Legislative Analysis

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WELFARE REFORM

House Bill 5438 as enrolled
Sponsor: Rep. Jerry Kooiman

House Bill 5439 as enrolled
Sponsor: Rep. Rick Shaffer

House Bill 5440 as enrolled
Sponsor: Rep. Tom Pearce

House Bill 5441 as enrolled
Sponsor: Rep. David Farhat

House Bill 5442 as enrolled
Sponsor: Rep. Richard Ball

Senate Bill 892 as enrolled
Sponsor: Sen. Bill Hardiman

Senate Bill 893 as enrolled
Sponsor: Sen. Alan Cropsey

Senate Bill 894 as enrolled
Sponsor: Sen. Irma Clark-Coleman

House Committee: Family and Children Services
Senate Committee: Families and Human Services

Enrolled Analysis (12-15-05)

BRIEF SUMMARY: The proposed legislation amends the Social Welfare Act to revise the eligibility policies and work requirements related to the Department of Human Services Family Independence Program.

INTRODUCTION:

The Family Independence Program is the state's cash assistance program for low-income families with children. Currently, the program serves around 78,000 recipient groups, or about 212,000 individual recipients. These groups receive an average benefit of $415 per month to assist them in meeting basic needs. Except for those groups deferred from work requirements – for example, groups where the adult is disabled or caring for a disabled child or spouse - FIP recipients are expected to participate in up to 40 hours per week of work-related activities (e.g. actual employment, job search, GED preparation).

The FIP program is funded using a combination of federal Temporary Assistance for Needy Families (TANF) block grant funding and state general fund/general purpose revenue. However, the GF/GP revenue is currently used to meet federal maintenance of effort (MOE) requirements. In short, this makes it more difficult to achieve GF/GP savings in this program. To avoid future federal penalties for failing to meet MOE, any savings achieved through the bills would lead to savings in either:

- Federal TANF funding, in which case TANF funds could be redirected to other eligible program areas serving low-income families with children; or

- State GF/GP revenue, but only if other current MOE-eligible spending can be identified to replace the GF/GP taken from the FIP program. HFA has estimated that around $30 million in new MOE spending could be identified if needed.

OVERALL FISCAL IMPLICATIONS

Cost reductions from the bill's provisions to implement the 48-month time limit on assistance, restructure FIP payment standards, and increase the duration of FIP program sanctions would gradually increase over the following three fiscal years. Assuming a January 2006 implementation of the legislation, FY 2006 cost savings would be roughly $25 million. This assumes immediate implementation of payment standard restructuring and sanctions in January 2006 and a minimal impact from the time limit proposal. During FY 2006, only those cases not meeting the qualifications for the time limit extension would be closed.

Cost reductions from current levels would increase to around $45 million in FY 2007 as the time limit extensions would begin to expire for some portion of the 8,100 cases what have already received at least 48 months of assistance. Beyond FY 2007, full-year implementation of the time limit proposal would increase cost reductions to around $75 million from current spending levels. Since the percentage of the FIP caseload at or above 48 months has been growing over time, cost reductions would grow slowly in subsequent years.

These cost reductions would be offset by any new costs incurred to implement the enhancements to Work First as well as the new Work First programming mandated for certain populations within the bills.

BILL ANALYSES:

HB 5438 (as enrolled)
The bill establishes a cumulative 48-month limit lifetime limit on the receipt of cash assistance within the Family Independence Program (FIP). The time limit would apply only to those groups that are referred to the Work First program. Groups deferred from Work First (for example, because the adult in the home is incapacitated, is caring for an incapacitated child or spouse, or is dealing with a domestic violence situation) would not be subject to the requirement. The number of months counted toward the time limit would also not include: a) any months during which the group's county unemployment rate exceeded 10%; and b) previous months during which the group was temporarily deferred from Work First.

Recipient groups that are: a) meeting all requirements in their family self-sufficiency plan; b) have never received a sanction for noncompliance; and c) face employment barriers or labor market conditions which prevent an employment placement may apply to the Department of Human Services (DHS) for an extension of benefits for up to an additional 12 months over the 48-month limit.

Within 90 days after the effective date of the legislation, the DHS is to determine the number of months each FIP recipient not exempt from Work First participation has received assistance. Those with 36 or more cumulative months would be required to develop a new family self-sufficiency plan with both DHS and Work First caseworkers. These groups would also be eligible for the 12 month extension if they meet the conditions described in the previous paragraph.
The bill also requires collaboration between DHS, the Work First program and adult family members in developing a family self-sufficiency plan. The bill requires both DHS and Work First to complete a thorough client assessment to facilitate the development of a family self-sufficiency plan. Current law requires DHS only to work with clients on a "social contract". New language specifically requires consideration of referral to life skills programs. Recipient groups deferred from Work First would also have to be evaluated for eligibility to participate in other activities such as work, volunteerism, or community service.

Lastly, the bill would extend the current December 31, 2005 sunset date for portions of sections 57f and 57g of the Social Welfare Act until September 30, 2009. These sections cover sanction policy and exemptions from Work First.

Fiscal Impact

It is estimated around 8,100 FIP cases are currently exceeding the 48 month cumulative limit set by the bill. This equates to roughly 28,000 recipients. The DHS would be required to determine within 90 days of the bill's effective date the number of applicable assistance months for each FIP case. Recipient groups meeting the requirements outlined in the bill would be eligible to apply to receive FIP benefits for up to 12 additional months beyond the 48-month limit. Following the receipt of 12 more months of assistance, these cases would be closed. As new recipient groups reach the 48-month limit, they might also be eligible for the 12 month extension.

The time limit provision would reduce FIP costs over time. If all 8,100 Work First eligible cases currently at 48 months were eventually closed due to the time limit, FIP costs would fall by roughly $40.3 million per year. However, these savings would not be seen immediately. Some immediate savings could be realized if there are cases that fail to meet the requirements for the 12-month extension and are closed at the outset. Cases granted the additional 12 month extension, however, could maintain eligibility for benefits for several years or more depending upon how quickly they received their final 12 months of FIP benefits. In long run, since the number of cases with over 48 cumulative months of assistance has been increasing, affected cases and cost reductions would increase over time.

Currently, Michigan has no time limit for cash assistance. While federal law sets a 60-month lifetime limit on cash assistance paid using federal funding, states are allowed to exempt up to 20% of their caseloads from the limit. States are also allowed to use state-funded maintenance of effort payments to make cash assistance payments to groups that move beyond the federal limit. Effectively, this has given states discretion to set their own time limit policies.

HB 5439 (as enrolled)
The bill revises the structure of FIP payment standards that are used to establish actual FIP payments for eligible recipient groups. A payment standard represents the maximum monthly FIP benefit available to a family. It would amount to the actual FIP payment when the family has little or no earned income. The majority of a family's income (except for a portion "disregarded" under current policies) is subtracted from this payment standard to determine the actual monthly FIP benefit. Under current policies, there are three factors that are used to determine an individual recipient group's payment standard. These factors are discussed below:

- Group size – Larger recipient groups have a higher payment standard than smaller groups of the same category. The additional payment amount varies depending upon other factors, but an extra family member can amount to around a $100 per month increase in the payment standard in typical situations.
- County of residence – Each Michigan county is placed within one of six "shelter areas" used by the DHS. These shelter areas were established to take into consideration housing/rental cost discrepancies across counties. The payment standard for a group in Shelter Area I (made up of rural, less populated counties) is typically between $50 to $65 per month lower than the payment standard for the same family in Shelter Area VI (made up of larger, urban counties with higher housing costs).
- Classification of FIP Group – Finally, recipient groups are placed in separate payment standard tables representing different classifications of recipient groups. The highest payment standards for a given family size are provided to recipient groups who are deferred or are headed by an SSI adult who is not part of the recipient group. Groups with an employable adult are given slightly lower payment standards (typically $15 - $40 lower per month). Finally, "child only" cases where no adults are part of the grant (e.g. non-parent family member has guardianship for children) receive typically receive lower payment standards than other FIP groups of the same size.

HB 5439 would eliminate the usage of "shelter areas" in determining payment standards. Instead, all recipient groups would be assigned the payment standard currently provided to groups in Shelter Area V (the second highest payment standard group). It would also eliminate the existing classification for deferred and SSI adult recipient groups. Deferred recipient groups would be moved into the same table as those groups with employable/Work First adults. Groups headed by an SSI adult would be moved into the "child only" table.

Lastly, the bill allows the DHS to contract with a nonprofit organization to assist recipients with the process of applying for federal Supplemental Security Income.

Fiscal Impact
The bill's restructuring of payment standards is expected to save around $19.8 million annually. The savings are generated mainly through the shift of SSI adult cases to the payment standards for "child only" cases. Overall, this element of the restructuring saves $21.0 million. The shift of Work First-deferred recipient groups to the lower payment standards for employable groups leads to an overall cost reduction of around $2.5 million.

These cost savings are then offset by the benefit increases seen by recipient groups shifting from Shelter Areas I through IV to the higher Shelter V payment standard.

In terms individual cases, the action would provides increased benefits to around 38% of the current caseload – primarily those that benefit by moving to Shelter Area V from areas with lower payment standards. Around 47% will see benefits decrease – primarily those cases with an SSI adult head of household and certain cases deferred from Work First in current shelter areas with higher payment standards. The remaining 16% of cases would be unaffected by the change.

The DHS has indicated that the simplification of the payment standard tables will provide workload relief of around 48,000 staff hours per year. This equates to around 23 full-time equated positions or about $1.2 million in cost avoidance annually.

The provision allowing the DHS to contract with a non-profit organization to assist SSI applicants would increase costs to the department by an indeterminate amount. However, if the program is successful in leading to expedited SSI approvals, these costs could be more than offset by savings within both the FIP program and the State Disability Assistance program, with the federal SSI benefit replacing some state-funded support from these programs.

HB 5440 (as enrolled)
For FIP applicants who have resided in Michigan for less than one year and assert that they have not received cash or other medical assistance from other states, the bill requires the DHS to determine the state or states of residence for these applicants during the year preceding application and to confirm whether the applicant received cash or medical assistance in the state or states in which he or she resided. The number of months assistance was received out-of-state would apply to the 48 month cumulative time limit described in HB 5438.

Fiscal impact
To the extent that this procedural change identified new cases that received assistance out-of-state that would not otherwise have been identified, it could reduce months on assistance in Michigan and thereby reduce FIP costs. Actual savings would depend upon the number of cases where Michigan payments were avoided. For reference, a typical FIP recipient group receives roughly $5,000 per year in benefit payments. However, the new requirement would also increase administrative costs to the Department. Information is not available to determine the amount of the cost increase.

HB 5441 (as enrolled)
The bill revises the sanction policy for recipients failing to comply with FIP program and Work First requirements. The policy proposal would increase the current one month, full family sanction for instances of noncompliance to a three month sanction on the recipient for both the first and second instance of noncompliance and to 24 months for the third instance of noncompliance. After each instance of noncompliance, the recipient's family self-sufficiency plan would have to be reviewed, modified if necessary and approved by both the DHS and Work First caseworkers at a joint meeting. The meeting would also

include discussion of possible sanctions for future instances of noncompliance. Further, the bills would count the months during which the recipient is ineligible due to noncompliance towards the 48-month time limit imposed in HB 5438.

Fiscal impact

The increased duration of sanctions could decrease FIP costs. Currently, on average, around 1,400 cases are in sanctioned status at any point in time, which reduces benefit payments by about $7.0 million per year. Additional cost reductions of around $10-15 million could result due to the lengthened time period of sanctions if the new sanctions are applied to the full FIP grant. However, actual sanction levels would depend upon how the policy was implemented (e.g. application of 'good cause' exemptions from sanctions). Also, if the policy effectively increased compliance, these potential savings would be reduced.

HB 5442 (as enrolled)

The bill would require the DHS to study the impact and cost of increasing the amount of earned income disregarded in determining a recipient group's FIP eligibility and benefit level. A report on the findings is due by April 1, 2006. Under current policy, a recipient group is allowed an earned income disregard of $200 plus 20% of its remaining earned income. The group's remaining countable income (total earned income minus the disregarded income) is subtracted from the payment standard to determine its actual monthly benefit. By allowing some of the group's earned income to be disregarded and not subtracted from the payment standard, the disregard policy allows the group to retain a higher benefit level. Increasing the disregard would allow the same group to maintain an even higher FIP benefit level. However, this would increase program costs.

Fiscal impact

The required study and report would impose some administrative costs on DHS. However, these costs should be negligible and met through existing budgeted resources. An earlier proposal contained in HB 5442, as reported from committee, would have increased the earned income disregard for those Work First recipient groups with a member working 20 hours per week or more from the current $200 plus 20% of remaining earned income to a new level of $200 plus 50% of remaining earned income. HFA estimated that this provision would have affected around 9,900 FIP cases and cost roughly $24.5 million annually at the outset. The costs of any disregard increase, however, would likely increase in the short run as the FIP caseload would increase somewhat as the higher disregard would allow groups to remain on FIP for a longer period of time before their cases were closed due to increased income.

SB 892 (as enrolled)

The bill amends provisions related to exemptions from the Work First program, required and allowable work activities for Work First participants, and the goals of the Work First program.

With regard to Work First exemptions, the bill makes the following changes:

- Maintains the current Work First exemption for a parent of a child under the age of 3 months. However, it mandates that DHS require such a parent to participate in family services including instruction or counseling in one or more of the following: a) marriage; b) fatherhood; c) parenting; d) nutrition; e) abstinence-based family planning; and f) child development. Participation would start 6 weeks after the birth and continue until the child reached 3 months of age. Current law allowed, but did not mandate, that the Department require instruction in parenting, nutrition and child development. This provision would increase program costs by an indeterminate amount.

- States that an individual applying for Supplemental Security Income not be automatically exempt from Work First participation during the application process.
- Requires written medical verification from a physician, psychiatrist, or psychologist if an individual is to be either permanently or temporarily deferred from Work First based on the medical or mental condition of the individual or a family member. Under current law, the exemption could be based on medical evidence and an assessment of need by the DHS.
- Adds a new exemption from Work First, at the discretion of a recipient's Work First caseworker, for recipients involved in education or training where it can be demonstrated there is current demand for workers with the education/training the recipient is seeking. This exemption would be limited to a maximum of 6 months in the client's lifetime and requirements and responsibilities would have to be outlined in the family self-sufficiency plan. The recipient would be required to meet with his or her Work First caseworker at least once every 45 days and would have to meet the expectations outlined in the family self-sufficiency plan to continue using the education/training to meet work requirements.

The bill would also make changes to current law regarding work requirements for those recipient groups referred to Work First. Changes are outlined below:

- Requires participants who have not earned a high school diploma or GED or who have reading proficiency at or below 8th grade levels to enroll in one or more of the following, if the service is available: a) English as a Second Language program; b) fast track literacy program; c) high school completion course; d) GED preparation courses.
- Allows recipients to request to be enrolled in education and training with approval from his or her Work First caseworker. The recipient could count up to 20 hours per week of education/training towards a 40 hour per week work requirement. Education/training could be counted towards work requirements for no longer than 24 months during the recipient's lifetime. The bill provides that minimum requirements to continue applying education/training towards work requirements, including attendance, performance and grade point average would be outlined in the family self-sufficiency plan. The recipient would be required to meet with his or her Work First caseworker at least once every 45 days.
- Recipients unable to find employment would be required to participate in training or counseling for not less than 10 hours per week in any of the following areas considered relevant and appropriate by the Work First caseworker: marriage, fatherhood, parenting, self-improvement, substance abuse, or volunteer activities.

The legislation adds provisions regarding the goals of the Work First program as well. New language requires the DHS and Department of Labor and Economic Growth (which oversees the Work First program) to develop individual program goals and measurable performance indicators for Work First and to report annual success or failure rates to the Legislature. It requires that one program goal be a state goal for the percentage of FIP caseload involved in employment activities. The bill requires that the state goal be not less than 50%, requires quarterly reporting to the Legislature on the goal, and requires the DHS to develop an improvement plan if the goal is not met for two consecutive quarters.

In terms of Work First operations, the bill allows the Department of Labor and Economic Growth to use incentives in Work First contracts and to link payments to performance. It also requires DHS and DLEG to use social security numbers to track FIP recipients.

Finally, the bill adds various reporting requirements. This includes annual reporting from each local Work First program to the Legislature on outcomes for Work First participants. It also includes quarterly reports from DHS on the number of sanctions imposed, and the number of FIP cases reopened and permanently closed.

Fiscal impact

The bills mandate certain activities within Work First that would increase costs by an indeterminate amount. These include requirements that family services be provided to exempt parents of newly born children under 3 months of age, mandated educational programs for Work First participants without a high school diploma or with low literacy skills, and the 10 hours of life skills oriented training (e.g. fatherhood, parenting) required for Work First participants unable to find employment.

The revisions to exemption policies, particularly those imposing new requirements on Work deferrals for SSI applicants and those with possible medical or mental health conditions could reduce the overall number of deferrals. This could increase Work First costs; however, if employment hours are increased for these cases, this could reduce FIP grant payments and offset the cost increases to a degree.

The education and training allowances would tend to increase Work First and FIP costs in the short run as training costs would increase within the Work First program and, at the same time, required employment hours would be limited, increasing the FIP grant for cases involved in education and training. However, it is possible these costs would be offset in the long run if the education and training results in more permanent employment for these recipients and reduces the number of cases which return to the FIP program.

SB 893 (as enrolled)

The bill requires the DHS to provide certain information to recipients who have had their cases terminated due to sanctions for noncompliance, failure to meet the provisions of their family self-sufficiency plan, or reaching the 48-month time limit. This would include information on how to obtain other forms of public assistance such as Food Assistance, assistance under the Women's, Infants and Children program, free and reduced lunches, earned income tax credit, and other relevant programs. It also allows the DHS to notify any local agencies or service organizations that may be able to offer assistance to the recipient's children. Finally, it requires recipients receiving penalties terminating assistance for 3 months or more to attend a joint meeting with their DHS and Work First caseworkers to review and modify the family self-sufficiency plan as necessary.

Fiscal impact
The assistance information and possible notification requirements in the bill would increase costs to DHS by an indeterminate amount. The joint meeting requirement for recipients whose benefits have been terminated would impose new costs on both DHS and DLEG. Information is not available to evaluate these costs.

SB 894 (as enrolled)
The bill modifies various Work First requirements. First, Work First joint DHS-DLEG orientation sessions for FIP applicants would be administered after the applicant's eligibility for FIP is determined. Under current law, the session is held after an initial DHS review that the recipient group might be eligible for FIP benefits, but before a final determination is made. Second, the bill requires, rather than allows, sanctions for failure to comply with a family self-sufficiency plan. Finally, the bill requires a reassessment of eligibility not later than 24 months after the date the recipient's application for FIP was approved. The reassessment would require a meeting with both the DHS and Work First caseworker to redevelop the family self-sufficiency plan.

Fiscal impact
The bill would reduce the number of FIP applicants that are referred to a Work First orientation session and receive basic job search and case services, which would reduce DLEG/Work First costs. It is estimated that the number of FIP cases referred to Work First could fall from around 180,000 (which includes most FIP applicants) under current policy to around 70,000 – 75,000 (applicants who qualify to have a FIP case opened). The reassessment requirement, however, would increase costs for both departments. Also, cases that are eventually referred to Work First would be subject to the provisions of SB 892, which mandate more intensive services for certain groups, likely increasing the cost per case for cases that are still referred to the program. Information is not available to make a precise overall cost estimate. These costs would be dependent upon the actual implementation plan for meeting these new requirements.

TIE-BARS:

House Bill 5438 (48 month time limit) is tie-barred to Senate Bill 892 (Work First revisions), and House Bill 5439 (payment standard restructuring) is tie-barred to House Bill 5441 (sanctions for noncompliance). The remaining bills in the package are not tie-barred to any of the other bills.

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