. Another factor is that the TANF agency often acts as a guide to the range of benefit programs. Low-income families that do not enter through the cash assistance door often lack such a guide, and fail to receive programs for which they are eligible.

In the Government Accountability Office (GAO) testimony for this hearing, Ms. Brown describes the array of human services programs as "fragmented and overly complex." This is certainly true. This complexity increases administrative costs, and makes it difficult for needy individuals and families to receive the benefits and services for which they are eligible. However, in many cases this complexity is the result of deliberate legislative choices and varying policy priorities.

For example, TANF cash assistance programs and Supplemental Security Income both provide cash assistance and are both means-tested, but they serve different populations, and have fundamentally different expectations for recipients: one serves low-income families with children on a time-limited basis, and has a strong expectation of work, while the other serves low-income seniors, blind individuals and individuals with disabilities so severe that they have been determined to be unable to support themselves through work. TANF benefits vary greatly from state to state, and are generally low, while SSI benefits are set at a national level and adjusted annually for inflation. To call these benefits "duplicative" is misleading at best.

In other cases, states have chosen to use funds that Congress intentionally designed to be flexible to meet varying needs. Often this is because critical programs are significantly underfunded and a state chooses to use the flexible funds to help make up the difference. Consider child welfare funding. While the primary dedicated funding sources are Title IV-B and Title IV-E of the Social Security Act, they make up just over half of federal child welfare expenditures. States supplement these funds with TANF, SSBG and Medicaid funds. It's ludicrous to consider such supplementation to be duplication when we currently provide absolutely no services (not foster care, counseling, or anything else) to 40 percent of children whom we have investigated and found to have been abused or neglected.[5] States are just trying to piece together the funding streams available to serve as many children and families as they can.

Likewise, the Child Care and Development Block Grant only provides funding to cover a small fraction of the families that need assistance in order to be able to afford quality child care, about one in six federally eligible children before the recession. Many states have chosen to use a portion of their TANF funding to supplement their allocations, either through transfers or direct TANF spending on child care. In nearly all states, these subsidies are provided through a single system regardless of source, and the origin of the funding is invisible to the families receiving subsidies. These funds do not provide duplicative services, but instead extend child care assistance to more eligible families to help them find a safe place for their children while they go to work.

[4] Table 5 in Zedlewski et al.
[5] U.S. Department of Health and Human Services, *Child Maltreatment 2009*, http://www.acf.hhs.gov/programs/cb/pubs/cm09/index.htm.

While human service programs are far more complicated than a gallon of milk, the analogy to groceries may be useful in thinking about what sorts of "duplication" are and are not of concern. When two roommates combine funds to buy groceries, this is not duplication, although it may be a source of additional stress and paperwork if they each demand an accounting of how the money is spent, and the one who is vegetarian wants to make sure that none of her money is spent to buy hamburgers. It's also a good thing, not a problem that people can pick up a gallon of milk at the drugstore if they're already stopping there, rather than having to make a separate trip to the supermarket. It makes a lot of sense to provide services to people in the places where they are going already, and particularly with the growth of online applications and phone interviews, this can increasingly be done with minimal additional administrative costs.

However, if instead of buying milk from the same wholesale distributor, the drugstore and the supermarket each had their own cows and their own dairy, this would clearly be duplicative. In some cases, there really is this sort of duplication: different public benefit programs forcing clients to submit the identical documentation repeatedly, or job developers from welfare to work programs and Workforce Investment Act (WIA) one-stops contacting the same employers. In the remainder of this testimony, I turn to some of the reasons for this sort of duplication, and ways that this committee might reduce it.

Streamlining Eligibility Determination

Streamlining eligibility determination and reducing the time spent collecting and verifying information that is already known by another government agency – or sometimes even by another program within the same agency – is a clear way to reduce administrative costs, lower error rates, and improve customer service. The degree to which this is happening already varies greatly among states, and also among programs – TANF and SNAP eligibility are closely integrated in most states, but eligibility determination for other programs, such as housing subsidies, Medicaid and WIC is typically far less coordinated.

We appreciate this committee's interest in the use of data matching as one means to improve eligibility determination processes. We urge continued support for the work of the Partnership Fund for Program Integrity Innovation, operated by the Office of Management and Budget, which is designed to identify innovative approaches to reducing administrative costs and error rates without denying access to eligible participants. This project was funded at $37.5 million in FY 2010, with funds permitted to be carried over in FY 2011. Importantly, the demonstration under this fund will include rigorous evaluations of the effects of these approaches. In a 2006 report on administrative costs under human services programs, GAO stated "we believe one challenge in particular – the lack of information on the effect streamlining efforts might have on program and administrative costs – is thwarting progress" in administrative simplification.[6] By closing this gap, these projects could move such efforts forward far beyond the individual projects that are supported.

[6] U.S. Government Accountability Office, *Human Service Programs: Demonstration Projects Could Identify Ways to Simplify Policies and Facilitate Technology Enhancements to Reduce Administrative Costs*, GAO -06-942, September 2006, http://www.gao.gov/new.items/d06942.pdf.

This Committee should also consider expanding some of the innovative tools that are available under the CHIP to other means tested programs. For example, CHIP agencies may use a match with the Social Security Administration to verify citizenship for most applicants. This removes the need for applicants to provide their birth certificates, which can be challenging for some families, particularly if they have experienced periods of domestic violence or homelessness. States, cities and other providers that are required to verify citizenship should be allowed to use this mechanism as well. In addition, there should be a way for people who have provided documents to one agency to save them in a secure online database to which they could refer other agencies.

Similarly, under Express Lane Eligibility, agencies may accept a finding of eligibility from another means tested program such as SNAP, school lunch programs, Head Start, or tax return information to identify, enroll and recertify children for Medicaid or CHIP coverage, even if those programs use slightly different definitions for family composition or income. However, the converse is not true: states may not use CHIP or Medicaid coverage as the basis for enrolling children in other programs. This Committee should explore the circumstances under which such deeming would be appropriate and efficient.

In addition, over the next few years, the federal government will be making a substantial investment in state information systems as they prepare for implementation of the Affordable Care Act. To the maximum extent possible, these investments should be leveraged to improve operations of the full range of health and human service programs, not just health insurance. This may require tweaking federal rules that can discourage states from developing systems whose cost would have to be allocated across multiple state and federal programs.

Aligning Workforce Services

According to the recent GAO report, the TANF block grant was the fourth largest source of federal funding for employment and training services in FY 2009, behind only Vocational Rehabilitation, and WIA dislocated worker and youth programs.[7] However, little is known about the types of services provided, or the populations served with these funds. While TANF data collection focuses on the work activities of adult recipients of cash assistance, TANF funds may be used to serve a broader universe of low-income families with children. Many states use income limits much higher for these services than they do for cash assistance.

States and localities vary greatly in how coordinated programs funded with TANF and WIA funds are. At one end of the continuum is Utah, where the programs are fully integrated into a seamless system that uses funding from WIA, from TANF and from the SNAP Employment and Training program to provide services. The same staff work with customers funded under all three programs, with their time allocated to the appropriate programs depending upon whom they

[7] U.S. Government Accountability Office, *Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies*, GAO-11-92, January 2011, http://www.gao.gov/products/GAO-11-92.

actually serve. This minimizes administrative and overhead costs and allows the state to serve more workers with employment and training services than they would with just WIA funds.[8]

In the middle of the continuum are the many areas where the TANF agency contracts with the workforce investment board to provide some or all workforce services to TANF cash assistance recipients, but they are served through specialized programs limited only to TANF recipients, rather than through the programs offered to other job seekers. For example, the state of Missouri requires that all employment-related services for TANF cash assistance recipients be housed within the Division of Workforce Development. However, in practice, most of the local workforce boards subcontract with community-based organizations, such as Goodwill, whom they believe to have more experience in serving low-income populations, to provide the services to TANF recipients. These contracts can also provide for more individualized and in-depth case management than the workforce agency can offer most clients.[9] And at the other end are areas where there is little or no coordination between TANF and WIA agencies.

Many TANF and WIA agencies collaborated in recent years to provide subsidized employment programs for low-income youth and parents using the additional funding provided under the American Recovery and Reinvestment Act. While this funding is now gone, many program administrators indicate that this experience has reinvigorated the relationships between the organizations and led to new interest in partnering.[10]

It is important to note that we do not have evidence about whether TANF recipients are connected to the workforce sooner, or obtain better jobs, through services provided through the WIA system than through stand-alone programs. During the early 2000s, both CLASP and the Department of Health and Human Services undertook studies of WIA-TANF integration, and both concluded that there was little basis on which to claim that one model was superior.[11]

In particular, there is reasonable basis to be concerned that individuals with significant or multiple barriers to employment may not be well served in a system that has a universal service mandate, and that is charged with providing employers with a ready-to-work workforce. For this reason, CLASP does not believe that TANF should be made a mandatory partner in the WIA one-stop system unless substantial changes are made to WIA as part of that program's reauthorization to ensure that TANF recipients are well served. While an integrated approach is

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[8] Utah Department of Workforce Services, *Utah's Job Connection*, WIA/Wagner Peyser State ARRA Plan, http://jobs.utah.gov/edo/stateplans/wiawpstateplan.pdf. See also A. Rowland, *Utah's Economy: The Future is Here*. Voices for Utah's Children, January 2009, http://www.workingpoorfamilies.org/pdfs/Utah_Assessment_Report.pdf.
[9] D. Wright and L. Montiel, *Workforce System One-Stop Services for Public Assistance and Other Low-Income Populations: Lessons Learned in Select States*, Rockefeller Institute, April 2010, prepared for the U.S. Department of Labor and released in 2011, http://www.rockinst.org/pdf/workforce_welfare_and_social_services/2010-04-DOL_Workforce_System.pdf.
[10] D. Pavetti, L. Schott, and E. Lower-Bash, *Creating Subsidized Employment Opportunities For Low-Income Parents: The Legacy of the TANF Emergency Fund*, CLASP and CBPP, February 2011, http://www.clasp.org/admin/site/publications/files/Subsidized-Employment-Paper-Final.pdf.
[11] N. Patel et al, *A Means to an End: Integration of Welfare and Workforce Development Systems*, CLASP, October 2003, http://www.clasp.org/admin/site/publications/files/0155.pdf and A. Werner and K. Lodewick, *Serving TANF and Low-Income Populations through WIA One-Stop Centers*, U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, January 2004, http://aspe.hhs.gov/hsp/WIA-centers-site-visits04/.

working well in some areas, we do not think that mandating partnership between unwilling agencies is likely to produce optimum results.[12]

However, we do believe that there are steps that the federal government could take to facilitate and encourage partnerships between TANF and WIA agencies. In addition to possible administrative efficiencies, such partnerships have the potential to leverage each agency's relative strengths, in particular, the WIA system's close connections to employers and the TANF system's experience in serving individuals with barriers to employment and providing supportive services.

One major obstacle to TANF-WIA integration is the fundamental differences in performance expectations and administrative requirements between the workforce and welfare systems. TANF's primary performance measure is the work participation rate, which is a process measure. Particularly in the wake of the changes made by the Deficit Reduction Act of 2005, states must track and verify every reported hour of participation. Workforce agencies consistently report that this is a significant barrier to serving TANF recipients in programs that are not dedicated to this population. By contrast, WIA's primary performance measures are outcome measures focusing on employment and earnings. These performance expectations can have the effect of discouraging programs from serving individuals who are perceived as having greater barriers to employment. It is worth noting that even states with highly integrated systems, such as Utah and Florida, rarely cross-enroll TANF recipients in WIA programs.

The federal government should ensure that the WIA performance measures make sufficient adjustment for individuals who are more difficult to place in higher paying jobs. In addition, in order to encourage coordination, states should be able to deem TANF cash assistance recipients who are participating in WIA intensive and training services as fully engaged for the purpose of the TANF work participation rates. States that are ready to adopt fully integrated models should be allowed to substitute the WIA outcome-based performance measures for the TANF work participation rate accountability measure.

TANF programs also sometimes partner with vocational rehabilitation agencies to provide services to recipients with disabilities. However, TANF recipients often fall into a grey area, with barriers to employment too severe for them to be well served through mainstream programs, but with disabilities insufficiently severe to qualify for vocational rehabilitation services given the limited funding available. Because the amount of funding falls far short of what would be needed to serve all workers in need of employment services and training, providers are forced to provide services based on the priorities and requirements of each funding stream, rather than what workers actually need to succeed in today's – and tomorrow's—economy.

[12] *WIA Reauthorization: Recommendations for Reauthorization of the Workforce Investment Act Adult Program*, CLASP, July 2009, http://www.clasp.org/admin/site/publications/files/WIA_Recs-for-Adult-Program-final.pdf.

Harry J. Holzer, statement

Funding for the Workforce Investment Act in Fiscal Year 2012 and Beyond

Statement by Harry J. Holzer

Professor of Public Policy, Georgetown University and Institute Fellow, Urban Institute

April 2011

I would like to share my thoughts on the Workforce Investment Act (WIA), and particularly on the levels at which it should be funded, in Fiscal Year 2012 and beyond. These thoughts reflect my nearly 30 years of research and writing on these issues as a labor economist, including a stint as Chief Economist of the U.S. Department of Labor.

There is little doubt among most labor market analysts that the growth of education and skills among American workers has not kept up with growth in the labor market demand for these skills in the past three decades (Goldin and Katz, 2008). In order for productivity gains to be widely shared among Americans, and for employers to be able to fill vacant jobs with highly productive workers, the skill levels of our workers will need to increase. And the skills that will be demanded in the labor market are not only those represented by BA or more advanced degrees from four-year colleges and universities, but also the "middle skill" categories in many sectors that include a wide range of education and training credentials beyond high school (Holzer and Lerman 2007; Holzer, 2010).

In order for the skills of American workers to rise in ways that meet our labor market demands, we need an *effective workforce development system* that is well-coordinated with our systems of secondary and postsecondary education. On their own, and without effective workforce programs, our institutions of higher education are unlikely to generate workers with the skills needed to meet our labor market needs. For one thing, the dropout rates at many such institutions (especially community colleges) are extremely high; large percentages of students leave without earning any kind of credential at all (Bailey et al., 2005). And, among those who complete a degree or certificate program, many do not attain good-paying jobs (Jacobson and Mokher, 2009).

At least partly, these outcomes reflect the fact that many institutions of higher education provide little in the way of career counseling or labor market services for students that would effectively point them towards good-paying jobs and careers (Jacobson and Mokher, op. cit.; Soares, 2009). And, perhaps due to their previous levels of education or their family situations, not all workers are able to attend or succeed at institutions of higher education; instead, many need some kind of job training that is targeted towards specific jobs and sectors of the market that do not require as much in the way of academic skills.[1] Also, while employers could provide more on-the-job

[1] These alternatives include apprenticeship programs in construction or other fields as well as a variety of certificate programs in the health services and information technology. Programs that train machinists and precision welders for advanced manufacturing are also frequently offered in non-college settings.

training to meet their skill needs, there are many reasons for why they often choose not to do so, especially for their non-professional and non-managerial employees.[2]

For all these reasons, *a strong workforce system remains critical to maintaining a labor market in which skilled workers are well-matched to the jobs that require and reward such skills*. Jobseekers often need assistance locating the best local jobs for which they are qualified; they might need counseling about how best to upgrade their skills and for what kinds of jobs and careers; and they might need funding for such training. Training resources also need to be directed towards sectors with good-paying jobs that are in high demand. Indeed, the core, intensive and training services provided at One-Stop centers around the country that are funded by WIA, especially Title I, do all of these things.

Unfortunately, the overall resources that fund our workforce system have declined dramatically over time, both in an absolute sense (adjusted for inflation) and especially relative to the size of our economy and workforce. Indeed, since 1980 WIA expenditures (compared to its predecessor programs, CETA and JTPA) have fallen by as much as 90 percent, while our economy has doubled in size and our workforce has grown by nearly half (Holzer, 2009). We now lag behind almost all other industrial countries in the share of our GDP that we devote to such efforts (O'Leary et al., 2004).

At the same time, the scope of employment services funded by WIA has risen dramatically, as the services have become more universal and the number of individuals receiving training has diminished. In fact*, in a nearly $15T economy with over 153 million workers, the roughly $2.8B now available (in FY 2011) in Title I formula funds provides about $18 per American worker* – much too small a sum to greatly affect the skills and employment outcomes of American workers in the aggregate.

Our national unwillingness to sufficiently fund our workforce system reflects, to some extent, a widespread belief that such expenditures are wasteful or ineffective. But the literature based on rigorous research of WIA programs does not bear out this point of view. Indeed, the most rigorous studies of programs funded under WIA (summarized in Heinrich and King, 2010) suggest that these modest investments are quite *cost-effective* on an individual basis, generating significantly higher earnings for those who receive them. This is particularly true of "sectoral" programs that target growing industries providing high-paying jobs, and often actively involve employers in the process of training workers to fill their jobs (Maguire et al., 2010; Roder and Elliott, 2011).

And the concerns that have been recently expressed over duplication across federally-funded employment programs are quite overblown. Estimates by the U.S. Government Accountability

[2] Employers are often unwilling to invest in general training for workers who might soon leave their firm or whose basic skills are questionable. Also, imperfections in information and the capital markets further constrain their ability or willingness to do so (Lerman et al., 2004).

Office (GAO) show that, while there are many employment and training programs scattered through the federal budget, they generally target towards very small and specific populations and expend very few resources in the aggregate. Overall, the need for such services among American workers far outstrips overall available funding.

Not all estimated training impacts have been as positive as they can be, and therefore our workforce systems still need to evolve and incorporate our growing understanding of what constitute "best practices." This is especially true for some of our least-skilled workers and for out-of-school youth.[3] Some of the most promising models, like "career pathways," need further development and rigorous evaluation. Workforce development efforts also need to be better integrated with the higher education and economic development programs of states, though some have made considerable progress on this front in recent years.

However, these improvements will likely not occur in a system that is effectively starved of needed resources. Instead, appropriate incentives (through better and simpler performance measures on formula funds) and technical assistance should be provided, along with the resources, to make sure that such improvements occur. Workforce innovations should be competitively funded and rigorously evaluated; and this continuously growing body of knowledge should then inform our workforce legislation and its funding of "best practices" in the field.

An appropriately funded education and workforce system that generates more knowledge about effective practices and adapts to labor market changes over time is what we should aspire to build time – not with ill-informed budget cuts but with sensible program adjustments and an adequate base of funding.

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[3] For instance, the most recent evaluations of the Job Corps show positive and cost-effective impacts that tend to fade over time for teens, though not for older youth (Schochet et al., 2008). Estimates of the impacts of youth funding under the Job Training Partnership Act (JTPA), the predecessor of WIA, were not positive (Orr et al., 1997), though we know little about their impact under WIA. And recent evaluations of training impacts for the hardest-to-serve populations have generated mixed results (Bloom and Butler, 2007).

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Testimony Submitted for the Record
U.S. House of Representatives
Committee on Ways and Means
Submitted on April 5, 2011

Submitted by
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Testimony Submitted for the Record
U.S. House of Representatives
Committee on Ways and Means
Submitted on April 5, 2011

Mr. Chairman, Ranking Member, and Members of the Committee, on behalf of Goodwill Industries International, Inc.(GII), I appreciate this opportunity to submit written testimony on the implications of the Government Accountability Office's (GAO) recent report[1] which identifies opportunities to reduce duplication in a broad spectrum of programs, namely Temporary Assistance to Needy Families (TANF). Especially at a time when deficit reduction is a top national concern, this report has naturally raised questions about the extent to which these programs duplicate effort and how these programs could more effectively prepare people for employment.

GII is comprised of 158 independent, community-based agencies in the United States that assist people with employment challenges participate in the workforce. Goodwill generates opportunities for people to achieve economic stability and build strong families and vibrant communities by offering job training, employment placement services and other community-based programs for people who have disabilities, those who lack education or job experience, or others who have challenges to finding employment.

Since TANF was created in 1996, Goodwill has provided more than 1.5 million TANF recipients with pre- and post-employment services including skills training, job search assistance, job retention support, and other career programs tailored to meet their needs. Goodwill agencies use a holistic "family strengthening" approach, and therefore provide or assist in providing access to a range of supportive services such as assistance with child care, transportation, and stable housing.

For example, the Goodwill headquartered in Louisville, KY is in its fourth year administering a TANF program to families in need. The program – known as the Power of Work program is funded by a grant from KentuckianaWorks and the Department of Community Based Services, and is aimed at moving families from temporary assistance into long-term work. Participants undergo an intensive, four week course in job preparation, including resume writing, mock interviews, workplace etiquette and time management. A graduation ceremony is held at the end of the course – an occasion that, for many participants, marks their first graduation of any kind and provides them with a sense of accomplishment. More than 300 people were placed last year. "The face of TANF has changed," says Kimberly Boyd-Lane, program manager at the Goodwill. "There are people with master's degrees, of all backgrounds, walking through our doors. If their basic needs of food, shelter and clothing are not being met, they are unable to concentrate on gaining and obtaining their goals."

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[1] See http://www.gao.gov/new.items/d11441t.pdf

By completing the Power of Work program, participants free themselves from the cycle of poverty and gain a better qualify of life. As Boyd-Lane says, “They are not only getting a job, but getting into the field they’re meant to.” The experience of our community-based agencies informs us that this strategy is very effective in helping people find a job, to remain attached to the labor force, and to advance in careers.

In 2010, the Goodwill Industries enterprise raised over $4 billion through its retail, contracts, and mission services operations. More than 80 percent of collective revenues raised go directly toward supporting and growing critical community-based programs and services resulting in nearly 2.5 million people served by local Goodwill agencies, including more than 170,000 job placements. Goodwill is doing all it can to help people who have been affected by the recession.

Goodwill Industries’ is aggressively moving to increase its capacity to do more and provide increased services to those in need. Goodwill agencies are innovative and sustainable social enterprises that fund mission services by selling donated clothes and household items at Goodwill retail stores and online, and through contract services, private and public grants, and individual giving. Goodwill is working to expand our infrastructure by opening more stores and attended donation centers in order to create jobs and generate more privately raised revenues to invest in services. In addition, Goodwill is more committed than ever to partnering with stakeholders at the federal, state, and local levels by contributing the resources and expertise of local Goodwill agencies in support of public efforts and investments. A number of federal investments in job training programs– including TANF, the Workforce Investment Act’s Adult, Youth, and Dislocated Worker funding streams, and Vocational Rehabilitation – leverage Goodwill’s self-sustaining social enterprise and knowledge of serving the hardest to employ.

In regard to TANF, the experience of Goodwill’s workforce development professionals tells us that Congress should enact legislation that would improve alignment and collaboration among programs administered by the Department of Labor and the Department of Health and Human Services, and simplify access to services that help prepare workers to meet the needs of employers. Many local Goodwill agencies also inform us that fragmented programs and services coupled with insufficient and inconsistent funding make it difficult to sustain many local programs that depend on funds from numerous sources in addition to the private funds that Goodwill invests in its programs.

As this Committee considers recommendations for reducing duplicative programs and providing more effective services to low-income families, it is important to consider the opportunities that the reauthorization of TANF provides this year. Many Goodwills also run local one-stop centers through the Workforce Investment Act (WIA) supported by the Department of Labor. States and localities have the option to include TANF programs and local Goodwills also offer these services, however more needs to be done to ensure that TANF is a true partner in the WIA system. As reported in a separate Government Accountability Office study, “several challenges including programs differences between TANF and WIA and different information systems used by welfare and workforce agencies, inhibited state and local coordination efforts."[2] Goodwill is pleased to see the strides that the Department of Labor (DOL) and Health and Human Services (HHS) have taken to overcome these challenges.

A Washington-based Goodwill agency provides a Community Jobs program funded through the Washington State Department of Commerce. The Community Jobs program is a subsidized employment and training program for TANF recipients. Parents enrolled in the program are job-ready but still possess barriers to achieving independent employment in the community. Participation in the program entails 20 hours of work experience training at a nonprofit work site – Goodwill pays the participant's wages during the training and is reimbursed for wages through the contract. In addition, the participant must also participate in 10 hours in a job-training or educational activities, (i.e. activities such as GED or basic computer classes), and 10 hours of barrier removal (i.e. going to court, domestic violence classes, doctor appointments, etc.). Goodwill's Community Jobs program is successful in part due to the strong community partnerships the agency has and the experience in providing other types of services to alleviate barriers to employment.

Goodwill recommends that TANF reauthorization include a focus on collaboration between DOL and HHS to share best practices and outcomes via the one-stop centers, TANF administrators, and other social service providers.

Goodwill provides support services – including financial skills strengthening and services for youth and families – that enable people from all backgrounds and walks of life to obtain and maintain economic independence and an increased quality of life. Many of these individuals – particularly individuals with disabilities, limited English proficiency, or limited literacy – turn to Goodwill because they are ineligible for TANF assistance or have found it difficult to enroll and maintain enrollment in the program.

Goodwill urges Congress to consider strategies to increase access and reduce barriers especially for populations that have a history of unemployment rates that are higher than the national average. In addition, Congress should consider extending the 60-month lifetime limit to some of these harder-to-employ populations or waive the lifetime limit during emergency circumstances.

Research shows access to education is closely linked to economic security. Many people who seek access to education are unable to pass entrance exams, meet developmental education requirements or complete pre-requisite courses. Some are unable to enroll in programs because of past academic failures or have outstanding fines and fees. As a result, a significant amount of financial and emotional investments are lost. Further, students often face challenges when seeking employment post-certificate completion with so many non-credit programs being

[2] Government Accountability Office, "Support for Low-Income Individuals and Families: A review of Recent GAO Work" February 22, 2010, pg. 10.

divorced from real job opportunities in the local labor market. So, even if an adult makes it through a certificate program, finding employment might be very difficult.

In 2009, Goodwill enrolled more than 1.9 million adults in training programs that help people to overcome the challenges described above. Nearly a quarter of those people served were between the ages of 16 to 24. To that end, GII has undertaken a strategic initiative, Community College/Career Collaboration (C4) to equip local Goodwills with resources and platforms to establish, foster and strengthen relationships with local community college systems with the ultimate goal of strengthening family economic security and supporting community economic development. This initiative provides the platform for community colleges and Goodwills to build on pre-existing relationships, extract effective practice, and replicate appropriate model components to increase the number of individuals accessing and completing locally relevant credentialing programs offered by community colleges.

Goodwill recommends that Congress to maintain provisions that allow participation in post-secondary education to count as training.

Conclusion

GII thanks you for taking the time to consider these recommendations and looks forward to working with Congress to consider changes to the TANF program that would result in providing improved supports for people who have low incomes. As our nation recovers from an economic crisis that many experts believe to be the worst since the Great Depression, Goodwills across the country stand ready to leverage its existing infrastructure to supplement government programs that enhance the dignity and quality of life of individuals, families, and communities by eliminating barriers to opportunity and helping people in need to reach their fullest potential though the power of work.

Members of the New Markets Tax Credit Working Group, letter

April 5, 2011

The Honorable Geoff Davis
United States House of Representatives
1119 Longworth House Office Building
Washington, D.C. 20515-1704

Dear Congressman Davis:

We respectfully submit the following comment letter for the record for the hearing you are holding on April 5th, 2011 on duplication in welfare and related programs as reported by the U.S. Government Accountability Office ("GAO"). Members of the New Markets Tax Credit ("NMTC") Working Group have joined together to provide comments on the findings and recommendations made in the March 2011 and January 2010 GAO reports, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue" and more specifically the section within the report "Converting the New Markets Tax Credit to a Grant Program May Increase Program Efficiency and Reduce the Overall Cost of the Program" and "New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified" (the "Reports"). The following comment letter was originally sent to the GAO.

The members of the NMTC Working Group are participants in the NMTC industry who work together to resolve technical NMTC Program issues and create recommendations to make the NMTC Program efficient in delivering the most amount of benefit to the end users. The Reports recommend that Congress should consider converting the NMTC to a cash grant program with the intention of making additional funds available to businesses. As explained in greater detail in the comment letter, the NMTC Working Group disagrees with the Reports' considerations for converting the NMTC to a cash grant program and strongly recommends that changes to the current tax credit program that can accomplish many of the same goals that the GAO believes a cash grant program will achieve be considered instead.

Thank you for your consideration and please do not hesitate to contact us if you have any questions.

Yours very truly,

Novogradac & Company LLP	Novogradac & Company LLP
by	by
Michael J. Novogradac	Brad Elphick

April 4, 2011

Mr. Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

and

Mr. Michael Brostek
Director, Strategic Issues
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: GAO reports – "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue" (GAO-11-318SP) and "New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified" (GAO-10-334)

Dear Mr. Dodaro and Mr. Brostek:

As participants in the New Markets Tax Credit ("NMTC") Working Group, we, the undersigned, have joined together to provide comments on the findings and recommendations made in the March 2011 and January 2010 GAO reports, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue" and more specifically the section within the report "Converting the New Markets Tax Credit to a Grant Program May Increase Program Efficiency and Reduce the Overall Cost of the Program" and "New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified" (the "Reports"). The members of the NMTC Working Group are participants in the NMTC industry who work together to resolve technical NMTC Program issues and create recommendations to make the NMTC Program efficient in delivering the most amount of benefit to the end users. The Reports recommend that Congress should consider converting the NMTC to a cash grant program with the intention of making additional funds available to businesses. As explained in greater detail below, the NMTC Working Group disagrees with the Reports' considerations for converting the NMTC to a cash grant program and strongly recommends that changes to the current tax credit program that can accomplish many of the same goals that the GAO believes a cash grant program will achieve be considered instead.

We believe the Reports contain several oversights in regards to the possibility of simplifying the program by converting the NMTC to a cash grant program. The GAO suggests that it may be more efficient if CDEs receive all or part of their NMTC allocation authority in the form of cash grants rather than tax credits in an effort to eliminate up-front reductions in the federal subsidy. The Reports note that when tax credits sell for 75 to 80 cents per dollar of tax credit, the Federal government is losing 20 to 25 cents of each dollar of tax credit and it supports the idea of converting the NMTC to a grant program by suggesting that, "In a grant program, these up-front reductions in the federal subsidy could be largely avoided." This statement contains a major oversight and misunderstanding of the structure of the tax credit. The 39% NMTC is not entirely claimed at the time the investor makes an equity investment in the CDE.

The NMTCs are claimed over a period of six years and a day[1] and the investor cannot receive any of its capital back until after seven years[2]. This is one reason the present value of the credits is discounted to 75 to 80 cents per dollar of tax credit, in consideration of the time value of money. A typical investor would not be willing to pay a $1 today for a $1 of benefit it will receive six years from today. If you were to perform a simple net present value calculation of the credits received over the seven year compliance period using a modest 7% discount rate, the reduction in value of the tax credits is nearly 24%. That means that $1 million of NMTCs claimed over six years and a day is only worth $761,831 in today's dollars, or just more than 76 cents per dollar of tax credit. In addition to the discount in value of NMTCs due to the time value of money, a required reduction of the investor's qualified equity investments equal to the amount of NMTCs[3] claimed also increases the discount of the NMTCs. Generally, if an investor pays less than a $1 per NMTC, it will have to recognize a taxable gain when it exits the partnership. For example, if an investor pays $0.80 per credit and purchases $1,000,000 in NMTCs, it will make total capital contributions of $800,000. After seven years and all required basis reductions have been taken, the investor's capital account would be negative $200,000 ($1,000,000 - $800,000). Assuming no other increases or decreases in the investor's capital account other than the NMTC basis reduction, the investor would have to recognize taxable gain upon liquidation of its ownership interest equal to $200,000, the amount of the negative capital account. The recognition of taxable gain is considered a tax cost to the investor and further reduces the value of the NMTC.

The current tax credit structure actually benefits the Federal government by spreading the revenue lost due to the tax credit over a seven year period, rather than recognizing it at the time the investment is made. If the NMTC Program were converted from a tax credit to a grant, the loss of revenue over seven years would be accelerated to the same year in which the grant is made to the CDE. This causes significant increases in the short-term cost of the program to the Federal government. If the goal is to reduce the discount described above, the GAO could simply suggest allowing the investor to claim the entire amount of the tax credit in the year of the investment, making the credits more similar to the theorized CDE cash grant program. The rehabilitation tax credit, often referred to as the historic tax credit, is an example of a community development tax credit that is earned upon the placement in service of the qualified rehabilitation expenditures. The entire credit is earned by the taxpayer in a single year instead of over a period of time like the NMTC. Generally, pricing for historic tax credits is much closer to a dollar since the investor is able to claim the credits sooner in relation to when it makes its equity investment.

There are several other considerations overlooked with a simple conversion to a cash grant program, which include the elimination of an established relationship between public and private sector investment resources that the NMTC Program was originally designed to promote. The NMTC Program is designed so that a substantial portion of the capital investment must be repaid at the end of the seven year compliance period. This relationship with the private sector encourages an extreme amount of transaction scrutiny which would be lost with a cash grant program. Additional considerations include tax credit recapture risk. By having full recapture risk, plus interest penalties, the NMTC Program has a level of compliance and transaction structuring unrivaled by other tax credit programs. This level of structuring and asset

[1] IRC §45D(a)(3)
[2] IRC §45D(g)(3)(C)
[3] IRC §45D(h)

management ensures that the goals of the NMTC Program are achieved. The compliance factor may be lost with a cash grant program and would likely lead to the funding of transactions that generate a higher default and loss rate, and therefore fewer community benefits.

The demand for the NMTC is also a significant consideration affecting the discount and selling price of the credits. The Reports note that tax credit pricing has been falling in connection with declining demand for credits and further states that "one CDE indicated that it has sold NMTCs to investors for as low as 50 cents per dollar" of tax credit. We believe this example is an extreme outlier but we agree action could be taken to increase the desirability of the tax credit. As a possible means of increasing the pool of investors, ultimately raising the selling price of the credits due to increased demand for a finite resource, the NMTC Working Group supports allowing the NMTC to offset the alternative minimum tax. Another possible option includes increasing the carryback period of the NMTC to five years.

The suggestion to convert all, or even a portion of the NMTC Program, seems to be premature at best in light of the cost to implement a new cash grant program and the success the current program has already obtained in delivering much-needed capital to economically distressed low-income communities. In the report "New Markets Tax Credit Program: Promoting Investment in Distressed Communities," published October 20, 2008, the CDFI Fund indicates that on average, each $1 of federal tax revenue forgone as a result of the NMTC is estimated to induce more than $14 of investments in low-income communities. In contrast to the substantial amount of investments that are induced by the NMTC, the same cannot be guaranteed with a cash grant program. In the GAO's January 2007 report "New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance", the GAO stated:

> "An estimated 88 percent of investors said that they would not have made the same investment without the NMTC. Of these investors who would not have made the same investment without the NMTC, 75 percent (66.6, 82.7) also indicated that in the absence of the NMTC they would not have made a similar investment in the same community."

In the Reports, the GAO states:

> "If the grant program is well designed and at least as effective as the credit in attracting private investment, it could save a significant portion of the estimated $3.8 billion five-year revenue cost of the current program."

We believe that if the NMTC were converted to a cash grant program, it would have less success in attracting private investment than the current tax credit program and therefore would not save a significant portion of the cost referred to above. We don't have to look far for recent examples in the LIHTC and renewable energy tax credit ("RETC") industries. In Sections 1602 and 1603 of the 2009 American Recovery and Reinvestment Act, two grant programs were established for the LIHTC and RETC industries, respectively, to help provide financing in lieu of tax credits as demand from private investors for tax credits declined. It has been our experience that most of the transactions that used Section 1602 or 1603 grants without any tax credits were able to attract very little private investment in addition to the cash grants, which makes the grants one of the only available financing sources for these types of projects. We believe this would be the case if the NMTC Program is converted to a cash grant.

It is also important to note the continuous support the NMTC Program has received from Congress since its inception. In the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, the NMTC program was extended for two years, the Section 1603 cash grant was only extended for one year and the Section 1602 cash grant program was not extended. Since the most recent extension of the NMTC Program in 2010, the Obama administration has also proposed to expand the current NMTC Program from $3.5 billion to $5 billion in its most recent budget proposal. In the wake of Hurricane Katrina, the NMTC Program was expanded $1 billion to encourage investment in low-income communities within the Gulf Opportunity Zone. During the recent downturn in the economy, Congress expanded the NMTC Program again from $3.5 billion to $5 billion in the 2009 American Recovery and Reinvestment Act to help spur more economic development.

We believe that the current program as a tax credit works better than a cash grant program but recognize that there are ways to make the NMTC work even better. Addressing technical matters, including inefficiencies of the NMTC Program, has been the sole purpose of the NMTC Working Group and why its members are dedicated to that goal. Since 2006, the NMTC Working Group has responded to requests from Treasury, the IRS, and the CDFI Fund with recommendations to improve the NMTC Program's ability to deliver significant community impact to this nation's low-income communities. Many of these comment letters provide suggestions to improve very specific aspects of the program that would improve the overall efficiency of the NMTC. All of these recommendations can be found in the Comment Letters page on www.nmtcworkinggroup.com.

We are excited about the positive impact that the NMTC Program is having on the nation's low-income communities and low-income persons and the potential for future success. However, we feel that the program can become even more efficient and deliver more subsidy to the end users within low-income communities without converting it to a cash grant program. Thank you in advance for your time and consideration.

Please do not hesitate to contact us if you have any questions regarding our comments or if we can be of further assistance.

Yours very truly,
Novogradac & Company LLP

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