# TANF Policies in Nine States: Implications for Microenterprise Initiatives

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## Introduction

When the 1996 welfare law was passed, there was much uncertainty concerning how implementation of state Temporary Assistance for Needy Families (TANF) Programs would affect efforts to provide training and support for microenterprise initiatives for low income families. In some respects, the 1996 law made it easier for states to provide microenterprise training and support, because the law allowed broad state discretion in many key areas affecting microenterprise programs. At the same time, the law's emphases on time limits, caseload reduction, and on discouraging longer-term education and training were recognized as factors that might result in a less supportive climate for microenterprise initiatives.

To learn about the experience of and lessons from programs providing microenterprise training and support under TANF, the Charles Stewart Mott Foundation initiated the "Microenterprise Development Initiatives for Welfare to Work" demonstration. The three-year demonstration involves eleven state and local grantees in nine states, and seeks to draw from the experiences of these grantees to better understand the issues facing microenterprise programs in the TANF framework. The Aspen Institute is conducting a Learning Evaluation of the demonstration, with support from the Center for Law and Social Policy. In connection with the learning evaluation, CLASP has prepared this description of the policy environments in which the grantees' programs are operating. This report describes relevant state (and, in some states, county) rules concerning key aspects of TANF cash assistance programs and eligibility for subsidized child care and Medicaid. The nine states are California, Colorado, Illinois, Iowa, Massachusetts, Michigan, Minnesota, New York, and Oregon. Each state's policies are described in detail in an individual case study. This overview compares the states' policy decisions in key areas likely to affect microenterprise initiatives serving TANF families.

The sources of the policy information in the case studies are data collected by the State Policy Documentation Project, CLASP's joint project with the Center on Budget and Policy Priorities, and state statutes, regulations, and caseworker manuals. Drafts of the case studies were sent to staff at each state and county TANF agency for confirmation and to allow opportunity for additional comments.[1]

The information in this overview and in the case studies reflects the formal policies of states, i.e., the

[1] All states except Massachusetts responded.

policies as written. As a result, readers should keep in mind several significant limitations in seeking to draw conclusions about local experiences by looking at formal policies.

C First, in many states, local social services offices and individual caseworkers have broad discretion to interpret and implement formal policy, and the description of the policy does not convey the extent of local variation in implementation.

C Second, in several states there are areas where formal policy remains unclear, and the case studies do not describe the practice that is in place in the absence of clear policy guidance.

C Third, many states have emphasized a "work first" philosophy in designing their TANF-funded programs, i.e., an emphasis on rapid linkage to available jobs, and restrictions on access to longer-term education and training. Apart from any specific rules, the work first philosophy may result in strong messages to workers and clients, and translate into signals sent by local welfare offices that may have a major impact apart from any specific rules.

C Fourth, the strong economy in recent years has meant relatively plentiful job opportunities in many areas. When job opportunities are extensive, the willingness of local agencies to encourage participation in training programs (or any activities that delay immediate linkage to the workforce) may be less. At the same time, programs often report that in a strong economy, individuals are often more interested in immediate employment than in participating in work preparation activities.

C Fifth, the large caseload declines under TANF have had significant, though mixed, effect in shaping state climates. On the one hand, lower caseloads have meant a potential opportunity to expand services per client, and have generally meant reduced federal "participation rates," which allow states more discretion in deciding when to engage families in activities and which activities to use in their programs. At the same time, many programs and administrators report that the caseload decline has meant that the families still receiving assistance are more likely to have more serious employment barriers, with less education and work history, and in some instances, are less able to participate in microenterprise initiatives.

C Finally, a recurrent theme in discussions among programs is that history of state and local support for microenterprise as an option for AFDC/TANF clients, as well as relationships with local welfare administrators, are critical factors affecting current efforts to serve TANF clients and in some instances may be more important than formal policies.

In short, there are many factors other than formal rules that affect how policy is implemented and that

can have a significant effect on access to microenterprise training and support. Having noted all these qualifications, local discretion is not unlimited and formal policies still matter. Thus, our focus in this document is to describe how the formal policies in states support or present barriers for microenterprise initiatives.

## Key State Policy Decisions

In considering state policies, it is helpful to keep in mind a distinction between two stages of microenterprise development: First, a family may need access to microenterprise training and may need support (i.e., income support, child care, health care) during the period of participation in microenterprise training and business development. Second, once a microentrepreneur begins to operate a business, the family may need support (i.e., income support, child care, health care, continued access to counseling and training) for some period of time. State policies could be supportive or provide barriers in either or both of these two stages.

The following pages summarize the relevant TANF law and compare the nine states' policies in six areas that are relevant to support of microenterprise efforts:

- **Use of TANF and state maintenance of effort (MOE) funds:**[2] To what extent has the state earmarked or expressly identified some portion of TANF or TANF-related funds for microenterprise activities?

- **TANF work and participation requirements:** To what extent does the state count participation in microenterprise training or operation toward the state's work or participation requirements?

- **TANF time limits:** Does the state have a time limit, and if so, how is participation in microenterprise training or operation counted for purposes of the state's time limit?

- **Treatment of income**: When a family member is operating a microenterprise, how are the revenues and costs of the enterprise treated for purposes of determining TANF eligibility and assistance levels?

- **Treatment of resources**: When a family member is operating a microenterprise, how are the

[2] In order to receive its full federal TANF grant, a state must meet a maintenance of effort (MOE) obligation. A broad range of spending for needy families, in and outside the TANF cash assistance program, can count toward MOE. The MOE obligation is based on state expenditures for AFDC and a set of related programs in FY 1994. It is set at 80% of those expenditures, and is reduced to 75% if the state meets federal participation rates.

resources (or assets) of the enterprise treated for purposes of determining TANF eligibility and assistance levels? Has the state adopted policies to support asset formation?

- **Supportive services (child care, health insurance and other services):** To what extent are child care assistance, health care assistance and other supportive services available to TANF recipients participating in microenterprise training and those who are operating a microenterprise?

### A. TANF Spending in Support of Microenterprise

A state may spend federal TANF funds to provide microenterprise training and support for members of needy families with children, whether or not those families are receiving cash assistance. The determination that a parent is needy must be based on income guidelines, but it is up to the state to determine the maximum level for income eligibility. A state may establish different income limits for different benefits and services and could, for example, set a higher income limit for a family to be considered needy than the income limit for its cash assistance program.

A state may also use its maintenance of effort (MOE) funds for microenterprise training. The state may meet its MOE obligation with spending in the TANF program or in separate state programs. A state could use part of its MOE funds to design a non-welfare program offering microenterprise training to needy families.[3]

One of the nine states studied–Iowa–has earmarked TANF and MOE funds for entrepreneurial training for cash assistance recipients. While the other eight states have not specifically earmarked TANF or MOE funds for microenterprise training or to support microenterprise initiatives, there may be funds set aside for individual microenterprise contracts and projects at the local level. In 1999, the California legislature passed a law that would have designated TANF funds for grants to support local microenterprise providers serving cash assistance recipients and families with incomes below 200% of poverty. The bill was vetoed by the Governor.

### B. TANF Work Activities and Participation Requirements

Families receiving TANF assistance are subject to a set of federal work and participation requirements,

[3]For a discussion of the rules for spending TANF and MOE funds and the implications of the TANF definition of "assistance," see *Developing Policies to Support Microenterprise in the TANF Structure: A Guide to the Law* by Mark Greenberg, May 1999.

some of which could make it more difficult for a state to provide microenterprise training. However, it is generally possible for a state to provide access to microenterprise training for at least some families in its TANF cash assistance program without jeopardizing its ability to meet the requirements. A state faces two principal work-related requirements: the TANF 24-month work requirement, and federal "participation rates." Each presents distinct issues.

The 24-month work requirement mandates that states require a parent or caretaker receiving assistance to be "engaged in work," as defined by the state, after not more than 24 months of assistance. A state has very broad discretion in establishing its definition of "engaged in work" for purposes of the 24-month requirement and can choose to allow participation in education and training, including microenterprise training, and self-employment to satisfy the requirement.

Six of the nine states have work requirements shorter than the federal 24-month requirement (see Figure 1). Iowa requires non-exempt participants to enter into a Family Investment Agreement, which includes participation requirements, immediately. The cash assistance programs in Massachusetts, Michigan and Oregon are also designed to require work participation immediately upon receipt of assistance. Minnesota requires participation within six months, and California requires families that began receiving assistance after the implementation of TANF to work or participate in community service within 18 months.

| Figure 1: How States Address the Federal 24-Month Work Requirement | | |
|---|---|---|
| **State** | **How soon must recipients "engage in work"?** | **How does the state define "engage in work"?** |
| California | 18 or 24 months[4] | Unsubsidized employment or community service employment |
| Colorado | 24 months | Any work activity authorized by the state or determined by the county to lead to self-sufficiency |
| Illinois | 24 months | Any allowable work activity. If youngest child is age 13 or older, caretaker much participate in unsubsidized employment or pay-after-performance work experience. |
| Iowa | Immediately | Participation in a Family Investment Agreement, including employment, education, training, and activities to overcome barriers to employment |
| Massachusett s | Immediately | Any activity countable toward federal work participation rates |
| Michigan | Immediately | Work, job search, or another employment-related activity |
| Minnesota | 6 months | Any allowable work activity |
| New York | 24 months | Unsubsidized employment, subsidized employment, work experience, on-the-job training, job search/job readiness, community service, or vocational educational training |
| Oregon | Immediately | Any allowable work activity |

In seven of the nine states studied, participation in microenterprise training could potentially meet the definition of "engaged in work" for purposes of the 24- month (or shorter) work requirement. Whether microenterprise training is an allowable activity for an individual is subject to county and/or caseworker discretion in all seven states. In the other two states–California and Michigan–the definition of "engaged in work" is too narrow to include microenterprise training, although a recent policy change in Michigan may make it allowable in some cases. In Illinois, microenterprise training can only fulfill the

[4] 18 months for families that began receiving assistance after the implementation of CalWORKs; 24 months for those that received assistance prior to implementation

requirement for parents with a child under age 13.

In all nine states, operating a microenterprise, or self-employment, could potentially fulfill the definition of "engaged in work." In several states, self-employed parents must have net income from self-employment equal to or greater than the minimum wage in order for an hour of self-employment to fulfill the work requirement, and some states impose a minimum number of weekly hours for which a parent must achieve net income from self-employment at or above minimum wage (see Figure 2).

In contrast with the 24-month requirements, the TANF participation rate requirements are more likely to pose significant issues for microenterprise training efforts. In order to avoid the risk of federal penalties, states must meet an overall participation rate and a two-parent participation rate. Federal law provides considerable detail as to how the numerator and denominator of each rate is calculated, and the law specifies both the number of hours required to be a countable participant and the permissible activities that can count toward participation. Many activities that were countable toward participation rates in the AFDC program are not countable toward TANF participation rates or are only countable to a limited extent.

In most cases, participation in microenterprise training can count toward participation rates only for a limited period of time. States can choose to count such training as "vocational educational training," but vocational educational training is countable only for up to 12 months per individual and subject to an overall cap on the share of individuals counting toward participation rates (i.e., no more than 30% of individuals counting toward participation rates may do so through participation in vocational educational training, and starting in FY 2000, no more than 30% can count either through participation in vocational educational training or by being a teen parent engaged in school completion).

States also develop their own work requirements, and define the activities that can meet the requirements. Of the nine states studied, Iowa allows microenterprise training and considers it federally countable as vocational educational training, six states leave the decision as to whether microenterprise training is allowable and countable to counties or local jurisdictions, and the policy is unclear in two states–Massachusetts and Michigan. In California, Colorado and Oregon, counties may decide to count microenterprise training as vocational educational training. New York counties may count it as vocational education or community service, which is not time limited. Minnesota counties may count entrepreneurial training as an activity allowed under a preexisting waiver of AFDC rules. In Illinois, microenterprise training can be allowed as part of self-employment, which is countable as unsubsidized employment, at local discretion.

**Figure 2: Can Microenterprise Training and Self-Employment Fulfill State Work Requirements and Count Toward Federal Work Participation Rates?**

| State | Microenterprise Training | Self-Employment |
|---|---|---|
| California | County discretion to provide it and count it as vocational education | Yes; countable as unsubsidized employment |
| Colorado | County discretion; Denver County allows it and counts it as vocational education | Unclear |
| Illinois | Allowable at local discretion, as part of self-employment | Yes; countable as unsubsidized employment |
| Iowa | Yes; countable as vocational education | Yes; countable as unsubsidized employment |
| Massachusetts | Unclear; may be allowed as skills training, which is countable as a preexisting waiver activity | Unclear |
| Michigan | Local discretion; only allowable for individuals also working. May be allowable alone as condensed vocational training for up to 6 months. | Yes; hours in which net income equals the minimum wage are countable as unsubsidized employment |
| Minnesota | County discretion to allow it and count it as a preexisting waiver activity | Yes; hours in which net income equals the minimum wage are countable as unsubsidized employment. (Some clients are exempt from the income requirement.) |
| New York | County discretion to allow it and count it as vocational education or community service | County discretion |
| Oregon | Local discretion | Yes; hours in which net income equals the minimum wage are countable as unsubsidized employment. |

For federal purposes, self-employment may be included in the definition of unsubsidized employment, which is countable toward the work participation rates with no cap on the proportion of participants or length of individual participation. Six of the nine states–California, Illinois, Iowa, Michigan, Minnesota and Oregon–count self-employment as unsubsidized employment (subject to hourly and/or earnings

requirements as detailed in Figure 2). New York leaves this decision to counties, and the policy is unclear in Colorado and Massachusetts.

Even when microenterprise training is not countable toward participation rates, a state may still be able to provide such training without fear of jeopardizing compliance with federal law if the state has had substantial caseload reduction since 1995. This is because TANF allows states a downward adjustment in participation rates based on a caseload reduction credit. Generally, the TANF law establishes maximum participation rates states must meet, and then provides that a state's actual participation rate will be reduced if the state's caseload has fallen since FY 95 for reasons other than changes in program eligibility rules. All nine states studied (and every other state) has had a caseload decline since FY 95.

Table 1 compares the caseload declines in the nine states studied. The first column shows the adjusted overall participation rate each state had to meet in FY 1998, which is 30% adjusted downward by the caseload reduction credit received. The caseload reductions credits were based on caseload declines from FY 1995 to FY 1997. The second column shows the change in the number of families receiving TANF assistance between FY 1995 and FY 1998 (reflecting the maximum possible caseload reduction credits for FY 1999). The third column shows the decline in the number of people receiving AFDC/TANF in each state between August 1996, when federal welfare legislation passed, and March 1999, the date of the most recent available data. In that time period, caseload changes among the nine states ranged from a drop of about 17% in Minnesota to a drop of nearly 60% in Colorado.

Caseloads continued to decline in 1998 for all nine states, meaning that they can potentially qualify for larger credits against the participation rates for fiscal year 1999. As a practical matter, then, even if individuals in microenterprise training are not countable toward the participation rates, a state may still choose to allow them to continue these activities without facing penalties if the state is confident it will meet applicable participation rates due to caseload decline and the number of TANF families otherwise engaged in countable activities.

| Table 1: AFDC/TANF Caseload Decline and Adjusted Participation Rates | | | |
|---|---|---|---|
| **State** | **Adjusted overall participation rate, FY98** | **Caseload change FY95-98** | **Caseload change 8/96-3/99** |
| California | 17.8%% | -23.1% | -29.6% |
| Colorado | 7.5% | -46.1% | -58.9% |
| Illinois | 13.6% | -27.6% | -40.4% |
| Iowa | 9.1% | -31.0% | -30.2% |
| Massachusetts | 7.3% | -34.2% | -32.9% |
| Michigan | 5.2% | -38.7% | -47.5% |
| Minnesota | 17.0% | -15.1% | -17.4% |
| New York | 15.0% | -26.3% | -27.6% |
| Oregon | 0.0% | -51.9% | -42.0% |

Source: U.S. Department of Health and Human Services, Administration for Children and Families

### C. State Time Limits

Another state policy area affecting microenterprise training efforts and continued support for self-employed families is time limits. Generally, states are prohibited from using federal TANF funds to provide assistance to a family with an adult who has received federal TANF assistance for 60 months; states can provide exceptions for up to 20% of cases. However, these time limits only apply to the use of federal funds. Since each state's TANF cash assistance program is funded with a mixture of federal and state funds, a state has discretion to decide whether time limits run for families receiving assistance while participating in microenterprise training or while self-employed. If a state segregates state from federal funds, then any month in which the state provides assistance to a family with segregated state funds does not count against the federal TANF time limit.

In addition, some states also have an option to take a different approach to time limits because they are continuing to implement state time limit policies that had been approved through the waiver process in the former AFDC Program. When TANF was enacted, many states were in the midst of waiver-based welfare reform initiatives, and TANF allows any state that had an approved waiver at the time of enactment of TANF to continue the waiver policies until the expiration of the waiver. So, some states

(such as Oregon) are continuing their pre-TANF approaches to time limits.

**Figure 3: State Time Limits**

| State | Time Limit | Circumstances when months of microenterprise training or self-employment would not count toward the time limit |
|---|---|---|
| California | 60 months | None |
| Colorado | 60 months | None |
| Illinois | 60 months | Single-parent family has income from working 30 hours per week, including self-employment. Hourly requirement for two-parent families is 35 per week. |
| Iowa | 60 months | None |
| Massachusetts | 24 in 60 months | None |
| Michigan | None | Not applicable; no time limit imposed |
| Minnesota | 60 months | None |
| New York | 60 months | None |
| Oregon | 24 in 84 months | Participating in a work activity, including self-employment if net income equals the minimum wage for the required number of hours, and microenterprise training if approved by the case manager |

Of the nine states studied, all except Michigan impose a time limit. Michigan's program is designed to help families achieve self-sufficiency within 60 months, and the state has decided that it will use state funds to extend benefits to any family that still needs assistance after receiving 60 months of TANF-funded assistance. Time limits are shorter than 60 months in Massachusetts, where assistance is limited to 24 cumulative months in any 60-month period, and Oregon, which limits assistance to 24 cumulative months in an 84-month period.

The time limit clock runs for families in microenterprise training and families operating a microenterprise in six of the eight states with time limits. Oregon does not count months in which a parent or caretaker is participating in an approved work activity toward the time limit, so the clock could stop both for parents operating a microenterprise, provided it meets the definition of self-employment, and for parents engaged in microenterprise training, provided it is approved by the case manager. In Illinois, families in which the adult is working or self-employed at least 30 hours per week do not count toward

the federal time limit; the state funds these cases with segregated state funds. (See Figure 3 for more detail on the hourly requirements.)

### D. Treatment of Income

A family's eligibility for and amount of cash assistance depends in part on the family's income. Once an individual begins operating a microenterprise and there is a revenue flow from the business, the family's continuing eligibility for cash assistance will be affected by state rules for the treatment of income. Under TANF, states have discretion to define income, to determine what deductions from income are allowed or required, and to establish the amount of earned income that will be disregarded in determining eligibility and benefit amount.

All nine states treat net income from self-employment as earned income, and all nine allow for a deduction of costs or expenses from gross business income. Most of the states allow a deduction for verified business expenses, and some enumerate the types of allowable business expense deductions. California allows an individual to deduct either 40% or actual verified expenses from gross income to determine net self-employment income.

Once net income from self-employment is calculated, all nine states apply the same disregards that apply to earnings from employment. Only Colorado has retained the AFDC earnings disregard policy; the other eight states have developed more generous earnings disregard policies, as shown in Figure 4. The third column in the figure shows the maximum amount a single parent with two children can earn and still be eligible for some amount of TANF cash assistance, assuming she or he has no other source of income. The amounts help to show how state earnings disregard policies (interacting with benefit levels) compare to one another.

**Figure 4: Calculation of Earned Income from Self-Employment/Earnings Disregards**

| State | How are earnings from self-employment calculated? | Earnings disregard | Monthly earnings limit for TANF eligibility[5] |
|---|---|---|---|
| California | Gross income minus actual expenses or 40% (client's choice) | $225 + 50% | $1,447 |
| Colorado | Gross income minus the cost of doing business | $90 + $30 + 1/3 | $752[6] |
| Illinois | Gross income minus verified business expenses | 67% | $1,131 |
| Iowa | Gross income minus the cost of doing business | 20% + 50% | $1,065 |
| Massachusetts | Gross income minus total business expenses | $120 + 50%[7] | $1,045 |
| Michigan | Total proceeds minus allowable expenses | $200 + 20% | $774 |
| Minnesota | Gross income minus reported expenses | 38% | $1,311 |
| New York | Gross income minus expenses necessary for producing goods and services | $90 + 46% | $1,138 |
| Oregon | Gross sales or receipts minus the cost of producing the income | 50% | $616 |

[5]For a single parent with two children and no child care costs

[6]For the first four months of earnings only. The $30 disregard is limited to 12 months and the 1/3 disregard is limited to 4 consecutive months, so the amount a parent can earn and still be eligible for TANF decreases over time.

[7]The disregard is $120 and 1/3 for families not subject to the time limit.

### E. Treatment of Resources

A family's eligibility for cash assistance will also depend on its resources, and operating a microenterprise will likely mean the accumulation of business-related resources. Under TANF, states may set a resource limit (also called an asset test) of any amount, or may choose not to impose a limit on resources. States also determine which resources are countable toward the limit and whether some types of resources are not counted toward the limit.

The nine states studied impose resource tests ranging from $2,000 to $10,000 (in some cases varying depending on family members' age or work participation status) as shown in Figure 5. All the states exempt at least the partial value of one automobile from consideration as a resource. Michigan does not consider vehicles as countable assets. Two states–Colorado and Illinois–have simplified their rules by exempting one car of any value from consideration as a resource.

Two of the nine states, California and Oregon, do not provide any exemption from the resource test for business-related assets. Four states–Illinois, Massachusetts, Minnesota, and New York–do not count business equipment and inventory as resources, Michigan does not count funds in a business bank account as resources, and Colorado exempts both property needed for self-employment and business bank accounts from treatment as resources. In Iowa, participants in approved self-employment training may be granted a waiver of both income and resource standards for up to 12 months during business start-up or expansion. In four states–California, Colorado, Massachusetts and New York–business loans are explicitly exempt from treatment as income or resources.

In addition to setting less restrictive resource limits and excluding business-related assets from treatment as resources, states can use TANF funds to implement an Individual Development Account (IDA) program. Funds in IDAs generally do not count toward the resource limit. Deposits can be matched with TANF or other funds, the funds can be limited to certain uses, and states can set a limit on the balance allowed in individual accounts. Federal law requires that IDAs established for qualified purposes, namely business capitalization, postsecondary educational expenses, and first home purchase, must be disregarded in determining eligibility and benefits for federal means-tested programs.

**Figure 5: Resource Limit/Treatment of Business Assets**

| State | Resource Limit | Automobile exemption | Treatment of Business Assets |
|---|---|---|---|
| California | $2,000* | $4,650 | Counted |
| Colorado | $2,000 | One vehicle | Personal property needed for self-employment and funds in a bank account used exclusively for a business are exempt |
| Illinois | $3,000 | One vehicle | Small equipment and inventory needed for a business exempt |
| Iowa | $5,000 ($2,000 for applicants) | $3,916 per adult | 12-month waiver of income and resource standards for business start-up or expansion available |
| Massachusetts | $2,500 | $5,000 | Property essential to self-employment exempt |
| Michigan | $3,000 | All vehicles | Bank account used solely for business expenses exempt |
| Minnesota | $5,000 ($2,000 for applicants) | $7,500 | Personal property needed for self-employment exempt |
| New York | $2,000* | $4,650 | Personal property necessary for business purposes exempt |
| Oregon | $2,500; $10,000 if participating in work activities | $10,000 | Counted (equity value of equipment and wholesale value of inventory) |

* $3,000 if the family has a member over age 60

Eight of the nine states studied, all except Massachusetts, have policies allowing TANF families to open IDAs and accumulate savings exempt from the resource limit, as shown in Figure 6. Of the eight states allowing IDAs, all but Michigan and Oregon allow IDA funds to be used for business purposes. Michigan is developing its IDA program, and has not yet identified allowable uses of funds. In California, IDA funds can be used for business start-up, but remaining funds in an IDA will be counted as resources once the business is operational. Policies in Illinois, Iowa and Minnesota provide that IDA deposits may be matched with public and/or private funds. Iowa and Minnesota do not limit IDA programs to TANF families; families with incomes below 200% of the federal poverty threshold can

establish IDAs and receive matching contributions.

**Figure 6: Individual Development Account Policies**

| State | Policy allows IDAs | Business uses allowable? | Notes |
|---|---|---|---|
| California | Yes | Yes | Funds used for business purposes count as resources once a business is operational. Individual accounts are limited to $5,000. |
| Colorado | Yes | Yes | |
| Illinois | Yes | Yes | No funds have been appropriated for the program. Policy provides for a 1:1 state match of deposits. |
| Iowa | Yes | Yes | Families with income up to 200% of federal poverty can participate. Deposits will be matched with state funds; individual accounts are limited to $50,000. |
| Massachusetts | No | | |
| Michigan | Yes | Unknown | The state is working with nonprofit organizations to develop the program. |
| Minnesota | Yes | Yes | Families with incomes below 200% of poverty can participate. Deposits will be matched at a rate of 2:1. |
| New York | Yes | Yes | |
| Oregon | Yes | No | Participants in the program must be engaged in work activities; funds can only be used for educational expenses. |

## F. Supportive Services

### *1. Child Care Assistance*

States receive federal funds for child care assistance to low-income families through the Child Care and Development Fund (CCDF). A state must spend a specified amount of state funds on child care in

order to receive the full amount of federal CCDF funds available. A state may also spend TANF funds for child care, either by transferring a part of TANF funds to CCDF or by directly spending the TANF funds. States have broad discretion in deciding how to spend child care funding, and can decide whether and to what extent to provide child care assistance to TANF participants engaged in microenterprise training or operating a microenterprise. A state might choose to provide child care assistance for some work activities and not others. States may also operate transitional child care programs for families leaving TANF cash assistance for employment (or other reasons), but they have no obligation to do so. Families leaving TANF due to income from self-employment may qualify for subsidized child care through these programs even if they no longer qualify for TANF-related child care assistance.

**Figure 7: Availability of Child Care Assistance**

| State | Child care assistance may be available for TANF families engaged in: | |
|---|---|---|
| | **Microenterprise training** | **Operating a microenterprise** |
| California | County discretion | Yes |
| Colorado | County discretion | Yes, if working full-time and being paid by the business |
| Illinois | Yes | Yes, if self-employment is approved as part of the individual's plan |
| Iowa | Yes | Yes |
| Massachusetts | Unclear | Unclear |
| Michigan | Unclear | Yes, if net business income is equal to the minimum wage for at least 30 hours/week |
| Minnesota | County discretion | Yes, if working at least an average of 20 hours per week with hourly net income of at least the minimum wage |
| New York | County discretion | Yes |
| Oregon | Yes | Yes, if working a minimum of 30 hours/week and earning at least state minimum wage for those hours |

Child care assistance is potentially available for TANF families participating in microenterprise training

in seven of the nine states studied. In four of the seven–California, Colorado, Minnesota and New York–child care will be available for microenterprise training in those counties that allow clients to meet work requirements by participating in microenterprise training. Three states–Illinois, Iowa and Oregon–provide child care to families participating in approved work activities. In those three states, to the extent that a client is allowed to participate in microenterprise training, child care may be provided, subject to limitations on the duration of the activity. In the other two states–Massachusetts and Michigan–the policy is unclear. In Michigan it is not clear whether microenterprise training can be counted as approved educational training or as the newly allowable condensed vocational training, so it is not clear whether child care will be available for participants. In Massachusetts, microenterprise training could potentially be allowed as skills training, in which case child care assistance could be provided, but state policy does not address this question.

Child care assistance is potentially available for TANF families engaged in self-employment in all the states studied except Massachusetts, where, again, state policy does not address whether self-employment is an allowable activity or can be categorized as paid employment. The hourly and earnings requirements self-employed clients must meet in order to qualify for child care assistance are described in Figure 7. Self-employed families leaving TANF due to increased earnings are eligible for continued transitional TANF-related child care in four of the nine states–California, Massachusetts, Minnesota and New York. In all nine states, self-employed families can receive child care assistance through the state's subsidized child care program for low-income working families after they leave TANF. As shown in Figure 8, among the nine states the income eligibility limits for a family of three for these programs range from $1,157 in Iowa to $2,856 in Minnesota.

**Figure 8: Subsidized Child Care for Working Families**

| State | Monthly income limit for the state's subsidized child care program, family of 3 |
|---|---|
| California | $2,503 |
| Colorado[8] | $1,778 |
| Illinois | $1,818 |
| Iowa | $1,157 |
| Massachusetts | $2,771 |
| Michigan | $2,172 |

[8]Income limit varies by county. Figure shown is for Denver County.

| | |
|---|---|
| Minnesota | $2,856 |
| New York | $2,313 |
| Oregon | $2,751 |

Many of the states provide other support services to employed individuals and those participating in allowable activities, such as transportation assistance and payments for work-related clothing or equipment. These policies are described in the individual case studies.

*2. Medicaid*

Federal law mandates that individuals who meet the income and resource standards that were in place on July 16, 1996 for determining AFDC eligibility, and who meet the definition of "dependent child" or are related to and live with a dependent child, are automatically eligible for Medicaid. This provision, Section 1931, was intended to ensure that families that would have been eligible under prior AFDC rules continue to qualify for Medicaid regardless of TANF eligibility changes. States can broaden Section 1931 Medicaid eligibility by using less restrictive income and resource methodologies than those in place in July 1996 (for example, more generous earnings disregards, resource limits, and resource counting rules). Federal law also requires states to provide Medicaid coverage to pregnant women and children under age six with incomes below 133% of poverty, and children born after September 30, 1993 with incomes below 100% of poverty.

Six of the nine states have expanded Medicaid eligibility to children beyond that which is federally mandated. Massachusetts extends coverage to all children in families with incomes below 150% of poverty. In Illinois, Iowa and New York, all children in families with incomes below 133% of poverty are eligible for Medicaid; pregnant women and children under age two are eligible up to 200% of poverty in Illinois. In California, children under age 19 with family income below 100% of poverty are eligible. Minnesota extends eligibility to children under age two with family income up to 280% of poverty. States may also choose to provide health coverage for low-income children in separate state programs funded in part by federal Child Health Insurance Program dollars. The eligibility rules for state programs are described in the case studies.

Three of the nine states–Massachusetts, Minnesota and Oregon–have expanded Medicaid coverage for adults. Minnesota extends Medicaid eligibility to uninsured parents and caretaker relatives with income at or below 275% of poverty. In Massachusetts, all families with income below 133% of the poverty level are eligible for Medicaid. Oregon's Medicaid income eligibility level for all non-elderly adults is 100% of poverty.

## Conclusion

The case studies of TANF-related policies suggest that state policies relating to microenterprise in the nine states are both more and less supportive of microenterprise development than was the case under AFDC. On one hand, more generous income and asset policies in the states make it easier for individuals seeking to initiate or operate microenterprises than had been the case under AFDC. At the same time, time limit rules and participation requirements make it more difficult for an individual to participate in microenterprise training. In most states, months of participation in microenterprise training and operating a microenterprise will count against time limits. In some states, engagement in microenterprise training often will not count toward work or participation requirements. Thus, at the level of formal policy, state policies in the grantee states are now both more and less supportive of microenterprise initiatives than had been the case under AFDC.

The review of policies in the nine states found several innovative policies that are likely to make it easier for clients to pursue microenterprise training and start a small business. In a number of policy areas, one or more states set examples for other states wishing to provide a more supportive environment for microenterprise within their TANF programs to follow.

- Time limit policies in Oregon and Illinois stop the clock for self-employed families, and, in Oregon, for families participating in allowable training.

- California's income budgeting policy allows for either 40% or verified business expenses to be deducted from gross self-employment income, reducing the paperwork burden on self-employed families.

- Generous earnings disregard policies in California, Illinois, Iowa and Massachusetts, all of which disregard the majority of earnings in determining eligibility and benefit amounts, assure that self-employed families can continue to receive some cash assistance while their profits are low.

- Iowa's policy of waiving the income and resource limits for 12 months to allow assistance to continue during business start-up provides support during a critical period.

- Iowa and Minnesota have developed the most generous IDA policies, extending eligibility to families with incomes below 200% of poverty and matching deposits.

In several other areas, there appears to be substantial room for the states to take advantage of TANF

flexibility and establish more supportive policies. One of the primary areas posing problems for clients interested in pursuing microenterprise and practitioners providing microenterprise services is the policy regarding whether microenterprise is an allowable work activity. While it is a possibility in most of the states studied, the decision about when and whether to allow it is often left largely or wholly to local administrators or individual caseworkers. In order to boost access, states might want to develop formal policy guidance encouraging microenterprise training for appropriate clients, and spelling out how and when it is countable. When an activity is allowed or approved, a client will not be faced with conflicting requirements while engaged in microenterprise training or start-up, and will be eligible for necessary support services such as child care and transportation assistance.

States that only approve self-employment activities for clients with a business plan, or meeting other restrictions, may be preventing access to the services offered by microenterprise providers, which some clients may need in order to develop a business plan. States that impose strict definitions of self-employment, requiring net profits of at least the minimum wage for a minimum number of hours per week in order for self-employment to meet work requirements and to qualify families for support services, might want to consider a temporary waiver of these requirements to allow cash assistance and other supports to continue during the critical initial months of operating a business.

States could also decide to provide microenterprise training and support in a separate state program funded with state MOE dollars, which would not be subject to TANF time limits and work requirements. Finally, states could use TANF funds to provide support for microentrepreneurs in needy families outside the cash assistance program, establishing higher income eligibility requirements than those used in the cash assistance program.

The policy case studies show that in many states there is wide discretion at both the local level and at the individual case manager level. This is the case both where policy leaves it to counties and/or case managers to decide whether an activity is allowed or whether a service will be provided, and where formal policy is unclear, in which case individual administrators and/or caseworkers must make decisions about how to proceed. Because of this, it is likely that efforts by state and county administrators, local office managers, and service providers to educate case workers and others about available microenterprise initiatives and related policies will lead to greater access to microenterprise training, support services and continued assistance for those who are self-employed.