

2nd Edition

# Training Policy

In Brief

An Overview of  
Federal Workforce  
Development Policies  
(2007)

Gwen Rubinstein  
Andrea Mayo





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The Workforce Alliance  
Washington, D.C.  
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The Workforce Alliance (TWA) is a national coalition of experienced leaders from the field of workforce development—local training providers (community-based organizations, community colleges, and unions), local business leaders, and local public officials—who advise policymakers on “what works” in preparing people for jobs. TWA advocates for more effective federal policies that will help more workers get the skills they need to advance and help more American businesses get the skilled workers they need to compete in today’s economy.

TWA offers a number of reports and serial publications that analyze federal and state policies affecting the development of a skilled workforce. To view TWA’s publications and sign up for our mailing list, visit our website at [www.workforcealliance.org](http://www.workforcealliance.org).

For a state perspective on the federal policies outlined in this report, visit TWA’s State Training and Education Policies and Statistics (STEPS) Clearinghouse. The STEPS Clearinghouse contains quantitative and qualitative policy information to assist advocates, researchers, and policymakers interested in improving state implementation of federal workforce development policies. Visit STEPS at [www.workforcealliance.org/STEPS](http://www.workforcealliance.org/STEPS).

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We are also grateful to TWA's funders, whose support made this project possible: the Annie E. Casey Foundation, Ford Foundation, Joyce Foundation, and Charles Stewart Mott Foundation.

# Introduction

The Workforce Alliance proudly presents the second edition of *Training Policy in Brief*, a briefing book on key federal policies and programs funding workforce development in the United States. We hope this briefing book—which includes 13 chapters on 16 federal programs that provide significant support to training and education in the United States—proves a useful reference to the policy makers and their staffs who work with the multiple federal programs that contribute to providing skills training and education to adults.

Workforce development does not occur in any one place, nor is it housed in any one government agency. It crosses federal agency boundaries: Programs profiled in this book are within the U.S. Departments of Labor, Education, Health and Human Services, Agriculture, Housing and Urban Development, and the Treasury. Workforce development services can include skill-specific training, higher education, postsecondary vocational education, literacy training, and more—not to mention combinations of all or some of these.

We have organized the information to make it as user-friendly as possible for policy makers and advocates, focusing on program structure, legislative status, funded activities, eligibility, funding, participation (both individuals and institutions), relationship with other programs, and performance accountability. In addition, the chart on page 5 summarizes key facets of all of the programs discussed.

We have also identified policy challenges we believe the programs face in the 110th Congress. For some of these programs, TWA has developed more detailed recommendations. We have included the recommendations here, but readers may also view them in greater detail on our Website at [www.workforcealliance.org](http://www.workforcealliance.org).

For funding, we have included FY06 appropriations enacted for most of these programs.<sup>1</sup> (The exception is Chapter 13, Tax Credits and Deductions; these programs do not receive appropriations.) As we went to press in early 2007, these levels had been extended to February 15, and it appeared that Congress would pass a continuing resolution to extend FY06 funding levels through FY07. TWA will post updated appropriations numbers on our Website as they become available.

For program data, we have included the most recent data available for each program. For most programs, that is Fiscal Year (FY) 2004, but for some programs it is FY02, FY03, or even FY05 or 06.

The information contained in this edition is current as of the end of the 109th Congress (the end of calendar year 2006). The next, updated edition of *Training Policy in Brief* will be released to coincide with the convening of the 111th Congress in January 2009.

As always, we welcome your comments and questions on our materials. Please address them to Gwen Rubinstein, TWA's research director, at [gwenr@workforcealliance.org](mailto:gwenr@workforcealliance.org).

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<sup>1</sup> The appropriations numbers reflect the 1% across-the-board rescission imposed by the "Department of Defense, Emergency, Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act of 2006" (Public Law 109-148) enacted in December 2005.

# Chart I Key Federal Workforce Development Programs At-A-Glance

Program	See...	Statute	Federal Funding	Type of Program	Institutions Involved	Population Served	Type of Training Supported	Expenditures on Education and Training
<b>Department of Labor</b>								
Workforce Investment Act	Page 9	Workforce Investment Act of 1998	About \$3.0 billion combined for adult, dislocated worker, and youth programs in FY06	Formula grant to states	Colleges and universities, community colleges, proprietary schools, community-based training providers, unions	More than 1.1 million registered participants in 2004	Training leading directly to employment, once participants have failed to find a job through core and intensive services	40 percent of local adult and dislocated worker funding estimated to have been spent on training in FY03
Wagner-Peyser Act	Page 21	Wagner-Peyser Act, as amended by Title IIIA of the Workforce Investment Act	\$715.9 million, plus \$33.4 million in national activities funding in FY06	Formula grant to states	More than 1,800 local offices of state employment security agencies	13.3 million job-seekers in FY05	Funds are spent on labor-exchange services, Inot training	
Trade Adjustment Assistance	Page 27	Trade Act of 2002	\$259.4 million in FY06 for training (\$220 million for training and \$39.4 million for training administration)	Direct benefits (as an entitlement) to individuals; funding for services	Training providers; employers, for wage reimbursement of up to 50 percent for any on-the-job training they provide	Nearly 120,000 workers were covered under 1,545 TAA certifications in FY05	A range (including classroom, remedial, and customized training), with the law giving preference to on-the-job training	Training funding capped at \$220 million under law
<b>Department of Education</b>								
Pell Grants	Page 35	Title IV, Higher Education Act	\$13.045 billion in FY06	Structured like an entitlement but funded through annual appropriations and disbursed through institutions	Public two- and four-year institutions of higher education, proprietary schools, private nonprofit four-year institutions of higher education	More than 5.3 million in FY04-05	Higher education	
Perkins Vocational Education	Page 43	Carl D. Perkins Career & Technical Education Improvement Act	\$1.182 billion for State Basic Grants in FY06	Formula grant to states	For post-secondary funding, primarily community and technical colleges	Nearly 6 million enrolled in post-secondary institutions in FY03-04	Vocational education, both secondary and post-secondary; at the post-secondary level funds primarily support program development and improvement, as opposed to individual students	States allocate varying percentages to post-secondary activities; on average, 30 percent of state allocation goes to post-secondary activities
Adult Education & Family Literacy Act	Page 51	Title II, Workforce Investment Act	\$579.6 million in FY06	Formula grant to states	Local education agencies, community-based organizations, volunteer literacy organizations, institutions of higher education, libraries, public housing authorities, consortia of listed organizations	Nearly 2.7 million individuals in FY03-04	Adult basic skills, GED attainment, and literacy	

# Key Federal Workforce Development Programs At-A-Glance

Program	See...	Statute	Federal Funding	Type of Program	Institutions Involved	Population Served	Type of Training Supported	Expenditures on Education and Training
<b>Department of Education cont.</b>								
Vocational Rehabilitation State Grants	Page 57	Vocational Rehabilitation Act of 1973, as amended by Title IV of the Workforce Investment Act	\$2.7 billion in FY06	Formula grant to states	State vocational rehabilitation agencies and community-based rehabilitation providers	More than 1.4 million individuals in FY04	Includes college or vocational training, skills training, and job coaching or tutoring	\$769 million in FY04
<b>Department of Health and Human Services</b>								
Temporary Assistance for Needy Families	Page 63	Title IV, Social Security Act	\$16.5 billion for family assistance grants in FY06	Formula grant to states	For assistance, none; for non-assistance, faith- and community-based service providers	An average monthly total of 4.5 million individuals and 1.9 million families in FY05 received cash assistance	Vocational educational training, secondary school attendance (or its equivalent), and education directly related to employment, within certain limits	Approximately \$294 million in FY05
Social Services Block Grant	Page 73	Title XX, Social Security Act	\$1.7 billion in FY06	Formula grant to states	State and local agencies, private organizations	14.6 million individuals in FY04	Includes vocational education, education and job skills training related to employment, and on-the-job training	Approximately \$48 million on education and training and employment services in FY04
Community Services Block Grant	Page 79	Title II, Community Opportunities, Accountability, and Training and Educational Services Act of 1998	\$630.4 million in FY06	Formula grant to states	1,086 local organizations, primarily community action agencies, in FY05	Almost 15 million individuals in FY05	GED, high school and post-secondary education, and training to secure meaningful employment	Local agencies spent 12 percent of their funds on education and 10 percent on employment services in FY05
<b>Department of Agriculture</b>								
Food Stamp Employment & Training	Page 85	Food Stamp Act of 1977, as amended	Nearly \$122 million in FY06 — \$90 million through formula allocation to states (plus about \$12 million in carry-over funds) and \$20 million for services specifically for able-bodied adults without dependents nearing the end of their eligibility	Formula grant to states	Local entities, including welfare offices, community-based organizations, and one-stop centers	No reliable national data available, but less than 9 percent of Food Stamp recipients are estimated to be potential FSET participants	Includes educational programs to improve basic skills and literacy and to increase an individual's self-sufficiency through self-employment, in addition to other employment, educational, or training programs approved by the state	No estimate available

# Key Federal Workforce Development Programs At-A-Glance

Program	see...	Statute	Federal Funding	Type of Program	Institutions Involved	Population Served	Type of Training Supported	Expenditures on Education and Training
<b>Department of Housing and Urban Development</b>								
Community Development Block Grant	Page 93	Housing and Community Development Act of 1974, Title I, as amended	About \$3.7 billion in FY06	Formula grant to states	Local and state governments, community-based development organizations (CBDOs)	National data not available	Varies	\$24.3 million on employment training in FY06
<b>Department of the Treasury</b>								
Hope and Lifetime Learning Tax Credits	Page 99	Taxpayer Relief Act of 1997	\$3.7 billion in reduced tax expenditures for Hope Credits and \$2.3 billion for Lifetime Learning Credits in 2006	Tax preference	None	7.2 million tax filers claimed either the Hope or Lifetime Learning credit in 2004	Post-secondary education	Average credits were \$991 for Hope and \$477 for Lifetime in tax year 2002
Tuition and Fees Deduction	Page 101	Economic Growth and Tax Relief Reconciliation Act of 2001, as amended by Tax Relief and Health Care Act of 2006	\$1.8 billion in tax expenditures in 2006	Tax preference	None	3.4 million tax filers in tax year 2002	Post-secondary education	Average deduction lowered taxable income by \$377 in tax year 2002
Student Loan Interest Deduction	Page 102	Taxpayer Relief Act of 1997, as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001	\$800 million in tax expenditures in 2006	Tax preference	None	6.6 million tax filers in tax year 2002	Post-secondary education and training	Average deduction was \$134 in 2002
Employer Tuition Assistance (Section 127)	Page 104	The Revenue Act of 1978, as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001	\$590 million in tax expenditures in 2006	Tax preference	Employers	25 percent of undergraduate employees and 13 percent of graduate students in 2002	Graduate or undergraduate level courses	Average employer financial aid amount was \$932 for employees pursuing undergraduate studies and \$2,451 for graduate studies in 1995-96



## Chapter 1

# Workforce Investment Act

## Title I—Workforce Investment Systems For Adults, Dislocated Workers, and Youth

### Potential as a source of workforce training:

- Largest single source of federal funds for workforce development.
- Proposed universal access to services by a range of different workers.
- Community-based system of one-stop centers allows access to a range of distinct federal workforce programs.

### Challenges to be addressed:

- Increase access to training for WIA participants.
- Ensure the full range of effective training providers participate in the system.
- Develop robust performance measurement systems that can simultaneously track multiple federal programs and ease reporting burdens on individual training providers.
- Improve inter-agency coordination.
- Improve the engagement of local industries and employment sectors.

2), and amendments to the Rehabilitation Act (which funds employment services for people living with disabilities; see Chapter 7).

Title I of WIA emphasized the development of a universal system of access to a range of federal employment and training programs through the creation of “one-stop” career centers. It also established a federally defined “sequence of services” to regulate how and when training and other supports could be offered to individual workers, emphasized inter-agency coordination, provided for consumer choice through the creation of a voucher-based funding system for training programs, introduced service provider accountability, and encouraged local planning through the creation of Workforce Investment Boards (WIBs).

Administered by the Employment and Training Administration (ETA) in the U.S. Department of Labor (DOL), WIA is the largest single source of federal funding for workforce development activities.

## Background

Congress passed the Workforce Investment Act (WIA) in 1998 to strengthen the nation’s workforce development system, specifically by streamlining and coordinating the delivery of multiple employment, education, and training programs.<sup>1</sup> WIA, which replaced the Job Training Partnership Act (JTPA), took effect on July 1, 2000.

Title I of WIA addresses the needs of job-seekers who are adults, dislocated workers, and youth. Other sections of the law cover programs for adult education and literacy (Title II of WIA; see Chapter 6), the Wagner-Peyser Act (which funds the federal Employment Service that administers Unemployment Insurance and other services to each state’s workers; see Chapter

## Current Legislative Status

WIA’s authorization expired in 2003. Congress continues to appropriate funds, extending the program based on current statute. Both the House and Senate passed versions of WIA reauthorization legislation during the 108th and 109th Congresses, but the bills were never brought to conference. In the absence of reauthorization, DOL has taken several steps to make changes to the program, including issuing proposed regulations in late December 2006.<sup>2</sup>

## Structure and Governance

The WIA system relies on state and local planning and governance to respond to the specific conditions of local labor markets. Governance responsibilities are split between a state WIB and local WIBs. These new local areas were supposed to replace JTPA’s Service Delivery Areas (SDAs) to improve their

1 Public Law 105-220.

2 71 *Federal Register* 76558 (December 20, 2006); <http://a257.g.akamaitech.net/7/257/2422/01jan20061800/edocket.access.gpo.gov/2006/pdf/E6-21766.pdf>.

## WIA AT-A-GLANCE ADULT, DISLOCATED WORKER, AND YOUTH ACTIVITIES UNDER TITLE I

**Statute:** Workforce Investment Act of 1998 (Public Law 105-220).

**Administered by:** U.S. Department of Labor, Employment and Training Administration.

**Due for reauthorization:** Authorization expired in FY03.

**Federal funding:** About \$3.0 billion in FY06 for adult, dislocated worker; and youth formula grant programs.

**Type of program:** Formula grant to states.

**How training is funded:** Primarily through vouchers, known as Individual Training Accounts (ITAs); secondarily, by specialized local contracts.

**State agency with jurisdiction:** Varies, including state departments of labor, workforce development, and economic development.

**Institutions funded for providing training services:** Colleges and universities, community colleges, proprietary schools, community-based training providers, and unions.

**Population served:** Nearly 1.1 million participants in 2004.

**Funding for training:** 40 percent of local adult and dislocated worker funding estimated to have been spent on training in PY03.

match with the geography of regional labor markets, but in many cases they were redrawn the same as the SDAs or to conform to political boundaries.

Information about services and benefits available from a range of federal programs is provided through a one-stop delivery system whose operators are designated by the local WIB. The one-stop centers provide WIA “core” services, such as self-service access to job listings; other services may be available at the one-stop center or through referrals to other providers.

### State WIBs

The state WIB, appointed by the governor, must include (among others) representatives of business, labor, service delivery organizations, city and county elected officials, and state agencies. The law requires that the board chair and more than half of the members of the WIB be representatives of business.

Key responsibilities of the WIB include:

- Developing the state WIA plan.
- Developing and continuously improving statewide activities under WIA.
- Designating local workforce investment areas.
- Developing allocation formulas for the distribution of funds to local areas.

- Developing and improving comprehensive state performance measures to assess the system’s effectiveness.
- Reviewing local WIA plans.
- Preparing an annual report to DOL.

### Local WIBs

Local WIBs have slightly different membership requirements. Like state WIBs, local WIBS must have a majority of business representatives, have a chair from the business community, and include labor representatives. But they are also required to have representatives of local educational agencies, community-based organizations, public and private economic development agencies, and one-stop partners.

Key responsibilities of local WIBs include:

- Developing a local plan.
- Selecting and entering into Memoranda of Understanding (MOUs) with entities designated as one-stop operators.
- Identifying eligible training providers.
- Developing a budget and administering grants under the program.
- Overseeing the system.
- Negotiating performance measures with the governor.

Local WIBs are prohibited from directly providing training services to WIA participants, although some exceptions can be made through a waiver process.

## One-Stop Centers

A main innovation of WIA is its requirement that access to information about and services from multiple federal employment and training programs be available in one site—a “one-stop” center. One-stop centers are intended to offer job seekers and employers ready access to the many workforce development resources available in a local area. More than a dozen federal programs are mandated or optional one-stop partners.

One-stop centers may be public or private entities (although they may not be elementary or secondary schools). By the end of 2003, nearly 2,000 one-stop centers were operating in the United States, in addition to a network of satellite centers.<sup>3</sup>

## Funded Activities

WIA-funded services are divided into three sequential tiers:

- *Core services* are available to all job seekers. Core services include self-service access to job listings, information about careers and the local labor market, and limited staff assistance with job search activities.
- *Intensive services* are available to people who have not obtained employment through core services. Intensive services include life-skills workshops, case management, and comprehensive assessments leading to the development of an individual employment plan.
- *Training services* are available to individuals who have not obtained or maintained viable employment through core and intensive services. Training services include employer-linked programs and classroom-based skills training leading to a specific occupation.

When Congress authorized WIA, it stipulated that these different types of service should be provided to clients in a particular *sequence*, with the expectation that program participants could be deemed eligible for the next, higher-cost form of service only if they had failed to secure employment after receiving the lower-cost services. This approach has dramatically decreased the amount of training provided under WIA relative to previous federal programs.

## Eligibility

One of WIA’s underlying principles is universal access. In theory, anyone requiring employment assistance should be able to find, in one place, information and services from the various federal programs that help people to get jobs and advance in the labor market.

In practice, individuals eligible for WIA services are divided into three subpopulations:

- Adults (defined as age 18 or older).
- Dislocated workers, including workers who have been laid off or received notice of termination from employment, are eligible for or have exhausted unemployment compensation, are self-employed but unemployed as a result of general economic conditions, and are displaced homemakers.
- Youth, defined as 14 years of age or older (but not older than 21), who are low-income individuals meeting at least one of the following conditions: deficient in basic literacy skills, a school dropout, homeless, a runaway, a foster child, pregnant or a parent, an offender, or someone who requires additional assistance to complete an educational program or to secure and hold employment.<sup>4</sup>

For intensive and training services for adults, WIA gives priority to public assistance recipients or other low-income individuals, in the case where funds are limited. Subsequent legislation added veterans to the list of priority populations under WIA.<sup>5</sup>

## Funding for Training and Education Under WIA

### Federal Funding

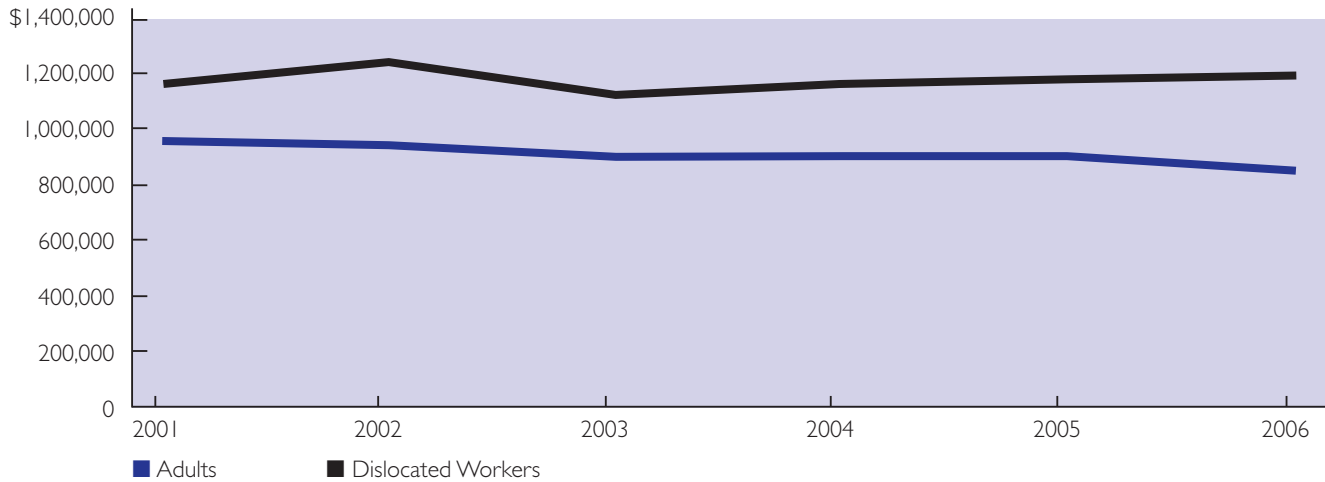
Title I of WIA authorizes three separate funding streams to states for activities focused on adults, dislocated workers, and youth. To receive WIA funds, states must have a federally approved state WIA plan.

<sup>3</sup> Social Policy Research Associates with TATC Consulting, *The Workforce Investment Act After Five Years: Results from the National Evaluation of the Implementation of WIA* (Oakland, Calif., 2004), p. I-7.

<sup>4</sup> This definition does not apply to Job Corps or to WIA national programs.

<sup>5</sup> The “Jobs for Veterans Act” of 2002, Public Law 107-288.

**TABLE I-A**  
**WIA FUNDING, 2001-2006**  
**(IN \$1,000s)**



Source: U.S. Department of Labor and Congressional appropriations documents

A formula determines the distribution of funds to each of these streams. The formula contains measures of state relative unemployment in areas of significant unemployment; relative excess unemployment; and the relative number of disadvantaged adults, youth, or individuals who have been unemployed 15 weeks or longer.

### Federal Funding Trends

Federal funding for WIA programs has decreased over the last several years. WIA adult formula funding declined 8.6 percent from \$945 million in FY02 to \$864.2 million in FY06. Dislocated worker formula funding decreased by 3.6 percent, from \$1.233 billion in FY02 to \$1.189 billion in FY06.

### State Distribution of Funds

States are required to pass 85 percent of their adult and youth funds to local areas. The remaining 15 percent is reserved for state administrative costs and other statewide activities, which can include rapid response (including emergency programming to respond to mass layoffs in the state), disseminating the state list of eligible training providers, incumbent worker training, and conducting evaluations. Some states have used this 15 percent to test innovations for the larger system, such as sectoral demon-

stration projects to address skilled workforce shortages in specific industries.

For dislocated workers, 20 percent of appropriated funds are reserved for the Secretary of Labor for National Emergency Grants (NEGs), dislocated worker demonstration efforts, and technical assistance. Of the remaining 80 percent of appropriated funds, states are required to distribute 60 percent to local areas, reserve 15 percent for statewide activities, and use 25 percent for state rapid response activities.

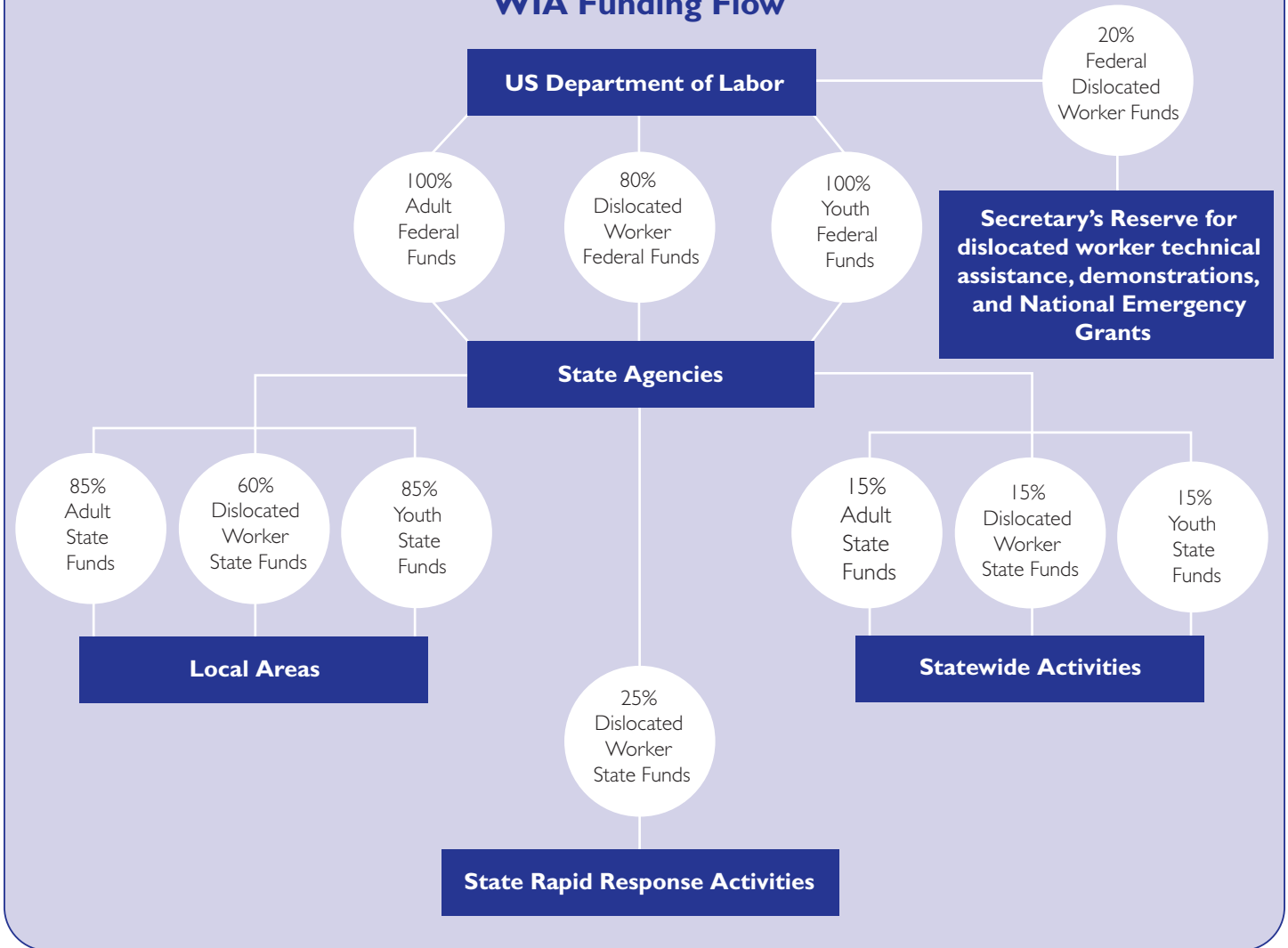
Local WIBS, with the approval of the governor, may also transfer up to 30 percent of funds between the adult and dislocated worker funding streams.<sup>6</sup> In Program Year (PY) 2005,<sup>7</sup> transfers were more likely from the dislocated worker to adult funding stream—38 states and the District of Columbia reported transfers from dislocated worker to adult funds, while six states reported transfers in the other direction (six states reported no transfers).<sup>8</sup>

6 Under §133(b)(4) of WIA, as amended by the “Consolidated Appropriations Act of 2005” (Public Law 108-447).

7 The WIA program year runs from July 1 to June 30.

8 TWA analysis of DOL budget data from [www.doleta.gov/budget/qtrlyspend.cfm](http://www.doleta.gov/budget/qtrlyspend.cfm).

**Table I-B  
WIA Funding Flow**



Nationally, 5.3 percent of dislocated worker funds were transferred to the adult funding stream in PY05. Only Wyoming and the District of Columbia reported transfers of more than 20 percent—50.6 percent and 31.3 percent, respectively. Of the 38 states reporting transfers of dislocated worker funds to the adult program, most (29, or 76.3%) moved less than 10 percent of funds.

Finally, states may also merge the 15 percent set-asides for statewide activities from the three separate funding streams.

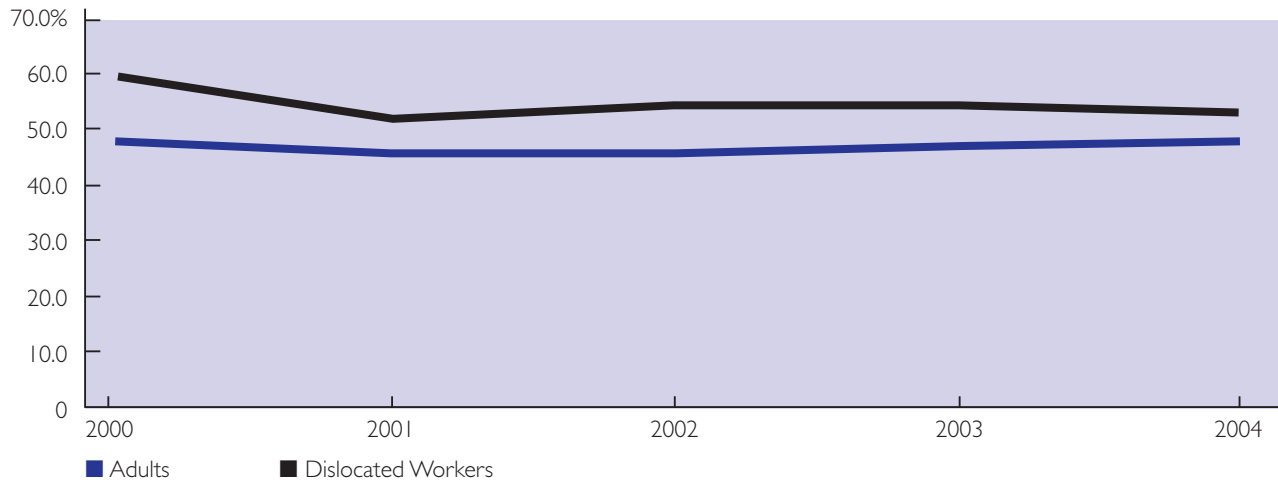
### Waivers of Requirements for Distribution of State and Local Funding<sup>9</sup>

In 2005-06 states requested and received approval from DOL for a significant number of waivers of the funding distribution requirements. Specifically:

- 17 states received waivers to allow them to use some of the funds they are otherwise required to pass on to local areas for the same purposes as statewide funds.
- Eight states received waivers to use rapid response funds for the same purposes as statewide funds under the dislocated worker program.

<sup>9</sup> All data in this section are from a TWA analysis ([www.workforcealliance.org/atf/af/{93353952-IDFI-473A-BI05-7713F4529EBB}/2005-2006%20Waivers.pdf](http://www.workforcealliance.org/atf/af/{93353952-IDFI-473A-BI05-7713F4529EBB}/2005-2006%20Waivers.pdf)) of DOL data from [www.doleta.gov/waivers](http://www.doleta.gov/waivers).

**TABLE I-C**  
**PERCENT OF WIA EXITERS WHO RECEIVED TRAINING, 2000-2004**



Source: U.S. Department of Labor data from www.fred-info.org

- 26 states and the District of Columbia received waivers to transfer more than 30 percent of funds between the adult and dislocated worker funding streams. Most states requested approval to transfer up to 100 percent.

## Funding for Training

Of the \$2.4 billion in adult and dislocated worker funds spent locally during PY03, only about 40 percent was spent on training.<sup>10</sup> The rest was spent on program costs (including job search assistance, case management, and supportive services) and administration.

WIA requires that training services be provided primarily through vouchers, known as Individual Training Accounts (ITAs), rather than through the contract method used under JTPA to purchase services from training providers. WIA participants needing training are supposed to receive an ITA, which they can use to purchase services from any organization on their local WIB’s “Eligible Training Provider” (ETP) list.

Dollar amounts for ITAs can vary significantly from one location to another. One study of the 13 sites in DOL’s ITA/ETP demonstration found that nearly all sites set dollar limits on ITAs, with the amount ranging from \$1,700 to \$10,000.<sup>11</sup> Another study that examined policies at 25 sites found ITAs ranged from \$1,000 to \$10,000, with some local WIBs setting different caps for different types of training.<sup>12</sup>

In addition, WIA allows WIBs to fund some training that can be provided under contract by local providers under three circumstances:<sup>13</sup>

- When the services provided are customized training or on-the-job training,
- When the local WIB determines that an insufficient number of providers is available in the local area to accomplish the purpose of a system of ITAs.
- When the local WIB determines that there is a training program of demonstrated effectiveness offered in the area by a community-based organization or other private organization to serve special participant populations that face multiple barriers to employment, including individuals with substantial language or cultural barriers, homeless individuals, offenders, or other populations defined by the governor.

<sup>10</sup> Government Accountability Office, *Workforce Investment Act: Substantial Funds Are Used for Training, but Little Is Known Nationally About Outcomes* (Washington, 2005), p. 3.

<sup>11</sup> Social Policy Research Associates, *An Evaluation of the Individual Training Account/Eligible Training Provider Demonstration, Interim Report* (Oakland, Calif., 2001), p. III-19.

<sup>12</sup> Nisha Patel and Steve Savner, *Implementation of Individual Training Account Policies Under the Workforce Investment Act: Early Information from Local Areas* (Center for Law and Social Policy, Washington, 2001), p. iii.

<sup>13</sup> §633.430 of WIA implementing regulations, 65 *Federal Register* 49405 (August 11, 2000).

In practice, about half of adult exiters (53.8%) and two-thirds of dislocated worker exiters (66.0%) who received training in 2004 had an ITA established for them. State rates of ITA establishment varied widely, with one state (Ohio) reporting that no exiters who received training through either program in 2004 received an ITA.<sup>14</sup>

## Populations Served Through WIA<sup>15</sup>

Under the WIA statute, states are required to report data only on WIA participants who receive either intensive services or both intensive and training services and who exit the program in each program year. As a result, reporting includes only a small subset of all individuals who participate in the WIA system, given that the majority of WIA clients currently receive the lower-cost “core” services.

Data are reported for all exiters, adults, dislocated workers, and youth. In 2004,<sup>16</sup> more than half a million individuals (545,177) exited WIA programs. Of those, 41.6 percent were served in the adult program, 30.9 percent in the dislocated worker program, and 27.5 percent in the youth program.<sup>17</sup>

### Adults

Among the 225,683 adult exiters in 2004:

- More than half (56.9%) were women.
- Most (77.2%) were not employed when they registered for services.
- More than half (59.8%) were aged 30 or older.
- More than half (55.0%) were members of minority groups (34.2% were African-American and 16.4% were Latino), while slightly less than two-fifths (44.0%) were white.

### Dislocated Workers

Among the 178,446 dislocated worker exiters in 2004:

- Slightly more than half (51.8%) were men.
- Nearly all (92.6%) were not employed at the time of registration.
- A significant number (42%) were between the ages of 30 and 44, and nearly 84 percent were at least 30 years old.

- More than one-third (38.7%) were members of minority groups (19.8% were African-American and 13.5% were Latino), compared to the nearly two-thirds (60.4%) who were white.

### Youth

Among the 149,597 youth exiters in 2004:

- More than half (53.2%) were women.
- About two-thirds (66.9%) were members of minority groups (37.1% were African-American and 25.9% were Latino), and about one-third were white (32.0%).
- About two-thirds (66.9%) were 14 to 17 years old.
- Most (93.4%) were not employed when they registered for services.

## Institutions Typically Serving WIA Participants

Local WIBs are responsible for designating organizations and institutions that are eligible providers of training services. States are responsible for compiling lists of eligible training providers (ETPs) from local WIBs and widely disseminating the master list to the one-stop system.

Eligible training providers must be:

- Post-secondary institutions eligible to receive funding under Title IV of the Higher Education Act (HEA).
- Institutions that provide a program leading to an associate degree, baccalaureate degree, or certificate.
- Entities that carry out programs under the National Apprenticeship Act.
- Another public or private provider of program of training services, as defined by criteria set by each state.

<sup>14</sup> TWA analysis of DOL data at [www.fred-info.org](http://www.fred-info.org).

<sup>15</sup> All data in this section, unless otherwise noted, from: Social Policy Research Associates, *2004 WIASRD Data Book* (Oakland, Calif., 2006).

<sup>16</sup> The 2004 data are for the period April 1, 2004, to March 31, 2005, and not the WIA program year.

<sup>17</sup> Percentages do not add to 100 because participants can fall in more than one service category.

Training providers maintain eligibility to accept ITAs for training by submitting extensive program performance reports on participant completion and placement rates, retention and earnings gains six months after placement, credential attainment, and per-client costs. These data, submitted to local WIBs, are supposed to be made available to job seekers to help them to choose among eligible providers. Providers that fail to meet performance standards may become ineligible to receive WIA funds.

The sheer costs of the performance data collection necessary to stay on the ETP lists, however, when compared to the limited number of training dollars available under WIA, has compelled some providers to opt out of the WIA system. States also struggle with the difficulties of these requirements, evidenced by the fact that in 2005-06 23 states and the District of Columbia requested and received waivers from DOL to extend the time limit of their initial provider eligibility determinations.<sup>18</sup>

## Relationship to Other Programs

### Mandatory and Optional Federal Program Partners

The law designates some programs under federal agencies as mandatory partners in the one-stop system, while other programs are optional partners. Mandatory partners are required to make core services applicable to their programs available to participants in the one-stop system. Also, they must use a portion of their funds to support the one-stop system (where appropriate and consistent with federal law), enter into a MOU with the local WIB for these activities, and provide representation on the local WIB.<sup>19</sup>

Current mandatory partners include:<sup>20</sup>

- Programs authorized under Titles I (employment and training) and II (adult education and literacy) of WIA.
- Programs under the Wagner-Peyser Act.
- Vocational rehabilitation programs under Title I of the Rehabilitation Act of 1973.
- The Older American Community Service Employment Program under Title V of the Older Americans Act of 1965.
- Post-secondary vocational education activities under the Carl D. Perkins Career and Technical Education Act.
- Trade Adjustment Assistance (TAA) under Chapter 2 of Title II of the Trade Act of 1974.

- Veteran employment and training programs under Chapter 41 of Title 38 of the U.S. Code.
- Employment and training activities under the Community Services Block Grant.
- Employment and training activities carried out by the Department of Housing and Urban Development.
- Programs authorized by state unemployment compensation laws.
- Optional partners include:
  - Temporary Assistance for Needy Families (TANF).
  - Food Stamp program.
  - Programs under the National and Community Service Act.
  - Other federal, state, or local programs, including private sector programs.

In addition to serving on the state and local WIBs, mandatory partners are expected to determine how to share authority over and the costs of local one-stop centers. The presumption is that the participants served by the various programs will want to make use of the one-stop centers for some employment services. To date, however, this inter-agency collaboration has been difficult in many local areas. As a result, WIA has not achieved its goals of cost-sharing or of greater accountability and service to the diverse client populations connected to the partner programs.

### WIA and Pell Grants

WIA limits the use of its training funds to individuals who are unable to obtain support from other grant sources, including the Pell Grant program.<sup>21</sup> At the same time, HEA—which includes authorization for the Pell Grant program—prohibits other federal programs from taking Pell Grant awards into consideration when determining an individual’s eligibility for, or the amount of, benefits or assistance under any other federal, state, or local program financed in whole or in part with federal funds.<sup>22</sup>

In regulations implementing WIA, DOL interprets these two provisions as requiring coordination of funding at the program

<sup>18</sup> TWA analysis ([www.workforcealliance.org/atf/cf/{93353952-IDFI-473A-B105-7713F4529EBB}/2005-2006%20Waivers.pdf](http://www.workforcealliance.org/atf/cf/{93353952-IDFI-473A-B105-7713F4529EBB}/2005-2006%20Waivers.pdf)) of DOL data from [www.doleta.gov/waivers](http://www.doleta.gov/waivers).

<sup>19</sup> Spelled out in §662.320 of WIA regulations at 65 *Federal Register* 49399-49400 (August 11, 2000).

<sup>20</sup> Welfare-to-work programs authorized under the Balanced Budget Act of 2000 are also listed as mandatory partners, but authorization for these programs has expired, and remaining funds were rescinded in the FY05 omnibus appropriations law.

<sup>21</sup> §134(d)(4)(B).

<sup>22</sup> §479(B).

operator and training provider levels to avoid duplication of costs. Simply reducing the amount of WIA funds by the amount of Pell Grant funds is explicitly prohibited. Instead, according to the prefatory discussion in the regulations, the exact mix of funds “should be determined based on the availability of funding for either training costs or supportive services, with the goal of ensuring that the costs of the training program are fully paid and that necessary supportive services are available so that training can be completed successfully.”<sup>23</sup>

Local areas have reportedly found the regulations confusing. According to one report that analyzed WIA implementation in eight states:

To alleviate confusion, local boards often required participants to apply for Pell Grants if they were enrolled in programs where these grants could be used; if Pell Grants were disbursed, then the WIA payment was reduced by the Pell Grant. Although this policy appeared to satisfy WIA and Pell rules, local officials remain confused and would like to see WIA and Pell Grant policies clearly stated.<sup>24</sup>

## Performance Accountability

The WIA statute currently requires states to track and report performance on a variety of outcomes measures for certain participating adults, dislocated workers, and youth. The states and the federal government negotiate the expected levels of performance.

Statutorily required outcome measures for adults, dislocated workers, and older youth (19 to 21 years old) are:

- Entry into unsubsidized employment.
- Retention in unsubsidized employment six months after employment entry.
- Earnings change six months after entry into unsubsidized employment (earnings replacement rate for dislocated workers).
- Credential rate among those who enter into unsubsidized employment.

For younger youth (14 to 18 years old), required outcome measures are:

- Attainment of basic skills and work readiness or occupational skills.

- Attainment of high school diploma or recognized equivalent.
- Placement and retention in postsecondary education or advanced training, or placement and retention in military service, employment, or qualified apprenticeship.

In addition, local areas and states are required to report on customer satisfaction for both employers and participants.

States can face sanctions for failing to meet expected performance levels. For a first failure, the Secretary of Labor provides technical assistance to help the state achieve compliance. With a second failure, a state may see its WIA grant reduced by up to 5 percent.

States negotiate expected levels of performance for local areas, based on the levels negotiated with the federal government. Local areas can also face sanctions for failing to meet expected performance levels, including the forced appointment of a new local board by the governor. In recent years, particularly with the recession and the decreased availability of quality employment opportunities for WIA clients, some states and local areas have found it particularly hard to reach performance levels negotiated during WIA's implementation in the late 1990s. As a result, states and localities have increasingly advocated for new flexibility to adjust negotiated performance levels, depending on changes in economic conditions.

In 2005, DOL began implementing a “common measures” policy to standardize outcome measures across multiple federal job training and education programs, with the most recent guidance issued in February 2006.<sup>25</sup> The common measures are:

- Entered employment.
- Employment retention.
- Average earnings.

DOL guidance explains that states are currently responsible for collecting data on and reporting on both the statutory measures and the common measures, in anticipation of a shift to the common measures post-reauthorization. While many of the measures are the same, there are some notable differences. For example, the earnings measure is earnings change for the statutory measures and average earnings for the common measures.

23 §663.320. Regulations at 65 *Federal Register* 49204 (August 11, 2000), discussion of this provision at p. 49328.

24 Burt S. Barnow and Christopher T. King, *The Workforce Investment Act in Eight States* (The Nelson A. Rockefeller Institute of Government, Albany, N.Y., 2005), p. 30.  
25 TEGL 17-05, issued February 17, 2006.

In addition, who is included in some of the calculations will be different. For example, all participants who received a core, intensive, or training service who exited the program in a year are to be included in the common measures, while adults and dislocated workers who received a core service (such as self-service or information activities) are not required to be included in the statutory performance measures.<sup>26</sup>

## Policy Challenges Moving Forward

Several key policy challenges face the WIA program:

**Challenge:** Increase access to training for WIA participants.

Significantly fewer participants are receiving training services under WIA than under JTPA, even though the number of WIA exiters in 2004 (545,177) exceeded the 412,778 participants in the last year of JTPA (PY99)<sup>27</sup> by almost one-third (32.1%).

In 2004, 48.5 percent of adult WIA exiters received training, compared to 76.3 percent of adults who participated in training during the last year of JTPA (PY99).<sup>28</sup> The percentage of dislocated workers receiving training also declined, from 60.3 percent under JTPA (PY99) to 53.3 percent under WIA in 2004.<sup>29</sup>

A number of factors have contributed to this decrease in training under WIA. First, the sequenced service delivery, coupled with some unclear guidance by federal agencies, has led many states to adopt a “work first” approach to WIA that limits training.

Although WIA does not mandate any minimum length of time that individuals must spend in core or intensive services before they can enter training, many one-stops have presented training as a “last resort” for clients. Instead, the centers have focused on the initial use of lower-cost core or intensive services to move clients into a lower-skilled job than what they might have achieved over time with additional training. At the time of publication, DOL proposed a new round of rulemaking that, if adopted, would lessen the impact of the sequence of services by stating that one-stops could provide services in whatever order and combination that made the most sense for the individual client, versus a strict and extended sequence.<sup>30</sup>

Training services have also been constrained both by WIA’s limited funding and the wider range of mandated activities that must now be implemented with that funding. Local areas have had to use WIA funds—which, in the past, could have been devoted entirely to services—to develop the system’s infrastructure (including new WIBs, one-stop centers, and ITA systems). Once money was allocated to infrastructure (particularly during WIA’s early years, when these systems were being developed), little funding remained to provide core and intensive services, let alone training services, in many local areas.

**Challenge:** Ensure the full range of effective training providers participate in the system.

Rather than enhancing customer choice, WIA has unintentionally narrowed the range of training providers from which consumers can choose. In many areas, some training providers—which once ranged from large community colleges to unions, and from joint labor-management funds for specific industries to small community-based organizations serving specific neighborhoods or populations—have chosen not to participate.

Each type of provider—independent of its ability to train and place job seekers—has a different capacity to adjust to the payment system and reporting requirements imposed by WIA. As a result, some effective programs have opted out, or have been forced out, of the federally funded workforce development system because of its “one size fits all” approach.

For example, some community-based training programs, due to their size, rely on a limited range of funding sources. They may not be able to assume the cash flow risks of ITAs—particularly if the start of a training class is contingent on the open enrollment of a certain number of ITA holders (a problem that did not exist when training contracts guaranteed a certain number of paid slots). Some community-based organizations (CBOs) cannot afford to run a program if ITA amounts do not cover their actual costs. As a result, some effective CBOs have chosen not to provide services under WIA. Their withdrawal limits the choices of consumers and challenges local WIBs which, in some cities, are losing several of their best service providers.

Conversely, larger institutions, such as community colleges—which typically receive multiple sources of funding for any

26 §136(b)(2)(A).

27 Social Policy Research Associates, *PY 2002 WIASRD Data Book* (Oakland, Calif., 2004), p. 37.

28 *Ibid.*

29 *Ibid.*, p. 101.

30 71 *Federal Register* 76558 (December 20, 2006).

one classroom of students—have found the WIA performance requirements to be at odds with their statutory mission. For example, an open admissions policy can result in significant drop-out rate and bring down WIA performance. Colleges have also found that WIA performance measures are too costly because they must report on the employment and earnings outcomes of *all* of a program’s students, even if only a few were WIA-funded. Therefore, many colleges with strong workforce preparation records have opted out of WIA.<sup>31</sup>

**Challenge:** Develop robust performance measurement systems that can simultaneously track multiple federal programs and ease reporting burdens on individual training providers.

Performance tracking is a necessary but expensive activity that can divert funding and staff resources away from providing education and training services. While the common measures policy—still in its infancy—promises to decrease the burden by standardizing outcomes across programs, providers will still need additional resources to implement and manage the system.

Similarly, implementation of changes in the performance measurement system may temporarily require increased funding support for states and local areas.

**Challenge:** Improve inter-agency coordination.

WIA has improved information sharing among agencies and facilitated successful partnerships in some states and localities. Still, many challenges remain in the creation of a seamless workforce development system. Some agencies remain confused about roles and responsibilities in the system because their distinct goals, target populations, reporting requirements, and funding streams often clash with WIA’s mandate to streamline and coordinate services.

Individual agencies also have expressed concerns about whether they are able to serve their mandated target populations (for example, participants with low literacy) as effectively within the one-stop system as they could independently. Finally, other key agencies remain outside the one-stop system—most notably, those that administer TANF. This omission increases the likelihood that large groups of low-income individuals will be excluded from the full range of services that a truly coordinated WIA system could offer.

To address these concerns, some policy makers have proposed the elimination of individual federal programs—such as the adult, dislocated worker, youth, and Employment Service programs under WIA. Instead, these and other federal workforce programs would be consolidated into a few block grants to states. Others see this proposed solution as more confusing. They believe it would not clarify the range of populations that needs to be served by these programs and not distinguish between the differences in employment and earning outcomes expected from each.

**Challenge:** Improve the engagement of local industries and employment sectors.

WIA needs to develop means to support new capacities, beyond WIB membership, through which local employers can become partners in the planning and assessment of local WIA systems. This step would ensure the more effective engagement of local businesses—and more effective long-range planning for the future workforce needs of local industries.

During WIA’s first phase of implementation, some of the system’s greatest successes have come through investments in sectoral or industry-specific strategies. In these successes, a range of stakeholders connected to a local industry—such as multiple firms, affiliated unions, community-based organizations, community colleges, and local WIA planners—have together developed strategies for meeting both the current and envisioned future skilled workforce needs for that particular industry. In the best cases, this planning has created collective strategies not just for workforce training but also for changes in how the local industry operates and in the market niches it might develop. The result: a true connection and coordination between workforce development and economic development.

Unfortunately, no designated mechanism—short of a state’s possible use of its 15-percent administration money—exists for the WIA system to invest in and track the performance of such activities. In recent years, DOL has established a number of competitive grant programs to support these sectoral efforts, including the High Growth Job Training Initiative, the Community-Based Job Training Grants, and the Workforce Innovation in Regional Economic Development (WIRED) grants. No systemic means exists within the WIA system, however, to support industry engagement across the country. Therefore, their prevalence remains limited.

<sup>31</sup> Social Policy Research Associates, *An Evaluation of the Individual Training Account/Eligible Training Provider Demonstration* (Oakland, 2001), p. ES-8.

## TWA Recommends

The Workforce Alliance has developed a number of specific policy recommendations to address these issues, particularly within the context of pending reauthorization legislation. Some of those recommendations include:

- Retain individual funding streams under WIA (for adult, dislocated worker, youth, and Employment Service) to prevent a loss of program direction and to protect against the types of funding cuts that typically accompany the creation of block grants.
- Eliminate the sequence of services to allow one-stop centers to offer services in any order or combination, based on the needs of the individual job seeker, job trainers, and the local market.
- Strengthen sector-focused initiatives to improve engagement with the business community, better address current and future skills shortages, and create high-value jobs in local high-growth industries.
- Support separate funding for the one-stop infrastructure. This would ensure more consistency in one-stop capacity across the country, allow for better tracking of performance measures specific to one-stop operations, and alleviate the current local tension between the use of formula funding for one-stop costs versus investments in training and other services for clients.

(For a full list of recommendations on these and related policy issues, visit TWA's Website at [www.workforcealliance.org](http://www.workforcealliance.org).)

## Additional Reading

### The Law and Regulations

The Workforce Investment Act of 1998 (P.L. 105-220)  
[www.doleta.gov/regs/statutes/wialaw.pdf](http://www.doleta.gov/regs/statutes/wialaw.pdf)

Final regulations

[www.doleta.gov/usworkforce/wia/finalrule.pdf](http://www.doleta.gov/usworkforce/wia/finalrule.pdf)

### Government Summaries and Analyses

Government Accountability Office, *Workforce Investment Act: Improvements Needed in Performance Measures to Provide a More Accurate Picture of WIA's Effectiveness* (Washington, 2002).

Government Accountability Office, *Workforce Investment Act: One-Stop Centers Implemented Strategies to Strengthen Services and Partnerships, but More Research and Information Sharing Is Needed* (Washington, 2003).

Government Accountability Office, *Workforce Investment Act: Substantial Funds Are Used for Training, but Little Is Known Nationally About Outcomes* (Washington, 2005).

Office of Field Operations, Employment and Training Administration, United States Department of Labor, *Summary Report on WIA Implementation* (U.S. Workforce Network, Washington, March 2001).

U.S. House of Representatives, Committee on Ways and Means, *2004 Green Book* (Washington, 2004). Section 15 available at <http://waysandmeans.house.gov/media/pdf/greenbook2003/WIA.pdf>.

## Other Summaries and Analyses

Barnow, Burt S., and Christopher T. King, *The Workforce Investment Act in Eight States* (The Nelson A. Rockefeller Institute of Government, Albany, N.Y., 2005).

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Social Policy Research Associates (with TATC Consulting), *The Workforce Investment Act After Five Years: Results from the National Evaluation of the Implementation of WIA* (Oakland, Calif., 2004).

Chapter 2

# Wagner-Peyser Act

## Title IIIA of the Workforce Investment Act

**Potential as a source of workforce training:**

- Supports a range of activities to support job-seekers—including job placement, career counseling, and job-readiness workshops—but does not fund training services.
- Does not fund skills training and education but can refer job-seekers to WIA-funded services and other employment-related support services.

**Challenges to be addressed:**

- Increase the number of Wagner-Peyser participants referred to needed services, including WIA training services.
- Improve coordination between WIA and Wagner-Peyser programs.
- Tighten registration procedures for Internet-based users to ensure accuracy of program performance data.

The Workforce Investment Act (WIA) of 1988 required Wagner-Peyser funded services to become part of the one-stop system (see Chapter I on WIA services for adults, dislocated workers, and youth). However, funding streams, administration, and performance reporting were to remain separate.

The Wagner-Peyser statute also authorizes the development and operation of a nationwide employment statistics system. In addition, as part of its role under the law, ETA has developed and disseminated electronic job search tools, such as America’s Job Bank and the CareerOneStop portal.

**WAGNER-PEYSER AT-A-GLANCE**

**Statute:** Wagner-Peyser Act, as amended by Title IIIA, Workforce Investment Act of 1998.

**Administered by:** U.S. Department of Labor, Employment and Training Administration.

**Due for reauthorization:** Reauthorization is not required, although may be affected by reauthorization of WIA.

**Federal funding:** \$715.9 million in formula grants to states, plus \$33.4 million in national activities funding in FY06.

**Type of program:** Formula grant to states.

**State agency with jurisdiction:** State employment security agency.

**Institutions funded:** More than 1,800 local offices of state employment security agencies.

**Population served:** About 13.3 million job-seekers in PY05.

## Background

The Wagner-Peyser Act of 1933, created as part of President Franklin Roosevelt’s “New Deal” in the depths of the Depression, established a nationwide system of public employment offices known as the Employment Service (ES). The basic goal of the law is to assist job-seekers in finding jobs and to assist employers in finding qualified workers.

Administered by the U.S. Department of Labor’s (DOL) Employment and Training Administration (ETA), the Wagner-Peyser Act funds ES offices to provide employment-related labor exchange services. These services include job search assistance, job referral, and placement assistance for job-seekers; re-employment services for Unemployment Insurance (UI) claimants; and recruitment services for employers with job openings. Staff in ES offices have the responsibility of certifying eligibility for the Work Opportunity Tax Credit (WOTC) and doing outreach to migrant and seasonal farmworkers, including ensuring that job information is conspicuous and available to them in all local offices.

## Current Legislative Status

The Wagner-Peyser Act does not require reauthorization. It is, however, likely to be affected by the pending reauthorization of WIA.

## Funded Activities

Activities funded under Wagner-Peyser include:

- Job search and placement assistance for job-seekers, including counseling, testing, occupational and labor market information, assessment, and referral to employers.
- Recruitment services and special technical services for employers, including assistance in analyzing hard-to-fill job orders, assisting with job restructuring, and assistance in dealing with layoffs.
- Re-employment services for UI claimants.
- Labor exchange services for workers who have received notice of permanent or impending layoff.
- Development and provision of labor market and occupational information.
- Administration of the work test site for the state unemployment compensation system.

States can also use Wagner-Peyser funds to support the evaluation and development of linkages with related services provided under other federal or state legislation. Funded activities may be provided through self-service, facilitated self-help services, or staff-assisted services. Assessment of skills levels, career guidance, job search workshops, and referral to training may also be provided.

In Program Year (PY) 2005, of the about 13.3 million job-seekers served:<sup>1</sup>

- 78.8 percent of received staff-assisted services, typically through local one-stops or the local ES office.
- 14.5 percent received career guidance.
- 34.1 percent conducted job search activities.
- 40.7 percent were referred to employment.
- 2.7 percent were referred to WIA services.

## Funding for Wagner-Peyser Activities

### Federal Funding Trends

The Wagner-Peyser program is funded through the Federal Unemployment Tax Act (FUTA), which imposes a payroll tax on employers.

Appropriations for the Wagner-Peyser program have been declining over the last several years. The allocations to states decreased from \$796.7 million in FY02 to \$715.9 million in FY06, a decline of 10.1 percent (not adjusted for inflation).

Before funding is distributed to the states:

- An estimated amount is set aside for postage.
- 3 percent is set aside as a reserve for the Secretary of Labor. It is used to ensure that each state has a total allotment sufficient to provide staff and other resources necessary to carry out Wagner-Peyser activities and related administrative and support functions on a statewide basis.
- Funding for the territories of Guam and the Virgin Islands are set aside in amounts equal to 100 percent of their allotment the previous year.

### Allocation of Funds to States

After the set-asides are subtracted, the remaining funding is distributed to states according to a formula. Two-thirds of the allocation is based on the size of the state's civilian labor force (compared to all states), and one-third is based on state unemployment (compared to all states).

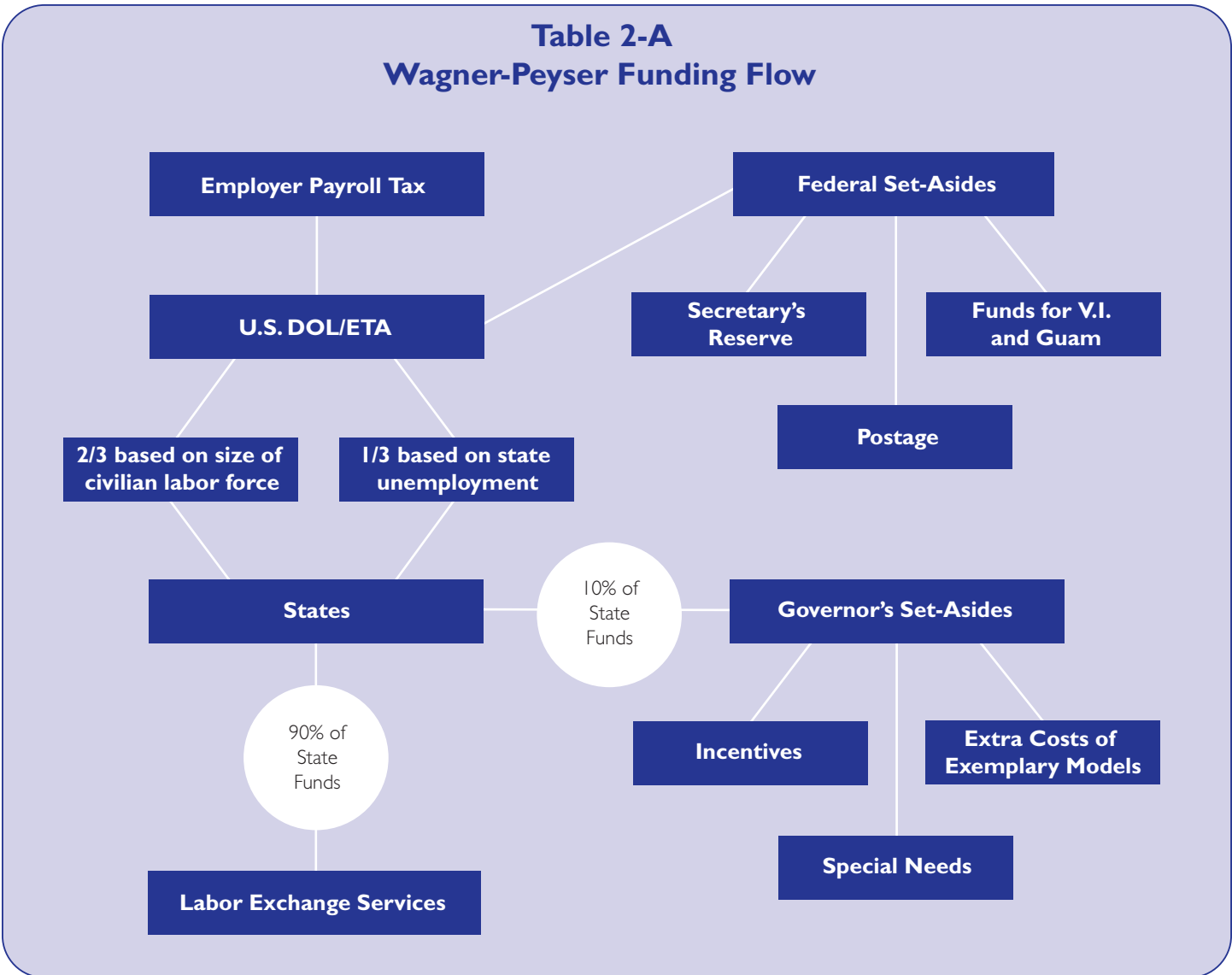
To receive an allocation, the state must have an approved plan for how it intends to use the Wagner-Peyser funds. In PY06, state allocations ranged from a low of \$1.95 million in Delaware to a high of \$80.5 million in California.<sup>2</sup> States meeting certain criteria can receive additional funding through the 3-percent reserve.

Most of the funds—90 percent—support labor exchange services for job-seekers and employers (see the section above on

1 U.S. Department of Labor, *National Wagner-Peyser Report, Program Year 2005*, [www.doleta.gov/Performance/results/State\\_by\\_State\\_PY2005\\_performance.xls](http://www.doleta.gov/Performance/results/State_by_State_PY2005_performance.xls).

2 U.S. Department of Labor, *State Statutory Formula Funding*, [www.doleta.gov/budget/06esf\\$.pdf](http://www.doleta.gov/budget/06esf$.pdf).

**Table 2-A  
Wagner-Peyser Funding Flow**



“Funded Activities”). Governors control the other 10 percent of Wagner-Peyser funds and may use them for performance incentives, services to groups with special needs, and the extra costs of exemplary models for delivering services.

### Re-Employment Services Funding

Between FY01 and FY05, Congress appropriated additional funding—about \$35 million each year—for Re-Employment Services Grants to help states provide direct services to UI claimants. Congress did not provide these additional funds in FY06.

<sup>3</sup> See TEGL 5-04, issued September 24, 2004, for more information.

<sup>4</sup> Florida, Idaho, Minnesota, Mississippi, Montana, Texas, and West Virginia.

These funds, which were in addition to Wagner-Peyser state allotments, were earmarked for increasing the quantity and quality of services to UI claimants through the one-stop system. Funds were distributed based on each state’s share of UI first payments, with every state receiving a minimum of \$215,000.

Beginning in FY05, several states used some of these funds to support the Bush Administration’s Personal Reemployment Account (PRA) initiative.<sup>3</sup> The seven states participating in the initiative used their RES allocation as a special demonstration grant to provide PRAs of up to \$3,000 to a state-determined subset of UI claimants.<sup>4</sup> DOL provided matching funds through its appropriation for pilots and demonstrations.

## Eligibility for Services

All employers seeking workers and all individuals legally authorized to work in the United States and seeking work for any reason (regardless of whether they are currently employed) are eligible for services. Veterans receive priority, with disabled veterans given preference over other veterans.<sup>5</sup> States may also provide specialized assistance to youth, women, older workers, people with disabilities, rural residents, and the economically disadvantaged.

## Populations Served Through Wagner-Peyser

In PY02, the program served over 14 million job-seekers.<sup>6</sup> Among job-seekers served:

- Most (69%) were between the ages of 19 and 44.
- About one-quarter (24.5%) were aged 45 and older.
- More than half (54%) were men.
- More than half (56%) were white, while about one-fifth (21%) were African-American, and 15 percent were Latino.
- Almost all (87%) were unemployed.

## Institutions Providing Services

More than 1,800 local offices of state employment security agencies are involved in providing Wagner-Peyser funded services.<sup>7</sup> Within these agencies, services must be provided by state merit-staff employees, who are employed through the state civil service system.

## Relationship to Other Programs

The Wagner-Peyser Act is one of the mandated partners under Title I of WIA. This means that the state agency with jurisdiction over the Wagner-Peyser Act must:

- Be represented on the state Workforce Investment Board (WIB).

- Be represented on local WIBs.
- Enter into Memoranda of Understanding (MOU) with local WIBs that describe services to be provided, how Wagner-Peyser will contribute to the operating costs of the one-stop system (in a proportional manner), and how the Wagner-Peyser program will refer clients to the one-stop system.

WIA regulations generally prohibit local ES offices from existing outside of the one-stop delivery system. Under certain circumstances, however, Wagner-Peyser services may be offered at affiliated sites or through electronically or technologically linked access points as part of the system.<sup>8</sup>

In their WIA state plans, states are required to describe how they will ensure coordination and avoid duplication between WIA Title I and Wagner-Peyser activities. In addition, a state's Wagner-Peyser plans are a required component of its WIA plans.

States may use Wagner-Peyser funds to supplement funding of any workforce activity carried out under WIA, as long as these conditions are met:<sup>9</sup>

- The activity meets the requirements of the Wagner-Peyser Act.
- The activity serves the same individuals as those served under the Wagner-Peyser Act.
- The activity provides services that are coordinated with services under the Wagner-Peyser Act.
- The funds supplement, rather than supplant, funds provided from non-federal sources.

The Wagner-Peyser program also has a relationship to the UI program: UI claimants who file for unemployment benefits may be directed to register with ES for assistance in finding work. In PY04, 40 percent of registered job-seekers under the Wagner-Peyser program were UI claimants.<sup>10</sup>

5 This priority was enhanced under the "Jobs for Veterans Act" of 2002, Public Law 107-288.

6 Unless otherwise noted, all data in this section from: U.S. Department of Labor, *Annual Report for Wagner-Peyser Act Funded Activities Program 2002* (Washington), [www.doleta.gov/Performance/results/ES-Program-Year-2002-Annual-Report.pdf](http://www.doleta.gov/Performance/results/ES-Program-Year-2002-Annual-Report.pdf).

7 United States Department of Labor Program Highlights, [www.doleta.gov/uses/proghigh.cfm](http://www.doleta.gov/uses/proghigh.cfm).

8 §652.202 of final WIA regulations. At 65 *Federal Register* 49462 (August 11, 2000).

9 §652.205 of final WIA regulations at 65 *Federal Register* 49463 (August 11, 2000).

10 U.S. Department of Labor, *State by State PY 2004 Performance Table*, [www.doleta.gov/Performance/results/wagner-peyser\\_act.cfm](http://www.doleta.gov/Performance/results/wagner-peyser_act.cfm).

## Performance Accountability

The Wagner-Peyser law gives the Secretary of Labor broad authority for measuring the performance of the program. It does not proscribe any specific measures.

DOL began implementing a new performance measurement system for Wagner-Peyser labor exchange activities in PY02.<sup>11</sup> The performance measures, modeled after those used in the WIA Title I system, were:

- Entered employment rate.
- Employment retention rate at six months.
- Job-seeker customer satisfaction.
- Employer customer satisfaction.

Beginning in PY04, states were required to negotiate their expected performance levels for the first two measures with DOL regional offices,<sup>12</sup> similar to the process followed under Title I of WIA.

In PY05, Wagner-Peyser began to be required to participate in DOL's "common measures" policy to standardize outcome measures across multiple federal job training and education programs. Under the new policy, states are to report on three performance measures—entered employment, employment retention, and average earnings—for participants in the Wagner-Peyser program.<sup>13</sup>

States were not required, however, to establish performance levels for the Wagner-Peyser program in PY05, which DOL considered a baseline year to aid in setting performance targets in future program years. For PY06, states were required to set levels of performance (through negotiation with DOL) for the program using the common measures by June 30, 2006.<sup>14</sup>

11 66 *Federal Register* 29648 (May 31, 2001).

12 TEGL 22-03, issued June 3, 2004.

13 TEGL 18-04 issued February 28, 2005.

14 TEGL 29-05, issued May 12, 2006.

15 U.S. Department of Labor, *Annual Report for Wagner-Peyser Act Funded Programs*, p. 8.

16 *Ibid.*, p. 3.

17 Randall W. Eberts and Harry J. Holzer, "Overview of Labor Exchange Policies and Services," in *Labor Exchange Policy in the United States*, edited by David E. Balducchi, Randall W. Eberts, and Christopher J. O'Leary (The Upjohn Institute, Kalamazoo, Mich., 2004), p. 15.

18 U.S. Department of Labor, *State by State PY 2004 Performance Table*, [www.doleta.gov/Performance/results/wagner-peyser\\_act.cfm](http://www.doleta.gov/Performance/results/wagner-peyser_act.cfm).

19 Government Accountability Office, *Workforce Investment Act: Implementation Status and Integration of TANF Services* (Washington, 2000), p. 9.

20 Section 301(b) of S. 1021, "The Workforce Investment Act Amendments of 2005."

## Policy Challenges Moving Forward

Several key policy challenges face the Wagner-Peyser program:

**Challenge:** Increase the number of Wagner-Peyser participants referred to needed services, including WIA training services.

In PY02, nearly one-fifth (16%) of Wagner-Peyser participants did not have a high school diploma.<sup>15</sup> Yet only 2 percent of participants were referred to WIA services.<sup>16</sup> Wagner-Peyser job-seekers often face other barriers to success, as well. For example, many Wagner-Peyser participants are members of families with incomes of less than \$15,000.<sup>17</sup> Yet only a small number—5.6 percent—of Wagner-Peyser participants were referred to support services in PY04.<sup>18</sup>

Improved access to WIA-funded training and to support services could have distinct benefits for Wagner-Peyser participants, particularly because training cannot be supported by Wagner-Peyser funds. Giving Wagner-Peyser clients better access to WIA services could increase their educational attainment and skills, increase their access to better jobs, improve job retention and advancement, and lead to higher incomes.

**Challenge:** Improve coordination between WIA and Wagner-Peyser programs.

While WIA regulations generally prohibit Wagner-Peyser services from being provided outside of the one-stop delivery system, coordination could undoubtedly be improved. The U.S. Government Accountability Office found—albeit earlier in WIA implementation—that 11 states reported that Wagner-Peyser services were not available on site in the majority of their one-stop centers.<sup>19</sup>

Better coordination between WIA and Wagner-Peyser Act programs is a goal envisioned in the WIA reauthorization legislation enacted by the Senate in the 109th Congress. The bill would have required WIA and Wagner-Peyser Services to be co-located.<sup>20</sup>

**Challenge:** Tighten registration procedures for Internet-based users to ensure accuracy of program performance data.

In many areas, clients can electronically access Wagner-Peyser services, such as online job listings, through the Internet. State and local policies vary regarding whether Internet users of services must register with the program; some areas require little or no registration.

Registration policies could have a significant effect on data from the program—and in public perception of need for the program. For example, measured participation decreased from 19 million in PY01 to 14 million in PY04. A number of factors could have caused the decrease. Or, it may reflect a shift to unregistered use over the Internet by a subgroup of users. The decrease could mistakenly lead policy makers to conclude that the need for the program has declined and they should reduce its funding accordingly.

## Additional Reading

### The Law and Guidance

The Workforce Investment Act of 1998 (Public Law 105-220) (beginning on page 125)  
[www.doleta.gov/regs/statutes/wialaw.pdf](http://www.doleta.gov/regs/statutes/wialaw.pdf)

The law as amended by WIA, [http://www.uses.doleta.gov/w-pact\\_amended98.cfm](http://www.uses.doleta.gov/w-pact_amended98.cfm)

### Regulations

Final regulations, [www.doleta.gov/usworkforce/wia/finalrule.pdf](http://www.doleta.gov/usworkforce/wia/finalrule.pdf), (beginning on page 49461)

### Government Summaries and Analyses

Government Accountability Office, *Workforce Investment Act: Implementation Status and the Integration of TANF Services* (Washington, 2000).

Government Accountability Office, *Workforce Investment Act: One-Stop Centers Implemented Strategies to Strengthen Services and Partnerships, but More Research and Information Sharing Is Needed* (Washington, 2003).

U.S. Department of Labor, *Annual Report for Wagner-Peyser Act Funded Activities Program 2002* (Washington).

## Other Summaries and Analyses

Balducchi, David E., Randall W. Eberts, and Christopher J. O'Leary, eds., *Labor Exchange Policy in the United States* (The Upjohn Institute, Kalamazoo, Mich., 2004).

Working for America Institute, *Action Brief: Wagner-Peyser Funded Activities Under WIA* (Washington, 2001).

## Chapter 3

# Trade Adjustment Assistance

## Trade Act of 2002

### Potential as a source of workforce training:

- Contains separate appropriation for training with substantial per-worker benefits that allow for long-term training (up to 104 weeks).
- Pays for income support while workers are in training.
- Requires enrollment in training or a training waiver as a condition of receiving income support.

### Challenges to be addressed:

- Improve training capacity and appropriateness.
- Expand eligibility.
- Adjust performance measures to reflect differences among states.
- Improve the petition process for certification of eligibility.

## Background

The Trade Adjustment Assistance (TAA) program was created in 1974 to assist workers who lost their jobs because of increased competition from imports. The most recent statutory changes to the program occurred in 2002, under the Trade Act of 2002.<sup>1</sup> More recently, in late 2006, the U.S. Department of Labor's Employment and Trade Administration (ETA), which administers the program, proposed regulations that will implement the 2002 TAA amendments and mandate changes in how TAA services are delivered to dislocated workers.<sup>2</sup>

Trade Act programs are designed to help trade-affected workers return to employment in suitable jobs and to obtain retraining where appropriate. TAA provides benefits and services—including training and income support—to qualified workers.

The 2002 law expanded eligibility, increased benefits (adding a tax credit for health insurance coverage, in particular), doubled the appropriation for training, and added a wage insurance provision

for workers aged 50 and older. It also consolidated into TAA a separate trade adjustment program authorized under the North American Free Trade Agreement (NAFTA). In 2006, ETA further expanded TAA eligibility through administrative action.

The law generally requires TAA participants to enroll in an approved training program within eight weeks of certification of their workforce as trade affected, or within 16 weeks of being laid off from trade-impacted employment. The law provides a separate appropriation for training, currently capped at \$220 million per year.

## Current Legislative Status

Authorization for the TAA program expires on September 30, 2007.

### TAA AT-A-GLANCE

**Statute:** Trade Act of 2002 (Public Law 107-210), originally created by the Trade Act of 1974.

**Administered by:** U.S. Department of Labor; Employment and Training Administration.

**Due for reauthorization:** Authorization expires September 30, 2007.

**Federal funding:** \$259.4 million in FY06 for training (\$220 million for training and \$39.4 million in administrative funds).

**Type of program:** Direct benefits (as an entitlement) to individuals; funding for services.

**State agency with jurisdiction:** State workforce or employment security agencies.

**Institutions funded:** Training providers; employers, for wage reimbursement of up to 50 percent for any on-the-job training they provide.

**Population served:** Nearly 120,000 workers were covered under 1,545 TAA certifications in FY05.

<sup>1</sup> Public Law 107-210.

<sup>2</sup> Issued August 25, 2006 (71 *Federal Register* 50760), [www.dol.gov/eta/regs/fedreg/proposed/2006007067.pdf](http://www.dol.gov/eta/regs/fedreg/proposed/2006007067.pdf).

## Funded Activities

TAA funds seven main benefits and services:

- Rapid response assistance<sup>3</sup> provided by the Dislocated Worker unit in the state and intended to help make trade-affected workers aware of the different services available under TAA.
- Re-employment services, including employment counseling, resume writing and interview skills workshops, career assessment, job development, job search, and job referrals.<sup>4</sup> (Regulations proposed in August 2006 would require states to make re-employment services a priority.)
- Training (see next section for details).
- Job search allowances to pay expenses involved in seeking employment outside of a participant's normal commuting area, if a suitable job is not available in the area. Allowances reimburse 90 percent of the total costs of allowable travel and subsistence, up to \$1,250.
- Relocation allowances to reimburse approved expenses when a participant moves to a new area for employment. Allowances can reimburse for up to 90 percent of the reasonable and necessary expenses of moving (or a reduced amount if the participant is entitled to reimbursement from other sources) or a lump sum payment equal to three times the participant's average weekly wage (but no more than \$1,250).
- Income support, called Trade Readjustment Allowance<sup>5</sup> (TRA), which is available to individuals while they are enrolled in approved training, generally for up to 78 weeks (after they have exhausted their Unemployment Insurance, or UI). During the first 26 weeks following the exhaustion of UI benefits, TRA is available to those granted training waivers because training is not appropriate or feasible.
- Health Care Tax Credit (HCTC), which is available to participants eligible for TRA and provides a tax credit for 65 percent of their monthly health insurance premium.

## Training in the TAA Program

According to DOL guidance, TAA training is to be of the shortest duration necessary to return participants to employment at a skill level similar to or higher than their layoff employment and sustain that employment at the best wage available,<sup>6</sup> up to a maximum of 104 weeks. Participants who require remedial education to complete occupational training may be eligible for an additional 26 weeks of training.

The law gives preference to on-the-job training.<sup>7</sup> Other allowable types of training include: classroom training, customized training designed to meet the needs of a specific employer or group of employers, and basic or remedial education (including literacy or English as a second language services).

The training requirement may be waived under certain circumstances, including for participants within two years of eligibility for a pension or Social Security, for those with health problems prohibiting participation in training, and if no training program is available. A training waiver permits a certified worker to draw up to 26 weeks of TRA following his or her exhaustion of UI benefits. However, to draw the last 52 weeks of potential TRA benefits (called "additional TRA"), the displaced worker must be in approved training.

## Alternative Trade Adjustment Assistance (ATAA)

The 2002 law created a five-year demonstration project for ATAA for older workers for whom retraining may not be appropriate.

The main ATAA benefit is a wage subsidy for workers over the age of 50 who find re-employment at a lower wage: It bridges the salary gap between their old and new jobs. The subsidy equals half of the difference between the wages they received from re-employment and the wages they received before their layoff, for up to two years. The amount, however, may not exceed \$10,000 over those two years.

ATAA participants are also eligible for the rapid response activities, re-employment services, relocation allowances, and HCTC available to TAA participants. ATAA participants are not eligible, however, for training or TRA payments.

## Funding for TAA

### Federal Funding

TAA funds flow through the Federal Unemployment Benefits and Allowances (FUBA) account. States are reimbursed from

3 Under §143 of the Workforce Investment Act (WIA) of 1998 (Public Law 105-220).

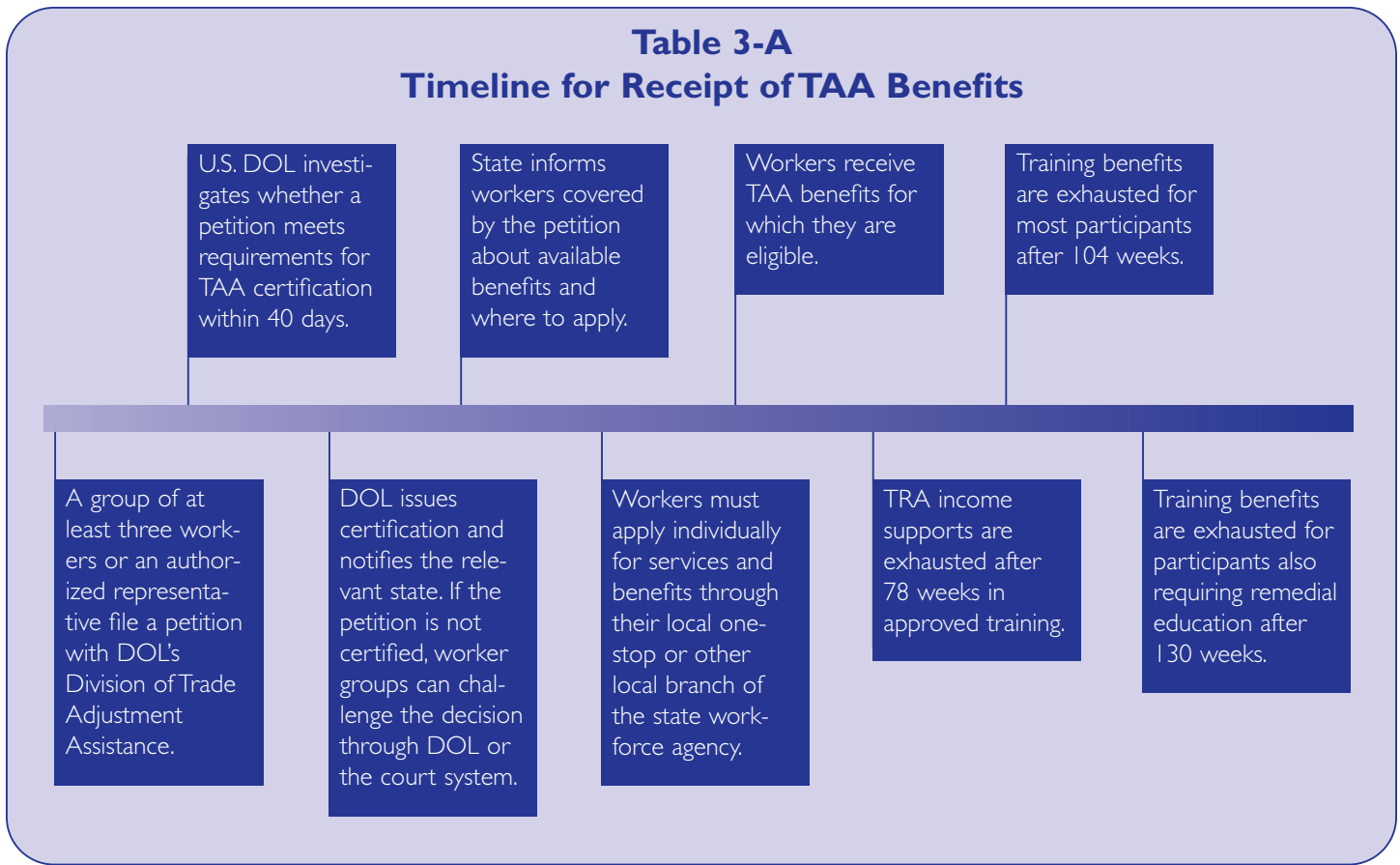
4 Provided through the WIA system.

5 Income support under TAA is an entitlement; Congress must appropriate funds sufficient to provide payments to anyone who is eligible and participates.

6 U.S. Department of Labor, *Trade Adjustment Assistance (TAA) and Alternative Trade Adjustment Assistance (ATAA) Services and Benefits* (Washington), [www.doleta.gov/tradeact/benefits.cfm](http://www.doleta.gov/tradeact/benefits.cfm).

7 19 U.S.C. §2296(a)(1)(F).

**Table 3-A**  
**Timeline for Receipt of TAA Benefits**



general revenues for benefit payments and other costs incurred under the program.

## Funding for TAA Training

Appropriations for training under the TAA program are statutorily capped at \$220 million. Over the last several years, including FY06, appropriations for TAA training have remained at \$220 million, plus an additional amount for administration. Administrative funds have remained steady at \$39.4 million in FY06.

The law does not proscribe how TAA training funds are to be distributed among states. In October 2003, ETA implemented a formula-based methodology for allocating these funds.<sup>8</sup> Under the methodology, ETA distributes 75 percent of TAA training funds through a formula based on previous year allocations, accrued expenditures, and participant levels. States also receive

an additional 15 percent of this base allotment for administration. States that would receive less than \$100,000 through the formula receive no allocation and are instructed to use Workforce Investment Act (WIA) funds for training or to request TAA reserve funds.

In FY06, four states (Delaware, Hawaii, North Dakota, and Wyoming) and the District of Columbia received no base TAA funding. Two states—Pennsylvania and Washington—each received nearly \$15 million (not including administrative funding).

ETA sets aside the remaining 25 percent of TAA training funds as a reserve to distribute to states experiencing large, unexpected layoffs or those whose training needs exceed available funds. To receive reserve funds, states must demonstrate need. In late 2006, ETA also used reserve funds to provide \$250,000 lump-sum payments to states to improve their TAA data systems.<sup>9</sup>

<sup>8</sup> For more information, see TEGL 6-04, issued October 4, 2004.

<sup>9</sup> TEGL 08-06, issued October 5, 2006.

<sup>10</sup> These include a union representative, an official of the firm/employer, a one-stop operator or partner, or a state dislocated worker unit.

## Eligibility for TAA

Determining eligibility is a two-step process. First, a group of at least three workers or an authorized representative<sup>10</sup> must file a petition with DOL's Division of Trade Adjustment Assistance (DTAA). DOL then investigates whether the petition meets the requirements for TAA certification. DOL is required to act on the petition within 40 days.

In general, groups of workers in two types of firms producing goods, as opposed to services, are eligible for TAA. These workers either work for firms that have been adversely affected by increased imports or a shift in production to another country or work at a supplier or downstream producer of the primary firm. Group eligibility criteria include:

- A significant number or portion of workers have been laid off or threatened with a layoff from a firm (or subdivision of a firm) that produced a physical article.
- An increase in imports has contributed significantly to a decline in sales and/or production and the layoff of workers.
- Production has shifted to a country that is party to a free trade agreement with the United States,<sup>11</sup> or an increase has occurred—or is likely to occur—in imports of articles like or directly competitive with articles produced at the firm.
- “Supplier secondary” workers in firms that produce or supply component parts to another firm that has experienced TAA-certified layoffs. The parts supplied either must have accounted for at least 20 percent of the affected firm's production, or the loss of business with the certified firm contributed significantly to layoffs.
- “Downstream workers” in firms that perform final assembly or finish work for another firm that has experienced TAA-certified layoffs as a result of an increase in imports from or a shift in production to Canada or Mexico, where the loss of business with the certified firm contributed significantly to the layoffs.

If the group of workers meets the eligibility criteria, DOL certifies the petition and notifies the relevant state. The state is responsible for contacting the workers covered by the petition, informing them of the benefits available, and explaining when and where they can apply for benefits.

Workers must then apply individually for services and benefits through their local one-stop center or other local branch of the state workforce agency. Individual eligibility criteria include:

- The worker's separation must have occurred between the impact date and the expiration date specified on the certification (usually a three-year period starting one year before the certification and extending two years afterward).
- The worker must have had, during the 52-week period ending with the week in which the worker's qualifying separation occurred, 26 weeks of employment at wages of \$30 or more per week in adversely affected employment with a single firm or subdivision of a firm.
- The worker must be enrolled in an approved training program, have completed an approved training program, or have received a waiver from training requirements.

If DOL denies the petition, worker groups can challenge the decision by requesting administrative reconsideration by DOL or by appealing to the U.S. Court of International Trade.

In April 2006, in response to two specific TAA certification cases remanded by the court, DOL expanded TAA eligibility by revising the definition of “article.” Under the notices,<sup>12</sup> DOL granted eligibility to software engineers and computer-aided design workers at two firms, saying they produced an “intangible” article. The notices stated:

“[T]he Department has revised its policy to acknowledge that, at least in the context of this case, there are tangible and intangible articles ... Software and similar intangible goods that would have been considered articles for the purposes of the Trade Act if embodied in a physical medium will now be considered articles regardless of their method of transfer.”<sup>13</sup>

## Eligibility for TAA Training

Under the law, TAA participants are eligible for training if they meet six criteria:<sup>14</sup>

- No suitable employment is available.
- Training is available for them at a reasonable cost.
- The participant would benefit from the training.
- It is reasonably expected that training will lead to employment.

<sup>10</sup> Or a country that is a beneficiary under the Andean Trade Preference Act, African Growth and Opportunity Act, or Caribbean Basic Economic Recovery Act.

<sup>12</sup> See the April 11, 2006, issue of the *Federal Register*. The notices are at: [www.dol.gov/eta/regs/fedreg/notices/2006005279.pdf](http://www.dol.gov/eta/regs/fedreg/notices/2006005279.pdf) and [www.dol.gov/eta/regs/fedreg/notices/2006005277.pdf](http://www.dol.gov/eta/regs/fedreg/notices/2006005277.pdf).

<sup>13</sup> 71 *Federal Register* 18356.

<sup>14</sup> 19 USC §2296.

- Training is reasonably available to them from a public or private provider.
- They are qualified to undertake and complete the training.

## Eligibility for ATAA

Firms requesting that workers be certified for ATAA must request certification for TAA and ATAA simultaneously. Firms must meet all of the TAA eligibility criteria and three additional criteria for ATAA:

- A significant number of adversely affected workers in the petitioning firm must be 50 years of age or older.
- Adversely affected workers must possess job skills that are not easily transferable to other employment.
- The competitive conditions within the industry are adverse.

After the firm has been certified, individuals seeking ATAA must meet additional criteria. Specifically, they must:

- Be 50 years of age or older.
- Obtain full-time employment making less than \$50,000 a year within 26 weeks of their date of separation.
- Not return to the affected employment they left.

In addition, ATAA participants must apply for a waiver from the TAA training requirement to maintain eligibility for the HCTC.

## Populations Served Through TAA

In FY05, 1,545 TAA certifications covered 117,345 workers. This represents a decrease of nearly 32,000 workers covered (a 21.4% decrease) and a decrease of 261 (14.5%) in the number of certifications issued as compared to FY04. Petitions were also down— from 2,991 to 2,635 (a decrease of 11.9%) between 2004 and 2005.<sup>15</sup>

<sup>15</sup> U.S. Department of Labor, *Trade Act Petitions*, [www.doleta.gov/tradeact/trade-data.cfm](http://www.doleta.gov/tradeact/trade-data.cfm).  
<sup>16</sup> U.S. Department of Labor, *Trade Adjustment Assistance (TAA) Distribution of Certifications by Industry, Fiscal Year 2005*, [www.doleta.gov/tradeact/certs\\_2005.cfm](http://www.doleta.gov/tradeact/certs_2005.cfm).

<sup>17</sup> This includes NAFTA-TAA participants because data predate the end of that program.

<sup>18</sup> U.S. Department of Labor, *TAA and NAFTA Participant Characteristics*, [www.doleta.gov/tradeact/participant.cfm](http://www.doleta.gov/tradeact/participant.cfm).

<sup>19</sup> 19 USC §2296.

<sup>20</sup> TEGL 11-02, issued October 10, 2002, page 18.

<sup>21</sup> §122.

Three industries—textile mill products, apparel, and electronic equipment (including computers)—made up about one-third (38.4%) of the certificates issued in FY05.<sup>16</sup>

Among TAA participants<sup>17</sup> tracked in a 2006 ETA report:<sup>18</sup>

- The gender distribution was fairly equal (50% women, 48% men, 2% not identified).
- Nearly three-quarters (71%) were between the ages of 30 and 55.
- Most (80%) had at least graduated from high school or earned their GED.
- Most (58%) were white, while 14 percent were Latino and 11 percent were African American.
- Most (85%) received some kind of training, primarily occupational training.
- The average length of participation in training was about one year (58 weeks).

## Institutions Providing Training Under TAA

Approved training programs for TAA recipients include:<sup>19</sup>

- On-the-job training.
- Any training program participating in Title I of WIA.
- Any training program approved by the Secretary of Labor.
- Any program of remedial education.
- Any training program for which any other federal or state program pays all, or any portion, of the costs of training.

States are encouraged<sup>20</sup> to select training providers that have met the qualifications necessary for inclusion in the Eligible Training Provider (ETP) list, as defined under WIA.<sup>21</sup> (Regulations proposed in August 2006 would make this a requirement.)

## Relationship to Other Programs

The 2002 Trade Act requires TAA services to be coordinated with services available under WIA (although regulations proposed in August 2006 would require integration between

WIA and TAA.) In turn, WIA identifies TAA as one of its mandated partners in the one-stop delivery system. Being a mandated partner means that TAA services must be available through the one-stop system, that representatives of the TAA program serve on the state workforce investment board (WIB) and any local WIBs, and that TAA services be coordinated with other federally funded workforce development services (see Chapter I).

States may apply for “dual enrollment” WIA National Emergency Grants (NEGs) to assist in single or multiple company layoffs that each affect more than 50 workers and are trade related. Dual enrollment NEGs provide “wrap around” services that are not available through TAA and where state WIA dislocated worker formula funding is not sufficient to provide needed services, such as comprehensive assessment, development of individual re-employment plans, case management, and supportive services (including WIA core and intensive services).<sup>22</sup>

According to a September 2004 report by the Government Accountability Office (GAO), TAA-WIA collaboration in some states and local areas is going well. Some states and local areas are using WIA NEG funds to provide case management services to TAA-eligible workers, as well as to supplement TAA training funds. Many states are also using the same list of providers for training under WIA and TAA.<sup>23</sup>

At the same time, however, some states expressed concern to GAO that WIA performance expectations—particularly the penalties tied to them—make collaboration difficult. For example, WIA’s earnings replacement goals typically range from 82 to 99 percent and, in all cases, are higher than the 80-percent wage replacement rate required by TAA nationally. Failing to meet WIA’s higher goals could lead to states losing some of their WIA allocations.

Finally, the 2002 Trade Act added a new section to WIA<sup>24</sup> to implement the health care tax credit it created to help cover the cost of health insurance for eligible participants. While the tax credit is administered by the Internal Revenue Service, the laws authorizes DOL to use NEG funds to help states cover costs related to the HCTC, including the cost of bridging the gap to when participants qualify for advance payment of the credit.<sup>25</sup>

## Performance Accountability<sup>26</sup>

The law does not proscribe particular measures for evaluating the performance of the TAA program. Historically, the program has tracked three performance measures set by the Secretary of

Labor—re-employment rate, employment retention rate, and wage replacement rate. Performance targets have been set nationally, not negotiated on a state-by-state basis, like some other ETA programs (most notably WIA). Although each state is expected to meet the targets, no penalties are assessed on states that do not.

In 2006, TAA became one of the programs required to comply with ETA’s “common measures” policy to standardize outcome measures across multiple federal job training and education programs. Under the policy, states are required to collect and report TAA data on three measures (using common definitions of their components)—entered employment, employment retention, and average earnings.<sup>27,28</sup> (Regulations proposed in August 2006 would codify the common measures as TAA’s performance requirements.)

State performance in the TAA program may affect funding in the future. DOL announced in May 2005<sup>29</sup> that it may include the accomplishment of performance goals in the TAA funding allocation formula in future years. A work group of federal, state, and local representatives is discussing methodologies for distributing TAA training funds, including how performance might be factored into the formula.

## Policy Challenges Moving Forward

Several key policy challenges face the TAA program:

**Challenge:** Improve training capacity and appropriateness.

TAA currently limits assistance to trade-affected workers in article-producing industries. Even so, GAO research shows that states are receiving too little TAA funding to meet the demand for TAA training by eligible workers, despite the doubling of

22 U.S. Department of Labor, *Eligible Dislocation Events*, [www.doleta.gov/NEG/dislocation.cfm](http://www.doleta.gov/NEG/dislocation.cfm).

23 Government Accountability Office, *Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain* (Washington, 2004), pp. 38–40. 24 §173(g).

25 For more information, see: National Governors Association, *Using the Trade Adjustment Assistance Act (TAA) to Provide Health Care Coverage to Displaced Workers* (Washington, 2004).

26 To evaluate national performance, DOL hired Social Policy Research Associates and Mathematica Policy Research. The evaluation of the TAA program is expected to be completed in 2008.

27 TEGL 17-05, issued February 17, 2006.

28 More information available at [www.doleta.gov/performance/guidance/wia.cfm](http://www.doleta.gov/performance/guidance/wia.cfm).

29 TEGL 32-04.

TAA training funds between FYs 2002 and 2003.<sup>30</sup> According to the GAO, 19 states temporarily discontinued enrolling TAA-eligible workers in training at some point between FYs 02 and 03.<sup>31</sup>

A related challenge is ensuring that participants enroll in appropriate training. According to GAO, TAA participants are enrolling in training sooner than in the past because of the 2002 law's requirement that workers must enroll in training to qualify for other TAA benefits. While engagement in training in a more timely fashion is generally a positive development, it can have unintended negative effects. State officials reported to GAO, for example, that pressure to assess participants quickly gave them less time to adequately assess their training needs. As a result, some participants may have not enrolled in the most appropriate training for them.<sup>32</sup>

In addition to these time constraints, TAA—while it provides generous training benefits—does not provide the kind of intensive counseling provided under programs like WIA to help workers fully assess their future training and employment goals. This has led some to call for providing TAA participants greater access to WIA counseling services at the local level.

**Challenge:** Expand eligibility.

Current TAA eligibility is tied to whether a worker's job involves producing an article. Not surprisingly, eligible workers are mostly from manufacturing firms. Workers outside of manufacturing, however, are also losing their jobs because of trade and need access to assistance, including re-training.

Attention has recently focused on the effects of trade on service workers, particularly those in the information technology sector (such as software developers and call-center attendants). According to GAO, some estimates have predicted that trade could eliminate an estimated 100,000 to 500,000 information

technology jobs within the next few years.<sup>33</sup> The Progressive Policy Institute estimates that 300,000 service jobs were lost between the beginning of 2001 and mid-2004 because of trade.<sup>34</sup>

DOL's recent findings that workers who produce "intangible" articles, including software engineers, can be eligible for TAA should help some individuals. But a more comprehensive policy change—not a case-by-case approach—is needed.

**Challenge:** Adjust performance measures to reflect differences among states.

Many DOL workforce development programs, most notably WIA, set performance goals through a negotiation process between each state and the federal government. In contrast, under current DOL guidance, state TAA programs are expected to achieve performance goals that are set nationally and do not vary based on economic conditions in the state, including the effects of trade on a state's economy.

Yet the effects of trade on the labor force vary considerably by state. According to DOL data, for example, seven states—California, Michigan, New York, North Carolina, Pennsylvania, South Carolina, and Texas—accounted for almost half (45.8%) of all TAA petitions filed in 2005.<sup>35</sup>

**Challenge:** Improve the petition process for certification of eligibility.

TAA petitions must be submitted and reviewed on a firm-by-firm basis. Yet trade-related displacements are concentrated in particular sectors of the economy and industries. In FY05, for example, almost half (45.6%) of all certifications occurred in four industries—textile mill products, apparel and other finished products made from fabrics and similar materials, industrial and commercial machinery and computer equipment, and electronic and other electrical equipment/components.<sup>36</sup>

The current process inefficiently uses DOL resources because it requires the department to investigate the same claims, from the same industry, multiple times. Others have also noted that the current process is overly restrictive and inconsistent and too often results in arbitrary denials.<sup>37</sup> In addition, repetitive investigations can unnecessarily delay the release of funds to workers in need.

30 GAO, 2004, p. 4.

31 *Ibid.*

32 *Ibid.*, p. 3.

33 Government Accountability Office, *International Trade: Current Government Data Provide Limited Insight into Offshoring of Services* (Washington, 2004), p. 4.

34 Robert D. Atkinson, *Understanding the Offshoring Challenge* (Progressive Policy Institute, Washington, 2004), p. 1.

35 U.S. Department of Labor, *Number of TAA Petitions Received, Certifications Issued, and Denials Issued by State* (Washington, 2006), [www.doleta.gov/tradeact/states2005.cfm](http://www.doleta.gov/tradeact/states2005.cfm).

36 U.S. Department of Labor, *Trade Adjustment Assistance (TAA) Distribution of Certifications by Industry, Fiscal Year 2005* (Washington, 2006), [www.doleta.gov/tradeact/certs\\_2005.cfm](http://www.doleta.gov/tradeact/certs_2005.cfm).

37 See: AFL-CIO, *Breaking Faith with Workers: The Bush Labor Department's Improper Denials of Trade Adjustment Assistance* (Washington, 2004). See also: Lori G. Kletzer and Howard Rosen, *Easing the Adjustment Burden on U.S. Workers* (Trade Adjustment Assistance Coalition, Washington, 2004).

## Additional Reading

### The Law and Guidance

Trade Adjustment Assistance Reform Act of 2002  
[www.doleta.gov/tradeact/directives/I07PL2I0.pdf](http://www.doleta.gov/tradeact/directives/I07PL2I0.pdf)

Training and Employment Guidance Letter II-02, issued October 10, 2002  
<http://wdr.doleta.gov/directives/attach/TEGLII-02.pdf>

List of U.S. Free Trade Partners  
[www.doleta.gov/tradeact/2002act\\_freetradeagreements.cfm](http://www.doleta.gov/tradeact/2002act_freetradeagreements.cfm)

### Regulations

Notice of Proposed Rulemaking, August 25, 2006 (71 *Federal Register* 50760)  
[www.dol.gov/eta/regs/fedreg/proposed/2006007067.pdf](http://www.dol.gov/eta/regs/fedreg/proposed/2006007067.pdf)

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<http://a257.g.akamaitech.net/7/257/2422/25July20050823/www.access.gpo.gov/congress/house/pdf/I09cp/2I545.pdf>.

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Kletzer, Lori G., and Howard Rosen, *Easing the Adjustment Burden on U.S. Workers* (Trade Adjustment Assistance Coalition, Washington, 2004).

National Employment Law Project, *Trade Adjustment Assistance and the 8/16 Rule: A Pitfall for Dislocated Workers* (New York, 2006).

Rosen, Howard, *Designing a New Approach to Assist Workers and Communities Respond to Globalization* (Trade Adjustment Assistance Coalition, Washington, 2003).

## Chapter 4

# Pell Grant Program

Contained in Title IV of the Higher Education Act (HEA)

### Potential as a source of workforce training:

- Provides needs-based financial assistance to low-income students who enroll in college or other post-secondary study.

### Challenges to be addressed:

- Reduce the work penalty.
- Provide additional assistance to students enrolled year-round.
- Remove eligibility barriers for working adults.
- Increase the maximum Pell Grant level.

constraints limit the program's availability, even with some changes included in the Deficit Reduction Act (DRA) of 2005.<sup>3</sup>

Student eligibility for Pell funds is based on financial need, as determined by a federal formula that takes into account student and/or family income and assets and the number of family members attending post-secondary institutions. The formula determines the Expected Family Contribution (EFC) toward the expenses of post-secondary education. The institution's financial aid office then uses the EFC, the Cost of Attendance (COA) for a particular institution, and the student's enrollment status

## Background

The Pell Grant, originally enacted in 1972 as the Basic Educational Opportunity Grant,<sup>1</sup> was designed to serve as the foundation program of federal student financial aid for low-income undergraduates, on top of which additional aid could be layered. Eligible students—those with a high school degree (or its equivalent) who are pursuing a degree or certificate at an approved institution—may use Pell Grants to support post-secondary studies in academic and vocational programs. Pell Grant aid is distinct from most other forms of student aid because it is guaranteed to all who qualify. In academic year 2005-06, Pell Grants made up 9 percent of student aid in the higher education system.<sup>2</sup>

Administered by the U.S. Department of Education's (DoEd) Office of Postsecondary Education (OPE), Pell Grants are the most promising means by which low-income individuals can enroll in coursework in a post-secondary setting. Pell Grants are need-based and do not require repayment. Nevertheless, low-income working adults who wish to use Pell as their primary means of support may find that funding and regulatory

### PELL AT-A-GLANCE

**Statute:** Title IV, Higher Education Act (P.L. 105-224), as amended by the Deficit Reduction Act of 2005 (P.L. 109-171) and the Third Higher Education Extension Act of 2006 (P.L. 109-292).

**Administered by:** U.S. Department of Education, Office of Postsecondary Education.

**Due for reauthorization:** Authorization expires June 30, 2007.

**Federal funding:** \$13.045 billion in FY06, plus a one-time appropriation of \$4.3 billion to retire the shortfall from previous years.

**Type of program:** Structured like an entitlement but funded through annual appropriations and disbursed through institutions.

**State agency with jurisdiction:** None.

**Institutions involved:** Public two- and four-year institutions of higher education, proprietary schools, private non-profit four-year institutions of higher education.

**Population served:** More than 5.3 million in FY04-05.

**Pell as a percentage of total expenditures on post-secondary education:** In academic year 2005-06, Pell Grants represented 9 percent of student aid.

1 As part of the Education Amendments of 1972, which amended the Higher Education Act of 1965.

2 The College Board, *Trends in Student Aid 2006* (New York, N.Y., 2006), p. 8.

3 Public Law 109-171.

(full-time or part-time, part year or full year) to determine the amount of the grant, up to a maximum set by Congress every year.

## Current Legislative Status

The program is authorized through June 30, 2007, following its third temporary extension to allow Congress to continue working on full reauthorization.<sup>4</sup>

During the last Congress, the House of Representatives passed reauthorization legislation and Senate reauthorization legislation was reported out of the Committee on Health, Education, Labor, and Pensions but never brought to the full Senate for consideration. Both bills included increases to the maximum Pell Grant level and made other policy changes to increase access to the program for nontraditional students, with the Senate bill being the more expansive of the two.

The DRA made a number of changes to the Pell Grant and student loan programs (both under Title IV of the Higher Education Act) that went into effect before the full reauthorization of HEA. Those changes to the Pell program are discussed throughout this brief.

## Funded Activities

Pell Grants may be used for a student's attendance costs, including tuition and fees, room and board, books, supplies, transportation and miscellaneous expenses, child care, and special costs incurred by disabled students.

Pell Grants are disbursed on behalf of students to institutions of post-secondary education, which usually use the funds to credit the student's account for unpaid charges for tuition and fees and then pay any remaining balance directly to the student for other living expenses. Institutions may also pay the entire amount directly to the student.

## Eligibility for Pell Grant Program

Pell Grant eligibility is limited to individuals who are *regular students* attending an *eligible program* at an accredited post-secondary institution, who are making *satisfactory progress* in that program, and who, before enrollment, achieved a high school diploma

(or its equivalent) or otherwise passed a state-determined "ability to benefit" test.<sup>5</sup>

Regular students are defined as those enrolled in programs leading to a degree or certificate. Eligible programs are defined as those that include courses that meet for a minimum number of total hours. Students who are taking shorter non-credit courses—or even for-credit courses without the intention of completing a full degree or certificate program—are typically not eligible for Pell aid.

Satisfactory progress, defined by the institution, is required to be measured, in part, by the length of time it takes a student to complete the degree or certificate program. As a result, extended periods of time taken between courses—as is often the case with working adults—may lead to a student's loss of eligibility for Pell. Improved employment or earnings prospects due to course attendance is not considered "progress" independent of timely degree or certificate completion.

## Funding for Post-Secondary Education and Training Under Pell

Pell Grants are somewhat unusual because they are structured like an entitlement but funded through annual appropriations. Every year the federal government sets two funding levels to determine how much aid each student is eligible to receive—a maximum grant level per student and a maximum yearly funding level for the entire program.

### Federal Appropriations Trends

Federal appropriations for the Pell Grant program have increased steadily in the last several years—up from \$8.8 billion in Fiscal Year (FY) 2001 to \$13.045 billion in FY06 (an increase of about \$4.2 billion, or 48%).<sup>6</sup>

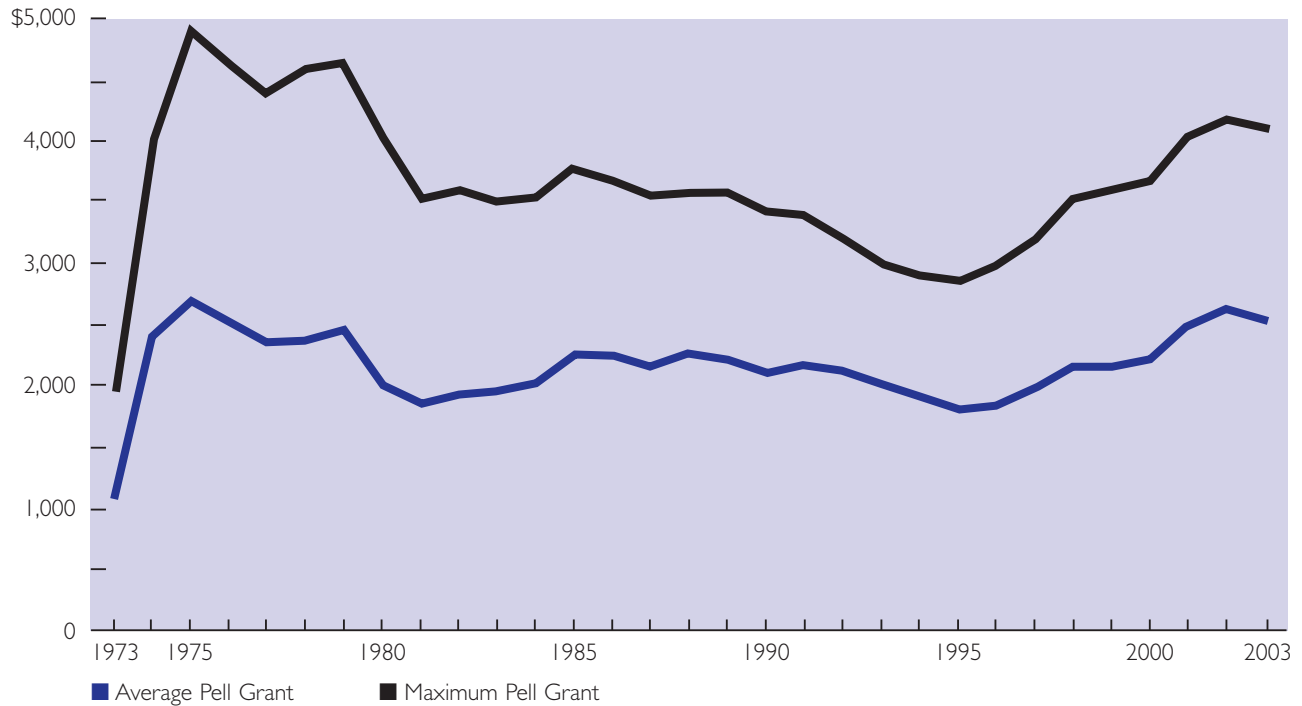
For FY06, Congress provided an additional \$4.3 billion to pay down the funding shortfall from previous years. Since 1980, Pell appropriations have been insufficient to meet the needs of all

4 "Third Higher Education Extension Act of 2006," Public Law 109-292.

5 Additional restrictions apply to students who have received state or federal convictions for drug possession or sale. In addition, since 1994, Pell Grants are no longer available for federal and state prison education programs.

6 Appropriations figures from: [www.ed.gov/about/overview/budget/history/edhistory.pdf](http://www.ed.gov/about/overview/budget/history/edhistory.pdf).

**TABLE 4-A**  
**AVERAGE AND MAXIMUM PELL GRANTS OVER TIME**  
**(ADJUSTED FOR INFLATION)**



Source: U.S. Department of Education data

eligible students. In any year that the demand for Pell Grants exceeds the yearly allocation, students overall receive less than they are entitled to by formula.

### Award Trends

The Pell Grant’s buying power has eroded significantly over time. In inflation-adjusted terms, the maximum grant reached its highest value (\$4,541) in the 1975-76 academic year.<sup>7</sup> It still had not caught up by 2005-06, when it was \$4,050—a maximum Pell grant level that itself had not been increased for more than five years.<sup>8</sup>

7 Jacqueline E. King, *2003 Status Report on the Pell Grant Program* (American Council on Education, Washington, 2003), p. vii.

8 The College Board, 2006, p. 17.

9 U.S. Department of Education and Pearson Government Solutions, *2004-2005 Title IV/Federal Pell Grant Program End-of-Year Report* (Washington, 2006), p. 15.

10 King, p. vii.

11 All bulleted data from King, p. 17.

## Populations Served Through Pell Grants

In FY 2004-05, more than 5.3 million students received Pell grants, up almost 3.3 percent from 5.1 million the previous year.<sup>9</sup>

In 1999-2000, the program provided financial assistance to almost one-quarter (23%) of the undergraduate population.<sup>10</sup> Among those who received a Pell Grant in 1999-2000:<sup>11</sup>

- More than one-third (36.4%) were aged 25 or older.
- Nearly two-thirds (63.5%) were women.
- Slightly more than half (51.8%) were white.
- About one-quarter (25.5%) were single parents.

In addition, most Pell Grant recipients fall in the lower ranges of income. In FY04-05, fewer than half (43.6%) reported annual income of more than \$20,000.<sup>12</sup>

## Institutions Typically Serving Pell Grant Recipients

In 2004-05, more than 5,400 institutions participated in the Pell Grant program. About one-third (36.1%) were public schools, another third (35.5%) were proprietary schools, and private non-profit schools made up the remaining 28.4 percent.<sup>13,14</sup>

In 2004-05, public two- and four-year institutions together enrolled about two-thirds (35.2% and 31.2%, respectively) of all Pell recipients. Proprietary institutions enrolled another 18.3 percent, while private four-year institutions enrolled 14.3 percent and private two-year institutions enrolled 1.0 percent of recipients.<sup>15</sup>

## Relationship to Other Programs

HEA prohibits other federal programs from taking Pell Grant awards into consideration when determining an individual's eligibility for, or the amount of, benefits or assistance under any other federal, state, or local program financed in whole or in part with federal funds.<sup>16</sup>

## Workforce Investment Act

At the same time, the Workforce Investment Act (WIA), a federal program that also supports training and education, limits the use of its training funds to individuals who are unable to obtain support from other grant sources, including the Pell program.<sup>17</sup> This has caused some confusion at the local level.<sup>18</sup>

In regulations implementing WIA, the U.S. Department of Labor (DOL) interprets these two provisions as requiring coordination of funding both at the program operator and training provider levels to avoid duplicate payment of costs. Simply reducing the amount of WIA funds by the amount of Pell Grant funds is explicitly prohibited. Instead, according to the prefatory discussion in the regulations, the exact mix of funds "should be determined based on the availability of funding for either training costs or supportive services, with the goal of ensuring that the costs of the training program are fully paid

and that necessary supportive services are available so that training can be completed successfully."<sup>19,20</sup>

## Federal Means-Tested Benefits

The DRA simplified access to Pell grants for individuals whose low income had already been verified through qualification for other federal means-tested benefits, specifically: food stamps, free and reduced price school lunch, Supplemental Security Income, Temporary Assistance for Needy Families, and Supplemental Nutrition Program for Women, Infants, and Children. The Secretary of Education may also identify other programs to which this would apply.

Independent students with dependents other than a spouse and dependent students who received federally means-tested benefits during the 12 months before applying for Pell and who have an annual adjusted gross family income of \$20,000 or less, will automatically qualify for a zero Expected Family Contribution (EDC)—that is, they would be deemed unable to make an out-of-pocket contribution to their own education costs when calculating their potential Pell aid.

## Performance Accountability

The Pell Grant program does not contain performance measures for students other than a "satisfactory progress" requirement. The law defines "satisfactory progress" as a cumulative C average (or its equivalent) or academic standing consistent with the requirements for graduation, as determined by the institution. Institutions are required to review student progress and may waive the satisfactory progress requirement in certain circumstances, such as the death of a student's relative.

12 U.S. Department of Education and Pearson Government Solutions, 2006, p. 5.

13 *Ibid.*, p. 6.

14 Current statute requires that proprietary institutions derive no more than 90 percent of their revenues from HEA program funds (known as the "90-10" rule).

15 U.S. Department of Education and Pearson Government Solutions, 2006, p. 6.

16 §479(B).

17 §134(d)(4)(B) of P.L. 105-220, enacted in 1998.

18 Burt S. Barnow and Christopher T. King, *The Workforce Investment Act in Eight States* (The Nelson A. Rockefeller Institute of Government, Albany, N.Y., 2005), p. 30.

19 §663.320. Regulations at 65 *Federal Register* 49204 (August 11, 2000), discussion of this provision at p. 49328.

20 Obviously, this omits living expenses, which are a big barrier for working adults who would have a better chance of succeeding in postsecondary education if they could reduce their work hours.

## Policy Challenges Moving Forward

In addition to the funding shortfall, the main challenge facing the Pell Grant program—particularly from the perspective of “non-traditional” students—is how to continue to expand eligibility for working adults, including those seeking to improve their job skills through training and education. Unfortunately, many low-income working adults still will not qualify for assistance because of the program’s formula, limit on availability, and eligibility criteria.

**Challenge:** Reduce the “work penalty.”

Even with changes enacted in 2005 in the DRA, the formula still penalizes work. Because the amount of a Pell Grant is determined by comparing the Cost of Attendance (COA) to a student’s available family resources, even low-income working adults can find themselves ineligible because of earned income. Many working adults with modest income—including dislocated workers with income from the previous but not the current year—find that the financial aid formula yields an EFC that exceeds what Pell calculates as the allowable COA for less-than-half-time students. As a result, these adults are often deemed ineligible for Pell.

The DRA made several changes to address formula disparities. For example, the DRA raised the income protection allowance (IPA)—the amount of earnings students can have before it affects their eligibility for a Pell grant and the award amount—from \$5,790 to \$6,050 for single students or married students when both are enrolled and from \$9,260 to \$9,700 for married students when one is enrolled. While these changes will undoubtedly help some students, they are quite modest.

The DRA also changed how COA is calculated for students attending school less than half-time versus those attending half-time or more. Previously, students attending less than half-time could count only a limited range of expenses toward their COA: tuition, fees, books and supplies, dependent care expenses, and transportation. In contrast, the Pell formula counted all of these expenses for students attending half-time or more and allowed them also to count more indirect expenses, such as room and board, student loan fees, study-abroad programs, and the cost

of obtaining a computer. Under the new DRA provisions, room and board may now be included in the COA calculation for less-than-half-time students for up to three semesters (although no more than two can be consecutive)—thereby giving these students access to more aid than was previously available.

While some of these changes should help to expand who might benefit from Pell, other recent Congressional changes have moved in the opposite direction. For example, the Consolidated Appropriations Act of 2005<sup>21</sup> has likely reduced Pell awards for some low-income students—and disqualified other middle-income students entirely—by changing the tax tables used to estimate how much their state and local tax burdens would reduce the income they have left to pay for their education (that is, to reduce their EFC). The change is expected to increase the EFC for a majority of student aid applicants. According to an analysis by the Government Accountability Office (GAO), the change will result in a decrease in Pell Grants for about 35 percent of students, and an additional 81,000 applicants will no longer be eligible at all.<sup>22</sup>

**Challenge:** Provide additional assistance to students enrolled year-round.

Currently, Pell is primarily structured for students who are attending school on a traditional two-semester (fall and spring) schedule and then taking the summer off. As a result, students taking courses year-round—as is often the case for working adults who are taking courses part-time—are required to stretch two semesters of Pell aid over three semesters, thereby reducing their overall Pell aid per course. Additional assistance for students who are enrolled “year-round”—that is, taking courses over three semesters as opposed to two—would enable individuals, including working students, to complete their coursework in less time and for less money. It could also boost the efficiency of the use of campus facilities and resources.

**Challenge:** Remove eligibility barriers for working adults.

Pell Grant eligibility criteria pose barriers for working adults seeking to enroll in vocational education programs at post-secondary institutions. These criteria include:

- ▶ “Regular student” requirement. To be eligible for Pell funding, individuals must be considered “regular students.” This requires students to enroll in programs leading to a degree or certificate. Many working students enroll in school to build job-specific skills but do not intend to pursue a degree or certificate. These students are not

<sup>21</sup> Public Law 108-447.

<sup>22</sup> Government Accountability Office, *Department of Education’s Update of the State and Other Tax Allowance for Student Aid Award Year 2005-2006* (Washington, 2005), p. 2.

considered “regular students” and are not eligible for Pell.

- ▶ “Eligible program” requirement. Pell-eligible students are required to attend courses that meet for a minimum number of total hours. Many short-term courses designed to help workers develop targeted job skills for specific occupations require fewer than the mandated minimum hours. As a result, students in these courses do not receive Pell aid.
- ▶ Correspondence course restrictions. Pell restricts correspondence and telecommunications courses (often referred to as “distance learning”), including denying eligibility for correspondence courses that lead to a certificate. These restrictions limit the potential of promising new approaches to reach students for whom traditional instruction—particularly instruction offered only on-campus during daytime or weekday hours—is not accessible.
- ▶ “Satisfactory progress.” In part, “satisfactory progress” is measured by the length of time that a student takes to complete a program. Working students enrolled part-time may not be able to keep up a pace of enrollment that allows them to make satisfactory progress in their program. As a result, they may be more likely than non-working students to be denied Pell aid. In addition, some students exhaust their Pell eligibility in remedial education before they reach a diploma or degree.
- ▶ GED restrictions. Students cannot use Pell at a post-secondary institution to prepare for their GED, because they must have achieved that credential or an equivalent to be eligible for Pell funds in the first place. This means that “bridge programs,” which prepare working adults to engage in higher-level skills training, must be funded through other sources.

**Challenge:** Increase the maximum Pell Grant level.

The maximum Pell Grant level has not kept up with inflation or the cost of college. Adjusted for inflation, the maximum actual Pell Grant award was \$5,064 in 1975-1976; in 2005-06, it was \$4,050. The value of the maximum grant declined by \$298 in constant 2005 dollars between 2002-03 and 2005-06.<sup>23</sup>

## TWA Recommends

The Workforce Alliance has developed a number of specific policy recommendations to address these issues. Some of those recommendations include:

- Further increase the income protection allowance, allowing single, independent students who earn relatively modest amounts to protect a greater share of their earnings when determining eligibility for federal financial aid.
- Ensure additional financial aid is available to accommodate year-round students.
- Increase the maximum Pell Grant level.

(For a full list of recommendations on these and related policy issues, visit TWA’s Website at [www.workforcealliance.org](http://www.workforcealliance.org).)

<sup>23</sup> The College Board, 2006, p. 17.

## Additional Reading

### The Law

1998 Amendments to the Higher Education Act of 1965 (P.L. 105-244) [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105\\_cong\\_public\\_laws&docid=f:publ244.105.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ244.105.pdf)

Consolidated version of Title IV of the Higher Education Act <http://edworkforce.house.gov/publications/heacomp/hea65002.pdf>  
<http://edworkforce.house.gov/publications/heacomp/hea65003.pdf>

Deficit Reduction Act of 2005 (P.L. 109-171) [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109\\_cong\\_public\\_laws&docid=f:publ171.109.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_public_laws&docid=f:publ171.109.pdf)  
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## Chapter 5

# The Carl D. Perkins Career and Technical Education Act

## Post-Secondary (Adult) Programs Under Title I

### Potential as a source of workforce training:

- Supports post-secondary vocational training at community and technical colleges for adults.
- Supports partnerships between secondary and post-secondary institutions for vocational education for youth.

### Challenges to be addressed:

- Maintain the program and its funding.
- Continue to improve the program's focus on workforce development.
- Continue to improve access for non-traditional students.
- Improve financial support for the collection of performance data.
- Restore a focus on special populations.
- Increase the consistency of performance measures.

## Background

Since 1905, several different laws have funded vocational education—primarily school-based secondary and post-secondary education designed to build the academic knowledge and technical skills required by current or emerging employment sectors. In 2006, Congress reauthorized these programs in the Carl D. Perkins Career and Technical Education Improvement Act.<sup>1</sup>

Administered by the U.S. Department of Education's (DoEd) Office of Vocational and Adult Education (OVAE), the Perkins program is the primary federal vehicle used by post-secondary educational institutions to develop and improve their vocational programs. Its goals have remained constant over time: to improve the quality of vocational education offered at both the secondary and post-secondary levels.

The 2006 reauthorization made a number of changes to the program, including:

- Broadening the ability of the program to act as a bridge between secondary, post-secondary, and higher education (with an emphasis on math and science education).
- Giving states the flexibility to consolidate all or part of their Tech Prep funds (under Title II of the Act) with State Basic Grant funds (under Title I).
- Separating secondary and post-secondary performance measures—to recognize the difference between high school and college-based vocational programs—and adding local performance and reporting requirements to the existing state performance and reporting requirements.
- Encouraging a state and local focus on programming that prepares individuals for high skill, high wage, or high demand occupations or that trains adults who are changing careers or updating their skills.

The majority of Perkins funds will still support State Basic Grants under Title I of the Act. Tech Prep grants (Title II of the Act) support the integration of secondary and post-secondary vocational education in such areas as engineering, technology, applied science, health, and applied economics. These funds, directed primarily toward youth, do not figure prominently in the adult training landscape.

State Basic Grants are the main source of funding for post-secondary vocational education under Perkins. Perkins local grants make up an estimated 2 percent of total expenditures on vocational education at the post-secondary level.<sup>2</sup>

<sup>1</sup> Public Law 109-270.

<sup>2</sup> U.S. Department of Education, *National Assessment of Vocational Education (NAVE): Final Report to Congress* (Washington, 2004), p. 199.

## PERKINS AT-A-GLANCE POST-SECONDARY ACTIVITIES

**Statute:** Carl D. Perkins Career and Technical Education Improvement Act (P.L. 109-270) (2006).

**Administered by:** U.S. Department of Education, Office of Vocational and Adult Education.

**Due for reauthorization:** Authorization expires in FY12.

**Federal funding:** \$1.182 billion for State Basic Grants in FY06.

**Type of program:** Formula grant to states.

**Percentage allocated by states to post-secondary vocational education:** On average, about 33 percent in FY05.

**State agency with jurisdiction:** Usually state board of vocational education, but also community college system or state workforce development agency.

**Institutions funded for post-secondary vocational education:** Primarily community and technical colleges (67.6%).

**Population served:** About 6 million enrolled in post-secondary institutions in PY03-04.

**Perkins as a percentage of total expenditures on post-secondary vocational education:** 2 percent.

## Current Legislative Status

The Perkins program is authorized through FY12.

### Funded Activities

The goal of the Perkins program is to improve vocational and technical education, and Perkins funds support vocational program development and improvement rather than the actual participation of individual students. At the local level, funds are required to support programs that:

- Integrate academics with career and technical training through a coherent sequence of courses in core academic subjects<sup>3</sup> and career and technical education subjects.
- Link secondary and post-secondary career and technical education.
- Provide students with strong experience in and understanding of all aspects of an industry (which may include work-based learning experiences).
- Develop, improve, or expand the use of technology.
- Provide professional development opportunities to teachers, faculty, administrators, and career guidance and academic counselors.
- Develop and implement evaluations of program quality.

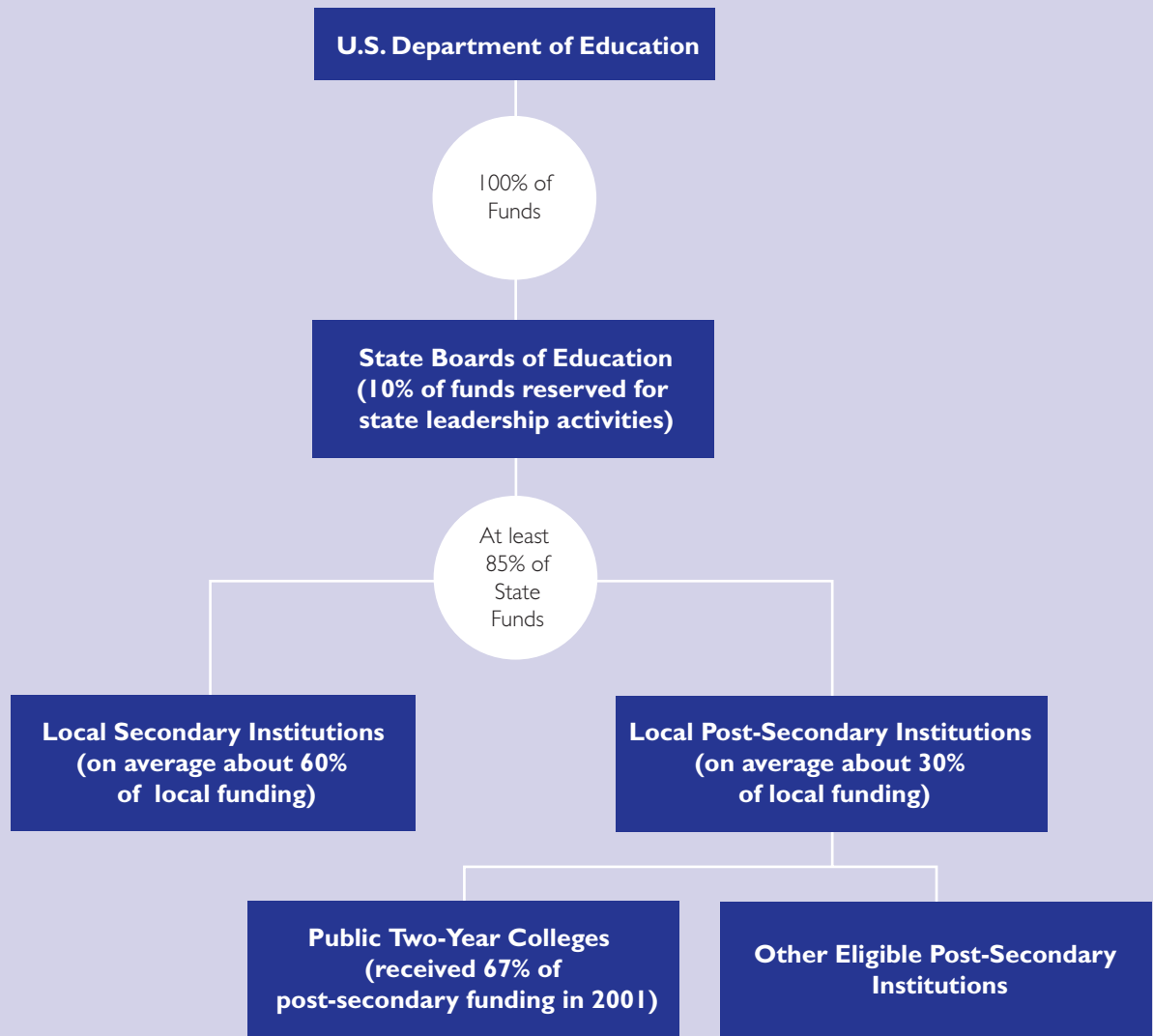
- Initiate, improve, expand, and modernize quality career and technical education programs.
- Provide activities to prepare special populations, including single parents and displaced homemakers who are enrolled in career and technical education programs, for high skill, high wage, or high demand occupations that will lead to self-sufficiency.

Funds may also be used for activities beyond those required, including mentoring and support services. The 2006 law added many activities to the list of permissive uses of Perkins funds, including activities that:

- Provide assistance for postsecondary students, including adult students who are changing careers or updating skills.
- Develop and expand postsecondary program offerings at times and in formats that are accessible for students, including working students, including through the use of distance education.
- Develop initiatives that facilitate the transition of subbaccalaureate career and technical education students into baccalaureate degree programs.
- Provide activities to support entrepreneurship education and training.

<sup>3</sup> As defined by the No Child Left Behind Act of 2001, Public Law 107-110.

**Table 5-A  
Perkins Funding Flow**



- Develop new proposed career and technical programs of study for consideration and courses that prepare individuals academically and technically for high skill, high wage, or high demand occupations.
- Upgrade the technical skills of adults and school dropouts.
- Provide assistance to individuals who have participated in services and activities in finding an appropriate job through referral to the system funded through the Workforce Investment Act (WIA)<sup>4</sup> (see Chapter 1).

- Provide support for training programs in automotive technologies.
- Establish, enhance, or support the development of accountability data collection under the Act.

In Fiscal Year (FY) 2001, post-secondary grantees used their Perkins funds primarily to pay for administrative costs for coordinator positions (such as for special populations, gender equity, and data systems) and to provide support services for vocational students in their institutions.<sup>5</sup>

<sup>4</sup> Public Law 105-220.

<sup>5</sup> U.S. Department of Education, *NAVE*, 2004, p. 233.

## Perkins Funding for Post-Secondary Education

### Federal Funding Trends

Federal funding for State Basic Grants increased by nearly 8.5 percent between FYs 01 and 04—from \$1.1 billion to \$1.195 billion.<sup>6</sup> FY06 funding was slightly lower, at \$1.182 billion (not adjusted for inflation).

Appropriations for Perkins and its predecessors have not kept pace with either inflation or the expansion of other DoEd programs and the department's overall budget. For example, in FY80, funding for vocational education represented about 6 percent of total DoEd appropriations; in 2004, it represented less than 3 percent.<sup>7</sup>

### Allocation of Funds to States and Institutions

The 2006 law did not make any significant changes to how Perkins funds are distributed to states and institutions.

Federal Perkins appropriations are passed to state boards of vocational education.<sup>8</sup> These boards allocate State Basic Grants according to a formula based on state populations in certain age groups and the state's per-capita income. In FY05, individual state awards ranged from a low of \$4.2 million (Alaska, North Dakota, Vermont, Wyoming, and the District of Columbia) to a high of nearly \$129 million (California).<sup>9</sup> States can reserve up to 10 percent of their allocation for state leadership activities.

States must distribute at least 85 percent of funds to local areas. Each state determines how it will divide funds between local secondary and post-secondary institutions.

Much variety exists in how states distribute Perkins funds between secondary and post-secondary activities. In FY05, state allocation of Perkins funding to post-secondary education ranged from a low of 9 percent in Tennessee to a high of 65 percent in Minnesota. Only 13 states allocated more than 50 percent of their Title I funding to post-secondary activities that year.

For post-secondary programs, states are required to allocate grants to eligible institutions based on a formula weighted toward the number of Pell Grant recipients at the institution.

## Populations Served in Post-Secondary Institutions Through Perkins<sup>10</sup>

In PY2003-04, more than 15.1 million students were enrolled in secondary and post-secondary vocational and technical education programs under Perkins. This is a slight decrease over PY02-03 (about 1%) but a significant increase over PY01-02 (26%).

Of the 15.1 million, about 40 percent (6.0 million) were enrolled in post-secondary education. Among those:

- More than half (55.3%) were women.
- Most (55.1%) were white; 13.3 percent were African-American, 15.5 percent were Latino, and 7.2 percent were Asian/Pacific Islanders.
- About one-quarter (26.1%) were economically disadvantaged.
- About 5 percent had limited English proficiency, and 11.4 percent had other educational barriers.

Perkins funding for post-secondary education primarily supports community colleges. In 2001, two-thirds (67.6%) of local Perkins funding for post-secondary education went to public two-year colleges.<sup>11</sup>

## Relationship to Other Programs

The 2006 reauthorization expanded the coordination requirements of the Perkins program in several notable ways, including:

- By requiring, where possible, the alignment of information for performance measurement with information required to be collected for other federal workforce and vocational programs

6 At [www.ed.gov/about/overview/budget/statetables/07stbyprogram.pdf](http://www.ed.gov/about/overview/budget/statetables/07stbyprogram.pdf), p. 34.

7 U.S. Department of Education, *NAVE*, 2004, p. 8.

8 A portion of funds also supports national activities carried out by DoEd and programs for Native Americans and Native Hawaiians.

9 DoEd budget allocation tables available at [www.ed.gov/about/overview/budget/statetables/07stbyprogram.pdf](http://www.ed.gov/about/overview/budget/statetables/07stbyprogram.pdf) and personal communication from OVAE.

10 Source of data in this section: U.S. Department of Education, *Carl D. Perkins Vocational and Technical Education Act of 1998, Program Year 2003-2004* (Washington, 2005).

11 U.S. Department of Education, *NAVE*, 2004, pp. 230-31.

(for more specific information on this, see the next section, “Performance Accountability”).

- By permitting the use of local funds to provide assistance to Perkins participants in continuing their education or training or finding an appropriate job through referral to the WIA system.<sup>12</sup>

Perkins is also included in the list of mandated partners under WIA. As a result, Perkins services must be available through the one-stop service delivery system, post-secondary institutions receiving Perkins funds must be represented on Workforce Investment Boards, and Perkins services must be coordinated with other federally funded workforce development services.

## Performance Accountability

The 2006 law changed the performance accountability requirements of the program significantly, by establishing new postsecondary performance measures, eliminating the academic attainment measure for post-secondary activities, and adding local performance requirements. The law states that the purpose of the performance measurement system is to assess state effectiveness in achieving statewide progress in career and technical education and to optimize the return on investment of federal funds in career and technical education.

### State Performance Measures

States are required to measure their progress in meeting core performance indicators for post-secondary activities, specifically:

Student attainment of challenging career and technical skill proficiencies, including student achievement on technical assessments that are aligned with industry-recognized standards, if available and appropriate.

- Student attainment of an industry-recognized credential, certificate, or a degree.
- Student retention in post-secondary education or transfer to a baccalaureate degree program.
- Student placement in military service or apprenticeship programs or placement or retention in employment, including

<sup>12</sup> §135(c)(16).

<sup>13</sup> States may also develop additional indicators of performance, including self-sufficiency.

<sup>14</sup> §113(b)(2)(F).

placement in high skill, high wage, or high demand occupations or professions.

- Student participation in, and completion of, career and technical education programs that lead to employment in non-traditional fields.

Within these categories, states have flexibility about the particular measures they choose (they must tell DoEd in their state plans the measures they have chosen), but the measures must be reliable and valid.<sup>13</sup> The 2006 law also requires states to align their Perkins performance indicators so that “substantially similar information gathered for other state and federal programs, or for any other purpose, is used to meet the requirements,” to the greatest extent possible.<sup>14</sup>

States are required to reach agreement every two years with the Secretary of Education on the numerical levels of performance to be achieved. The levels are to be adjusted for the characteristics of participants and services or instruction provided, among other factors.

States face possible sanctions if they do not reach their agreed-upon performance levels. If a state fails to meet at least 90 percent of an agreed-upon target for any of the performance indicators, it is required to develop and implement an improvement plan, with special consideration to performance gaps among population subgroups. If performance still does not improve or if the state fails to meet at least 90 percent of a performance level for three consecutive years, the Secretary of Education may withhold all or a portion of the state’s funding.

### Local Performance Requirements

The 2006 law added local performance requirements to the program. Local recipients can either accept the state levels of performance as their local levels of performance or they can negotiate with the state on performance levels.

If they choose the latter, local recipients must reach an agreement every two years with the state on the numerical levels of core and additional performance to be achieved. The levels are to be adjusted for the characteristics of participants and services or instruction provided, among other factors.

As with states, local recipients also face possible sanctions if they do not reach their agreed-upon performance levels. If a local recipient fails to meet at least 90 percent of an agreed-upon target for any of the performance indicators, it is required to develop and implement an improvement plan, with special

consideration to performance gaps among population subgroups. If performance still does not improve or if the local recipient fails to meet at least 90 percent of a performance level for three consecutive years, the state may withhold all or a portion of the local recipient's funding.

## Performance for Special Populations

The 2006 law renewed the requirement that states submit an annual report on how special populations engaged in career and technical education are faring relative to the states' performance goals. Under the law, special populations include individuals who are:

- Living with disabilities.
- From economically disadvantaged families, including foster children.
- Preparing for non-traditional fields.
- Single parents (including single, pregnant women).
- Displaced homemakers.
- Challenged by limited English proficiency.

The 2006 law did not, however, restore previous requirements for a 10.5 percent funding set-aside for serving special populations or a "gender-equity coordinator" to administer and assess the effectiveness of their gender-equity programming. In other words, the 2006 law continues to challenge states to meet new goals for special populations but with fewer resources allocated specifically to achieve those goals.

## Policy Challenges Moving Forward

Several key policy challenges face the Perkins program:

**Challenge:** Maintain the program and its funding.

The Bush Administration proposed eliminating the Perkins program in its FY06 and FY07 budget proposals. In its FY07 request, the Administration stated its intention to use the funds instead for a High School Reform Initiative, which would expand the application of "No Child Left Behind" principles to the secondary school level.<sup>15</sup>

The Administration also justified the zeroing out of Perkins funds with the program's Program Assessment Rating Tool (PART) rating. In 2002, PART found the Perkins program ineffective. The PART analysis focused almost exclusively, however, on the effects of the secondary portion of Perkins.<sup>16</sup>

**Challenge:** Continue to improve the program's focus on workforce development.

Career and technical education helps unemployed workers, low-income adults, and those with lifelong learning needs get the training necessary to succeed in the workplace. In addition, much of the vocational and technical training for local occupations now takes place in post-secondary institutions, rather than in secondary schools.

The 2006 law's new emphasis on programming that prepares participants for high skill, high wage, or high demand occupations or that trains adults who are changing careers or updating their skills should help. It remains to be seen, however, whether this new emphasis will accomplish what was intended.

**Challenge:** Continue to improve access for non-traditional students.

Post-secondary vocational education programs under Perkins serve a large and diverse population with different goals, expectations, and characteristics. Participants vary significantly in age, income, work experience, and previous college activity. As a result, it has become increasingly important to focus on a range of career and technical education services, including shorter offerings and courses that are not limited to a particular sequence of courses leading to a specific degree or credential.

Unfortunately, the 2006 law continues the previous Perkins definition of career and technical education as a sequence of courses. This may unnecessarily limit the usefulness of services to working adults looking to upgrade their skills quickly.

<sup>15</sup> U.S. Department of Education, *Fiscal Year 2007 Budget Summary*, [www.ed.gov/about/overview/budget/budget07/summary/edlite-section2c.html](http://www.ed.gov/about/overview/budget/budget07/summary/edlite-section2c.html).

<sup>16</sup> U.S. Office of Management and Budget, *Program Assessment: Vocational Education State Grants*, [www.whitehouse.gov/omb/expectmore/summary.10000212.2005.html](http://www.whitehouse.gov/omb/expectmore/summary.10000212.2005.html).

**Challenge:** Improve financial support for the collection of performance data.

The 2006 law made two notable changes in how states and localities can finance the data systems needed to comply with the program's more significant reporting requirements. Under the new law, states may use some of their 5 percent administrative funds for data systems, and localities may use some of their allocated funds (pooled with funds available to at least one other eligible institution) for data systems activities.

Despite these changes, the lack of dedicated funding for performance measurement could divert staff resources away from providing career and technical education services at the local level, even given the law's new requirement to align information collected for performance under Perkins with information collected to comply with performance requirements for other federal programs.

**Challenge:** Restore the focus on special populations.

While the 2006 law retains the ability to fund support services with local Perkins dollars and creates some new opportunities for localities to focus on career and technical education for special populations (such as single parents and displaced homemakers), it still falls short of restoring the 10.5% set-aside for special populations and the state "gender equity coordinator" position eliminated in the 1998 reauthorization. The 2006 law did, however, designate serving special populations as a required activity, while under the 1998 law it was a permissible activity.

**Challenge:** Increase the consistency of performance measures.

Perkins does not define indicators and data collection methods but rather gives states flexibility to determine which measures and methods they will use. As a result, it is difficult to determine whether a state that reports high performance has actually achieved better performance than a state with reported low performance. These differences have limited the ability to draw nationwide conclusions and contributed to the program's vulnerability under the Administration's PART initiative. DoEd is working to address this issue and may propose regulations to achieve greater consistency in these definitions.

## TWA Recommends

The Workforce Alliance has developed a number of specific policy recommendations to address these issues. Some of those recommendations include:

- Continue to improve the program's focus on workforce development, especially for working adults. Much training for local occupations now takes place in post-secondary institutions, rather than in secondary schools. Career and technical education helps unemployed workers, low-income adults, and those with lifelong learning needs get the training necessary to succeed in the workplace. DoEd should explore whether to include an analysis of how Perkins could improve services for working adults (including adults with different goals in accessing the program) and non-traditional students under the next required National Assessment of Vocational Education (NAVE), due to Congress in interim form in 2010 and final form in 2011.
- Increase flexibility to serve adult workers through competency-based applied learning that contributes to general employability skills, technical skills, and occupation-specific skills. Because today's participants in post-secondary vocational education vary in age, income, work experience, and previous college activity, Perkins should provide access to a range of career and technical education services, including shorter offerings and courses that are not limited to a particular sequence of courses leading to a specific degree or credential.
- Monitor state and local success in implementing the law's new performance requirements, ensuring that states and localities have adequate resources and technical assistance to comply with the law's requirements for the collection, analysis, and reporting of timely and relevant performance information.

(For a full list of recommendations on these and related policy issues, visit the TWA Website at [www.workforcealliance.org](http://www.workforcealliance.org).)

## Additional Reading

### The Law

Carl D. Perkins Career and Technical Education Improvement Act of 2006 (Public Law 109-270);  
[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109\\_cong\\_public\\_laws&docid=f:publ270.109.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_public_laws&docid=f:publ270.109.pdf)

### Government Summaries and Analyses

U.S. Department of Education, *Carl D. Perkins Vocational and Technical Education Act of 1998: Report to Congress/State Performance, Program Year 2003-2004* (Washington, 2005).

U.S. Department of Education, *National Assessment of Vocational Education: Final Report to Congress* (Washington, 2004).

### Other Summaries and Analyses

American Association of Community Colleges, *AACC Summary of the Carl D. Perkins Career and Technical Education Improvement Act of 2006* (Washington, 2006).

Association for Career and Technical Education, *Summary and Analysis of Major Provisions and Changes, "Career and Technical Education Improvement Act of 2006"* (Alexandria, VA, 2006).

National Alliance for Partnerships in Equity, *S. 250 Carl D. Perkins Career and Technical Education Improvement Act of 2006: Analysis of Equity Provisions* (Cochranville, PA, 2006).

Chapter 6

# Adult Education and Family Literacy Act (AEFLA)

## Title II of the Workforce Investment Act

**Potential as a source of workforce training:**

- Helps adults improve their literacy and numeracy skills so they can enter and advance in the 21st century workplace.
- Helps adults complete high school or receive their GED.

**Challenges to be addressed:**

- Adjust performance measures for different types of learners.
- Improve collaboration between Title I and Title II of WIA.
- Build program capacity.

- Assist adults who are parents in obtaining the educational skills necessary to become full partners in the educational development of their children.
- Assist adults in completing high school or its equivalent.

AEFLA's incorporation into WIA required that it become part of the one-stop service delivery system. The 1998 law also enhanced the program's accountability by adding performance indicators and a performance measurement process.

## Current Legislative Status

Although WIA's authorization expired in 2003, Congress continues to appropriate funds, extending the program based on current statute. Both the House and Senate passed versions of WIA reauthorization during the 108th and 109th Congress, but the bills were never brought to conference.

## Funded Activities

AEFLA funds three specific activities:

- Adult education and literacy services, including workplace literacy services.
- Family literacy services, including interactive literacy activities between parents and their children, training for parents so they can help teach their children, parent literacy training that leads to economic self-sufficiency, and age-appropriate education to prepare children for success in school and in life experiences.
- English literacy programs for individuals with limited English proficiency.

## Background

The federal government has provided funding to states for adult basic education for 40 years, starting with the Adult Education Act of 1966. Most recently, adult education and literacy funding streams<sup>1</sup> were combined in the Adult Education and Family Literacy Act (AEFLA) under Title II of the Workforce Investment Act (WIA) of 1998.<sup>2</sup>

Administered by the Office of Vocational and Adult Education (OVAE) in the U.S. Department of Education (DoED), AEFLA's state-administered grant program is the major source of federal support for adult basic skills programs. AEFLA funding supports instruction in reading, numeracy, GED preparation, and English literacy. The law has three goals:

- Assist adults in becoming literate and obtaining the knowledge and skills necessary for employment and self-sufficiency.

<sup>1</sup> Previously funded under the National Literacy Act of 1991, Public Law 102-73.  
<sup>2</sup> Public Law 105-220.

## AEFLA (WIA TITLE II) AT-A-GLANCE

**Statute:** Title II, Workforce Investment Act of 1998.

**Administered by:** U.S. Department of Education, Office of Vocational and Adult Education (OVAE).

**Due for reauthorization:** Authorization expired in FY03.

**Federal funding:** \$579.6 million in FY06.

**Type of program:** Formula grant to states.

**State agency with jurisdiction:** Primarily department of education but also department of labor and community college state office in some states.

**Institutions funded:** Local education agencies, community-based organizations, volunteer literacy organizations, institutions of higher education, libraries, public housing authorities, consortia of listed organizations.

**Population served:** Nearly 2.7 million individuals in PY03-04.

## Funding Under AEFLA

### Federal Funding Trends

Federal funding for AEFLA has declined slightly since FY02. Without adjusting for inflation, funding decreased by about 2 percent between FY02 and 06 (from \$591.1 million to \$579.6 million).

### Allocation of Funds to States and Institutions

The bulk of funding under AEFLA is distributed to states through a formula based on the number of adults over 16 who are not enrolled in school and who have not completed high school. In FY05, state grant awards ranged from about \$850,000 (Wyoming) to \$63.7 million (California).<sup>3</sup>

States are required to distribute 82.5 percent of their allocation through competitive grants and contracts to local providers based on state-established criteria. States must meet a 25-percent matching requirement (12 percent for outlying areas) in cash or in kind.

The law also imposes a maintenance of effort (MOE) requirement on states, either for spending per student or aggregate spending. If they do not meet the requirements, states face reductions in their allocations.

In general, the MOE requirement has not presented a problem for states, with the exception of Massachusetts in FY02. In the midst of a budget crisis that year, the state budget cut \$13 million from adult basic education. Had it not restored the funding, the state would have forfeited \$10.5 million in federal funds.<sup>4</sup>

In addition, states may not use:

- More than 10 percent of funds for corrections education and for other institutionalized individuals.
- More than 12.5 percent of funds for state leadership activities.
- More than 5 percent (or \$65,000, whichever is greater) for state administrative costs.

State leadership activities include professional development, evaluation, technical assistance, technology assistance, curricula development, support for state or regional literacy resource centers, incentives for program coordination and integration, coordination with support services, integration of literacy instruction and occupational training, and establishment of linkages with post-secondary institutions (including community colleges).

<sup>3</sup> U.S. Department of Education, *Fiscal Year 2001-2007 State Tables*, [www.ed.gov/about/overview/budget/statetables/07stbyprogram.pdf](http://www.ed.gov/about/overview/budget/statetables/07stbyprogram.pdf), p. 50.

<sup>4</sup> Massachusetts Coalition for Adult Education, *Massachusetts FY02 Budget Crisis* (Greenfield, 2001).

Some AEFLA funds are set aside for spending at the federal level. These funds include:

- 1.5 percent (but not more than \$8 million) for the National Institute for Literacy. This interagency body provides national leadership on literacy, coordinates literacy services and policy, and serves as a national resource for adult education and literacy programs.
- 1.5 percent (but not more than \$8 million) for national leadership activities. These include technical assistance (such as for developing and using performance measures), developing and identifying best practices, research, demonstration projects, replication of model programs, and evaluation.
- 1.72 percent for state incentive grants under WIA.

## Eligibility for AEFLA Services

Individuals are eligible for AEFLA services if they:

- Are at least 16 years old.
- Are not enrolled or required to be enrolled in secondary school under state law;
- Lack sufficient mastery of basic educational skills to enable them to function effectively in society; do not have a secondary school diploma or its recognized equivalent and have not achieved an equivalent level of education; or cannot speak, read, or write English.

## Populations Served Through AEFLA<sup>5</sup>

In Program Year (PY) 2003-04, AEFLA enrolled nearly 2.7 million individuals. Of those:

- Two-fifths (39.7%) were enrolled in adult basic education (or instruction in basic skills designed for adults functioning at the lower literacy levels to just below the secondary level).
- 16.5 percent were enrolled in adult secondary education (instruction for adults whose literacy skills are at approximately the high school level and who are seeking to pass the GED test or obtain an adult high school credential).
- 43.8 percent were enrolled in English literacy programs (instruction for adults who lack proficiency in English and seek to improve their literacy and proficiency in English).

Demographically, among those enrolled in PY03-04:

- More than half (54.3%) were women.
- Three-fifths (60.8%) were aged 25 or older (mostly between the ages of 25 and 44).
- Nearly three-quarters (72.4%) were members of minority groups—43.2 percent were Latino, 20 percent were African-American, 7.1 percent were Asian, and 2.1 percent were Alaska Native, Native American or Native Hawaiian/Pacific Islander. Only about one-quarter (27.5%) were White.

In terms of employment status, more than half of enrollees were either unemployed (40%) or receiving public assistance (10.8%) in PY03-04. More than one-third (38.3%) were employed. Another 11 percent of enrollees were in institutions, primarily correctional institutions.

## Institutions Providing AEFLA Services

More than 5,000 programs delivered instruction through AEFLA in FY05.<sup>6</sup> They primarily included local school districts, community-based organizations, community colleges, and correctional institutions.

Based on the distribution of AEFLA funds in 2003:<sup>7</sup>

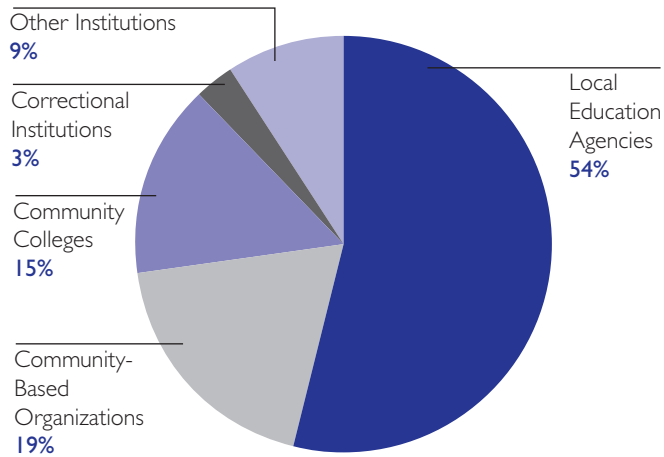
- More than half (54%) of available funds went to local school districts.
- Nearly one-fifth (19%) went to community-based organizations.
- Community colleges received 15.1 percent.
- Correctional institutions received 3.1 percent.
- Almost one-tenth (8.8%) went to other institutions.

<sup>5</sup> Unless otherwise noted, data in this section from: U.S. Department of Education, *Adult Education and Family Literacy Act, Program Year 2003-2004, Report to Congress on State Performance* (Washington, 2006).

<sup>6</sup> U.S. Department of Education, *Guide to U.S. Department of Education Programs* (Washington, 2006), p. 19.

<sup>7</sup> Hans Meeder, PowerPoint presentation on “Preparing America’s Future: The Adult Basic and Literacy Education Act of 2003” (Washington, 2003).

**Table 6-A**  
**Percent of AEFLA Funds**  
**Allotted to Institutions, 2003**



Source: U.S. Department of Education data

## Relationship to Other Programs<sup>8</sup>

AEFLA is one of the mandated partners under Title I of WIA. This means that:

- The state agency with jurisdiction over AEFLA must be represented on the state Workforce Investment Board (WIB).
- A representative of the state agency with jurisdiction over AEFLA, or a designated AEFLA service provider, must be a member of local WIBs.
- The state agency with jurisdiction over AEFLA, or a designated AEFLA service provider, must enter into a Memorandum of Understanding (MOU) with local WIBs. The MOU describes services to be provided, how AEFLA will contribute to the operating costs of the one-stop system (in a proportional manner), and referral methods.
- AEFLA core services must be available through the WIA one-stop system.

## Performance Accountability

Accountability for results is a central focus of AEFLA. The 1998 law sets out performance requirements for states, with a focus on assessing the effectiveness of the agencies involved and ensuring maximum return on the federal investment. Core performance areas enumerated in the law are:

- Demonstrated improvements in literacy skill levels in reading, writing, and speaking English; numeracy; problem solving; English language acquisition; and other literacy skills.
- Placement in, retention in, or completion of post-secondary education, training, unsubsidized employment, or career advancement.
- Receipt of a secondary school diploma or its recognized equivalent.

States are also free to impose additional performance requirements on grantees.

To implement the law, DoEd established a National Reporting System (NRS). Based on the statutory performance areas, NRS defines six core measures for AEFLA:

- Educational gain—basic literacy skills.
- Educational gain—English language acquisition.
- High school completion.
- Entered post-secondary education or training.
- Entered employment.
- Retained employment.

Similar to the performance accountability process established in Title I of WIA (for adults, dislocated workers, and youth), states must negotiate levels of performance with the federal government and report their progress toward those goals. Performance on these goals is to be adjusted by the characteristics of participants when they entered the program and the services or instruction provided.

AEFLA is one of several federal programs, across several departments, that have been slated for implementation of a “common measures” policy to standardize outcome measures across multiple federal job training and education programs. States are

<sup>8</sup> More detailed information available in the Department of Education’s Program Memorandum 99-14, issued on June 1, 1999, [www.ed.gov/policy/adulted/guid/adult1stop.html](http://www.ed.gov/policy/adulted/guid/adult1stop.html).

required to collect and report data on three common measures—entered employment, employment retention, and average earnings—in several of the training programs under the jurisdiction of the Department of Labor (DOL).<sup>9,10</sup> DoEd has not yet issued any guidance on this.

## Policy Challenges Moving Forward

Several key policy challenges face the AEFLA program:

**Challenge:** Adjust performance measures for different types of learners.

Different population groups seek AEFLA services based on different education and employment needs and goals. For example, some adults enroll to improve their basic skills, as measured by increased grade-level competencies. Others seek to complete job training or to get or advance in a job—regardless of any change in grade level. Performance measures should be adjusted to reflect these differences.

**Challenge:** Improve collaboration between Titles I and Title II of WIA.

Research has shown that when basic skills education is offered within the context of occupational training, it yields significant labor market success.<sup>11</sup> Yet barriers exist to better collaboration between WIA Title I (employment training for adults, dislocated workers, and youth) and Title II (adult basic education and literacy) at the funding, provider, and administrative levels.

In terms of funding, Title I job training services are primarily funded by Individual Training Accounts (ITAs), while Title II education services are funded by contracts. This makes it difficult to fund programs that provide both types of services jointly.

At the provider level, different sets of providers typically serve individuals seeking adult education versus training, although many learners need—and could benefit substantially<sup>12</sup> from—

both. Individual job-seekers who are referred to a Title I training provider to receive occupational training, for example, rarely receive a simultaneous referral to adult education services. If the occupational training provider does not receive Title II funding, then it typically has no other federal resources to support basic skills services for job-seekers.

In terms of administration, Title I services are administered through different federal, state, and local agencies. Title I is administered by DOL and implemented through state workforce development systems (including state and local WIBs). Title II services, however, are administered by DoEd and implemented locally through state and local educational and community-based entities.

**Challenge:** Build program capacity.

Although the program enrolled nearly 2.8 million individuals in PY03-04, this represents a small percentage of individuals who need services. According to DoEd, based on data from the 2000 Census, the target population for the program includes the more than 51 million American adults who have limited literacy capacity.<sup>13</sup>

## TWA Recommends

The Workforce Alliance has developed a number of specific policy recommendations to address these issues, particularly within the context of pending reauthorization legislation. Some of those recommendations include:

- Allow local WIBs to merge Title I and Title II funding into a contract for a dual-service provider or program or for a voucher.
- Facilitate the expansion—through both funding and programmatic initiatives and incentives—of career pathways and similar approaches that combine education, training, and on-the-job learning. This approach would integrate the programs and resources of community colleges, workforce agencies, and social services providers with a regional and employment sector focus.
- Expand funding for the program to improve capacity.
- Streamline performance measures when Title I and Title II funds are used in the context of a single workforce development program.

(For a full list of recommendations on these and related policy issues, visit TWA's Website at [www.workforcealliance.org](http://www.workforcealliance.org)).

<sup>9</sup> The most recent DOL guidance was TEGL 17-06, issued February 17, 2006.

<sup>10</sup> More information is available at: [www.doleta.gov/performance/guidance/wia.cfm](http://www.doleta.gov/performance/guidance/wia.cfm).

<sup>11</sup> Johannes Bos, Susan Scrivener, Jason Snipes, and Gayle Hamilton, *Improving Basic Skills: The Effects of Adult Education in Welfare-to-Work Programs* (U.S. Departments of Education and Health and Human Services, Washington, 2001), p. 10.

<sup>12</sup> *Ibid.*, p. 8.

<sup>13</sup> RTI International, *Profiles of the Adult Education Target Population* (Research Triangle Park, N.C., 2004), p. I-5.

## Additional Reading

### The Law and Guidance

The Workforce Investment Act of 1998 (Public Law 105-220) (beginning on page 125);  
[www.doleta.gov/regs/statutes/wialaw.pdf](http://www.doleta.gov/regs/statutes/wialaw.pdf)

U.S. Department of Education, Program Memorandum OVAE 99-14, “Responsibilities and Opportunities Created by Title I of the Workforce Investment Act of 1998” (Washington, 1999); [www.ed.gov/policy/adulted/guid/adultIstop.html](http://www.ed.gov/policy/adulted/guid/adultIstop.html)

### Government Summaries and Analyses

California Department of Education, *California Adult Education Survey of One-Stop Partnerships* (Sacramento, 2003).

U.S. Department of Education, *Adult Education and Family Literacy Act Program Facts* (Washington, 2005).

U.S. Department of Education, *Adult Education and Family Literacy Act, Program Year 2003-2004* (Washington, 2006).

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Alssid, Julian L., et al., *Building a Career Pathways System: Promising Practices in Community College-Centered Workforce Development* (Workforce Strategy Center, Brooklyn, N.Y., 2002).

Barton, Paul, *What Jobs Require: Literacy, Education and Training 1940-2006* (Educational Testing Service, Princeton, N.J., 1999).

Bos, Johannes M., Susan Scrivener, Jason Snipes, and Gayle Hamilton, *National Evaluation of Welfare-to-Work Strategies: Improving Basic Skills: The Effects of Adult Education in Welfare-to-Work Programs* (U.S. Departments of Education and Health and Human Services, Washington, 2002).

Chenven, Laura, *Getting to Work: A Report on How Workers with Limited English Skills Can Prepare for Good Jobs* (Working for America Institute, Washington, 2004).

Martinson, Karin, and Julie Strawn, *Built to Last: Why Skills Matter for Long-Run Success in Welfare Reform* (Center for Law and Social Policy, Washington, 2003).

RTI International, *Profiles of the Adult Education Target Population* (Research Triangle Park, N.C., 2004).

Strawn, Julie, and Amy-Ellen Duke, *President’s Budget Sabotages Pipeline of Skilled Workers* (Center for Law and Social Policy, Washington, 2005).

Wrigley, Heidi Spruck, et al., *The Language of Opportunity: Expanding Employment Prospects for Adults with Limited English Skills* (Center for Law and Social Policy, Washington, 2003).

Chapter 7

# Vocational Rehabilitation State Grants

## Title IV of the Workforce Investment Act

**Potential as a source of workforce training:**

- Services required to promote employment for individuals with disabilities.
- Vocational rehabilitation can fund many aspects of training and education for individuals with disabilities.

**Challenges to be addressed:**

- Improve performance reporting.
- Improve collaboration and coordination with WIA adult and dislocated worker programs.

## Background

The history of vocational rehabilitation legislation in the United States traces back to the Smith-Fess Act of 1920. It provided rehabilitation services to World War I veterans with physical disabilities and created the first vocational rehabilitation programs in the country.

The Vocational Rehabilitation Act, first authorized in 1973,<sup>1</sup> was created to include individuals with disabilities fully in their communities and society by increasing self-determination, employment, and integration. It also sought to address discrimination against these individuals by society and social institutions.<sup>2</sup> Congress amended the act in 1998 and incorporated it into the Workforce Investment Act (WIA).<sup>3</sup>

Administered by the U.S. Department of Education’s (DoEd) Rehabilitation Services Administration (RSA), within the Office of Special Education and Rehabilitative Services, the Act has seven titles. This brief focuses on Title I, which authorizes state grants for vocational rehabilitation services. Additional titles address matters such as research and training on disability, rights and advocacy for individuals with disabilities in the workplace,

increasing employment opportunities for individuals with disabilities, and independent living services.

## Current Legislative Status

The Act is currently awaiting reauthorization along with WIA. Although WIA’s authorization expired in 2003, Congress continues to appropriate funds, extending the program based on current statute.

Both the House and Senate passed versions of WIA reauthorization legislation during the 108th and 109th Congresses, but the bills were never brought to conference.

### VOCATIONAL REHABILITATION STATE GRANTS AT-A-GLANCE

**Statute:** Vocational Rehabilitation Act of 1973 (P.L. 93-112), as amended by Title IV, Workforce Investment Act of 1998 (P.L. 105-220).

**Administered by:** U.S. Department of Education, Office of Special Education and Rehabilitative Services, Rehabilitation Services Administration.

**Due for reauthorization:** Authorization expired in 2003.

**Federal funding:** \$2.7 billion in FY06.

**Type of program:** Formula grant to states.

**State agency with jurisdiction:** Vocational rehabilitation agencies, which may be freestanding or housed in another department, such as labor or education.

**Institutions involved:** State vocational rehabilitation agencies and community-based rehabilitation providers.

**Population served:** More than 1.4 million individuals received VR services in FY04.

1 Public Law 93-112.

2 §2(a) of the Rehabilitation Act of 1973, as amended. All following references to statute are to this act, unless otherwise noted.

3 Public Law 105-220.

## Funded Activities

The law defines vocational rehabilitation (VR) services as those that promote the employment of individuals with disabilities. VR encompasses a variety of supportive, medical, and assessment services, including:

- Assessment for determining eligibility and needs.
- Counseling in exercising informed choice.
- Diagnosis and treatment of medical conditions.
- Transportation assistance.
- Supported employment services.
- Assistance services necessary for success in the workplace.
- Specific post-employment services.

## Training under VR

Training and employment activities may also be funded under the Act, including:

- Job search and placement assistance.
- Job retention services.
- Vocational counseling and guidance.
- College or vocational training.
- Supported employment services.
- Skills training.
- Job coaching or tutoring.

## Eligibility for Vocational Rehabilitation States Grants

### State Eligibility

To receive funds, each state must submit a plan to RSA. Among other requirements, the plan must describe how the state's VR services will be coordinated with other parts of its workforce investment system and include annual goals and progress reports.

### Individual Eligibility

Individuals are eligible for services if an assessment determines that they have a disability *and* that they need vocational rehabilitation services to prepare for, secure, retain, or regain employment. The Act defines disability as a physical or mental

impairment that substantially impedes employment. In addition, anyone who has a disability or is blind as determined under Titles II (Social Security Disability Insurance, or SSDI) and XVI (Supplemental Security Income, or SSI) of the Social Security Act is presumed to be eligible for VR services.

To participate, eligible individuals must submit an individualized plan for employment. The plan—created by the vocational rehabilitation counselor and the person—must contain:

- A description of the desired employment outcome.
- A description of the specific services that the individual needs to achieve the chosen employment outcome.
- A timeline for achievement.
- A description of the service provider.
- A description of the evaluation criteria to gauge progress.
- The terms and conditions of the plan.
- The necessary extended services required for a supported employment setting.
- Any predicted need for post-employment services.

State VR agencies that determine they will not be able to serve all eligible individuals who apply for services must identify the order in which they will select individuals for services. Agencies using such a selection process must develop criteria for ensuring that individuals with the most significant disabilities are the first to receive services.

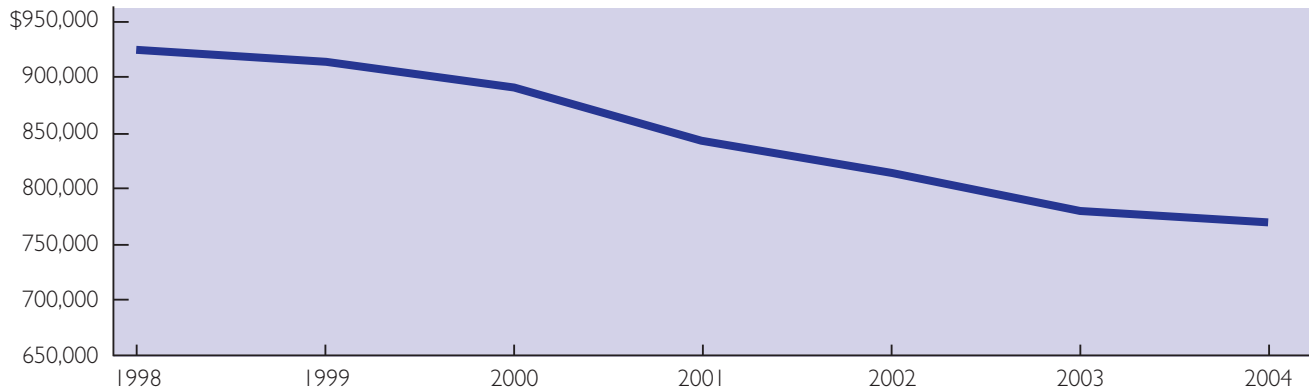
## Funding Under Vocational Rehabilitation State Grants

Funding is distributed by a formula based on population and weighted by per-capita income. The federal RSA Commissioner can redistribute any state's unused funds to other states in need of additional funds no later than 45 days before the end of the fiscal year.

Appropriations for VR state grants are expected to total \$2.8 billion in FY07. The law requires VR appropriations to increase annually by the rate of inflation, as determined by the Consumer Price Index.

State allotments in FY05 ranged from a high of more than \$249 million in California to a low of \$7.6 million in Wyoming.<sup>4</sup>

**TABLE 7-A**  
**VOCATIONAL REHABILITATION FUNDING SPENT ON TRAINING, 1998-2004**  
**(IN \$1,000s, ADJUSTED FOR INFLATION)**



Source: U.S. Department of Education data

States must contribute matching funds: The ratio is 78.7 percent federal funds to 21.3 percent state funds.<sup>5</sup> Expenditures by either the state or by local agencies fulfill the matching requirements.

## VR Spending

Each state designates a single agency to administer its VR program, except where state law authorizes a separate agency to administer VR services to individuals who are blind. Currently, 24 states have separate VR agencies for the blind.<sup>6</sup> Each state receives only one grant, however. States with a separate VR agency for the blind decide how to apportion the funding between it and the general VR agency.

4 U.S. Department of Education budget allocation tables, [www.ed.gov/about/overview/budget/statetables/07stbyprogram.pdf](http://www.ed.gov/about/overview/budget/statetables/07stbyprogram.pdf), p. 42.

5 §7(14)A.

6 Government Accountability Office, *Vocational Rehabilitation: Better Measures and Monitoring Could Improve the Performance of the VR Program*, (Washington, 2005), p. 4.

7 Services include eligibility/needs assessment, physical/mental restoration, transportation, personal assistance services, and post-employment services.

8 U.S. Department of Education, *VR Expenditures by Category, and Percent Change from a Year Ago, Fiscal Year 2004*, [www.ed.gov/rschstat/eval/rehab/2004-tables/2004-table16.xls](http://www.ed.gov/rschstat/eval/rehab/2004-tables/2004-table16.xls).

9 U.S. Department of Education, *Amounts Spent on Services for Individuals, by Type of Service, and Percent Change from a Year Ago, Fiscal Year 2004*, [www.ed.gov/rschstat/eval/rehab/2004-tables/2004-table17.xls](http://www.ed.gov/rschstat/eval/rehab/2004-tables/2004-table17.xls).

10 U.S. Department of Education, *Eligibility Rate*, [www.ed.gov/rschstat/eval/rehab/2004-tables/2004-table15.xls](http://www.ed.gov/rschstat/eval/rehab/2004-tables/2004-table15.xls).

11 U.S. Department of Education, *Services Provided to Individuals with Employment Outcomes by Agency, Region, and Type of Agency*, [www.ed.gov/rschstat/eval/rehab/2004-tables/2004-table21.xls](http://www.ed.gov/rschstat/eval/rehab/2004-tables/2004-table21.xls).

Total VR expenditures (including state matching funds) totaled more than \$3.4 billion in FY04. Most of the funds were spent on services, including \$1.73 billion on services to individuals<sup>7</sup> and \$1.2 billion on counseling and guidance.<sup>8</sup>

## VR Spending on Training

Of the \$1.73 billion spent on services to individuals, 44 percent (\$769 million) was spent on training in FY04.<sup>9</sup>

## Populations Served Through Vocational Rehabilitation State Grants

In FY04, 609,095 individuals with disabilities applied for VR services. Of those, VR agencies determined that 80.8 percent (or 491,988) were eligible. The remaining 19 percent were either ineligible or did not complete the eligibility determination process.<sup>10</sup>

Overall, state VR agencies provided services to more than 1.4 million individuals in FY04. Of those, approximately 213,000 individuals with disabilities achieved employment.<sup>11</sup>

The Longitudinal Study of Vocational Rehabilitation, which tracked a nationally representative sample of 8,500 VR participants over several years, found that among VR participants:<sup>12</sup>

- About half (46.9%) received some form of public assistance before entering the program, with 16.2 percent receiving SSI and 11.4 percent receiving SSDI.
- The mean age was 42 years old.
- Slightly more than half (51%) were male.
- More than one-quarter (about 29%) had a congenital disability, about one-third (30%) had an orthopedic disability, and one-fifth (20%) had a mental illness.
- More than half (62.8%) had a GED or high school diploma.
- Only about one-quarter (26.4%) were employed when they started receiving VR services, while about another one-quarter (27.7%) had worked in the past but not in the two years before applying for VR services.

## Institutions Typically Providing Services

State rehabilitation agencies administer and provide vocational rehabilitation services. Some agencies also purchase certain services from community-based rehabilitation providers.

## Relationship to Other Programs

The vocational rehabilitation program has statutorily defined relationships with several other federal programs.

### WIA

The law requires vocational rehabilitation services to be an integral part of the state workforce investment system established under WIA.<sup>13</sup> This means that:

- The state VR agency must be represented on the state Workforce Investment Board (WIB).
- A representative of the state VR agency or a designated VR service provider must be a member of local WIBs.
- The state VR agency or a designated VR service provider must enter into Memoranda of Understanding (MOU) with local

WIBs that describe services to be provided, how VR will contribute to the operating costs of the one-stop system (in a proportional manner), and referral methods.

- VR services must be available through the one-stop system.

The VR state plan is also required to arrange for a cooperative agreement—between the state VR agency and components of state workforce system—that includes provisions for staff cross-training, cooperative efforts with employers, and use of customer service features (such as common intake and referral procedures).<sup>14</sup>

In addition, one representative of the state WIB must be included on the State Rehabilitation Council.<sup>15</sup>

## Ticket to Work and Work Incentives Improvement Act (TWWIIA)<sup>16</sup>

Administered by the Social Security Administration (SSA), the Ticket to Work program<sup>17</sup> provides access to employment services and vocational rehabilitation for Social Security recipients with disabilities who want to work. Under the program, SSA provides eligible beneficiaries with a “ticket” they can use to obtain the services and jobs they need from a qualified “Employment Network” (EN). Participation is voluntary.

Any state agency or instrumentality (or political subdivision), or a private entity that delivers or coordinates services, can apply to be an EN. One-stop centers and WIBs established under WIA are eligible ENs.

The Ticket to Work program offers the WIA system an additional potential funding source to meet the needs of participants with disabilities, although this funding would only be in the form of a specified amount paid if a participant were no longer entitled to Social Security disability payments because of earnings. Payment would not be available for those participants who did not leave the disability rolls.

<sup>12</sup> All bulleted data from: Becky J. Hayward and Holly Schmidt-Davis, *Longitudinal Study of Vocational Rehabilitation Services Program, Final Report 1: How Consumer Characteristics Affect Access to, Receipt of, and Outcomes of VR Services* (RTI International, Research Triangle Park, N.C., 2003).

<sup>13</sup> §100(a)(2) of the Rehabilitation Act of 1973, as amended, and §121(b)(1)(B)(iv) of WIA. See Chapter 1 for more information about Title I of WIA.

<sup>14</sup> §108(a)(11)(A).

<sup>15</sup> §361.17(b)(xi) of the VR final rule, 66 FR 4392 (January 17, 2001).

<sup>16</sup> More detailed information available at: [www.yourtickettowork.com](http://www.yourtickettowork.com).

<sup>17</sup> Created by the “Ticket To Work and Work Incentive Improvement Act of 1999,” Public Law 106-170.

## Institutions of Higher Education

VR funds cannot pay for training services at an institution of higher education unless the VR agency and the individual have made the maximum effort to secure grant assistance, in whole or in part, from other sources.<sup>18</sup>

## Other Interagency Coordination

State VR plans must include assurances that interagency agreements will be signed with any appropriate public entity—including the state Medicaid agency, a public institution of higher education, and a component of the state workforce system—to define the method for determining the financial responsibility of each entity for the provided services.<sup>19</sup>

In addition, the VR program shares responsibility with the state’s department of education for helping students with disabilities make the transition from the school system to employment.

## Performance Accountability

The law requires the RSA Commissioner to determine performance indicators for the program. Currently, states are required to submit data annually on employment and equal access to individuals of all groups and backgrounds.

For employment, the performance measures focus on:

- Change (real and percent) in employment.
- “Competitive employment”—the achievement of employment with earnings equivalent to at least the federal or state minimum wage.
- Employment achieved by individuals with the most significant disabilities.
- Earnings ratio—the average hourly earnings of all individuals in competitive employment compared to the average hourly earnings of all employed individuals in the state.

<sup>18</sup> §361.48(f) of VR final rule, 66 FR 4406 (January 17, 2001).

<sup>19</sup> §101(a)(8)(B).

<sup>20</sup> The most recent guidance is Training and Employment Guidance Letter (TEGL) 17-05, issued in February 2006.

<sup>21</sup> More information available at: [www.doleta.gov/performance/guidance/tools\\_commonmeasures.cfm](http://www.doleta.gov/performance/guidance/tools_commonmeasures.cfm).

<sup>22</sup> GAO, 2005, *op. cit.*

<sup>23</sup> Office of Management and Budget, *Program Assessment Rating Tool: Program Summaries* (Washington, 2005), p. 102.

- Self-support—increases in the number of those exiting the program who report earned income as their largest single source of support.

RSA establishes a national minimum performance goal for each indicator. State agencies that fail to meet the goal must develop a program improvement plan outlining specific actions they will take.

VR is one of several federal programs, across several departments, that are supposed to participate in a “common measures” policy to standardize outcome measures across multiple federal job training and education programs. States are currently required to collect and report data on three common measures—entered employment, employment retention, and average earnings—in several programs under the jurisdiction of the Department of Labor (DOL).<sup>20, 21</sup> DoEd has not yet issued guidance on how programs under its jurisdiction should implement the new policy.

## Policy Challenges Moving Forward

Several key policy challenges face the VR program:

**Challenge:** Improve performance reporting.

Several evaluations—including one by the Government Accountability Office (GAO)<sup>22</sup> and one by the Office of Management and Budget<sup>23</sup>—have identified two main problems in the VR program’s current performance reporting system.

First, the VR program’s current measures are not consistent with measures tracked under WIA. This may change, however, based on any new performance measures included in pending legislation to reauthorize WIA and when DoEd joins DOL in implementing the “common measures” policy.

Second, the VR program’s current measures do not account for demographic and economic variations among states. Instead, performance targets are set nationally, with each state expected to meet those targets. In contrast, other DOL programs—notably WIA—negotiate goals on a state-by-state basis.

**Challenge:** Improve collaboration and coordination with WIA adult and dislocated worker programs.

Although the WIA system has made some strides in reducing physical and other barriers to access for individuals with disabilities,<sup>24</sup> overall levels of collaboration and coordination appear low. According to GAO, federal data indicate that WIA one-stop centers provided services to less than 1 percent of all individuals who exited the VR program nationwide in FY03.<sup>25</sup>

Dissemination of information about how some states—such as Minnesota—have achieved significant coordination and collaboration might be helpful to those in both the VR and WIA systems.

## Additional Reading

### The Law

The Workforce Investment Act of 1998 (Public Law 105-220)  
[www.doleta.gov/regs/statutes/wialaw.pdf](http://www.doleta.gov/regs/statutes/wialaw.pdf)

The Rehabilitation Act of 1973, as amended  
[www.ed.gov/policy/speced/leg/rehabact.doc](http://www.ed.gov/policy/speced/leg/rehabact.doc)

WIA Final regulations  
[www.doleta.gov/usworkforce/wia/finalrule.pdf](http://www.doleta.gov/usworkforce/wia/finalrule.pdf)

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Hayward, Becky J., and Holly Schmidt-Davis, *Longitudinal Study of the Vocational Rehabilitation Services Program: Final Report 2* (RTI International, Research Triangle Park, N.C., 2003).

Holcomb, Pamela, and Burt S. Barnow, “Serving People with Disabilities through the Workforce Investment Act’s One-Stop Career Centers” (Washington, 2004), prepared for the Ticket to Work and Work Incentives Advisory Panel.

Institute for Community Inclusion, *Provisions in the Final Regulations Governing the State VR Program Describing the Interplay with WIA and TWWIA* (Boston, 2001).

John J. Heldrich Center for Workforce Development, *How the One-Stop System Serves People with Disabilities: A Nationwide Survey of Disability Agencies* (New Brunswick, N.J., 2002).

<sup>24</sup> Pamela Holcomb and Burt S. Barnow, “Serving People with Disabilities through the Workforce Investment Act’s One-Stop Career Centers,” (Washington, 2004), prepared for the Ticket to Work and Work Incentives Advisory Panel.

<sup>25</sup> GAO, 2005, *op. cit.*, p. 26.

Chapter 8

# Temporary Assistance for Needy Families

## Title IV of the Social Security Act

**Potential as a source of workforce training:**

- Source of flexible funding for training adults (both TANF recipients and non-recipients).
- Pipeline into training services for low-income parents.

**Challenges to be addressed:**

- Increase access to training and education for TANF recipients.
- Help TANF recipients become self-sufficient workers.
- Improve coordination with the workforce development system.

The DRA left the overall structure of the program intact but made several changes that had the effect of sharply increasing the effective participation rate that states must meet and reducing the flexibility of what activities may be counted.

**TANF AT-A-GLANCE**

**Statute:** Title IV, Social Security Act.

**Administered by:** U.S. Department of Health and Human Services, Administration on Children and Families, Office of Family Assistance.

**Due for reauthorization:** Authorization expires September 30, 2010.

**Federal funding:** \$16.5 billion in FY06.

**Type of program:** Formula grant to states.

**State agency with jurisdiction:** Varies; typically human services or social services agency, but workforce agency in some states.

**Institutions involved:** For assistance, none; for non-assistance, faith- and community-based service providers.

**Population served: Low-income families.** In FY05, an average monthly total of more than 4.5 million individuals and 1.9 million families received cash assistance.

**Training and education provisions:** Vocational education training can count toward a recipient's work requirement for up to 12 months. Job skills training and education directly related to employment can count when combined with 20 hours per week of a core work activity. Education directly related to employment can count toward the work requirement of an adult high school dropout or teen parent. No more than 30 percent of recipients counted toward the state's work participation rate may participate in vocational training or be a teen parent in secondary school. Participation in a baccalaureate or advanced degree program cannot be counted as vocational educational training.

## Background

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA)<sup>1</sup>—enacted in 1996 and reauthorized in 2005 by the Deficit Reduction Act (DRA)<sup>2</sup>—created Temporary Assistance for Needy Families (TANF), a program that overhauled public assistance for low-income families. TANF replaced three programs: Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA).

The 1996 law ended the individual federal entitlement to welfare and replaced it with a block grant to states, imposed a five-year cumulative lifetime limit on the use of federal funds to provide assistance, and emphasized employment as the goal for TANF recipients. It devolved significant program authority to the states, increasing their flexibility over design and implementation. In return, TANF imposed financial penalties if states did not ensure that a certain percentage of their adult caseload engaged in specified work activities. States were allowed to use their own definitions of these work activities, however, and received credit for caseload declines since 1995.

1 Public Law 104-193.

2 Public Law 109-171.

At the federal level, TANF is administered by the Administration for Children and Families (ACF) within the U.S. Department of Health and Human Services (HHS). State—and, in some cases, county—TANF agencies are responsible for implementation.

Under TANF, states may pay for individuals to participate in education and training. PRWORA, however, discouraged access to training and education by limiting the length of time that vocational educational training can count toward program participation and by capping the percentage of a state’s caseload that may be engaged in training and education for purposes of calculating the state’s work participation rate. Interim final regulations<sup>3</sup> to implement the DRA, issued in 2006, further limited states’ ability to engage TANF recipients in education and training.

## Current Legislative Status

TANF is authorized through September 30, 2010, as recently extended by the DRA. The DRA’s TANF language was based more on an updating of existing TANF law versus adopting some of the more sweeping reauthorization changes that had been debated in Congress over the preceding four years. The few changes introduced by the DRA will likely significantly reduce the range of services some states had been making available to TANF recipients.

## Funded Activities

States have broad flexibility to spend their TANF funds in any way reasonably calculated to further the goals of the law. Those four goals are to:<sup>4</sup>

- Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives.
- End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.
- Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies.
- Encourage the formation and maintenance of two-parent families.

Expenditures on the first two goals may be provided only to “needy” (as defined by the state) families, while spending aimed at the latter two goals may be made on behalf of any family.

## Eligibility for TANF

Federal TANF regulations issued in 1999<sup>5</sup> to implement PRWORA distinguish between eligibility for “assistance” (income support such as cash or a voucher that can be used to meet the ongoing, basic needs of the family) and “non-assistance” (TANF-funded services such as case management or training). Time limits and work requirements apply only to families receiving assistance. Low-income individuals who do not qualify for cash assistance may still receive TANF-funded training and other services deemed as non-assistance, thereby broadening the number of low-income people that a state’s TANF block grant could serve.

In general, states determine eligibility. The federal law imposes certain restrictions, however. For example, assistance cannot to be paid to:

- Families without a minor child (or a pregnant woman).
- Families that include an adult who has received assistance for 60 months.
- Teenage parents who do not attend high school or other equivalent training program.
- Teenage parents not living in adult-supervised settings.<sup>6</sup>

## TANF Work Requirements

The law imposes penalties on states if they do not ensure that a certain percentage of their TANF caseload engages in activities that count toward program participation rates. To count toward program participation rates, TANF recipients must be engaged in one of 12 activities:<sup>7</sup>

- Unsubsidized employment.
- Subsidized private sector employment.
- Subsidized public sector employment.

3 71 *Federal Register* 37454, June 29, 2006, [www.acf.dhhs.gov/programs/ofa/tanfregs/tfinrule.pdf](http://www.acf.dhhs.gov/programs/ofa/tanfregs/tfinrule.pdf).

4 §401.

5 64 *Federal Register* 17720 (April 12, 1999), [www.acf.hhs.gov/programs/ofa/finalru.htm](http://www.acf.hhs.gov/programs/ofa/finalru.htm).

6 The law also denies assistance for 10 years to individuals who fraudulently misrepresented their residence to obtain assistance in two or more states, fugitive felons, and parole and probation violators until they return to compliance. In addition, it denies assistance for a lifetime to individuals with a drug felony conviction after the date of enactment, subject to state discretion to modify or opt out through legislation.

7 §407(d).

- Work experience (including work associated with refurbishing publicly assisted housing) if sufficient private sector employment is not available.
- On-the-job training.
- Job search and job readiness assistance (for up to six weeks, or 12 weeks in a state meeting certain conditions of high unemployment or food stamp caseloads).
- Community service programs.
- Vocational educational training (for up to 12 months).
- Job skills training directly related to employment.
- Education directly related to employment, in the case of a recipient who has not received a high school diploma or a certificate of high school equivalency.
- Satisfactory attendance at a secondary school or in a course of study leading to a certificate of general equivalence, in the case of a recipient who has not completed secondary school or received such a certificate.
- The provision of child care services to an individual who is participating in a community service program.

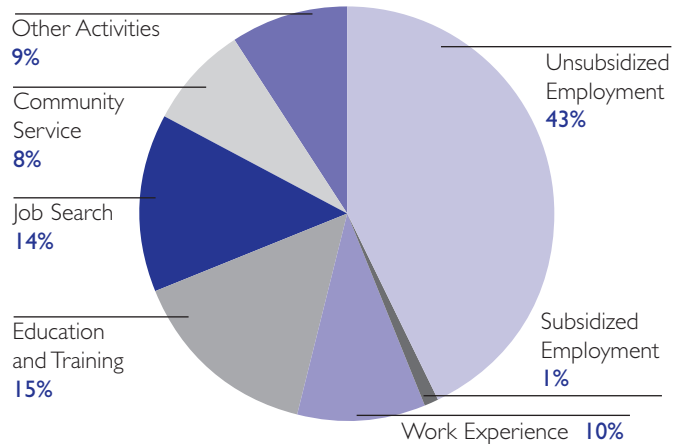
The DRA did not change the list of activities countable toward the TANF work requirements, but it did direct HHS to issue regulations to ensure more consistent measurement of work participation across states. The 2006 interim final regulations proposed new definitions for each of these work activities. (The next section of this brief discusses how the regulations define key education and training activities.)

The DRA also increased the states' effective work participation rate requirements by setting a new base year for the "caseload reduction credit" (CRC). Currently, a state not qualifying for a caseload reduction credit must ensure that 50 percent of all TANF families (and 90 percent of two-parent TANF families) are engaged in one of these 12 work activities. The 50 percent requirement went into effect in FY02, and the DRA extended it until 2010.

In practice, however, every state's effective required participation rate has been below 50 percent. That's because the CRC lowered the work participation rate each state had to achieve, reducing its required participation threshold by one percentage point for each percentage point reduction the state had seen in its overall TANF cases since FY95. In FY04, as a result of the CRC, all

**Table 8-A**  
**TANF Recipients Counted**  
**in Work Participation Rates**  
**by Work Activity, 2004**

(Based on average monthly number of adults counted as meeting the all-families work requirement)



Source: U.S. Department of Health and Human Services data

states received a reduction in their minimum participation rates for the all-families rate, and all states with a two-parent TANF program received reductions in their minimum participation rates for the two-parent family rate.<sup>8</sup> In many states, because of the dramatic declines in welfare caseloads since 1995, the CRC completely eliminated the effective participation rate requirement—thereby giving many states the flexibility to try a variety of approaches (including new training investments) to move more TANF recipients toward sustaining employment.

The DRA changed the base year for calculating the credit, using caseload numbers in FY05 as the reference point versus those in FY95 (when caseloads were much higher). That means that starting in FY07 (the first year of the new law), states will only receive credit for the number of cases they moved off the TANF rolls since FY05—a relatively small number for most states, given the recent year and the already lower levels of TANF caseloads. (Some states were able to adjust their caseloads as a result of spending more state money than required under the Maintenance of Effort, or MOE, provision.) As a result, most states were required to increase significantly the fraction of their caseloads participating in federally defined work participation activities.

<sup>8</sup> Administration for Children and Families, *Work Participation Rates for FY04* (memo to state TANF agencies) (Washington, 2006), [www.acf.dhhs.gov/programs/ofa/particip/2004/IM04RATE.htm](http://www.acf.dhhs.gov/programs/ofa/particip/2004/IM04RATE.htm).

In addition, the DRA expanded the participation rate requirement to apply to families that receive assistance from programs that do not receive any federal funding but which count toward the state’s MOE requirement. Many states had used such programs to serve two-parent families rather than attempt to reach the 90 percent participation rate requirement. Some states had also used such programs for recipients attending college.

In FY04, an average of 32.2 percent of non-exempt TANF adults met the all-families work requirement by averaging monthly participation in qualified work activities of at least 30 hours per week (20 hours if they had children under six). This is slightly up from the FY03 average of 31.3 percent.<sup>9</sup> Actual state work participation rates ranged from a low of 7.1 percent in Pennsylvania to a high of 92.7 percent in Montana.<sup>10</sup> All states met their all-families work participation rate target.

## Post-Secondary Education and Training Under TANF Work Requirements

TANF allows several training and education activities to count toward a state’s work participation rate: vocational educational training, secondary school attendance (or its equivalent), education directly related to employment, job skills training directly related to employment, and on-the-job training.

The 1996 law limited some of these activities, however, in several ways. Education directly related to employment and job skills training directly related to employment can be counted once a recipient has participated for an average of 20 hours per week in a core activity. Vocational education training can count toward a recipient’s work requirement for up to 12 months. Education directly related to employment can count toward the work requirement of an adult high school dropout or teen parent.

No more than 30 percent of those counted toward the state’s work participation rate may participate in vocational training<sup>11</sup> or be a teen parent in secondary school.<sup>12</sup> Most states have not approached the 30 percent allowance for vocational training. In FY04, a monthly average of 15.1 percent of TANF participants nationwide were counted as participating in a work activity based on being in vocational training.<sup>13</sup>

## Vocational Education as Defined under DRA

The 2006 interim final rule defines vocational educational training as “organized educational programs that are directly related to the preparation of individuals for employment in current or emerging occupations requiring training other than a baccalaureate or advanced degree.”<sup>14</sup> Under the preamble to the rule, vocational education cannot include stand-alone basic and remedial education or education in English proficiency, although it can include basic skills education within a vocational education program, as long as “it is of limited duration and is a necessary or regular part of the vocational educational training.”<sup>15</sup>

Other materials on the HHS website indicate that coursework leading toward an associate’s degree counts as vocational education.<sup>16</sup>

In addition, the regulation requires vocational educational training to be supervised on a daily basis and for hours to be documented at least every two weeks. To count toward hours of participation, homework time must also be supervised. As such, the regulations would propose that students receiving TANF assistance be treated very differently from any other adult student—requiring teachers or school administrators to monitor their classroom attendance and homework time in a manner that would place an undue burden on both students and educational institutions.

Even within these limitations, states have room to boost the number of TANF recipients in countable vocational education activities. As noted above, in FY04, a monthly average of 15.1 percent of TANF participants nationwide were counted as participating in a work activity based on being in vocational training.<sup>17</sup> This is significantly less than the 30 percent states can count.

9 Administration for Children and Families, *TANF Work Participation Rates, Fiscal Year 2003* (Washington, 2005), [www.acf.hhs.gov/programs/ofa/particip/2003/table01a.htm](http://www.acf.hhs.gov/programs/ofa/particip/2003/table01a.htm).

10 ACE, *TANF Work Participation Rates for FY04*.

11 As amended by §5003 of the Balanced Budget Act of 1997 (Public Law 105-33).

12 Until October 1, 1999, the law placed no limit on the number of teenage household heads who could be counted as working by virtue of educational activity.

13 ACE, *TANF Work Participation Rates for FY04*. This is a best estimate but likely inexact for two reasons. First, it is likely an underestimate because it omits individuals who were in training but not counted as “participating” (for example, because the state knew it would meet the participation rate without them). Second, it possibly contains double counting, if people participated in more than one kind of training during the fiscal year.

14 §261.2(i).

15 Preamble to the regulation, p. 37461.

16 Administration for Children and Families, *Types of Vocational Education Available to TANF Clients*, [www.peerta.acf.hhs.gov/pdf/Voc\\_Ed\\_Trng.pdf](http://www.peerta.acf.hhs.gov/pdf/Voc_Ed_Trng.pdf).

## Adult Basic Education and English as a Second Language Under DRA

The 2006 interim final rule does not allow Adult Basic Education (ABE) or English as a Second Language (ESL) instruction to count as a stand-alone work activity. In addition, the rule's preamble states that ABE and ESL cannot count as a job search and job readiness activity because they fit better under job skills training directly related to employment and education directly related to employment.

## Work Toward a Bachelor's Degree or Higher under DRA

The 2006 interim final rule disallows participation in bachelor's degree or higher level coursework from counting as vocational education.<sup>18</sup> Previously, TANF did not explicitly list these as work activities, but states could count them if they could fit them within another listed activity.

In the past, some states have used MOE Separate State Program (MOE-SSP) dollars to support TANF recipients in programs leading to a bachelor's or higher degree, partly because individuals served through MOE-SSP have not counted toward a state's work participation rate. One example is Maine's Parents as Scholars (PaS) program, which other states have used as a model. Under PaS, MOE-SSP funds pay TANF assistance and support services to TANF-eligible individuals who are participating in two- or four-year college programs. The funds have not paid for tuition.

States can still use these strategies for recipients not needed to reach the 50 percent work participation requirement. But the DRA's inclusion of the MOE-SSP population in the work participation rate and changes in the caseload reduction credit will mean states are likely to face increasing pressure to get more people into work activities that meet the regulatory definitions so they can be sure to avoid penalties.

<sup>17</sup> ACF, *TANF Work Participation Rates, Fiscal Year 2004*.

<sup>18</sup> Preamble, p. 37460.

<sup>19</sup> During the period between October 2002 and February 2006, TANF operated under a series of short-term (three- to six-month) extensions.

<sup>20</sup> Previously authorized performance bonuses were eliminated by the DRA, as of FY05.

<sup>21</sup> Under the DRA, this funding will end in FY08.

<sup>22</sup> The DRA created this new grant program to replace the bonuses to states that experienced a "decrease in illegitimacy" under PRWORA.

<sup>23</sup> Mark Greenberg and Hedieh Rahmanou, *TANF Spending in 2003* (Center for Law and Social Policy, Washington, 2005); Marcie Weadon-Moreno and Elizabeth Lower-Basch, *Analysis of Fiscal Year TANF and MOE Spending by States* (Center for Law and Social Policy, Washington, 2006).

## Funding Under TANF

### Federal Funding

The TANF program receives an annual federal appropriation of about \$16.5 billion for family assistance grants. The money is allocated through direct spending, which means the program must have a current authorization to remain funded.<sup>19</sup>

From this appropriation, each state receives an allotment set at a level approximately equal to its federal spending in the early 1990s under AFDC, JOBS, and EA combined. States can also qualify for additional funding through several other mechanisms:<sup>20</sup>

- A contingency fund for states experiencing economic downturns.
- Supplemental grants for states with high population growth and low welfare spending.<sup>21</sup>
- A federal loan fund.
- Competitive grants for healthy marriage promotion and responsible parenthood.<sup>22</sup>

Because block grant allocations were based on funding from the early 1990s and caseloads have declined since then, many states initially accumulated a surplus of TANF funds. States may carry over unused funds from year to year, although carry-over funds may only be used for "assistance" if they are not obligated for another use in the year they became available. Funds may be obligated for non-assistance in one fiscal year but must be spent in the next.

Recently, carry-over funds have been on the decline as states continue to spend and transfer TANF funds. The total amount of carry-over funds for all states dropped by about one-third—from \$5.8 billion to \$3.8 billion—between 2002 and 2005.<sup>23</sup>

States may also transfer up to 30 percent of their federal TANF block grant to the Child Care and Development Block Grant or the Social Services Block Grant (of which no more than 10 percent of the TANF grant may be transferred to SSBG).

### State Funding

To avoid a federal penalty, states must continue their own state spending (MOE) on qualified expenditures for eligible families at a specified minimum percentage of their FY94 spending. Generally, this requirement means that states must spend a

specified level of nonfederal funds on services or benefits that meet a TANF purpose for low-income families.

State MOE is set at 80 percent; MOE is reduced to 75 percent for states that meet their work participation requirements. If a state fails to meet its MOE requirement, it risks a dollar-for-dollar reduction in its federal block grant.

## Spending Under TANF

### Total Spending in FY05

Federal expenditures in state TANF programs (including the District of Columbia) totaled nearly \$14.2 billion in FY05.<sup>24</sup> States spent approximately another \$11.4 billion in TANF MOE.<sup>25</sup>

Of total federal TANF funds spent in 2005, states devoted an average of 45 percent to assistance and 55 percent to non-assistance. Expenditures of federal TANF funds on assistance ranged from a low of 3 percent in Florida to a high of 85 percent in Delaware.

For TANF MOE funds in FY05, states spent an average of 52 percent of their TANF MOE on assistance and 48 percent on non-assistance. Expenditures on assistance ranged from a low of 0.0 percent in Idaho to about 99 percent in Kentucky and Maine.

### TANF Spending on Education and Training in FY05

In FY05, states used about \$294.2 million of their total non-assistance expenditures (combined federal TANF and TANF MOE) on training and education, representing about 2.4 percent of all spending that year. Nearly one-third of states (16, or 32%) used none of their TANF and MOE non-assistance funds on education and training, and nearly another one-third (15, or 30%) spent less than more than 0.0 percent but less than 2 percent.

A few states, however, invested a significant portion of their non-assistance funds in education and training. For example, South Carolina (24.7%) and Montana (43.0%) each spent more than one-quarter of their combined federal TANF and state MOE non-assistance dollars on education and training in 2005.

On average in 2005, states spent 2.8 percent of their federal TANF non-assistance dollars on education and training. More than one-third of states (18, or 36%) spent none of their federal TANF dollars on education and training. The biggest spender was South Carolina, which used 23.0 percent of its federal TANF non-assistance expenditures on education and training.

States spent about 1.7 percent of their TANF MOE non-assistance funds on education and training. While more than half of the states (27, or 54%) and the District of Columbia spent none of their MOE on education and training, some states spent a significant portion—such as Montana (60.6%) and South Carolina (36.4%).

## Populations Served Through TANF

The number of individuals and families receiving federal public assistance has declined dramatically since the enactment of TANF in 1996. In January 1997, as states were implementing the law, more than 11.4 million individuals and 4.1 million families received assistance.<sup>26</sup> In June 2006, 4.1 million individuals and nearly 1.8 million families were receiving assistance.<sup>27</sup> These statistics represent declines of 64.0 percent for individuals and 56.1 percent for families. Analysis has suggested, however, that more than half of these declines are due to a drop in participation among eligible families.<sup>28</sup>

Among adult TANF recipients in FY02:<sup>29</sup>

- The vast majority—90 percent—were women.
- Two-thirds were members of minority groups: 39 percent were African-American, 22 percent were Latino, 2.2 percent were Asian-American, and 1.6 percent were Native American. About one-third (32%) were white.

<sup>24</sup> Unless otherwise noted, data in this section are directly from or are calculated from: Administration for Children and Families, *Fiscal Year 2005 TANF Financial Data*, [www.acf.hhs.gov/programs/ofs/data/2005/tanf\\_2005.html](http://www.acf.hhs.gov/programs/ofs/data/2005/tanf_2005.html).

<sup>25</sup> Weadon-Moreno and Lower-Basch, 2006.

<sup>26</sup> Administration for Children and Families, *Change in TANF Caseload*, [www.acf.hhs.gov/news/stats/caseload.htm](http://www.acf.hhs.gov/news/stats/caseload.htm).

<sup>27</sup> Administration for Children and Families, *Caseload Data*, [www.acf.hhs.gov/programs/ofa/caseload/caseloadindex.htm](http://www.acf.hhs.gov/programs/ofa/caseload/caseloadindex.htm).

<sup>28</sup> Sharon Parrott and Arloc Sherman, *TANF At 10: Program Results are More Mixed than Often Understood* (Center on Budget and Policy Priorities, Washington, 2006), p. 2.

- More than one-third (36.6%) were in “child-only” cases, where no adult was included in the benefit calculation. This number has been increasing significantly—up from 22.6 percent in FY97.
- About 43 percent had not completed high school.

## Relationship to Other Programs

TANF recipients have priority for certain services, including training, under the Workforce Investment Act (WIA).<sup>30</sup> WIA’s goal is to facilitate coordination among programs intended to help a range of individuals enter and advance in the workforce through a one-stop system of universal access (See Chapter I).

WIA lists 11 federal programs as required partners and four programs as optional partners in the one-stop system. TANF is an optional partner, although WIA regulations state that governors and local workforce entities should “encourage the TANF agency to become a One-Stop partner to improve the quality of services to . . . TANF-eligible populations.”<sup>31</sup>

## Performance Accountability

TANF’s overall performance has been measured through changes in the number of individuals and families receiving assistance and in the number of remaining TANF recipients participating in the federally defined work activities. Caseload declines are frequently cited as evidence that the program has been a success, most recently in the President’s FY07 budget request for HHS.<sup>32</sup>

29 All bulleted information from: Administration for Children and Families, *TANF 6th Annual Report to Congress* (Washington, 2004), pp. X-1 through X-15.

30 Public Law 105-220.

31 §663.620 of the WIA final rule. 65 *Federal Register* 49409 (August 11, 2000).

32 U.S. Department of Health and Human Services, *Budget in Brief: FY 2007* (Washington, 2006), p. 85.

33 Administration for Children and Families, *Reporting on TANF Work Measures After Enactment of the Deficit Reduction Act of 2005* (memo to state TANF agencies), [www.acf.hhs.gov/programs/ofa/pi-ofa/pi200601.htm](http://www.acf.hhs.gov/programs/ofa/pi-ofa/pi200601.htm).

34 ACF, *TANF 6th Annual Report to Congress*, 2004, p. X-11.

35 U.S. Department of Health and Human Services, *Indicators of Welfare Dependence: Annual Report to Congress, 2004* (Washington, 2004), p. III-26.

36 Hans P. Johnson and Sonya M. Tafoya, *The Basic Skills of Welfare Recipients: Implications for Welfare Reform* (Public Policy Institute of California, San Francisco, 1999), p. vi.

37 Administration for Children and Families, *Average Monthly Percent of Adults Participating in Work Activities for a Sufficient Number of Hours for the Family to Count as Meeting the All Families Work Requirements, Fiscal Year 2004, Table 4B*, [www.acf.hhs.gov/programs/ofa/particip/2004/table04b.htm](http://www.acf.hhs.gov/programs/ofa/particip/2004/table04b.htm).

38 This is an average monthly percent, not an annual percent.

States are not required to track employment outcomes for recipients to qualify for their block grant.

State accountability is primarily enforced through penalties. States can have their block grant reduced for a variety of reasons, including failure to satisfy work requirements, meet basic MOE requirements, or submit required reports. The total penalty assessed against a state in any given year, however, cannot exceed 25 percent of the state’s total block grant allocation.

States had been collecting data on job entry, job retention, and earnings gains for TANF recipients as part of the requirements for the High Performance Bonus, which expired in 2005. HHS has informed states that they should continue to collect and report this information for annual state rankings the Department is required to produce.<sup>33</sup>

## Policy Challenges Moving Forward

For TANF to become a program that promotes longer-term self-sufficiency for recipients, including those who need training and education to get and keep jobs, these challenges must be addressed:

**Challenge:** Increase access to training and education for TANF recipients.

Almost half of TANF adults (43%) in FY02 had not completed high school.<sup>34</sup> This is about three times the number of all American adults without a high school diploma (16%) that year.<sup>35</sup>

Many welfare recipients also have low skills. A study in California, for example, found that almost 80 percent of welfare recipients had low or very low basic skills, compared to 34 percent of full-time workers in the state.<sup>36</sup>

Yet only a small percentage of TANF recipients participate in training and education as their work activity. In FY04, fewer than one-fifth (19.7%) of adults participating in work activities for a sufficient number of hours for the family to count as meeting the all-families work requirement were engaged in vocational education, education related to employment, on-the-job training, and job skills training.<sup>37,38</sup>

The law does give states some flexibility. For example, preamble language to the 1999 TANF final rule encourages states to:

...adopt program designs that take advantage of existing educational opportunities. States may use the statutory flexibility to design programs that promote educational principles, including by promoting community-based work-related vocational education classes, created in collaboration with employers.<sup>39</sup>

Even with this flexibility, however, states must contend with federal limitations—such as the 12-month training limit, the 30-percent cap on the caseload in education and training, and the narrower definition of work activities imposed by the 2006 regulations. In addition, by not allowing work toward a bachelor's or higher degree to count as vocational education, TANF may deter states from developing long-term skills-building strategies to help recipients advance into jobs that improve their self-sufficiency.

States can still work within these limitations, even with the additional barriers imposed by the DRA, by continuing to use TANF funds to support education and training, by maximizing the caseload in vocational education, and by allowing TANF recipients not needed to count toward the 50 percent work requirement to continue to pursue a bachelor's degree or higher. But more states would be likely to invest in skills-building if the definition of work activities were expanded to remove the limits and expand the definition imposed by the 2006 regulations.

**Challenge:** Help TANF recipients become self-sufficient workers.

During the initial debate about TANF in the mid-1990s, policy makers pledged to expand opportunities for welfare recipients to succeed at work and allow states greater flexibility in developing innovative strategies to prepare and support welfare recipients before and during employment. But TANF's "work first" mandate, limits on allowable work activities for recipients, and focus on caseload reduction instead of employment advancement have driven the program toward short-term objectives. The program has generated few long-term gains that help TANF recipients become more self-sufficient.

While a "work first" approach can succeed in quickly finding jobs for TANF recipients, it does not necessarily get them good jobs at a family-sustaining wage. In fact, studies have generally found that individuals leaving welfare do not earn enough to lift themselves and their families out of poverty. A federal review of

studies of welfare leavers in multiple states found that the annual earnings of employed welfare leavers were quite low, averaging \$10,000 to \$13,000 per year, despite the fact that many former recipients had found full-time work.<sup>40</sup>

A "mixed strategy" that strikes a balance among job search, education, job training, and work activities would ultimately benefit TANF recipients and their families more. In fact, the most successful program in terms of increasing employment, job quality (wages and benefits), and employment stability for participants in II welfare-to-work programs in the National Evaluation of Welfare-to-Work Strategies (NEWWS) was Portland, Oregon, and it used such a mixed strategy.<sup>41</sup>

One option for improvement would be to adjust TANF's performance measurement system so that it focuses on employment outcomes rather than caseload reduction. This would also bring the TANF program's outcome expectations closer in line with performance requirements under WIA.

**Challenge:** Improve coordination with the workforce development system.

While both the TANF and WIA systems aim to help TANF recipients enter and advance in the workforce, between April 2004 and March 2005, only 5.5 percent of adults who exited the WIA system nationally were TANF recipients.<sup>42</sup> Some provisions of both of these laws hinder collaboration at the state and local level.

One inhibitor of better coordination is that WIA does not designate TANF agencies as "mandated partners" in the workforce development system. As a result, state TANF agencies in many local areas work independently of WIA agencies and the WIA system.

In some areas, TANF work requirements and its "work first" emphasis may also have impeded welfare recipients from receiving WIA-sponsored training services. Likewise, high expectations for post-training placements under WIA performance standards

39 64 *Federal Register* 17776 (April 12, 1999).

40 Julia B. Isaacs and Matthew R. Lyon, *A Cross-State Examination of Families Leaving Welfare: Findings from the ASPE-Funded Leavers Studies* (U.S. Department of Health and Human Services, Washington, 2000).

41 Julie Strawn, Mark Greenberg, and Steve Savner, *Improving Employment Outcomes Under TANF* (Center for Law and Social Policy, Washington, 2001), p. 7.

42 U.S. Department of Labor data at [www.fred-info.org](http://www.fred-info.org).

may have led to procedures in the WIA system that screen out individuals—including TANF recipients—with low educational attainment or limited work experience.<sup>43</sup>

## TWA Recommends

TWA has developed a number of specific policy recommendations to address these issues. Some of those recommendations include:

- Reward states for improved employment outcomes by giving them expanded flexibility in exchange for greater accountability on work-related performance goals that demonstrate meaningful results in moving families to self-sufficiency through work.
- Expand the 12-month limit on vocational education to 24 months, and remove the 30-percent cap on the proportion of a state's caseload that can be enrolled in vocational education.
- Enhance state flexibility to count a larger range of education and training activities—including restoring the ability for TANF recipients to participate in coursework leading toward a bachelor's degree or higher—as authorized work activities.
- Improve coordination with WIA by allowing states to adopt WIA employment and advancement outcomes as a partial measure of their performance under TANF.

(For a full list of recommendations on these and related policy issues, visit TWA's Website at [www.workforcealliance.org](http://www.workforcealliance.org).)

## Additional Reading

### The Law and Regulations

Personal Responsibility and Work Opportunity Reconciliation Act (Public Law 104-193)

[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=104\\_cong\\_public\\_laws&docid=f:publ193.104.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=104_cong_public_laws&docid=f:publ193.104.pdf)

TANF final rule implementing PROWRA

Summary: <http://www.acf.dhhs.gov/programs/ofa/exsumcl.htm>

Text: <http://www.acf.hhs.gov/programs/ofa/finalru.htm>

Deficit Reduction Act of 2005 (P.L. 109-171)

[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109\\_cong\\_public\\_laws&docid=f:publ171.109.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_cong_public_laws&docid=f:publ171.109.pdf)

(TANF provisions begin on page 135)

Interim final rule implementing TANF changes in DRA

[www.hhs.gov/ocr/tanf/TANFInterimFinalRule.pdf](http://www.hhs.gov/ocr/tanf/TANFInterimFinalRule.pdf)

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<sup>43</sup> Alan Werner and Kendra Kodewick, *Serving TANF and Low-Income Populations through WIA One-Stop Centers* (Abt Associates, Cambridge, Mass., 2004), p. 2.

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Chapter 9

# Social Services Block Grant

## Title XX of the Social Security Act

**Potential as a source of workforce training:**

- Education and training are an authorized use of funds.
- Employment services are an authorized use of funds.

**Challenges to be addressed:**

- Restore authorized funding level to \$2.8 billion.
- Improve coordination of training and employment services funded by SSBG and by WIA.
- Enhance data reported about the populations served in the program and the services provided.

and children to serve, where to provide services, and whether to provide services through state or local governmental agencies or through grants or contracts with private organizations.

### Current Legislative Status

The SSBG program does not require reauthorization.

## Background

Title XX of the Social Security Act was created in 1975 as an entitlement to states for providing social services, while also requiring states to invest matching funds. Title XX was intended to reorganize the social services that had been scattered throughout various titles of the Social Security Act to assist the blind, disabled, senior citizens, and children both in and outside of the Aid to Families with Dependent Children (AFDC) system. In 1981, Title XX was amended to consolidate several targeted social services funding streams that included allocations for training and child care, as well as other human services, into the Social Services Block Grant (SSBG). The entitlement was capped, income eligibility requirements relating to the AFDC program were removed, and matching requirements were eliminated.

Administered by the Office of Community Services of the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services (HHS), SSBG is an extremely flexible source of funding for a broad range of social services. States determine what services to provide, which adults

**SSBG AT-A-GLANCE**

**Statute:** Title XX, Social Security Act.

**Administered by:** U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services.

**Due for reauthorization:** Reauthorization not required.

**Federal funding:** \$1.7 billion in FY06.

**Funding to training and employment services:** States used \$48 million in FY04 SSBG funds for these services.

**Type of program:** Formula grant to states.

**State agency with jurisdiction:** State human services agencies (including TANF, welfare, social services, economic security agencies). Several states require funds to pass directly to county agencies.

**Institutions involved:** State and local governments, tribal governments, and private organizations.

**Population served:** 14.6 million people received services supported by SSBG in FY04.

I §2001.

## Funded Activities

The law requires that SSBG-funded services be directed at one or more of five broad goals:<sup>1</sup>

- Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency.
- Achieving or maintaining self-sufficiency, including reduction or prevention of dependency.
- Preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating, or reuniting families.
- Preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care.
- Securing referral or admission for institutional care when other forms of care are not appropriate or providing services to individuals in institutions.

Despite the flexibility, some spending prohibitions exist. For example, states may not spend SSBG funds on most medical care, certain detoxification services, the purchase of land, construction, educational services provided by public schools, and most services provided in hospitals, nursing homes, and prisons.

## Training and Education Activities Supported

The law lists authorized services that fall under the five broad goals and can be funded through SSBG, including “training and related services” and “employment services.”<sup>2</sup> SSBG regulations define 28 categories of authorized uses of funds, primarily for reporting purposes.<sup>3</sup> The regulations include the following definitions:

- Education and training services are those services provided to improve knowledge or daily living skills and to enhance cultural opportunities. They may include literacy education, English as a second language education, and GED preparation, as well as consumer education and health education.
- Employment services are those services provided to assist individuals in securing employment or acquiring or learning skills that promote opportunities for employment. These may include employment screening, structured job skills and job seeking skills, special training or tutoring, literacy training, and pre-vocational training.

## Eligibility for SSBG

States (including the District of Columbia) and U.S. territories are eligible to receive SSBG funds. To receive SSBG funding, states must submit to HHS a report on how they intend to use their allocations, including information about the types of activities they will support and the categories of individuals they will serve. States must also submit post-expenditure reports detailing the services provided, the number of adults and children served, and the amounts spent on each service.

States have broad flexibility to determine the individuals eligible to receive SSBG-funded services. Funds transferred from the Temporary Assistance for Needy Families (TANF) program to SSBG, however, must be spent on children or their families at 200 percent of poverty or below.

## Funding Under SSBG

### Federal Funding

Federal appropriations for the SSBG program were \$1.7 billion in FY06, the same as the statutory cap. Appropriations for the program have remained unchanged since FY02 but are down significantly from the 1990s (1991-1995), when they were \$2.8 billion.<sup>4</sup>

When the 1996 welfare law was enacted (see Chapter 8), an agreement between governors and Congress allowed for a temporary, five-year reduction in funding. The agreement called for increasing SSBG back to the \$2.8 billion level in 2003 and beyond.

SSBG funds are distributed according to a formula based on state population relative to the total U.S. population. In FY06, allocations ranged from a high of about \$206.3 million in California to a low of \$2.9 million in Wyoming.<sup>5</sup>

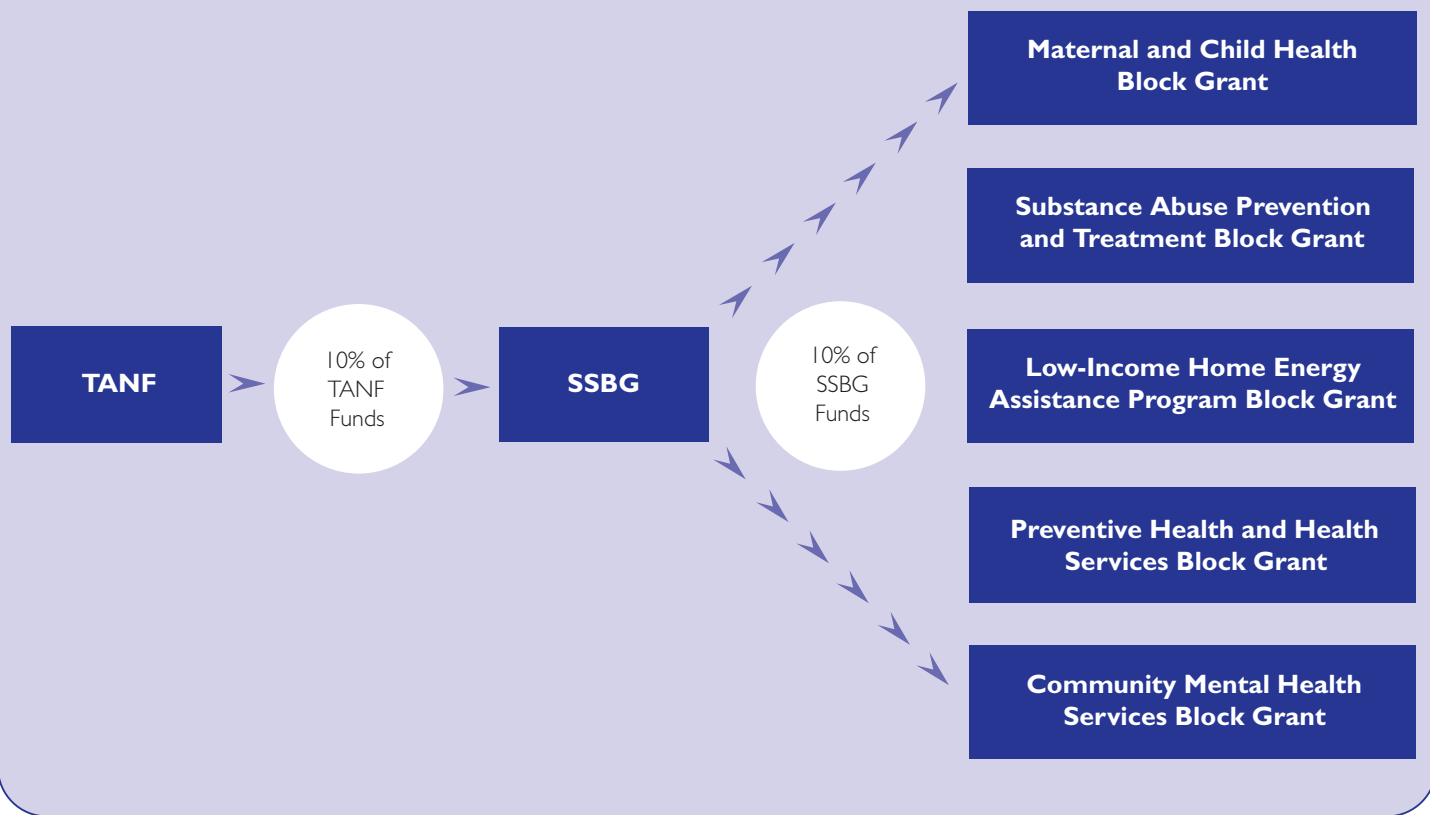
<sup>2</sup> §2002.

<sup>3</sup> 45 CFR Part 96, Appendix A.

<sup>4</sup> Additional funds were appropriated in FYs 95 and 96 for supplemental SSBG grants to support community revitalization projects in federally designated Empowerment Zones and Enterprise Communities. These funds were available for use through December 31, 2004.

<sup>5</sup> Administration for Children and Families, *FY06 SSBG Allocations*, [www.acf.hhs.gov/programs/ocs/ssbg/docs/esalloc06.html](http://www.acf.hhs.gov/programs/ocs/ssbg/docs/esalloc06.html).

**Table 9-A  
Possible SSBG Transfers**



## Spending Under SSBG

### Total Spending in FY04

States reported SSBG expenditures of \$2.5 billion in FY04, of which 35 percent (\$880 million) was transferred from the Temporary Assistance for Needy Families (TANF) block grant (for more information about transfers in and out of the SSBG program, see the section on “Relationship to Other Programs,” later in this chapter).<sup>6</sup>

The largest categories of SSBG expenditures in FY04 were for special services for individuals with disabilities (13% of spending), child foster care services (13%), and child day care (10%).<sup>7</sup>

<sup>6</sup> U.S. Department of Health and Human Services, *Social Services Block Grant Program Annual Report 2004* (Washington), p. v.

<sup>7</sup> *Ibid.*

<sup>8</sup> *Ibid.*, p. 20.

<sup>9</sup> For all data in this section: *Ibid.*, pp. 35-36.

States spent little of their SSBG funds on education and training (0.3%) and employment services (1.5%) in FY04.<sup>8</sup> State SSBG spending on education, training, and employment is primarily for supported employment for individuals with disabilities.

### SSBG Spending on Education and Training in FY04<sup>9</sup>

Some, but not all, states used SSBG funds for education, training, and employment services in FY04. Those that did reported expenditures of \$48 million (including \$12 million of TANF transfer funds) on those services.

For education and training services, 17 states reported spending a total of \$8 million of SSBG funds (including \$1 million in TANF transfer funds) in FY04. One state—Pennsylvania—accounted for a significant portion—40 percent—of that spending.

For employment services, 14 states reported spending a total of \$40 million of SSBG funds (including \$11 million in TANF transfer funds). One state—Ohio—accounted for nearly half (44%) of the spending.

## Populations Served Through SSBG<sup>10</sup>

In FY04, more than 14.6 million people received services that were funded, at least partially, by SSBG. More than half (59%) were children.

About 167,000 individuals participated in SSBG-funded education and training services in FY04, and another 34,000 received SSBG-funded employment services. By comparison, under the Workforce Investment Act<sup>11</sup> (WIA), one of the federal government's main job training programs, about 204,000 adults and dislocated workers who exited the program between April 1, 2004, and March 31, 2005, received training.<sup>12</sup>

Little additional demographic data are available about those served.

## Institutions Typically Providing SSBG-Funded Services

States can choose to provide SSBG-funded services through state agencies or through grants and contracts with private organizations; the mix of organizations varies, depending on the service. In FY04, private organizations provided more than 80 percent of education and training and employment services.<sup>13</sup>

## Relationship to Other Programs

The 1996 welfare law allowed states to transfer up to 10 percent of their current year TANF block grant allocation to the SSBG.<sup>14</sup> Under the law, any transferred TANF funds must be used for families with incomes of no more than 200 percent of the federal poverty line.<sup>15</sup>

Most states do transfer funds from TANF to SSBG. In FY05, 44 states and the District of Columbia transferred a total of \$944.2 million of federal funds from TANF to SSBG.<sup>16</sup>

States may also transfer up to 10 percent of their SSBG allocation into one or more of five other federal block grants: Maternal and Child Health Block Grant, Substance Abuse Prevention and Treatment Block Grant, Low-Income Home Energy Assistance Program Block Grant, Preventive Health and Health Services Block Grant, and Community Mental Health Services Block Grant.

## Performance Accountability

The law does not require performance reporting.

## Policy Challenges Moving Forward

Several key policy challenges face the SSBG program:

**Challenge:** Restore SSBG to its pre-TANF level of \$2.8 billion.

SSBG funding has remained the same since FY02 and has not kept pace with inflation. The current funding of \$1.7 billion falls significantly below levels from the 1990s.

Under the TANF law, SSBG funding was to be authorized at \$2.38 billion for FYs 97 through 02 and restored to \$2.8 billion in FY03 and beyond. But transportation legislation enacted in 1998 reduced the cap to the current \$1.7 billion to offset spending it contained.<sup>17</sup>

10 For all data in this section: *Ibid.*, p. v and pp. 35-36.

11 Public Law 105-220.

12 Calculated from U.S. Department of Labor data at [www.fred-info.org](http://www.fred-info.org).

13 U.S. Department of Health and Human Services, *SSBG 2004 Annual Report*, p. 24.

14 §404(d) of the "Personal Responsibility and Work Opportunity Reconciliation Act" (Public Law 104-193), as amended by the "Consolidated Appropriations Act of 2005" (Public Law 108-447).

15 In FY05, the poverty line for a family of four (in the 48 contiguous states) was \$19,350.

16 Department of Health and Human Services, Administration for Children and Families, *TANF Financial Data*,

[www.acf.hhs.gov/programs/ofs/data/2005/tanf\\_2005.html](http://www.acf.hhs.gov/programs/ofs/data/2005/tanf_2005.html).

17 The "Transportation Equity Act," Public Law 105-178.

**Challenge:** Improve coordination of training and employment services funded by SSBG and by WIA.

Current law does not require SSBG-funded services to be coordinated with services provided under any other federal programs. WIA reauthorization legislation<sup>18</sup> passed by the Senate during the 109th Congress (but not enacted) would have required state WIA plans to discuss how they would ensure coordination with SSBG-funded training and employment services and avoid duplication. Such a requirement could raise awareness at the state and local levels of the need for improved coordination, leading the programs to adopt policies and practices that would be beneficial to those they are serving.

**Challenge:** Enhance data reported about the populations served in the program and the services provided.

State SSBG annual reports contain few details about who the program is serving (other than breaking participants down into adult and child categories) and what types of participants are receiving what types of specific services (other than simple numerical/percentage counts).

## Additional Reading

### The Law

Title XX, Social Security Act  
([www.ssa.gov/OP\\_Home/ssact/title20/2000.htm](http://www.ssa.gov/OP_Home/ssact/title20/2000.htm))

### Regulations

45 CFR Part 96  
([www.access.gpo.gov/nara/cfr/waisidx\\_02/45cfr96\\_02.html](http://www.access.gpo.gov/nara/cfr/waisidx_02/45cfr96_02.html))

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U.S. House of Representatives, Committee on Ways & Means, Section 10 of *2004 Green Book* (Washington). Section 10 available at <http://waysandmeans.house.gov/media/pdf/greenbook2003/Section10.pdf>.

<sup>18</sup> The "Workforce Investment Act Amendments of 2005" (S. 1021).



Chapter 10

# Community Services Block Grant

## Title II, Community Opportunities, Accountability, and Training and Educational Services Act

**Potential as a source of workforce training:**

- Three program goals are related to employment, self-sufficiency, and education.
- Nearly one-fifth of CSBG funds are currently used to support education, training, and employment services.

**Challenges to be addressed:**

- Maintain funding and program independence.
- Improve coordination with programs funded under the Workforce Investment Act.
- Develop uniform performance reporting.

### Funded Activities

CSBG grantees can use their funds to create, coordinate, and deliver a broad array of programs and services to low-income Americans. Those programs and services are required to help participants meet eight broad goals:

- Secure and retain meaningful employment.
- Remove obstacles to self-sufficiency.
- Attain an adequate education.

### Background

The Community Services Block Grant (CSBG) was created in 1981, as part of the Reagan Administration’s effort to consolidate many federal categorical grant programs into a handful of larger block grants to states. CSBG, which resulted from the consolidation of eight previous categorical grant programs, replaced a system of direct federal assistance to local organizations with a formula grant to states.

The program’s stated purposes are to reduce poverty, revitalize low-income communities, and empower low-income families and individuals to become self-sufficient. It is administered by the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services (HHS).

States have broad flexibility to use their CSBG allocations to fund a wide range of activities to meet local needs. They must, however, make at least 90 percent of their allocation available as grants to local entities, primarily community action agencies.

### Current Legislative Status

Authorization for CSBG expired in FY03.

**CSBG AT-A-GLANCE**

**Statute:** Title II, Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (COATS Act).

**Administered by:** U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services.

**Due for reauthorization:** Authorization expired in FY03.

**Federal funding:** \$630.4 million in FY06.

**Type of program:** Formula grant to states.

**State agency with jurisdiction:** Varies, including human services, social services, economic development, and community development agencies.

**Institutions involved:** 1,086 local organizations, of which 89 percent were community action agencies (in FY05).

**Population served:** Almost 15 million individuals and families with incomes below the federal poverty line in FY05.

- Obtain and maintain adequate housing and a suitable living environment.
- Obtain emergency assistance to meet immediate and urgent family needs.
- Achieve greater participation in the affairs of the community.
- Make better use of available income.
- Make more effective use of related programs.

## Eligibility for CSBG

### State Eligibility Requirements

States must comply with several statutory requirements to receive funding. Specifically, they must:

- Designate a lead agency.
- Submit a state plan to the Secretary of HHS covering at least one, but not more than two, fiscal years.
- Hold a legislative hearing at least every three years in conjunction with the development of the state plan.
- Submit performance data.

### Local Entity Eligibility Requirements

CSBG provides funding to designated local agencies, primarily community action agencies (CAAs) created under the Economic Opportunity Act of 1964.<sup>1</sup> CSBG-funded entities must:

- Be governed by a tripartite board composed of representatives of the low-income neighborhoods being served, elected officials, and key community resources (such as business and commerce, faith-based organizations, and other service providers and groups).
- Conduct periodic assessments of the poverty needs and conditions within their community and serve as a principal source of information about, and an advocate for, addressing those needs.
- Develop goals and strategies to empower low-income people, reduce, increase self-sufficiency, and improve conditions and opportunities within the community that support stability and advancement.

- Mobilize and coordinate programs and resources within the agency and with partnering public and private service providers to achieve family and community improvement goals.
- Maintain a performance-focused system for assessing and reporting the effectiveness of their anti-poverty strategy in terms of results achieved among low-income people and neighborhoods.

### Eligibility for Individuals and Families

The CSBG program uses the federal poverty line as the criterion for eligibility for individuals and families. States also have the flexibility to increase the income limit to up to 125 percent of the poverty line.<sup>2</sup>

## CSBG Funding

State CSBG allocations are based on relative percentages of 1981 funding,<sup>3</sup> basically determined by each state's poverty population. In FY06, allocations ranged from a low of \$2.3 million in Alaska to a high of \$55.9 million in New York.

A small amount of the funding (2%) is set aside for U.S. territories and for training and technical assistance, evaluation, and special projects administered by HHS. The rest is allocated to states.

States must pass at least 90 percent of their allocated funds through to local entities. Collectively, in FY05, states distributed 92 percent of their allocations to local entities.<sup>4</sup>

States may use any remaining amount for statewide discretionary activities, such as training and technical assistance, coordination with other state-operated programs and services targeted to low-income children and families, and asset-building for low-income individuals. They may also use statewide funds to support any charity tax credits under state law.

States may not spend more than \$55,000 or 5 percent of their allocation, whichever is greater, on administrative expenses.

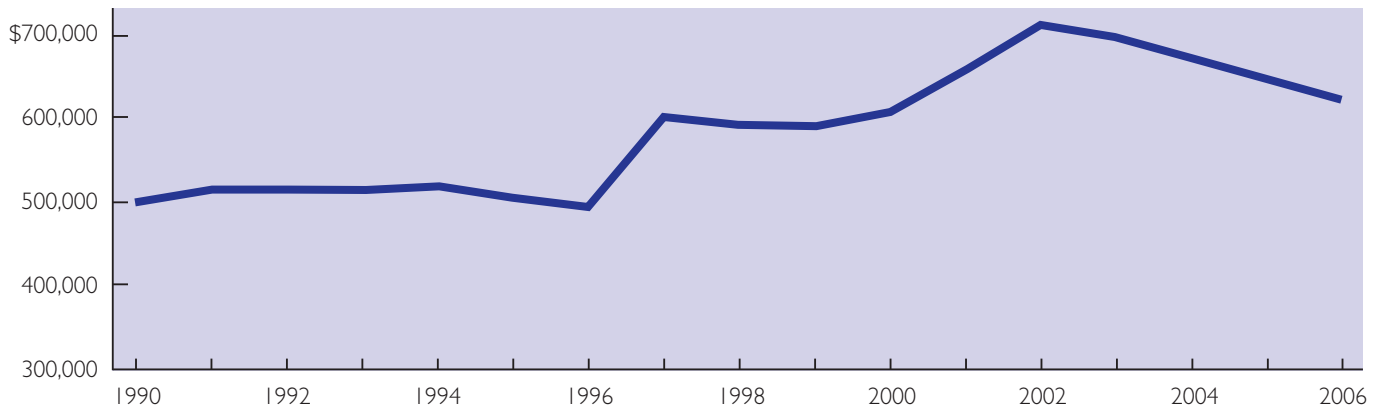
1 Public Law 88-452.

2 In FY06, the poverty line for a family of four (in the 48 contiguous states) was \$20,000.

3 Under §221 of the Economic Opportunity Act of 1964, as amended.

4 .National Association for State Community Services Programs, *Community Services Block Grant Statistical Report, FY 2005* (Washington, 2006), p. 7.

**TABLE 10-A**  
**TOTAL CSBG ALLOCATIONS, 1990-2006**  
**(IN \$1,000s, ADJUSTED FOR INFLATION)**



Source: U.S. Department of Health and Human Services data

## Federal Appropriations Trends

CSBG received \$630.4 million in FY06. This is a decrease of \$6.3 million (about 1%) from FY05 (not adjusted for inflation).

## Funding for Education and Training under CSBG

Many states invest CSBG funds in training and education. In FY05, local agencies used 12 percent of their funds on education and 10 percent on employment services.<sup>5</sup>

In FY05, nearly 144,000 CSBG participants successfully completed education or training, including:

- 115,258 who obtained a training certificate or diploma,
- 17,784 who obtained a GED, and
- 10,751 who obtained a post-secondary diploma.<sup>6</sup>

<sup>5</sup> *Ibid.*, p. 52.

<sup>6</sup> National Association for State Community Services Programs, *Special Report: Community Services Block Grant Program GPRA Performance Measure Fiscal Year 2005* (Washington, 2006), p. 2.

<sup>7</sup> Public Law 105-220.

<sup>8</sup> U.S. Department of Labor data calculated from, [www.fred-info.org](http://www.fred-info.org).

<sup>9</sup> All data in this section from: National Association for State Community Services Programs, *Community Services Block Grant Statistical Report, FY 2005* (Washington, 2006).

By comparison, under the Workforce Investment Act<sup>7</sup> (WIA), one of the federal government's main job training programs, about 204,000 adults and dislocated workers who exited the program between April 1, 2004, and March 31, 2005, received training.<sup>8</sup>

## Populations Served Through CSBG<sup>9</sup>

Almost 15 million individuals received CSBG-funded services in FY05. This represented about one-fifth (21%) of all Americans in poverty that year.

Of the 15 million people assisted by CSBG in FY05:

- More than one-third (40%) were children younger than 18.
- More than one-third (35%) were adults between the ages of 25 and 54.
- Nearly three-quarters had incomes below the federal poverty line.
- Nearly one-half (43%) of CSBG-participant families had a family member who was currently working when they sought assistance or had recently been in the workforce.

- More than half (58%) were white, and more than one-quarter (28%) were African-American.
- Nearly one-half (43%) had not completed high school.

## Institutions Typically Providing CSBG-Funded Services

In FY05, 1,086 local entities received CSBG funds. The vast majority—89 percent—were community action agencies (CAAs). CAAs provided CSBG services in 99 percent of U.S. counties. Other entities that received funding include migrant and seasonal farm worker organizations and local government agencies.<sup>10</sup>

## Relationship to Other Programs

Goals of the CSBG program include helping participants make more effective use of related programs and coordinating programs and resources with partnering public and private service providers. The statute and regulations, however, do not specify which programs.

## Performance Accountability

The 1998 reauthorization required states to implement a management and evaluation strategy to measure and report on the outcomes of community action programs, beginning in October 2001. The law does not proscribe specific performance outcomes to be measured; rather, it instructs HHS to facilitate the development of one or more model performance measurement systems that states may use.

Under the system, states are required to submit annual reports to HHS. In turn, HHS is required to submit annual reports to Congress on CSBG activities and expenditures.

The current performance system is called Results Oriented Management and Accountability (ROMA). Under ROMA,

entities that receive CSBG funds report on outcomes within the framework of six broad goals. These goals—developed by a collaborative task force of national, state, and local community action agencies—are:

- Low-income people become more self-sufficient.
- The conditions in which low-income people live are improved.
- Low-income people own a stake in their community.
- Partnerships among supporters and providers of services to low-income people are achieved.
- Agencies increase their capacity to achieve results.
- Low-income people, especially vulnerable populations, achieve their potential by strengthening family and other supportive services.

Within these goals, states and agencies developed outcome indicators that fit their particular services, communities, and needs. The task force that developed the six national goals also developed recommended outcome indicators, or “direct measures,” for capturing outcomes under each of the goals. For example, outcome indicators under the first goal include participants gaining employment, income increases from employment, and completion of education or job training.

## Policy Challenges Moving Forward

Several key policy challenges face the CSBG program.

**Challenge:** Maintain funding and program independence.

The Bush Administration’s FY07 budget request proposed eliminating CSBG entirely. The stated rationale was that CSBG lacked performance measures and CSBG-funded services were provided by other federal programs.<sup>11</sup>

The previous year’s (FY06) budget request would have folded CSBG into a new “Strengthening America’s Communities Initiative” that would have combined nearly 20 community and economic development programs. Ultimately, Congress did not act on that proposal and funded CSBG independently and at its FY05 level.

<sup>10</sup> *Ibid.*

<sup>11</sup> For more information: [www.whitehouse.gov/omb/budget/fy2007/pdf/savings.pdf](http://www.whitehouse.gov/omb/budget/fy2007/pdf/savings.pdf), p. 47.

**Challenge:** Improve coordination with programs funded under WIA.

The law authorizing WIA lists CSBG as a mandatory partner in its system of one-stop centers, where individuals receive access to information about and services from multiple federally funded employment and training programs. A main goal of the CSBG program is to help participants make more effective use of related programs.

Yet, while many organizations receiving CSBG funds provide skills training and education, in many localities this network is not systematically or fully integrated with institutions and services established under WIA.<sup>12</sup> Continuing barriers to improved collaboration should be identified and addressed at both the state and local levels. As an example, the Fayette County (Pennsylvania) Community Action Agency has created a “campus” offering access to more than 70 programs and services, including CSBG and WIA.<sup>13</sup>

**Challenge:** Develop uniform performance reporting.

While many states and local agencies use the direct measures recommended for ROMA outcome reporting, some have developed their own measures.<sup>14</sup> In FY04, to promote consistent reporting by all states, a collaborative task force developed the National Indicators of Community Action Performance.

Agencies were encouraged to continue to collect and report on all outcome measures that proved useful to them and communicated an accurate picture of their achievements, but from this point forward, all agencies would be expected to report on the National Performance Indicators (NPIs) as well. A large part of this challenge will be the need to balance uniformity with the localized nature of the CSBG program.

But meeting this challenge may be crucial in maintaining CSBG’s funding and independence. The Office of Management and Budget’s (OMB) Program Assessment Rating Tool (PART) noted in 2005 that CSBG had not “developed adequate national performance measures, making it difficult to demonstrate results.”<sup>15</sup>

<sup>12</sup> Massachusetts Association for Community Action, *Establishing Effective Workforce Development Programs: A Resource Guide for Community Action Agencies and Other Community-Based Organizations in Massachusetts* (Boston, 2004), p. 5.

<sup>13</sup> Community Action Partnership, *Partnership Bestows “Award of Excellence” Honors on Two CAAs* (Washington, 2004).

<sup>14</sup> National Association for State Community Services Programs, *Annual Report of Performance Outcomes from the Community Services Block Grant Program, FY 2003* (Washington, 2004), p. 8.

<sup>15</sup> Office of Management and Budget, Program Assessment Rating Tool: Program Summaries (Washington, 2005), p. 151.

## Additional Reading

### The Law

Title II, Community Opportunities, Accountability and Training and Educational Services (COATS) Act of 1998, Public Law 105-285

[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105\\_cong\\_public\\_laws&docid=f:publ285.105.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ285.105.pdf)

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[http://www.access.gpo.gov/nara/cfr/waisidx\\_04/45cfr96\\_04.html](http://www.access.gpo.gov/nara/cfr/waisidx_04/45cfr96_04.html)

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## Chapter 11

# Food Stamp Employment and Training Program

## Section 6 and 16(h) of the Food Stamp Act of 1977

### Potential as a source of workforce training:

- Funds employment and training services for able-bodied adult Food Stamp recipients, with some emphasis on those without dependents.

### Challenges to be addressed:

- Increase FSET participant referral to education and training.
- Reverse the decline in funding.
- Improve data on program participation and effectiveness.
- Improve coordination with WIA.

## Background

The Food Stamp program has included employment and training requirements since the 1970s. Those requirements, however, have changed over time. Currently, all able-bodied adult Food Stamp recipients between the ages of 16 and 60, with some exceptions, must register for work, accept suitable employment, or take part in an employment and training program to which they are referred by their local Food Stamp office.

The distinct Food Stamp Employment and Training (FSET) program was created by the Food Security Act of 1985<sup>1</sup> to help Food Stamp recipients gain skills, training, or experience and increase their ability to obtain regular employment.

In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act imposed a time limit on able-bodied adults without dependents (ABAWDs).<sup>2</sup> Since then, ABAWDs have been limited to receiving Food Stamps for three months out of

each three-year period, except in months they work at least 20 hours per week or participate in an employment or training activity.

In 1997, the Balanced Budget Act significantly increased FSET funding in fiscal years 1998 through 2002.<sup>3</sup> It also required that most (80%) FSET money be spent on services that help ABAWDs meet their work requirement. Subsequent legislation—the Farm Security and Rural Investment Act of 2004<sup>4</sup>—eliminated the spending requirements and reduced annual 100 percent FSET funding to \$110 million. Additional matching funds are available.

FSET is administered by the Food and Nutrition Service (FNS) within the U.S. Department of Agriculture (USDA).

## Current Legislative Status

FSET is authorized through 2007.

## Funded Activities

Each state is required to have an FSET program. Services funded under FSET must include one or more of the following:

- Job search activities.
- Job search training, including skills assessments, job finding clubs, training in techniques for employability, and job placement services.
- Workfare programs.
- Programs designed to improve the employability of eligible individuals through actual work experience, training, or both.
- Educational programs to improve basic skills and literacy.

1 Public Law 99-198.

2 Public Law 104-193.

3 Public Law 105-33.

4 Public Law 107-171.

### FSET AT-A-GLANCE

**Statute:** Food Stamp Act of 1977 (Public Law 88-525), as amended.

**Administered by:** U.S. Department of Agriculture, Food and Nutrition Service.

**Due for reauthorization:** 2007.

**Federal funding:** Nearly \$122 million in FY06—\$90 million through formula allocation to states (plus about \$12 million in carry-over funds) and \$20 million for services specifically for able-bodied adults without dependents (ABAWDs) nearing the end of their eligibility. USDA will match state expenditures above their grant amount. The amount available as matching funds is not capped.

**Type of program:** Formula grant to states.

**State agency with jurisdiction:** Varies, including state departments of welfare, human services, social services, labor, and economic security.

**Institutions involved:** Local entities, including welfare offices, community-based organizations, and one-stop centers.

**Population served:** No reliable national data available.

- Programs designed to increase an individual’s self-sufficiency through self-employment.
- Other employment, educational, or training programs approved by the Secretary of Agriculture or the state.

## Employment and Training Requirements for Food Stamp Recipients

### All Adult Food Stamp Recipients

All non-exempt Food Stamp recipients between the ages of 16 and 59 must register for work at the appropriate employment office, participate in an employment and training program (such as FSET) if assigned by the state agency, and accept an offer of suitable employment. Failure to comply can result in disqualification for Food Stamps eligibility.

Exemptions exist for individuals who are:

- Physically or mentally unfit for employment.
- Complying with a work requirement under the Temporary Assistance for Needy Families (TANF) program.
- Responsible for the care of a child under six or an incapacitated person.

- Receiving unemployment benefits.
- Participating in an alcohol or drug treatment rehabilitation program.
- Already working at least 30 hours per week.

States may exempt additional categories of individuals from the work requirement and may serve participants who are exempt from work requirements if the participant volunteers. States may serve a very limited number of TANF participants.

### Able-Bodied Adults Without Dependents (ABAWDs)

ABAWDs between the ages of 18 and 49 may not receive Food Stamps for more than three months in any 36-month period unless they do one of the following:

- Work at least 20 hours a week.
- Participate in a qualified work activity for 20 hours per week.
- Engage in any combination of qualified activities for 20 hours per week.
- Participate in a work experience program.

Months in which individuals subject to this provision do not comply with their work requirement count toward their three months of eligibility. After three months of participation

**Table I I-A**  
**FSET Requirements Before and After 2002 Farm Bill**

	<b>PRE-2002 FARM BILL</b>	<b>POST-2002 FARM BILL</b>
<b>Federal Funding</b>	Combination of federal grant funds and Balanced Budget Act funds totaling \$219 million in FY 2001	\$90 million in federal grant funds for FYs 2002-07 and \$20 million to reimburse states that guarantee work slots; Balanced Budget Act funds eliminated
<b>ABAWD Spending</b>	States required to spend 80 percent of funds on Able-Bodied Adults Without Dependents (ABAWDS)	Requirement removed
<b>Supportive Services</b>	Federal government reimbursed states for 50% of supportive services; total cost of services cannot exceed \$25 per participant per month	Federal government reimburses states for 50% of supportive services with no cap
<b>Maintenance of Effort</b>	States required to maintain 1996 funding levels for access to additional Balanced Budget Act funds	MOE requirement removed

without meeting these requirements, participants cannot receive benefits until either they comply or the 36-month period ends.

Exemptions exist for individuals who are one of the following:

- Responsible for the care of a child or an incapacitated household member.
- Medically certified as physically or mentally unfit for employment or pregnant.
- Already exempt from Food Stamp work requirements (for the reasons cited earlier).

States may request a waiver of these provisions for ABAWDs in areas with an unemployment rate above 10 percent or for those in an area with insufficient jobs. As of October 2006, 42 states and the District of Columbia had approved waivers for one or more local areas.<sup>5</sup>

<sup>5</sup> U.S. Department of Agriculture, *FY 2006 ABAWD Waiver Status Report*, [www.fns.usda.gov/fsp/rules/Memo/PRWORA/abawds/abawds.pdf](http://www.fns.usda.gov/fsp/rules/Memo/PRWORA/abawds/abawds.pdf).

<sup>6</sup> 71 *Federal Register* 33376 (June 9, 2006).

States also have the flexibility to exempt a limited number of unemployed ABAWDs from the three-month time limit. FNS determines the number of yearly exemptions for each state. States can carry over unused exemptions into the following year.

States frequently assign individuals subject to the ABAWD restrictions to their FSET program. Most states design their FSET programs to meet the ABAWD requirements, so that months in which ABAWDs participate in FSET do not count toward the three-month time limit. Some FSET activities—primarily job search activities—do not satisfy the ABAWD work requirement, however.

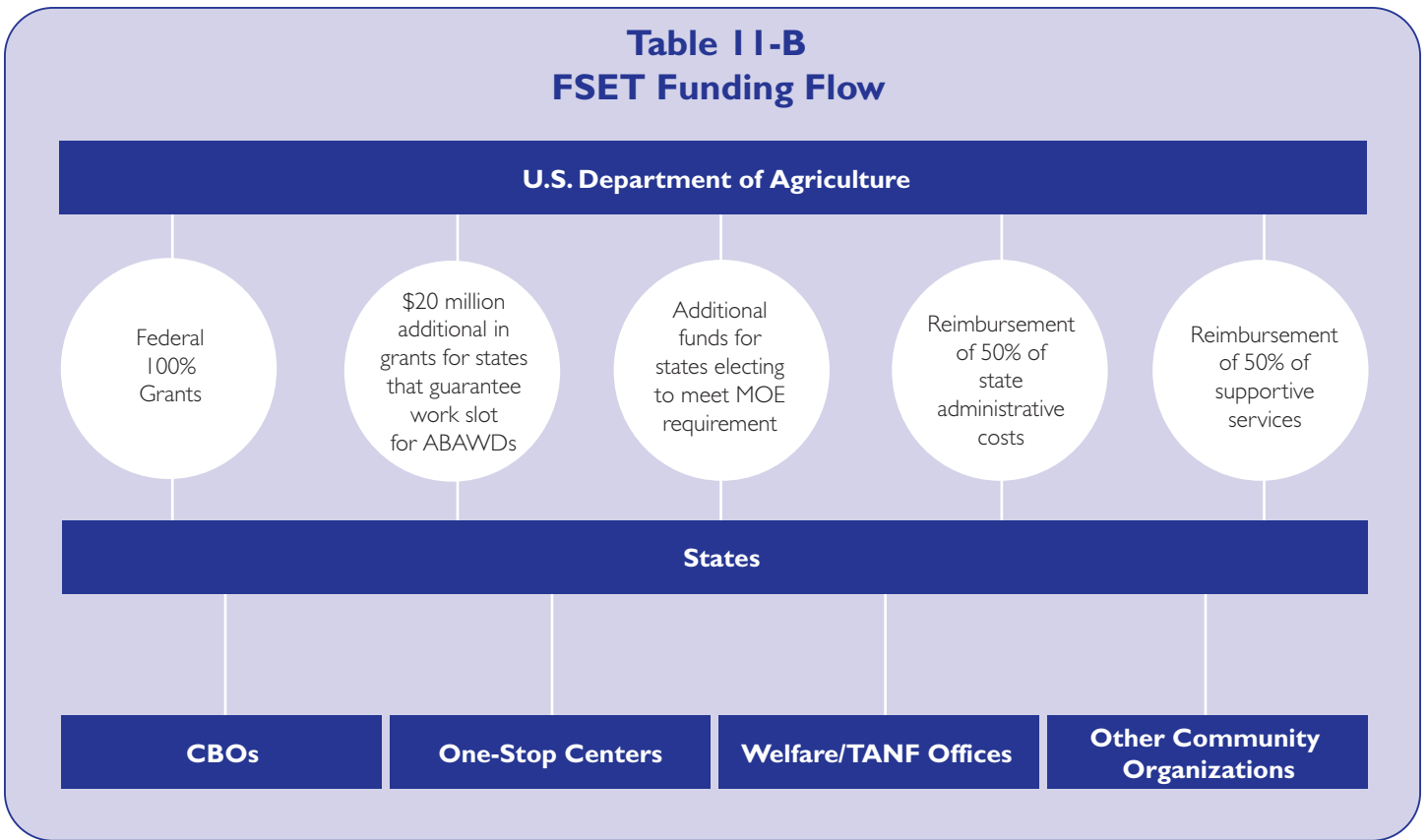
## Funding Under FSET

A final rule issued in June 2006<sup>6</sup> made several changes to how FSET funds are distributed. The rule went into effect August 8, 2006.

### Base Funding

A total of 10 percent of FSET base funding is now allocated based on food stamp quality control (QC) data for the most

**Table 11-B  
FSET Funding Flow**



recently completed fiscal year that reflects each state’s share of the nation’s ABAWDs. The other 90 percent of funds is distributed based on the number of work registrants in each state as a percentage of work registrants reported by states for the most recent fiscal year.

### Additional Funding for States Serving ABAWDs

The 2002 law made available an additional \$20 million to reimburse states that “pledge” to provide a slot in a qualified education, training, or workfare program to all ABAWD applicants and recipients in the last month of their three-month eligibility period who do not qualify for an exception, waiver, or exemption from the time limit (known as “at-risk” ABAWDs). Under the 2006 final rule, funding is to be distributed based on the total number of ABAWDs in the pledge state as a percentage of ABAWDs in all participating pledge states. USDA has also clarified that pledge states must serve all of their at-risk ABAWDs and be prepared to use their own money to fulfill this commitment.

### Participant Reimbursements

States receive reimbursement for 50 percent of expenditures for providing support services—such as transportation—to FSET participants. The 2002 legislation removed the \$25 per month per participant cap on federal cost sharing for these reimbursements. The 2006 rule clarifies that states may adopt different reimbursement policies for different types of expenses or in different parts of the state, for example, and that federal funds may not be used to provide support services to employed persons to help them start or keep a job.

### Carryover Funds

The rule rescinded the balance of unobligated funds carried over from Fiscal Year 2001. The final rule also explained that any carryover funds left from the additional funding for states that serve ABAWDs will be distributed among states on a first come-first served basis.

## Administrative and Other Expenses

States receive 50 percent federal matching funds for program amounts incurred in excess of their grant of 100 percent money, including administrative costs.

## Current Funding Levels<sup>7</sup>

In FY06, states received nearly \$102 million in 100 percent federal funds (\$90 million base plus \$11.8 million in carry-over funds). Allocations ranged from a low of \$110,272 in Wyoming to a high of \$9.9 million in California.

More than one-third of states (19, or 38%) experienced significant loss of funding in FY06, compared to FY04, because of changes in the formula. USDA used the carry-over funds to limit state losses to no more than 20 percent of their FY04 allocations.

## Populations Served Through FSET

In FY06, an average of almost 27 million Americans received Food Stamps each month.<sup>8</sup> In FY04, about 5.3 million Food Stamp recipients had to register for work; of those, 1.2 million were ABAWDs.<sup>9</sup> According to the Government Accountability Office (GAO), less than 9 percent of Food Stamp recipients are potential FSET participants.<sup>10</sup>

States have the flexibility to determine which local areas will operate an FSET program and, based on their own criteria, who to refer to FSET. Not all Food Stamp recipients subject to work requirements participate in FSET.

USDA does not collect nationwide data on the characteristics of FSET participants separately from other Food Stamp recipients.

<sup>7</sup> All data in this paragraph are from: USDA Memo to Program Directors, *Final Fiscal Year 2006 100 Percent Federal Food Stamp Employment and Training Grant Allocations*, [www.fns.usda.gov/fsp/rules/Memo/05/071905.pdf](http://www.fns.usda.gov/fsp/rules/Memo/05/071905.pdf).

<sup>8</sup> U.S. Department of Agriculture, *Food Stamp Program: Average Monthly Participation (Persons)*, [www.fns.usda.gov/pd/fsfypart.htm](http://www.fns.usda.gov/pd/fsfypart.htm).

<sup>9</sup> U.S. Department of Agriculture, *Food Stamp Employment and Training Program Fiscal Year 2006 Federal Grant Calculation*, [www.fns.usda.gov/fsp/rules/Memo/05/071905.pdf](http://www.fns.usda.gov/fsp/rules/Memo/05/071905.pdf).

<sup>10</sup> Government Accountability Office, *Food Stamp Employment and Training Program: Better Data Needed to Understand Who Is Served and What the Program Achieves* (Washington, 2003), p. 12.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*, p. 21.

<sup>13</sup> Public Law 105-220.

<sup>14</sup> §6(d)(4)(A)(ii) of the Food Stamp Act of 1977, as amended.

In a 2003 GAO study of FSET in 15 states, officials described FSET participants as hard to employ, having little education, limited work histories, and histories of addiction and homelessness.<sup>11</sup>

Based on FY01 statistics:<sup>12</sup>

- Job search accounted for about half of all FSET participant activities.
- Work experience accounted for about one-quarter of all FSET participant activities.
- Basic education and training to improve reading, math, and language skills or obtain a high school degree or its equivalency accounted for 7.5 percent of all FSET participant activities.

## Institutions Typically Providing FSET-Funded Services

A variety of local agencies, including community-based organizations and “one-stop centers,” deliver FSET services. One-stop centers are local entities created by the Workforce Investment Act (WIA) of 1998<sup>13</sup> to streamline the delivery of services from multiple federally funded training programs.

## Relationship to Other Programs

The law requires that FSET services be available through the statewide workforce development system created under WIA.<sup>14</sup> WIA, however, does not designate FSET as a required participant in the one-stop system.

WIA lists 11 federal programs as required partners and four programs as optional partners in the one-stop system. FSET is an optional program. As a result, the FSET program is not required to be represented on state and local workforce investment boards (the entities that administer WIA), to enter into memoranda of understanding about services provided through the one-stop system, or to provide financial support to the infrastructure of the one-stop system.

## Performance Accountability

Little information is available about the performance of the FSET program, including its effectiveness in helping participants achieve and retain employment. An attempt to create performance measures for the program in the 1980s and 1990s was dropped because of overwhelmingly negative reaction—primarily concerns that the costs associated with collecting the data would be disproportionate to the program’s funding.<sup>15</sup>

## Policy Challenges Moving Forward

Several key policy challenges face the FSET program:

**Challenge:** Increase FSET participant referral to education and training.

Many FSET participants, particularly ABAWDs, face significant barriers to employment because they lack skills. Yet, in FY01, education and training activities accounted for about 7 percent of participant activities. Some states do better—Pennsylvania, for example, placed nearly half of its FSET participants in education and training that year.<sup>16</sup>

Still, improvement is needed in the rate of referral to education and training for FSET participants, including ABAWDs. In addition, given the multiple challenges many FSET participants face, it may be appropriate for the program to consider how to promote retention in education and training, in addition to increasing referrals.

**Challenge:** Reverse the decline in funding.

Overall funding for FSET has decreased since the expiration of supplemental funding provided in FYs 1998-2002. As a result, states have fewer resources available through the program.

In the past, many states were not able to spend all of their FSET funding. Several factors likely contributed to the problem, including the previous statutory requirement that states spend 80 percent of funds on services for ABAWDs and an MOE requirement that applied to all federal funding. With the elimination of those requirements in 2002, states should find it

easier to spend their FSET funds. If not, research is needed to pinpoint why states are not making full use of these funds and to identify policy barriers.

**Challenge:** Improve data on program participation and effectiveness.

FNS documents and GAO reporting have questioned the accuracy of data about FSET registration and participation.<sup>17, 18</sup> No nationwide data exist to document whether FSET is effective in helping participants get jobs.<sup>19</sup> In addition, while some outcome data exist at the state level, it is not clear that the outcomes resulted from program participation.<sup>20</sup>

Current federal efforts to tie program funding to performance—such as the Office of Management and Budget’s Program Assessment Rating Tool (PART)—make this data challenge a pressing issue. FSET could look to other federal programs funding employment and training services—including WIA and the Community Services Block Grant—for ideas about developing and operating outcome measurement systems that can be implemented locally.

**Challenge:** Improve coordination with WIA.

According to GAO, the extent to which states use the one-stop system to deliver FSET services varies considerably. Even though FSET participants may receive job search services at one-stop centers, they do not usually participate in other employment and training programs available there.<sup>21</sup>

One impediment may be concern among one-stop staff that the FSET population, because of their barriers to employment, would lower state measured performance on employment and earnings. In addition, FSET participants may not be ready for WIA program services if they lack basic skills, such as reading and computer literacy. Continuing barriers to improved collaboration should be identified and addressed at both the state and local levels.

<sup>15</sup> GAO, 2003, pp. 28-29.

<sup>16</sup> *Ibid.*, p. 23.

<sup>17</sup> U.S. Department of Agriculture, July 19, 2005, memo to Food Stamp Program Directors, <http://www.fns.usda.gov/fsp/rules/Memo/05/071905.pdf>, p. 1.

<sup>18</sup> GAO, 2003, pp. 14-15.

<sup>19</sup> *Ibid.*, p. 4.

<sup>20</sup> *Ibid.*

<sup>21</sup> *Ibid.*, p. 3.

## Additional Reading

### The Law

The Food Stamp Act of 1977, as amended  
<http://agriculture.senate.gov/Legislation/Compilations/FNS/FSA77.pdf#search='food%20stamp%20act%2C%20as%20amended'>

### Regulations

7 CFR Part 273  
<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=c5778aa81303fbd390e16a1c181a9bef&rgn=div5&view=text&node=7:4.I.1.3.20&idno=7>

### 2006 Regulatory Changes

71 *Federal Register* 33376 (June 9, 2006)  
<http://a257.g.akamaitech.net/7/257/2422/01jan20061800/edocket.access.gpo.gov/2006/pdf/E6-9001.pdf>

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U.S. Department of Agriculture, *Farm Bill E&T Implementing Memo* (Washington, 2002),  
[www.fns.usda.gov/fsp/rules/Legislation/2002\\_farm\\_bill/farmbill\\_et\\_implement.htm](http://www.fns.usda.gov/fsp/rules/Legislation/2002_farm_bill/farmbill_et_implement.htm).

U.S. Department of Agriculture, *State Use of Funds to Increase Work for Food Stamp Recipients: Report to Congress* (Washington, 2001).

U.S. Government Accountability Office, *Food Stamp Employment and Training Program: Better Data Needed to Understand Who Is Served and What the Program Achieves* (Washington, 2003).

U.S. Government Accountability Office, *Food Stamp Program: Implementation of the Employment and Training Program for Able-Bodied Adults Without Dependents* (Washington, 2001).

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Dean, Stacy, and Dorothy Rosenbaum, *Implementing New Changes to the Food Stamp Program: A Provision by Provision Analysis of the Farm Bill* (Center on Budget and Policy Priorities, Washington, 2002).



Chapter 12

# Community Development Block Grant

## Title I of the Housing and Community Development Act

**Potential as a source of workforce training:**

- Education and training are an authorized use of CDBG funds.
- Assistance to institutions of higher education is an authorized use of CDBG funds.
- Grants and loans to community-based development organizations are authorized uses of CDBG funds.

**Challenges to be addressed:**

- Maintain funding.
- Continue progress in developing and implementing performance measures.
- Improve targeting of resources to community need.
- Improve coordination with other federal programs that fund training and education.

as the central city of a metropolitan area by the White House Office of Management and Budget (OMB), cities with more than 50,000 residents, and counties with more than 200,000 residents are considered entitlement communities and automatically receive CDBG funding. “Small cities” grants are distributed to states, which they divide among smaller cities based on a competitive grant process.

CDBG is hailed as a flexible and reliable source of funding that local and state governments can use to improve their communities. The wide range of activities that can be funded by CDBG includes training. Grantees are limited only by a provision that requires spending primarily to benefit low- and moderate-income individuals.

## Background

The Community Development Block Grant (CDBG) is one of the oldest federal housing and economic development programs. Established in 1974 as Title I of the Housing and Community Development Act,<sup>1</sup> CDBG was created to develop viable urban communities by increasing economic opportunities and providing decent housing and a suitable living environment for people with low to moderate incomes. Since 1974, the law authorizing CDBG has been amended many times.

Administered by the Community Planning and Development Division (CPD) of the U.S. Department of Housing and Urban Development (HUD), the program provides two main types of grants to states and localities. Funds are split, with 70 percent going to “entitlement communities” and 30 percent going to states to pass on to “small cities.”

The Entitlement Communities Program provides annual formula grants to large cities and counties. Cities designated

### CDBG AT-A-GLANCE

**Statute:** Title I, Housing and Community Development Act of 1974 (Public Law 93-383), as amended.

**Administered by:** Community Planning and Development Division, U.S. Department of Housing and Urban Development.

**Due for reauthorization:** Authorization expired in FY94.

**Federal funding:** Approximately \$3.7 billion in FY06.

**Funding to training and employment services:** \$24.3 million in FY06.

**Type of program:** Formula grants.

**State agency with jurisdiction:** Not applicable for entitlement communities; varies for state-administered grants.

**Institutions involved:** Local and state governments, community-based development organizations, and other community-based organizations.

**Population served:** Grantees must certify that at least 70 percent of funds support programs that benefit low- and moderate-income individuals.

<sup>1</sup> Public Law 93-383.

## Current Legislative Status

Authorization for the CDBG program expired in FY94, although Congress continues to appropriate funds for it.

For the last two years, the Bush Administration has proposed changing the program as part of a new “Strengthening America’s Communities Initiative.” While the President’s FY07 budget request would maintain CDBG in HUD, it would also cut overall funding for the program by \$1.1 billion (27.4%). Under the initiative, several other programs would be folded into CDBG, the program would be targeted more towards needy communities, and a bonus grant program for communities that expand home ownership and opportunity for their residents would be added.<sup>2</sup>

## Funded Activities

CDBG can support a vast array of community development and housing programs. To be considered a funded activity, a project must satisfy two criteria: be an eligible activity and meet one of the program’s two national objectives.

Eligible activities are:<sup>3</sup>

- Housing rehabilitation, including grants or loans for homeowners or landlords to detect and remove lead-based paint.
- Housing construction by a community-based development organization.
- Down-payment assistance.
- Public services, including education and training, child care, health care, and transportation (although only 15 percent of CDBG funds can be used for these services).<sup>4</sup>
- Building or rehabilitation of public facilities (such as community or nonprofit training centers).
- Equipment necessary for operating an eligible activity or delivering a service (such as computers for training).
- Improving accessibility of facilities.
- Grants, loans, and technical assistance to neighborhood groups.
- Public works.
- Construction or rehabilitation of parks and recreation facilities.
- Code enforcement.
- Rehabilitation of commercial or industrial buildings.

- Training for specific jobs.
- Administration.

To satisfy the national objectives, a project must either:<sup>5</sup>

- Benefit low- and moderate-income individuals.
- Help to prevent or eliminate slums and blight.

Despite the flexibility of the program, certain activities cannot be funded through CDBG. These include:<sup>6</sup>

- Acquisition, construction, or reconstruction of buildings for the general conduct of government.
- Political activities.
- Certain income payments.
- Construction of new housing by units of general local government.

In addition, CDBG funds cannot be used to assist in the relocation of any industrial or commercial plant, facility, or operation from one area to another, if the relocation is likely to result in a significant loss of employment in the labor market area from which the relocation occurs.<sup>7</sup>

## Eligibility for CDBG

### Entitlement Community Eligibility

To receive funds as an entitlement community, local jurisdictions must submit a Consolidated Plan<sup>8</sup> and an annual action plan to HUD that describe their development objectives and proposed use of funds. Plans must be developed with significant community public involvement.

2 [www.hud.gov/about/budget/fy07/fy07budget.pdf](http://www.hud.gov/about/budget/fy07/fy07budget.pdf) and [www.whitehouse.gov/omb/budget/fy2007/pdf/savings.pdf](http://www.whitehouse.gov/omb/budget/fy2007/pdf/savings.pdf) (pp. 127-128).

3 42 USC 5305.

4 Communities that spent more than 15 percent of CDBG funds on public service activities in FY82 or FY83 are exempt from the restriction and are allowed to spend up to the larger of either the dollar amount or percentage of CDBG funds spent on public services in that year. A total of 41 entitlement communities are exempt from this restriction.

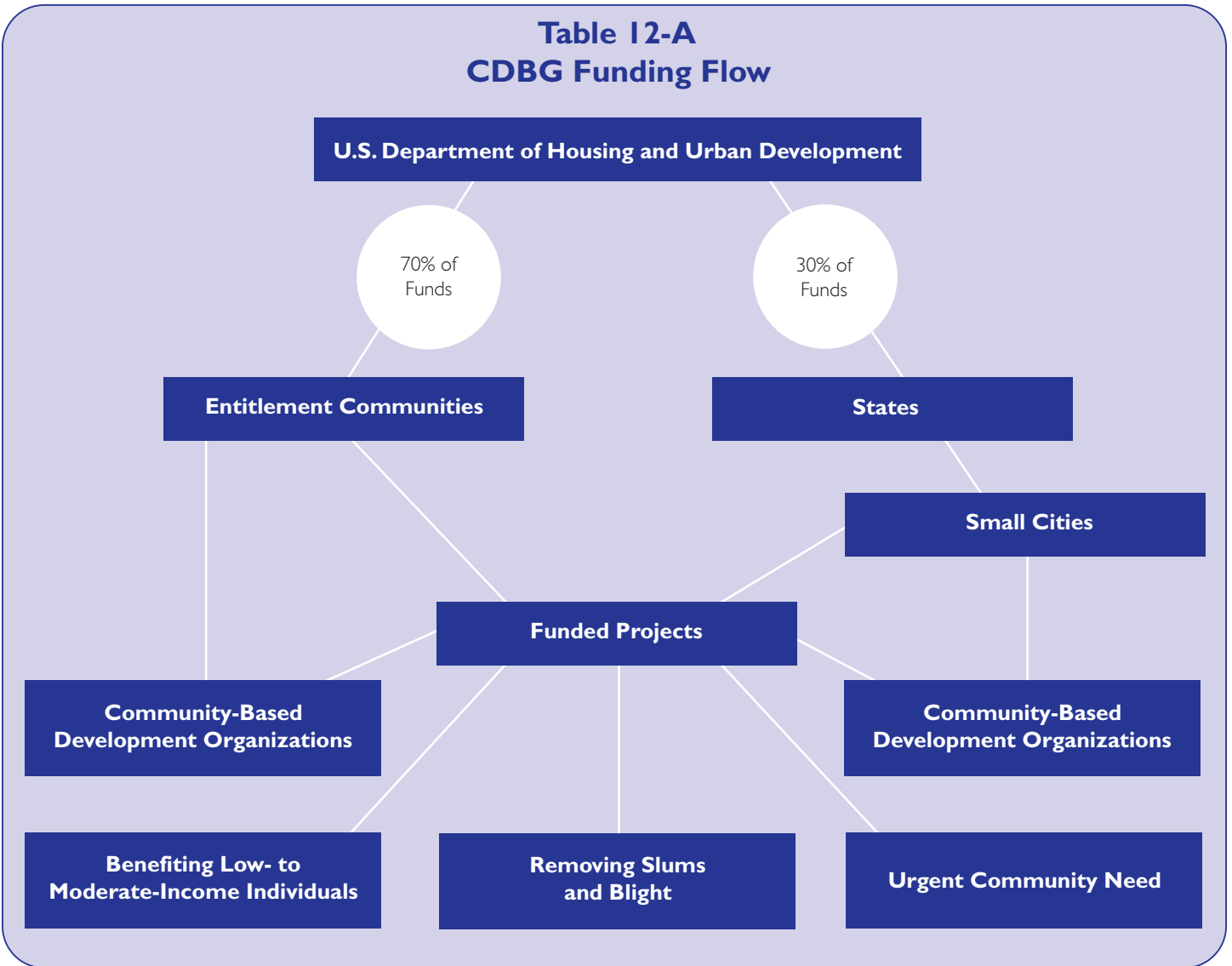
5 42 USC 5305.

6 U.S. Department of Housing and Urban Development, [www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm](http://www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm).

7 42 USC 5305(h); 24 CFR Part 570.

8 The Consolidated Plan is a jurisdiction’s plan for implementing several HUD programs, including CDBG.

**Table 12-A  
CDBG Funding Flow**



As long as HUD receives the plan before the deadline, it will distribute a grant—unless the grantee’s performance has been deemed unsatisfactory. Grants typically last for one to three years, with their amount determined by the larger of two formulas:

- One based on population, poverty, and housing overcrowding (with the poverty and housing factors getting heavier weight).
- One based on population growth lag, poverty, and the age of the housing stock (with poverty and housing factors getting heavier weight).

<sup>9</sup> HUD still manages this program directly in Hawaii, at state option.  
<sup>10</sup> U.S. Department of Housing and Urban Development, [www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm](http://www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm).

### Small City Eligibility

The state-administered CDBG program replaced an earlier small cities program administered directly by HUD.<sup>9</sup> States may distribute funds to any locality that is not considered an entitlement community.

### Individual Eligibility

In addition to the jurisdictional requirements to qualify for CDBG, specific programs within both the entitlement communities and state-administered programs must also meet certain eligibility requirements. Grantees must certify that at least 70 percent of the funds will benefit low- to moderate-income individuals.<sup>10</sup> A “low-income person” is defined as some-

one with an income up to 50 percent of the median area income, while a “moderate-income person” is defined as someone who makes no more than 80 percent of the median area income.<sup>11</sup>

Funds can also be used in emergency circumstances for urgent community development needs. An “urgent need” is defined as a serious and immediate threat to the health or welfare of the community that has arisen in the past 18 months.<sup>12</sup>

## CDBG Funding

### Federal Appropriations Trends

Federal appropriations for CDBG entitlement communities and small cities declined significantly between FY05 and FY06 – from \$4.1 billion to \$3.7 billion (a decrease of nearly 10%).

### CDBG Spending on Training and Education

In FY06, CDBG grantees spent about \$24.3 million on employment training. This is \$4.1 million (14.5%) less than in FY05. Grantees spent another \$375,000 on assistance to institutions of higher education.<sup>13</sup>

Employment training falls under the “public services” category of eligible activities. Localities are limited to spending 15 percent of CDBG funds on public services, although “bricks and mortar activities,” such as building a training facility, do not count against the cap. In addition, funds spent on aid to institutions of higher education and construction of new training facilities are not subject to the cap.

Community-based development organizations can receive loans to provide education and training without counting toward the cap, but the amount disbursed for this purpose is not known.

## Populations Served Through CDBG

CDBG is targeted to meet the needs of low- to moderate-income individuals. Because it is such a flexible grant, little information is available about the populations served.

## Population Receiving Training Through CDBG

According to HUD documents, 85,455 individuals received employment training through CDBG in FY04.<sup>14</sup> By comparison, under the Workforce Investment Act<sup>15</sup> (WIA), one of the federal government’s main job training programs, about 204,000 adults and dislocated workers who exited the program between April 1, 2004, and March 31, 2005, received training.<sup>16</sup>

## Institutions Typically Providing CDBG-Funded Services

CDBG funds are distributed to local jurisdictions, which can use them for community development activities. Jurisdictions can also grant or lend these funds to nonprofit organizations to carry out development activities.

Notably, certain nonprofit organizations—called “community-based development organizations (CBDOs)” —can use CDBG funds in ways that cities cannot. For example, CBDOs can use CDBG funds to construct new housing and support job-related services without the expenditures counting against the 15 percent cap. The activity, however, must be necessary for neighborhood revitalization, energy conservation, or community economic development.<sup>17</sup>

11 42 USC 5302.

12 U.S. Department of Housing and Urban Development, [www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm](http://www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm).

13 U.S. Department of Housing and Urban Development, *Use of CDBG Funds by All Grantees as of 9/30/06*, [www.hud.gov/offices/cpd/communitydevelopment/budget/disbursementreports/disbursements\\_all.xls](http://www.hud.gov/offices/cpd/communitydevelopment/budget/disbursementreports/disbursements_all.xls).

14 U.S. Department of Housing and Urban Development, *CDBG Grantee Reported Accomplishments Fiscal Year 2004*, [http://www.hud.gov/offices/cpd/communitydevelopment/library/accomplishments/CDBGAccomplishments1\\_National.xls](http://www.hud.gov/offices/cpd/communitydevelopment/library/accomplishments/CDBGAccomplishments1_National.xls).

15 Public Law 105-220.

16 U.S. Department of Labor data calculated from [www.fred-info.org](http://www.fred-info.org).

17 Gramlich, Ed, *CDBG: An Action Guide to the Community Development Block Grant Program* (Center for Community Change, Washington, 1998).

18 U.S. Department of Housing and Development, [www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm](http://www.hud.gov/offices/cpd/communitydevelopment/programs/entitlement/index.cfm).

## Relationship to Other Programs

CDBG does not work directly with other programs. Still, jurisdictions must show that they are using the funds as part of their larger community development goals under the Consolidated Plan.<sup>18</sup>

## Performance Accountability

CDBG does not have any statutorily mandated performance measures. Grantees are currently required to submit annual reports about how they used funds to meet program requirements, including the program's national objectives. These annual Grantee Performance Reports detail local CDBG spending, including how many individuals benefited from CDBG by race and income category.

Since 2003, CPD has been working with stakeholders—both inside and outside of government—for several formula grant programs under its jurisdiction, including CDBG, to develop outcome measures for evaluating performance more quantitatively. CPD has convened several meetings and issued a report by the National Academy of Public Administration, which included recommended performance measures for CDBG.<sup>19</sup>

In March 2006, HUD announced a set of performance measures developed through this process.<sup>20</sup> In the notice, HUD stated that grantees must include these outcome measurements in their FY07 plans and that data will be collected starting in the spring of 2006.

For each funded activity, grantees are to choose the objective that most closely resembles their project's objective from a list of three—suitable living environment, decent housing, and creating economic opportunities. They will also subsequently have to choose the most appropriate outcome category from a list of three—availability/accessibility, affordability, and sustainability.<sup>21</sup> HUD has created a standardized list of output indicators that grantees will report on, based on their objectives and outcomes.

<sup>19</sup> National Academy of Public Administration, *Developing Performance Measures for the Community Development Block Grant Program*. (Washington, 2005).

<sup>20</sup> 71 *Federal Register* 11470 (March 7, 2006).

<sup>21</sup> For more information: [www.hud.gov/offices/cpd/about/performance](http://www.hud.gov/offices/cpd/about/performance).

<sup>22</sup> U.S. Office of Management and Budget, *Program Assessment Rating Tool*, [www.whitehouse.gov/omb/expectmore/summary.10001161.2005.html](http://www.whitehouse.gov/omb/expectmore/summary.10001161.2005.html).

<sup>23</sup> Todd Richardson, *CDBG Formula Targeting to Community Development Need* (U.S. Department of Housing and Urban Development, Washington, 2005), pp. x-xi.

In addition, HUD is continuing to consult with its performance working group, grantees, and other interested parties to determine whether and how a set of particular community-level outcome measures can be established and uniformly applied.

## Policy Challenges Moving Forward

Several key policy challenges face the CDBG program:

**Challenge:** Maintain funding.

Not only has CDBG faced funding cuts in recent years but also population has shifted to suburban communities. As a result, the distribution of funds has also shifted. The 1974 law established the current 70-30 split, although a population shift has caused the number of communities eligible for entitlement funds to grow since then. This has resulted in the 70 percent funds being split among more recipients and the 30 percent funds being split among fewer. Cuts to CDBG, therefore, have an even greater effect on cities and urban counties that need it most.

**Challenge:** Continue progress in developing and implementing performance measures.

CDBG is often cited as one of the most reliable and useful tools that communities have for community development. The quantitative data available on the program, however, are not aggregated in a meaningful way, although HUD is taking steps to address this challenge.

Current federal efforts to tie funding to performance—such as OMB's Program Assessment Rating Tool (PART)—make the development of performance measures a pressing issue. PART analysis undertaken for the President's FY06 budget request listed CDBG as "ineffective," specifically citing concerns about a lack of outcome measures.<sup>22</sup>

**Challenge:** Improve targeting of resources to community need.

CDBG funds are currently split between entitlement communities and state pass-through to small cities; a formula determines how much funding each jurisdiction receives. A 2005 HUD study using 2000 Census data concluded that the current formula no longer targets funds to needy communities adequately or equitably.<sup>23</sup> In particular, the report noted that a number of

jurisdictions with similar need have received substantially different grants over time.

In addition, the amount of funds going to the neediest grantees on a per-capita basis has decreased, while the amount of funds going to the least needy grantees on a per-capita basis has increased. A subsequent report by the Government Accountability Office (GAO) supported HUD's findings.<sup>24</sup>

**Challenge:** Improve coordination with other federal programs that fund training and education.

Current law does not require CDBG-funded training to be coordinated with services provided under other federal programs, including WIA, the largest source of federal training dollars. It appears that some CDBG-WIA coordination is taking place for both adult<sup>25</sup> and youth services.<sup>26</sup>

In addition, the U.S. Department of Labor, which administers WIA, issued guidance during WIA implementation that cited CDBG as a resource worth exploring for youth programming.<sup>27</sup> Both WIA and CDBG policymakers and stakeholders could benefit from dissemination of information about how localities have successfully achieved CDBG-WIA coordination.

## Additional Reading

### The Law

U.S. Code Title 42 Chapter 69.  
[www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/laws/sec5301.cfm](http://www.hud.gov/offices/cpd/communitydevelopment/rulesandregs/laws/sec5301.cfm)

### Regulations

CFR 24 Part 570  
[www.access.gpo.gov/nara/cfr/waisidx\\_04/24cfr570\\_04.html](http://www.access.gpo.gov/nara/cfr/waisidx_04/24cfr570_04.html)

### Government Summaries and Analyses

Government Accountability Office, *Community Development Block Grant Formula: Targeting Assistance to High Needs Communities Could Be Enhanced* (Washington, 2005).

Government Accountability Office, *Community Development Block Grants: Program Offers Recipients Flexibility but Oversight can Be Improved* (Washington, 2006).

Richardson, Todd, *CDBG Formula Targeting to Community Development Need* (U.S. Department of Housing and Urban Development, Washington, 2005).

### Other Summaries and Analyses

Gramlich, Ed, *CDBG: An Action Guide to the Community Development Block Grant Program* (Center for Community Change, Washington, 1998).

National Academy of Public Administration, *Developing Performance Measures for the Community Development Block Grant Program* (Washington, 2005).

Walker, Chris, *et al.*, *The Impact of CDBG Spending on Urban Neighborhoods* (The Urban Institute, Washington, 2002).

<sup>24</sup> Government Accountability Office, *Community Development Block Grant Formula: Targeting Assistance to High Needs Communities Could Be Enhanced* (Washington, 2005).

<sup>25</sup> See, for example, information about Franklin County, Va., at [www.westernvaworkforce.com/news\\_archive.cfm#A1](http://www.westernvaworkforce.com/news_archive.cfm#A1).

<sup>26</sup> See, for example, information about Cambridge, Mass., at [www.cambridgema.gov/~CDD/cdbg/Iyrplan/fy05\\_1yrplan/cdbg\\_1yrplan\\_05\\_c.pdf](http://www.cambridgema.gov/~CDD/cdbg/Iyrplan/fy05_1yrplan/cdbg_1yrplan_05_c.pdf).

<sup>27</sup> U.S. Department of Labor, Training and Employment Guidance Letter 3-99, issued January 31, 2000.

Chapter 13

# Tax Credits and Deductions for Education and Training

**Potential as a source of workforce training:**

- Tax deductions, tax credits, and other tax preferences for individuals and businesses to help them meet the costs of higher education and training activities.
- Does not directly fund skills training; rather, provides indirect financial advantages that encourage participation in post-secondary education.

**Challenges to be addressed:**

- Target resources to assist low-income, under-skilled workers better.
- Ensure individuals maximize their benefits.
- Learn more about the effectiveness of tax preferences on influencing behavior.
- Combine or simplify the numerous post-secondary tax preferences.

credit or tuition deduction—a much larger number of Americans than the 5.1 million students who received financial aid through the Pell Grant program that year.<sup>1</sup> Estimates suggest that approximately 10 percent of all tax units (families and individuals) receive some benefits from education tax provisions.<sup>2</sup>

This chapter explores five provisions of the Internal Revenue Code that offer tax assistance to individuals and businesses incurring expenses for post-secondary education. They are the Hope Credit, the Lifetime Learning Credit, the Tuition and Fees Deduction, the Student Loan Interest Deduction, and Section 127 Employer-Provided Assistance.

## Hope and Lifetime Learning Tax Credits

**HOPE AND LIFETIME LEARNING TAX CREDITS AT-A-GLANCE**

**Statute:** Taxpayer Relief Act of 1997 (PL. 105-34).

**Administered by:** U.S. Department of the Treasury, Internal Revenue Service.

**Due for reauthorization:** Credits are permanent and do not require reauthorization.

**Type of program:** Tax preference.

**Federal funding:** \$3.7 billion in reduced tax expenditures for Hope Credits in 2006; \$2.3 billion in reduced tax expenditures for Lifetime Learning Credits in 2006.

**Average credit:** \$991 for Hope; \$477 for Lifetime Learning in 2002.

**Population served:** 7.2 million tax filers claimed either credit in 2004.

## Overview

In addition to funding for workforce development programs and grants, the federal government provides benefits through the United States Tax Code to taxpayers who incur expenses for higher education and some types of training. These indirect benefits—including tax deductions, tax credits and other tax preferences that reduce tax liability—are an often overlooked vehicle which, if properly targeted, could represent a key element of our nation’s workforce development system.

Tax preferences have become a popular approach of federal assistance in recent years. In the 2003-2004 school year, approximately 11.0 million tax filers claimed an education tax

1 The College Board, *Trends in Student Aid 2005* (New York, 2005), p. 10.  
 2 Urban Institute-Brookings Institution Tax Policy Center, *The Distributional Consequences of Federal Assistance for Higher Education: The Intersection of Tax and Spending Programs* (Washington, 2005), p. 8.

## Background

Congress adopted the Hope and the Lifetime Learning Tax Credits as part of the Taxpayer Relief Act of 1997, which was the main vehicle for the Clinton Administration's middle-class tax cut. The two provisions were included in the broader tax package to increase college affordability and encourage life-long learning among middle- and low-income families.

## Current Legislative Status

The tax credits are permanent and do not require reauthorization.

## Funding

The Hope Credit provides up to \$1,650<sup>3</sup> per eligible student to help offset the costs of the first two years of higher education by subtracting the tax credit amount from the actual income tax owed by a tax filer. Taxpayers are eligible to claim 100 percent of the first \$1,000 of qualified expenses and 50 percent of the second \$1,000 of expenses.

The Lifetime Learning Credit provides up to \$2,000 of credit per tax return for qualified expenses. Taxpayers are eligible to claim 20 percent of the first \$10,000 of eligible expenses.<sup>4</sup>

For both credits, qualified education expenses consist of tuition and fees, minus any grants (including Pell Grants), scholarships, and other tax-free assistance. In general, the costs of books, supplies, equipment, and room and board do not count as qualified expenses, although some exceptions exist for supply expenses paid directly to the institution as a condition of enrollment or attendance.

For tax year 2006, the President's FY 2007 budget estimated that the Hope Credit would cost the federal government approximately \$3.7 billion and Lifetime Learning Credit would cost \$2.3 billion in tax expenditures.<sup>5</sup> This amount is considered significantly lower than the amount that would be spent if all of those who were eligible for the credits had claimed them.

## Eligibility

The Hope Credit is available for students only in the first two years of college or other undergraduate post-secondary training, received at any college, university, vocational school, or other institution eligible to participate in student aid programs under the Higher Education Act (HEA).<sup>6</sup> Students must be pursuing a recognized credential, be enrolled at least half-time for one academic period during the year, and not have a felony drug conviction.

Taxpayers may claim the Hope Credit for their own tuition expenses or those of their spouse or dependents. The benefit is calculated on a per-eligible student basis so there is no limit to the number of students or total amount of the credits that may be claimed on one tax return.

Like the Hope Credit, the Lifetime Learning Credit may be claimed for a student's own eligible expenses or those of a spouse or dependents, but it is limited to \$2,000 per tax return (whereas the Hope has no per-return limit). Unlike Hope, however, no conditions limit the specific school years in which the credit may be claimed. The Lifetime Credit is also less restrictive in that it is available for any postsecondary education (including non-credit courses) that improves job skills. Similarly, students claiming the Lifetime Credit do not have to pursue a recognized credential and need only be enrolled in one course. In addition, the drug felony conviction bar does not apply.

Both credits are subject to income eligibility restrictions. The benefits are phased out for single filers with modified adjusted gross incomes (AGI) of \$45,000 to \$55,000 and for joint filers with modified AGI of \$90,000 to \$110,000 in 2006.<sup>7</sup> Neither married persons who file taxes separately nor certain nonresident aliens may claim benefits. In addition, both credits may not be claimed for the same student in the same year.

Finally, if the calculated credit is larger than the total annual tax owed by an individual or family (including if the filer has no tax liability after other deductions, credits, and adjustments are applied), the excess Hope or Lifetime Credit is not refundable.

<sup>3</sup> For 2006-2007 and indexed for inflation for future years.

<sup>4</sup> The Gulf Opportunity Zone Act of 2005 (Public Law 109-135) increased the Hope and Lifetime Learning tax credits for students attending colleges and graduate schools in Louisiana, Mississippi, and Alabama for tax years 2005 and 2006.

<sup>5</sup> Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2007* (Washington, 2006), p. 288.

<sup>6</sup> Public Law 105-224, as amended.

<sup>7</sup> Indexed for inflation in future years.

In other words, it cannot be claimed as a payment from the federal government. This has been identified as a key constraint preventing lower-income individuals who have relatively low tax liabilities from taking full advantage of these credits.

## Population Served Through Hope and Lifetime Learning Credits

In tax year 2004, 7.2 million filers claimed either a Hope or a Lifetime Learning Credit.<sup>8</sup> While this is a significant number of students, research has shown that many additional students are eligible yet unaware of these benefits. In 2001, only 21 percent of adults in the general population had heard of the credits and only one-third of adult students had used or planned to use the credits.<sup>9</sup> The U.S. Department of Education (DoEd) has estimated that approximately 13.1 million students would benefit each year if the program were fully implemented.<sup>10</sup>

Approximately half of tax filers claiming these credits in tax year 2004 (52% and 49%, respectively) had incomes under \$40,000. A sizable portion—between 35 and 39 percent—had annual incomes between \$40,000 and \$80,000.<sup>11</sup>

## Relationship to Other Programs

Other federal grants and tax provisions—such as Pell Grants, employer-provided educational assistance, and education deductions—must be subtracted from a student's tuition and fees before claiming the Hope or Lifetime Credits. The receipt of these credits may also affect a student's ability to claim other benefits. This is intended to prevent individuals from receiving a double benefit from the federal government.

8 Joint Committee on Taxation, *Present Law and Background Relating to Tax Exemptions and Incentives for Higher Education* (Washington, 2006), p. 21.

9 Victoria Choitz, Laura Dowd, and Bridget Terry Long, *Getting Serious About Lifelong Learning: Improving the Use and Value of the Hope and Lifetime Learning Tax Credits for Working Adult Students* (FutureWorks, Boston, Mass., 2004), p. 3.

10 U.S. Department of Education, *Hope Scholarship and Lifetime Learning Credits*, [www.ed.gov/offices/OPE/PPI/HOPE/index.html](http://www.ed.gov/offices/OPE/PPI/HOPE/index.html).

11 Government Accountability Office, *Postsecondary Education: Multiple Tax Preferences and Title IV Student Aid Programs Create a Complex Education Financing Environment* (Washington, 2006), p. 9.

12 "The Tax Relief and Health Care Act of 2006," Public Law 109-432.

## Tuition and Fees Tax Deduction

### Background

The Tuition and Fees Tax Deduction was part of the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA), an expansive piece of tax reform legislation that was a hallmark of the first term of the Bush Administration.

### Current Legislative Status

The Tuition and Fees Tax Deduction was extended in the final days of the 109th Congress.<sup>12</sup> The law renewed the credit until December 31, 2007.

#### TUITION AND FEES DEDUCTION AT-A-GLANCE

**Statute:** Economic Growth and Tax Relief Reconciliation Act of 2001 (PL 107-16), as amended.

**Administered by:** U.S. Department of the Treasury, Internal Revenue Service.

**Due for reauthorization:** Expires December 31, 2007.

**Type of program:** Tax preference.

**Federal funding:** \$1.8 billion in tax expenditures in 2006.

**Average deduction:** \$377 in 2002.

**Population served:** 3.4 million tax filers in tax year 2002.

### Funding

This benefit allows individuals to deduct up to \$4,000 of qualified education and training expenses to reduce their level of overall taxable income for tax years 2003 to 2007. Unlike most other tax deductions, this deduction is taken as an adjustment to income, so it may be claimed even if a taxpayer does not itemize deductions.

Qualified education expenses consist of tuition and fees related to enrollment or attendance at any college, university, vocational school, or other institution that is eligible to participate in a

student aid program under HEA. These expenses may also include the cost of books, supplies, and equipment—but only if they are paid directly to the institution as a condition of enrollment (which is rarely the case).

## Federal Funding

In tax year 2002, tax filers deducted \$1.3 billion of taxable income through this deduction. The average deduction lowered taxable income by \$377, and the median income of filers claiming the deduction was approximately \$54,326.<sup>13</sup> In 2006, the tuition and fees deduction is predicted to cost the federal government \$1.8 billion in tax expenditures.<sup>14</sup>

## Eligibility

The deduction of tuition and fees is available to a taxpayer on behalf of self, spouse, or dependent. Like the Lifetime Learning Credit (and unlike the Hope Credit), the benefit is available for any post-secondary education, including non-credit courses, used to improve job skills. Students do not have to pursue a recognized credential and need only be enrolled in one course. In addition, the student must have either a high school diploma or a GED.

The deduction is also subject to income eligibility restrictions. The benefit is phased out for single filers with modified AGI of \$65,000 to \$80,000 and joint filers with modified AGI of \$130,000 to \$160,000. The maximum deduction for claimants in these higher income categories is \$2,000. Benefits may not be claimed by married persons who file taxes separately, by some nonresident aliens, and by those who claim a Hope or Lifetime Credit for the same expenses.

## Population Served Through Tuition and Fees Deduction

In tax year 2002, 3.4 million tax filers deducted qualified education expenses.<sup>15</sup> In tax year 2004, approximately half (52%) of filers claiming the deduction had incomes under \$60,000. A quarter of the claimants had incomes over \$100,000.<sup>16</sup>

Those with incomes higher than \$60,000 made up 48 percent of claimants but received 64 percent of the benefits, and the 25 percent of filers with income over \$100,000 received 37 percent of the benefits.<sup>17</sup> Those on the upper end of the income scale, with higher tax rates, stand to generate greater tax savings through such deductions than do those on the lower end of the income spectrum.<sup>18</sup>

## Relationship to Other Programs

Filers who claim the Hope or Lifetime Learning Credits are not eligible to claim the tuition and fees deduction for the same expenses. As a result, filers must strategically decide which tax preference to choose because eligibility for these benefits often overlaps. Maximization of benefits for individual taxpayers may depend on their overall expenses, level of income, and individual tax situation.

## Student Loan Interest Deduction

### Background

Congress reinstated the deduction of interest paid on student loans in the Taxpayer Relief Act of 1997, after it had been eliminated in the Tax Reform Act of 1986. In 2001, additional changes extended the initial five-year limit of the benefit and increased the gross income phase-out ranges for the deduction. Now, tax filers may claim up to \$2,500 in student loan interest deductions from their tax liability each year. The changes made by EGTRRA expire, however, after December 31, 2010, unless extended.

<sup>13</sup> Government Accountability Office, *Student Aid and Postsecondary Tax Preferences: Limited Research Exists on Effectiveness of Tools to Assist Students and Families Through Title IV Student Aid and Tax Preferences* (Washington, 2005), p. 11.

<sup>14</sup> Office of Management and Budget (2006), p. 288.

<sup>15</sup> Government Accountability Office (2005), p. 11.

<sup>16</sup> Government Accountability Office (2006), p. 9.

<sup>17</sup> *Ibid.*

<sup>18</sup> Government Accountability Office (2005), p. 18.

## Current Legislative Status

Most of this deduction is permanent and not subject to reauthorization; however, the elimination of a 60-month limit on deductible interest and an increase in the income-levels at which the deduction phases out are subject to the sunset provisions of EGTRRA, which is set to expire in December 31, 2010.

### STUDENT LOAN INTEREST DEDUCTION AT-A-GLANCE

**Statute:** Taxpayer Relief Act of 1997, as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001 (PL 107-16).

**Administered by:** U.S. Department of the Treasury, Internal Revenue Service.

**Due for reauthorization:** Some provisions expire in 2010. The rest are permanent and do not require reauthorization.

**Type of program:** Tax preference.

**Federal funding:** \$800 million in tax expenditures in 2006.

**Average deduction:** \$134.

**Population served:** 6.6 million tax filers in tax year 2002.

## Funding

The Student Loan Interest Deduction allows individuals to deduct the interest they pay on private or government-backed loans for qualified post-secondary education and training expenses. Taxpayers are able to deduct up to \$2,500 in interest payments each year, reducing their overall income subject to taxation. Similar to the tuition and fees deduction, but unlike most other tax deductions, this deduction is taken as an adjustment to income—so it may be claimed even if a taxpayer does not itemize deductions.

Qualified education expenses for which a loan's interest may be deducted include tuition and fees, room and board (as charged

<sup>19</sup> *Ibid.*, p. 10.

<sup>20</sup> Office of Management and Budget (2006), p. 288.

<sup>21</sup> Joint Committee on Taxation (2006), p. 24.

<sup>22</sup> Government Accountability Office (2005), p. 10.

<sup>23</sup> Urban Institute-Brookings Institution Tax Policy Center (2005), p. vii.

or determined by the institution), books, supplies, equipment, and other necessary expenses, such as transportation.

## Federal Funding

In tax year 2002, taxpayers deducted \$892.6 million of student loan interest from their overall taxable incomes. The average deduction was \$134, and the median income of filers claiming the deduction was approximately \$43,500.<sup>19</sup> The President's FY07 budget estimated that the student loan interest deduction would cost the federal government \$800 million in tax expenditures in 2006.<sup>20</sup>

## Eligibility

The Student Loan Interest Deduction is available to a taxpayer on behalf of self, spouse, or dependent enrolled in any college, university, vocational school, or other institution that is eligible to participate in a student aid program under HEA. Students must have been enrolled at least half-time in a program that leads to a degree, certificate, or other recognized educational credential.

The deduction is also subject to income eligibility restrictions, which are indexed for inflation annually. For 2006, the benefits are phased out for single filers with modified AGI of \$50,000 to \$65,000 and joint filers with modified AGI of \$105,000 to \$135,000.<sup>21</sup> Married couples who file taxes separately may not claim the benefits. Filers who claim the deduction for a dependent must be legally obligated to make the interest payments on the student loan.

## Population Served Through Student Loan Interest Deductions

In tax year 2002, 6.6 million filers deducted student loan interest on their tax returns.<sup>22</sup> Estimates suggest that approximately 4 percent of all tax units claim the deduction, with those with annual incomes above \$50,000 receiving approximately 60 percent of the aggregate benefits. The highest rate of receipt for the interest deduction occurs for filers with incomes between \$75,000 and \$100,000. In this income category, almost 8 percent of tax units receive the benefit.<sup>23</sup>

# Tax-Free Employee Benefits for Tuition Assistance

## Background

First enacted in 1978 as a trial program, the tax-free status of employer-paid tuition under Section 127 of the tax code received 10 short-term extensions, leading to a 10-year extension passed in 2001 as part of EGTRRA. Changes were also made in 2001 to restore the benefit to graduate coursework, which had been omitted in 1996. That exclusion is subject to the general sunset provision of the 2001 law, so the exclusion will not be available after December 31, 2010.

## Current Legislative Status

The deduction is subject to the sunset provisions of EGTRRA and is set to expire December 31, 2010.

### SECTION 127, EMPLOYER TUITION ASSISTANCE AT-A-GLANCE

**Statute:** Revenue Act of 1978, as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001 (PL. 107-16).

**Administered by:** U.S. Department of the Treasury, Internal Revenue Service.

**Due for reauthorization:** Authorization expires December 31, 2010.

**Type of program:** Tax preference.

**Federal funding:** \$590 million in tax expenditures in 2006.

**Population served:** 25 percent of undergraduate employees and 13 percent of graduate students.

## Funding

The employer tuition assistance benefit enables employers to provide up to \$5,250 annually in tax-free educational assistance to employees for graduate- or undergraduate-level courses, regardless of whether they are job-related. Public or private employers may provide reimbursement for tuition, fees, books, supplies, and equipment.

This assistance is excluded from an employee's gross income for tax purposes and from wages for employment tax purposes (e.g., FICA, Medicare). Typically, the tuition benefit is paid as a reimbursement to employees after they have successfully completed a qualifying course of study, with the expectation that they pay out-of-pocket to enroll in the course. Employers who offer assistance under Section 127 do not have to pay the employer's share of employment taxes on the value of the tuition benefit.

The Office of Management and Budget (OMB) estimates that employer-provided tuition assistance cost the federal government \$590 million in tax expenditures in 2006.<sup>24</sup> The financial impact of the tax preference is estimated at \$7.8 billion over 10 years.<sup>25</sup> The National Postsecondary Student Aid Survey (NPSAS) found that the average amount of financial aid awarded by an employer was \$932 for employees pursuing undergraduate studies and \$2,451 for employees pursuing graduate studies.<sup>26</sup>

## Eligibility

Because benefits offered to employees under Section 127 are structured by individual employers, they may require a minimum grade point average or other criteria before reimbursing employees for their education expenses.

For the exclusion to apply, the educational assistance must be provided through a separate written plan of the employer. Statute dictates that employer educational assistance programs must not discriminate in favor of highly compensated employees and that no more than 5 percent of the amounts paid or incurred by the employer can be provided for more than 5 percent of the company's owners.<sup>27</sup>

<sup>24</sup> Office of Management and Budget (2006), p. 288.

<sup>25</sup> Joint Committee on Taxation, *Estimated Budget Effects of the Conference Agreement for H.R. 1836* (Washington, 2001), p. 2.

<sup>26</sup> *Ibid.*

<sup>27</sup> Joint Committee on Taxation, *Present Law and Analysis Relating to Tax Benefits for Higher Education* (Washington, 2004), p. 14.

## Population Served Through Tuition Assistance

Data on the overall percentage of employees who receive Section 127 employer tuition assistance are not available. Research from the mid-1990s, however, indicated that 25 percent of undergraduate employees (employed undergraduates who considered themselves primarily employees rather than students) and 13 percent of graduate and other professional students received some form of employer financial aid.<sup>28</sup>

For those reimbursed by employers for undergraduate studies, the typical beneficiary was a full-time employee who was independent, married, older, and of a higher income. In addition, they were more likely to have been reimbursed for study at private, not-for-profit institutions and four-year universities, as opposed to other types of institutions.<sup>29</sup>

## Relationship to Other Programs

Individuals may not use any of the tax-free education expenses paid for by their employer as the basis for any other tax deduction or credit, including the Hope Credit or the Lifetime Learning Credit.

## Policy Challenges Moving Forward

While using the tax code for policymaking purposes is not new, the existence of numerous post-secondary tax preferences is a relatively recent occurrence. Several key challenges face policymakers as they consider ways to reform and tailor tax incentives to meet the needs of students and their families.

A primary concern across all of these provisions is whether they are being targeted to workers who need them the most and whether the relative per-person savings offered under such programs are of enough value to encourage workers who

otherwise would not enroll in training to do so. For tax initiatives to increase the overall skill level of the American workforce, some attention must be paid to which tax provisions actually add to the number of workers enrolled in education and training, versus using the tax code to pay workers or employers for training that would likely happen even without such incentives.

Specific issues include:

**Challenge:** Target resources to assist low-income, under-skilled workers better.

Unlike other higher education programs, such as Pell Grants, tax preferences generally have a wider range of eligible participants, including those at middle- and upper-income levels. As the Urban Institute-Brookings Institution Tax Policy Center has reported, “[T]ax provisions provide little benefit to households at the lower end of the income distribution and are substantially less progressive than the Pell Grant, which is targeted at low- and moderate-income students.”<sup>30</sup>

This is, in part, because dependent students and the families who are eligible for tax preferences generally have higher incomes and savings than independent students who are supporting themselves. In addition, tax preferences, such as the Hope and Lifetime Learning Credits, require that tax filers have a positive tax liability to use them.

Furthermore, evidence shows that employer-based tax benefits are more likely to flow to higher-paid adults. For example, 11 percent of those with personal earnings of \$20,000 or less who enrolled in credential programs had their employers pay at least part of their education expenses, while 56 percent of those earning between \$35,001 and \$50,000 received support.<sup>31</sup>

For tax initiatives to leverage benefits for lower-income workers, policy attention must be paid both to the potential refundability of tax credits—so workers with low tax liabilities can still benefit from a full Hope or Lifetime tax credit—and to the means for a more progressive approach to income deductibility.

**Challenge:** Ensure individuals maximize their benefits.

The amount of an individual’s tax benefit often relies on the taxpayer’s own knowledge of the tax code and the assistance of a paid tax preparer. Individuals must be able to identify the applicable tax preferences, understand how they relate to the taxpayer’s own situation (or a client’s situation), and understand

28 National Center for Education Statistics, *Employer Aid for Postsecondary Education* (Washington, 1999), p. vi.

29 *Ibid.*, p. 25.

30 Urban Institute-Brookings Institution Tax Policy Center (2005), p. 9.

31 *Ibid.*

how they interact with one another to minimize or maximize benefits. This is not always easy. In fact, tax policy analysts consistently identify post-secondary tax preferences as requiring substantial knowledge and skill on the part of students and families.<sup>32</sup> The complexity of and interplay among the various post-secondary tax preferences often make it difficult to assess which combination of credits and deductions will yield the greatest benefit for a particular individual.

Not surprisingly, a Government Accountability Office (GAO) report on student aid and post-secondary tax preferences found that many tax filers do not maximize their benefits when claiming these preferences. In one examination of tax records from 2002, GAO found that more than one-quarter (27%) of filers failed to claim a post-secondary tax preference for which they were eligible. Moreover, of those who claimed a higher education tax credit or tuition deduction, nearly one-third (30%) made decisions that yielded a smaller reduction than they could have otherwise realized.<sup>33</sup>

**Challenge:** Learn more about the effectiveness of tax preferences on influencing behavior.

As GAO has documented, little is known about how much education-related tax preferences promote educational attendance, choice, and persistence. Limited data exist on the effectiveness of these incentives in changing students' decisions about post-secondary education. Policymakers need more research to make informed decisions about how to build on successful programs and reform less effective ones.

**Challenge:** Combine or simplify the numerous post-secondary tax preferences.

Given the significant overlap among existing tax credits and deductions and the fact that many tax filers inadvertently make less-than-ideal decisions on which ones to claim, some policymakers have called for combining these benefits into one overall tax credit or deduction that would encompass all higher education expenses. Current tax preferences have different eligibility criteria, different definitions of "qualified expenses," different benefit levels, and different income phase-outs. These variances are not only cumbersome to track but also can lead to taxpayer frustration and errors.

## TWA Recommends

The Workforce Alliance has developed a number of specific policy recommendations to address these issues, including:

- Increase the benefit and use of education tax credits for low-income working adults.

The list of eligible education expenses for the Lifetime Learning Credit should be expanded to include not just tuition and fees but also books, supplies and equipment, child care, and living expenses, which students accrue when they pursue post-secondary education. In addition, the percentage of educational expenses that can be counted toward the credit should be increased from 20 percent to 50 percent to allow adult students who attend part-time or less-than-half-time to receive a larger benefit. Finally, all education credits should be refundable to provide the largest benefit to low-income individuals.

- Conduct a public awareness campaign to promote use of education tax preferences.

Many tax filers are not aware that they are eligible for education tax preferences. As a result, they forfeit hundreds of dollars in benefits to which they otherwise would be entitled. The U.S. Departments of Education and the Treasury should make a concerted effort to educate Americans about their eligibility for benefits by conducting a public awareness campaign that demonstrates the resources available to help fund education expenses.

Recent initiatives by a variety of institutions (including community-based organizations and employers) to help more low-income individuals take advantage of the Earned Income Tax Credit could serve as a model for similar outreach and assistance in using education-related tax credits and deductions.

- Create a revolving subsidized loan fund to help low-income employees cover up-front costs associated with employer tuition reimbursement benefits.

<sup>32</sup> Government Accountability Office (2005), p. 20.

<sup>33</sup> *Ibid.*, p. 22.

Many employers who offer tuition assistance to their employees require employees to pay for their expenses up front and then be reimbursed after completing the course. As a result, individuals with modest means may find it difficult to take advantage of this employer benefit.

A federally subsidized revolving loan fund that provides up-front tuition assistance to employees who earn less than 250 percent of the federal poverty line—and whose company provides tuition reimbursement—would enable more low-income adults to use the Section 127 benefit. That would leverage additional private sector resources to invest in the education of America's workers.

## Additional Reading

### The Law

Taxpayer Relief Act of 1997

[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=I05\\_cong\\_public\\_laws&docid=f:publ34.I05.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=I05_cong_public_laws&docid=f:publ34.I05.pdf)

Economic Growth and Tax Relief Reconciliation Act of 2001

[http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=I07\\_cong\\_public\\_laws&docid=f:publ016.I07.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=I07_cong_public_laws&docid=f:publ016.I07.pdf)

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Government Accountability Office, *Postsecondary Education: Multiple Tax Preferences and Title IV Student Aid Programs Create a Complex Education Financing Environment* (Washington, 2006).

Government Accountability Office, *Student Aid and Postsecondary Tax Preferences: Limited Research Exists on Effectiveness of Tools to Assist Students and Families through Title IV Student Aid and Tax Preferences* (Washington, 2005).

Government Accountability Office, *Student Aid and Tax Benefits: Better Research and Guidance Will Facilitate Comparison of Effectiveness and Student Use* (Washington, 2002).

Joint Committee on Taxation, *Present Law and Background Relating to Tax Exemptions and Incentives for Higher Education* (Washington, 2006).

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Batchelder, Lily L., Fred T. Goldberg, Jr., and Peter R. Orszag, *Reforming Tax Incentives into Uniform Refundable Credits* (The Brookings Institution, Washington, 2006).

Burman, Leonard E., Elaine Maag, Peter Orszag, Jeffrey Rohaly, and John O'Hare, *The Distributional Consequences of Federal Assistance for Higher Education: The Intersection of Tax and Spending Programs* (Urban Institute-Brookings Institution Tax Policy Center, Washington, 2005).

Choitz, Victoria, Laura Dowd, and Bridget Terry Long, *Getting Serious About Lifelong Learning: Improving the Use and Value of the Hope and Lifetime Learning Tax Credits for Working Adult Students* (FutureWorks, Boston, Mass., 2004).



# Appendix A

## Key Workforce Development Acronyms

ABAWD	Able-Bodied Adult Without Dependents	JTPA	Job Training Partnership Act
ACF	Administration for Children and Families	LLC	Lifetime Learning Credit
AEFLA	Adult Education and Family Literacy Act	MOE	Maintenance of Effort
AFDC	Aid to Families with Dependent Children	MOU	Memorandum of Understanding
AGI	Adjusted Gross Income	NAFTA	North American Free Trade Agreement
CBO	Community-Based Organization	NEG	National Emergency Grant
CDBG	Community Development Block Grant	OMB	U.S. Office of Management and Budget
COA	Cost of Attendance	OPE	Office of Postsecondary Education (DoEd)
CPD	Community Planning and Development Division (HUD)	OSERS	Office of Special Education and Rehabilitative Services (DoEd)
CPI	Consumer Price Index	OVAE	Office of Vocational and Adult Education (DoEd)
CSBG	Community Services Block Grant	PART	Program Assessment Rating Tool
DoEd	U.S. Department of Education	PRA	Personal Re-employment Account
DOL	U.S. Department of Labor	PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act
DRA	Deficit Reduction Act of 2005	PY	Program Year
DTAA	Division of Trade Adjustment Assistance (DOL)	RSA	Rehabilitation Services Administration (DoEd)
EFC	Expected Family Contribution	SSBG	Social Services Block Grant
ES	Employment Service (DOL)	TAA	Trade Adjustment Assistance
ETA	Employment and Training Administration (DOL)	TANF	Temporary Assistance for Needy Families
ETP	Eligible Training Provider	TEGL	Training and Employment Guidance Letter
FNS	Food and Nutrition Service (USDA)	TRA	Trade Readjustment Allowance
FRED	Federal Research and Evaluation Databases	TWWIIA	Ticket to Work and Work Incentives Improvement Act
FSET	Food Stamp Employment and Training	UI	Unemployment Insurance
FY	Fiscal Year	USDA	U.S. Department of Agriculture
GAO	Government Accountability Office	VR	Vocational Rehabilitation
GED	General Equivalency Diploma	WIA	Workforce Investment Act
HC	Hope Credit	WIB	Workforce Investment Board
HCTC	Health Care Tax Credit		
HEA	Higher Education Act		
HHS	U.S. Department of Health and Human Services		
HUD	U.S. Department of Housing and Urban Development		
IRS	Internal Revenue Service		
ITA	Individual Training Account		



# Appendix B

## Glossary of Key Workforce Development Terms

<b>Aid to Families with Dependent Children (AFDC)</b>	The former federal welfare entitlement program. It was repealed and replaced with a block grant to states (the TANF program) in 1996.
<b>Block grant</b>	A consolidated grant of federal funds, formerly allocated for specific programs, that a state or local government may use at its discretion to support social welfare programs.
<b>Caseload reduction credit</b>	A credit granted to qualifying states by the HHS that reduces the work participation rate that the state must meet for a fiscal year in its TANF program. Effective October 2006, the credit is based on reductions in a state's TANF caseload, relative to FY05 (previously, the base year had been FY95).
<b>Common measures</b>	A policy to standardize outcome measures across multiple federal job training and education programs. The three common measures are now being used by DOL are entered employment, employment retention, and average earnings.
<b>Community-based organization (CBO)</b>	Private nonprofit, faith-based, or tribal organization that works within a community to improve some aspect of it.
<b>Core services</b>	Services under WIA that are available to all job seekers. They include self-service access to job listings, information about careers and the local labor market, and limited staff assistance with job search activities.
<b>Credential</b>	A certificate or diploma that certifies that a student has met the training requirements of a particular career, job, or skill.
<b>Customized training</b>	Training that is designed to meet the needs of a specific employer or group of employers.
<b>Dislocated workers</b>	Workers served under WIA who have been laid off or have received notice of termination from employment, who are eligible for or have exhausted unemployment compensation, who are self-employed but unemployed as a result of general economic conditions, or who are displaced homemakers.
<b>Eligible training providers (ETP)</b>	Organizations or institutions that provide training services to WIA participants. They must be post-secondary institutions eligible to receive funding under Title IV of the Higher Education Act, institutions that provide a program leading to an associate degree, baccalaureate degree, or certificate, entities that carry out programs under the National Apprenticeship Act, or another public or private provider of a program of training services, as defined by criteria set by each state.
<b>Employment Service (ES)</b>	A nationwide system of public employment offices established by the Wagner-Peyser Act of 1933 as part of the New Deal. The Workforce Investment Act (WIA) integrated Wagner-Peyser Act services into the one-stop system in the late 1990s.
<b>Expected family contribution (EFC)</b>	The amount of money that a family is expected to be able to “reasonably” contribute to a student’s education under the Pell Grant program. The figure is calculated based on a family’s income and the number of students in the family receiving post-secondary education.
<b>Federal Poverty Guideline</b>	Revised each year by HHS, the Federal Poverty Guideline is used for administrative purposes, such as determining financial eligibility for certain federal programs, with the guideline varying by family size.

<b>Fiscal year</b>	The yearly accounting period. For the federal government the period runs from October 1 to September 30.
<b>General Equivalency Diploma (GED)</b>	A nationally recognized high school equivalency certificate program administered by the Educational Testing Service.
<b>Health care tax credit (HCTC)</b>	A tax credit available to participants in the Trade Adjustment Assistance program who are eligible for income support under the program. HCTC pays up to 65 percent of their monthly health insurance premium.
<b>Individual training account (ITA)</b>	A voucher for attaining training services from an eligible provider under WIA.
<b>Intensive services</b>	WIA services available to individuals who have not obtained employment through core services. Intensive services include life-skills workshops, case management, and comprehensive assessments that lead to the development of an individual employment plan.
<b>Job-readiness training</b>	Training that is provided to help clients get and keep jobs. Services include developing job-getting skills (such as interviewing, grooming, and resume writing) and job-keeping skills (such as attendance, punctuality, and “people skills”).
<b>Local workforce investment area</b>	The administrative region for a workforce investment board under WIA, it is designated by the governor or requested by local officials.
<b>Maintenance of effort (MOE)</b>	A minimum amount that a state must spend to be eligible to receive federal funds for certain programs.
<b>Mandatory partner</b>	A program under a federal agency that is required to make core services available to participants in the one-stop system, use a portion of its funds to support the one-stop system, enter into a Memoranda of Understanding with local WIBs for these activities, and provide representation on local WIBs. Current mandatory partners are Titles I and II of WIA, Wagner-Peyser, Vocational Rehabilitation, the Older American Community Service Employment Program, post-secondary vocational education activities under Perkins, Trade Adjustment Assistance, veteran employment and training programs, CSBG, HUD training programs, and programs under state unemployment compensation laws.
<b>Memorandum of understanding (MOU)</b>	An agreement describing the terms of cooperation between two agencies or programs.
<b>Merit staff</b>	Unionized staff administering Wagner-Peyser services, whose salary and promotion status are determined by a set merit schedule.
<b>National Emergency Grants (NEG)</b>	Grants funded under WIA and provided by the federal government to states that apply for supplemental dislocated worker funds to respond to the needs of dislocated workers and their community in areas affected by major economic dislocations and other dislocation events that cannot be met with formula allotments.
<b>Non-assistance</b>	TANF funds used for purposes other than direct cash or in-kind assistance to families.
<b>One-stop center</b>	A single site, required under WIA, where job seekers and employers have ready access to a range of workforce development resources available in a local area.
<b>On-the-job training</b>	A type of vocational training in which the trainee learns skills at the work site while earning a wage. Employers are often offered some reimbursement for this type of training.
<b>Post-secondary educational institution</b>	A two- or four-year school that provides formal instructional programs with a curriculum designed for students who have completed the required training for a high school diploma or GED.
<b>Program year (PY)</b>	For many DOL programs, the period of administration and funding lasting from July 1 to June 30.

<b>Qualified work activities</b>	Twelve activities that count toward a state's work participation rate under TANF: unsubsidized employment; subsidized private sector employment; subsidized public sector employment; work experience if sufficient private sector employment is not available; on-the-job training; job search and job readiness assistance (for up to six weeks, or 12 weeks in a state where the unemployment rate is at least 50 percent greater than the national unemployment rate); community service programs; vocational educational training (for up to 12 months); job skills training directly related to employment; education directly related to employment for recipients who have not received a high school diploma or GED; satisfactory attendance at secondary school or in a course of study leading to a GED for recipients who have not completed secondary school or received a GED; and the provision of child care services to individuals participating in a community service program.
<b>Rapid response funds</b>	The governor can set aside up to 25 percent of WIA dislocated worker funds to assist workers who are facing job loss due to a permanent closure or mass layoff or a natural or other major disaster that results in job dislocation.
<b>Sectoral initiatives</b>	Sectoral initiatives are targeted to a specific industry and regional industry context; provide training strategies that benefit low-income individuals; and promote systemic change to benefit employers, low-wage workers, and job-seekers.
<b>State Basic Grants</b>	Grants that provide resources to secondary and postsecondary institutions under the Perkins Act.
<b>State Rehabilitation Council</b>	A board that provides oversight and advice on the operations of rehabilitation services agencies in collaboration with the state WIB. Each state is required to have one council but may also have a separate council advising on services provided to the blind.
<b>Subsidized employment</b>	Employment for which the government reimburses an employer for employing and/or training the employed individual. It is also known as transitional employment.
<b>Supported employment</b>	Competitive work in integrated work settings for those who could not achieve competitive employment due to a severe disability and who need ongoing support services to complete that work.
<b>Supportive services</b>	Assistance provided by an agency to help participants in training programs overcome barriers to employment. Common examples include childcare and transportation vouchers.
<b>Tech Prep</b>	A combined secondary and post-secondary program that leads to a specific postsecondary educational outcome and provides vocational/technical training in one or more occupational fields.
<b>Trade Readjustment Allowance (TRA)</b>	Income support available to Trade Adjustment Assistance program participants while they are enrolled in approved training, generally for up to 78 weeks.
<b>Training and Employment Guidance Letter (TEGL)</b>	An advisory letter issued by DOL to the states with interpretations, regulations, and definitions of federal statutes.
<b>Training services</b>	WIA services that are available to individuals who have not obtained or maintained viable employment through core and intensive services. Services include employer-linked programs and classroom-based skills training that lead to a specific occupation.
<b>Unemployment Insurance (UI)</b>	A federal program that provides eligible unemployed persons with cash benefits for a specified period of time. Funds are derived from payments to the government from employees and employers, plus a government contribution.
<b>"Work first"</b>	A philosophy and concept used under TANF and WIA that assumes that the best way for individuals to succeed in the labor market is to join it first and that new workers develop work skills and essential experience on the job.

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<b>Workforce development</b>	A term used to describe various efforts to improve the academic and occupational skills of all citizens.
<b>Workforce Investment Board (WIB)</b>	The administrative body for WIA programs, existing at both the local and state levels. WIBs must have representatives from business and labor, as well as from other community groups at the local level. The boards provide planning and oversight of the WIA system.

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