

THE DISCRETION-CAPACITY FRAMEWORK:
A CONCEPTUAL APPROACH TO ANALYZING THE DYNAMICS OF
FEDERALISM AND SOCIAL POLICY

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ABSTRACT

CHRISTEN HOLLY: The Discretion-Capacity Framework: A Conceptual Approach to
Analyzing the Dynamics of Federalism and Social Policy
(Under the direction of Daniel Gitterman)

The discretion-capacity framework is proposed to facilitate a macro-level view of state policy responses in a federalist system. The framework is employed to analyze the dynamics of two block grant programs—the State Children’s Health Insurance Program (SCHIP) and Temporary Assistance for Needy Families (TANF). The analysis considers the role of federal parameters in delimiting state policy options, assesses variation in four states’ responses over time and examines variation across the two block grant programs from 1996 through 2010.

To my family

ACKNOWLEDGEMENTS

I have often joked that if I were to host a party and invite every person who, during my graduate school career, has lent a sympathetic ear, offered words of encouragement or pitched in during crunch times, I would need to book a suitably large arena. Perhaps the Dean Dome.

The faculty at UNC has been incredibly generous with its time and assistance. In particular, I would like to thank my committee chair, Dan Gitterman, for the encouragement he provided all the way from pre-application to post-defense. He understood (better than I) how difficult it would be to balance the commitments of a family and a Ph.D. program, but his support was unwavering. I would have been unable to complete the program without it.

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after their departure, so I also credit their timely completion of the program with hastening my own!

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CHAPTER 1. AN ANALYSIS OF FEDERALISM AND SOCIAL POLICY

I. Toward an Explanation of Discretion and Capacity in Federalism

The discretion-capacity framework interprets the dynamics of federalism at work in American social policies. The conceptual framework highlights prevailing federal parameters and underlying capacity constraints and their impact on state policy choices, providing a coherent approach for describing the evolution of state policy choices and their feedback effects.

The proposed framework considers how federal parameters governing the three functional dimensions of federalism—financing, policy-making, and administration (Rich and White 1996)—determine the degree of *discretion* states retain over jointly managed social and health policies. Examples of federal actions that can expand or restrict discretion include redistribution of fiscal responsibility, revisions to policy content, imposition of administrative rules or waiver of statutory provisions.

Likewise, states' *capacity* to respond can be expanded or restricted by changes in their own political, fiscal and/or structural resources. Together, discretion and capacity describe the contours of the policy environment, establishing boundaries on the feasible set of state policy choices.

In simple terms, discretion is what a state is *authorized* to do within federal parameters and capacity is what a state is *able* to do given its resources. By juxtaposing these two variables on a two dimensional grid, actual state policy choices can be described as existing at the intersection of the two dimensions.

Over time, changes occur in the broader political, economic and policy environment. These changes can affect discretion (what the states are *authorized* to do) or capacity (what the states are *able* to do), but both impose constraints on states' policy decisions. "Constraints" imply that federal parameters and state resources place boundaries or limits on state policy choices. Binding constraints can restrict policy choices and non-binding constraints can allow for new policy innovation.

Constraints on policy choices are understood to operate via complex political institutions that influence state policy responses and orient policy trajectories (March and Olsen 1984; Weaver and Rockman 1993). In practice, the precise mechanisms through which federal parameters govern state discretion are often embedded in the policy instrument that specifies the assignment of policy-making authority and fiscal responsibility. As such, a "policy" can be construed as an institution in its own right (Besley and Case 2000; Rigby 2007; Howlett 1991).

The analysis in the following chapters assumes that the policy instrument confers a specific set of institutional constraints. I focus on explaining how those constraints affected state policy choices and how state responses shaped subsequent federal policy decisions. Thus, the policy instrument is cast not only an institution, but also as a policy feedback mechanism (Skocpol and Amenta 1986; Pierson 1993; Grogan and Rigby 2009).

I employ the discretion-capacity framework to analyze the dynamics of two block grant programs—the State Children's Health Insurance Program (SCHIP) and Temporary Assistance for Need Families (TANF). Block grants provide capped federal allotments to supplement state expenditures on targeted programs. While SCHIP and TANF share the

“block grant” designation, their specific funding provisions differ in important ways. Using the discretion-capacity framework to compare the two policy histories, I demonstrate that the block grant, as a federalist funding structure, functions as a policy feedback mechanism in its own right.

II. Grounding the Framework in the Academic Literature

Features of American Federalism

Theoretical contributions in the federalism literature have explored the dominant characteristics of American federalism as a whole, at critical points in history and/or within a subset of social policies. The proliferation of labels describing the American federalist system demonstrates the range and complexity of its institutional arrangements. Scholars have characterized the distribution of policy making authority and funding responsibility across federal and state governments as a “marble cake” (Grodzins 1960), “centers of power” (Elazar 1984), dualist (Leach 1970), cooperative, competitive (Tiebout 1956), coercive (Posner 2007), executive (Gais and Fossett 2005) and cyclical (Nathan 2006a). Rich and White (1996) simply begin their analysis of federalism and health policy with the observation that American federalism is “messy”.

Rather than defend a single depiction of American federalism, the discretion-capacity framework recognizes that each of these labels represents a unique configuration of constraints on state discretion. Reducing those configurations to underlying constraints clarifies how different models of federalism relate to each other and evolve, framing state policy responses over time.

The discretion-capacity framework works off a conceptualization of federalism as “jurisdictional arrangements for allocating policy responsibilities” (Obinger et al. 2005,

9) and tempered with the observation that though states are structured as governments “in their own rights”, they are generally subordinate since Congress can choose “deference, displacement or interdependence” in dividing roles across the tiers of government (Derthick 2001, 44). This argument justifies a focus on the portion of the policy process that begins with implementation of federal legislation, observes state responses and considers how those responses shape future federal reauthorization efforts.

Federalism and the American Welfare State

Federalist institutions structure the relationship between federal and state governments and have been examined as explanatory variables for diversity in national *and* state level welfare state policies.

Academics are divided over whether the American federal structure has impeded or fueled the expansion of the welfare state at the *national* level. In the comparative welfare state literature, scholars come down firmly on the side of “impeded” (Esping-Andersen 1990; Steinmo and Watts 1995). Skocpol (1995), Hacker (2002), Howard (2002), Orloff (1988) and others recap the long history of American social policy with special emphasis on the institutional barriers that thwarted comprehensive social insurance schemes.

Yet the absence of comprehensive national programs does not necessarily indicate a meager welfare state. Scholars have argued that the American welfare state is not so much limited as it is “hidden” in tax expenditures (Howard 1997), “divided” across public and private providers (Hacker 2002) and “tiered” in means-tested and entitlement programs (Howard 1999). This patchwork of welfare state programs is often described as

a product of the exit options inherent in American federalism, including policy preemption, circumvention, and failed implementations (Pierson 1995).

State level policy choices are understood to occur within the confines of federalist institutional constraints, but exactly how those constraints affect state policy responses is also a subject of some controversy. Two theories from the institutionalism literature weigh heavily in the debate: rational choice and historical institutionalism (see discussion in Hall and Taylor 1996).

Drawing on rational choice principles from economics, political scientists have developed theories of public choice, including fiscal federalism (Tiebout 1956; Buchanan 1960; Oates 1972; Inman and Rubinfeld 1997; Musgrave 1997) that feature individuals' choices as key drivers of political and social outcomes. They posit that rational, fully informed citizens (and by extension, businesses) face a market when choosing where to locate. Individuals move to areas where the balance of taxes and public services suits their preferences (maximizes their utility) and this exit option generally exerts downward pressure on taxes. The result can be a "race to the bottom" for the funding and provision of public social benefits.

Rational choice institutionalism emphasizes individual behavior and, to some extent, marginalizes the broader institutional context but it underscores a strategic calculus in decision-making that resurfaces in the discretion-capacity framework. Retaining this contribution from the rational choice literature, I turn to historical institutionalism to reposition institutions at the center of the policy-making process.

Historical institutionalism takes a broader view of the role of institutions in shaping political and social outcomes, a perspective that I adopt in the discretion-capacity

framework.¹ These theorists view institutions as “formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity” that act “as the principal factor structuring collective behavior” (Hall and Taylor 1996, 937-8).

However, historical institutionalism does not claim that institutions are the only “causal force” and leaves room for intervening contextual characteristics (Hall and Taylor 1996, 942). The discretion-capacity framework suggests that state capacity constraints, or state political, fiscal and structural resources, comprise the relevant set of contextual characteristics that mitigate or exacerbate institutional constraints to determine state policy responses. Rather than arguing that state actions are primarily motivated by a specific capacity constraint in isolation, synthesizing political, fiscal and structural characteristics under *capacity* permits a more textured view of states’ inclination and ability to pursue certain policy options.

The framework also draws from the historical institutionalism literature for insights concerning the role of past policy choices in influencing subsequent decisions. The American federalist structure magnifies the importance of “timing, sequence and self-reinforcing consequences of early policy decisions” (Hacker 2002) and historical institutionalism explores policy history as path dependent (Steinmo et al. 1992; Hall and Taylor 1996; Kato 1996) and/or as equilibria punctuated by critical junctures of change (Pierson 2000; Abbott 1990).

The discretion-capacity framework is consistent with a “punctuated equilibrium” model of policy change, in which policy outcomes, rather than being deterministic, are

¹Rosenthal and Hoefler (1989) propose that the micro-level focus on individuals is the domain of inter-governmental relations, while macro-level institutional analysis is the trademark of federalism scholars.

contingent on “structural factors such as...the ‘ordering’ of policy-relevant events” (Howlett and Rayner (2006, 2).

Block grants as policy instruments

Block grants have been cast as institutions in their own rights that distribute resources and authority (Pierson 1993; Rigby 2007; Grogan and Rigby 2009), a perspective that heavily influences the orientation of the discretion-capacity framework. As such, the specific constraints of the policy instrument are key determinants of state social policy decisions. In the case of SCHIP and TANF, their respective block grant structures play important roles in shaping the state policy environment.

Inter-governmental grants can incorporate a number of different funding mechanisms. If grant structures were arrayed on a spectrum ranging from general revenue sharing to specifically directed categorical grants, block grants theoretically fall somewhere in the middle. In practice, most intergovernmental grants have evolved to include a blend of features from different grant structures.

Stenberg and Walker (1977, 34) define a block grant as “...a program in which funds are provided chiefly to general purpose governmental units in accordance with a statutory formula for use in a broad functional area largely at the recipient's discretion.” The degree of discretion distinguishes block grants from more specifically targeted categorical grants. The academic literature focuses on the tradeoffs in efficiency and effectiveness under different grant structures.

The central government is understood to have greater tax capacity than member states, which are subject to the “race to the bottom” concerns discussed earlier (Oates 1999, Musgrave 1997; Inman et al. 1975). There are also potential efficiency gains in

centralized tax collection efforts (Inman et al. 1975). In a federalist structure, grants can be used to redistribute funds to achieve equity objectives (McGuire in Inman et al. 1975; Ter-Minassian 1997; Oates 1999), align decision making more closely with recipients to promote effective policy decisions (Conlan 1988) and assign more discretion in policy-making to recipient states (Musgrave 1997). Federally-funded, state-administered social programs, in theory, therefore provide an optimal mix of efficient centralized revenue collections with more effective, efficient devolution of policy implementation (Conlan 1988; Ter-Minassian 1997).

In practice, a number of counter-arguments temper this optimistic view of intergovernmental grants. Devolved policy decisions reduce federal control over the direction of funds, which could be used in ways inconsistent with federal intent (Musgrave 1997) or to replace state own-expenditures (Chernick 1998). Federal conditions can be imposed to prevent these scenarios, but only at the expense of the efficiency gains which were often the original impetus for structuring the grant (Ter-Minassian 1997). Matching and maintenance of effort clauses are agreed to distort state expenditure patterns (Reischauer in Inman et al. 1975) though these feature prominently in the SCHIP and TANF programs.

Block grants, in particular, are depicted as experiencing different pressures over their life-cycle. Initially, capped block grants provide a win-win scenario for federal and state legislators alike. The federal government limits fiscal exposure through capped expenditures and avoids difficult decisions over policy specifics by leaving those choices to the states. State governments secure federal funds but retain significant discretion over program design.

Ingram (1977) and Nathan (1983) recognize that this universal appeal diminishes as federal legislators lose control over policy direction. Initial supporters may push for recentralization and/or retrenchment in later phases (Posner and Wrightson 1996). Grogan and Rigby (2009) note how this makes for odd alliances in block grant reauthorization efforts. Republicans, who traditionally supported devolved policy decision-making, may convert into ardent critics if progressive states expand policies beyond their interpretation of proper limits (Grogan and Rigby 2009). For these reasons, block grant provisions have been described as unstable over time (Chernick 1998; Posner and Wrightson 1996).

Grogan and Rigby (2009) consider early state SCHIP policy decisions as explanatory variables in subsequent federal policy choices, implicitly positioning the policy instrument as an institution and, explicitly, as a policy feedback mechanism. The discretion-capacity framework facilitates a view of federalism and social policy that puts the institutional structure of the SCHIP and TANF block grants at center stage, demonstrating how federal parameters evolved over time, eliciting state policy responses that reflected their own political, fiscal and structural constraints and which, in turn, shaped future federal decisions.

In the next section, I draw from the scholarly literature to formulate the discretion-capacity framework as an approach for exploring the dynamics of federalism at work in American social policies.

III. Formulating the Discretion-Capacity Framework

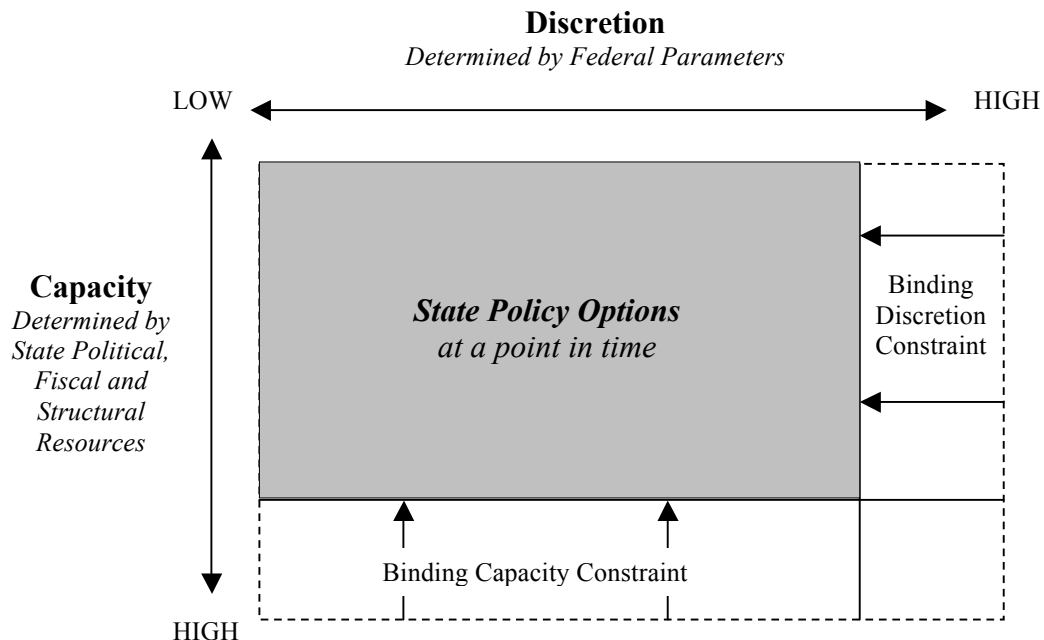
The discretion-capacity framework structures a macro-level view of state policy responses. Looking at state responses to federal social programs over time emphasizes

the broad range of relevant explanatory variables that stem from the federal structure of American government. Explanatory variables are classified in two categories: federal parameters on *discretion* and state *capacity* constraints. Figure 1 represents these two dimensions on a grid, where policy options are conceptualized as the shaded area within the grid at a particular point in time.

Discretion is limited by federal parameters that are imposed through the policy instrument, either in specific statutory provisions or their interpretation via extra-legislative rules and waivers. Thus, one set of institutional constraints stems from the central government’s role in defining state *discretion* over policy choices.

States respond to federal parameters in their policy choices but how they do so is filtered through specific configurations of state political, fiscal and structural resources. Thus, a second set of constraints originates from the states’ status as (somewhat) separate entities with varying levels of *capacity* for certain policy responses.

Figure 1: The Discretion-Capacity Framework



Discretion: A Function of Federal Parameters

Federal parameters are drawn from a finite set of mechanisms the federal government can employ to influence state policy decisions. For TANF and SCHIP, relevant parameters include legislative action, waivers and administrative directives.² Active or binding parameters limit the level of state discretion and circumscribe the universe of policy options that a state is authorized to pursue. If a parameter is not invoked, it remains latent or non-binding, but its relevance persists in potential future applications.

The sequence of federal parameters reflects a certain temporal logic. Statutory provisions shape the initial policy environment and specify the funding arrangements, defining the possible set of state policy responses. As state implementations progress in agreement or conflict with federal intent, parameters can be restricted or relaxed through administrative directives, waivers, or statutory revisions.

Administrative Directives

States retain discretion over many program features and procedures under block grant provisions. While some scholars dismiss this type of discretion as glorified customization of the state's "administrative apparatus" (Bowman 2002, 14), a number of cross-state studies suggest that such choices are important determinants of policy outcomes (Sommers 2005, 2006, 2007; Dick et al. 2002; Hill and Lutzky 2003; Kronebusch and Elbel 2004; Wolfe et al. 2005). The U.S. Department of Health and Human Services (HHS) oversees these decisions and retains the prerogative to issue

² Judicial review can also impose parameters on state (and federal) policy decisions though it is outside the scope of this analysis, and, in contrast to recent federal legislation concerning education (No Child Left Behind) and healthcare (Affordable Care Act) has not been a significant issue for the TANF and SCHIP block grants.

guidance regarding their implementation. The Centers for Medicare and Medicaid Services (CMS) is the division responsible for SCHIP oversight while TANF falls under the jurisdiction of the Administration for Children and Families (ACF).

The increasing propensity for federal activism via administrative rules during the Clinton and Bush presidencies sparked a debate about “executive” federalism (Gais and Fossett 2005; Nathan 2006; Thompson and Burke 2006). All jointly managed federal-state programs are potentially subject to these interventions and the discretion-capacity framework illustrates how latent constraints are often invoked to spark policy changes at the state level.

Waivers

States can request relief from specific provisions of the Social Security Act in order to pursue modified policy objectives (via Section 1115 waivers) or to implement an alternate approach for achieving those objectives (HIFA demonstration projects). Oversight agencies review these requests (henceforth generalized as waivers) and, generally in accordance with the current administration’s policy stance, approve or deny additional latitude in state policy choices. Over a program’s lifecycle (and under different presidents), waivers can make the difference between expansive or restrictive policy environments. Waiver use predated TANF and SCHIP, and continued after their enactment to sustain different state policy trajectories.

Statutory revisions can redefine state policy options. Block grants are not entitlements and depend on periodic congressional reauthorization of federal funding. This process presents an opportunity to revise block grant legislation to restrict or expand the feasible set of state policy choices.

For the block grants under consideration, the *discretion* dimension incorporates the initial federal legislation that structured state policy choices and, in subsequent periods, the manipulation of parameters through legislative and administrative mechanisms.

Capacity: A Function of State Resources

A state's capacity to implement social policies is shaped by state level political, fiscal and structural factors (Berry and Berry 1990; Leichter 1996; Thompson 2001; Gais and Fossett 2005). I highlight these three components to illustrate the variety of sources that can affect state policy choices. The components often generate conflicting influences. For example, the political capacity may exist to expand programs but a state's fiscal capacity may prohibit it. Identifying which components dominate state policy choices at different times helps explain state policy trajectories over time.

Political Capacity

Political capacity refers to a state's ability to garner bipartisan political support for funding social programs. The rational choice literature asserts that politicians respond strategically to incentive structures (Shepsle 1989; North 1990) and the TANF and SCHIP structures arguably provided financial incentives to expedite the mobilization of political resources.

Constraints on political capacity stemmed from ideological differences regarding the appropriate scope and approach for providing cash assistance and subsidizing health care coverage. In this vein, the effects of partisan control of the legislature and party affiliation of the governor have been widely analyzed as predictors of social program generosity (Beamer 1999; Kousser 2002; Sommers 2005; Volden 2006).

Block grants in particular structure specific arrangements of political constraints in devolving policy-making authority to the states. Considered through the lens of the blame avoidance and credit claiming literature (Barfield 1981; Conlan 1988), the block grant's devolution enables voters to credit state (and local) level policy actors with program successes (Conlan 1988).

Fiscal Capacity

In a matching grant, fiscal resources are dually determined by federal and state financial contributions. The federal portion conveys three potential constraints on capacity—the capped federal allotment, the federal prerogative to condition funding on compliance with statutory and/or administrative provisions, and the need to reauthorize federal funding after expiration of the original charter.

The state funding stream is also subject to competitive pressures from neighboring states, state balanced budget requirements and economic cycles. As discussed above, fiscal federalism theorizes that state capacity to raise taxes for redistributive social programs is limited by the threat of citizen migration to lower tax states (Inman and Rubinfeld 1997; Musgrave 1997; Oates 1999; Tiebout 1956). Most states have balanced budget provisions in their constitutions that exacerbate the fiscal impact of economic downturns on state budgets.

The federal fiscal contributions in TANF and SCHIP soften state fiscal constraints but, as mentioned above, are accompanied by limits on discretion. The framework emphasizes that fiscal and economic factors constrain states' capacity to fund social policy expenditures and tolerate the financial risks of expanding programs.

Structural Capacity

Along with the considerations described above, states' policy choices reflect the socio-economic characteristics of their residents. These characteristics determine the need for social services and play into the design of state-level responses. The resulting infrastructure facilitates or impedes the states' ability to respond to ongoing changes in the policy environment. Relative to political and fiscal capacity, structural capacity constraints tend to be more stable over time. The temporal disconnect between different types of constraints are consistent with the academic literature on historical institutionalism and are discussed below.

Integrating state political, fiscal and structural characteristics under the heading of capacity permits a more textured view of states' inclination and ability to expand social programs than could be inferred from one of the concepts in isolation. Understanding this relationship is fundamental in interpreting state choices within the boundaries established by federal parameters.

Discretion and Capacity over Time

Over time, the federal parameters governing discretion and the political, fiscal and economic factors exert different pressures on state policy decisions. A time series of state policy choices, conceptualized as shifting coordinates in the shaded area of the grid, reflects ongoing tradeoffs states make in structuring their programs to respond to dynamic constraints. The interaction of federal and state level institutional constraints shape state policy decisions, which, in turn, elicit federal responses of their own in subsequent policy iterations.

In a comprehensive discussion of the temporal dimension in politics, Pierson (2004) notes the importance of including policy constraints along with other institutional considerations. Viewed over an appropriate time interval, institutional effects are multiple and may have unanticipated consequences (Pierson 2004). Some of these arise from the temporal disconnect between institutional design and implementation and others from the tension between the relative continuity of institutional constraints in an otherwise dynamic environment (Pierson 2004, Chapter 4).

In the framework, the relative stability of structural constraints contrasts with the more volatile political and fiscal constraints. Highlighting the distinct influences of these constraints over time promotes a dynamic view of the impact of federalism on state policy choices. This perspective enhances the existing literature that portrays varieties of federalism as specific to a point in time.

The discretion-capacity framework depicts a sequence of constraints that govern state policy choices over time. It recognizes the breadth of factors that influence those responses and resists the tendency to identify a single explanatory variable. The discretion-capacity framework structures a view of American federalism in which institutional constraints are multiple, contingent and temporally discreet (Pierson 2004; Obinger et al. 2005).

IV. Research Objectives

After discussing the methodological considerations involved in the analysis of state policy choices (Chapter 2), I employ the discretion-capacity framework to pursue the following research objectives:

1. To clarify the role of federal parameters in delimiting the feasible set of state policy choices (Chapter 3);
2. To assess variation in state responses over time (with respect to SCHIP in Chapter 4 and TANF in Chapter 5);
3. To examine variation across the two block grant programs from 1996 through 2010 (Chapter 6).

CHAPTER 2. METHODOLOGICAL APPROACH AND CASE SELECTION

This chapter explores the tension between the objectives and assumptions of ‘variable’-driven research methodologies and macro-level analysis. I then consider the characteristics of ‘case’-driven analysis that make it the preferred approach for the dissertation.³ The theoretical justification of the preferred research methodology is followed by specification of the selection process for the policies and states analyzed in the dissertation.

I. Research Methodologies for Macro- and Micro-Level Analysis

Ostrom (1995) comments on the distinction between macro- and micro-level analytical techniques. She observes that “[s]tudying micro-level phenomena requires micro-level theories and empirical methods appropriate to testing these theories” while “[m]acro-level phenomena...require their own theories and methods of empirical analysis,” reasoning that researchers are “viewing a complex mosaic of recursive processes” and “there is no single level that provides the best answer to all questions” (Ostrom 1995, 174-8).

In policy research, as in other social science disciplines, scholars seek “to establish a balance between the competing claims of complexity and generality” (Ragin

³ I adopt the ‘case’-driven and ‘variable’-driven labels proposed in *Approaches and Methodologies in the Social Sciences* (della Porta and Keating 2008).

and Zaret 1983, 731). The research question, in focusing on macro- or micro-phenomena, determines the appropriate methodologies.

On one end of the spectrum, macro-analysts consider a *case* in rich detail, exploring a range of explanatory factors that, in combination, produce certain outcomes. On the other, researchers interested in micro-level processes quantify *variables*, gathering large data sets and employing sophisticated statistical techniques to measure the effects of an independent (or explanatory) variable on a dependent variable (or outcome of interest). This distinction can be described as the difference between *case* and *variable-driven* research (della Porta and Keating 2008).

In policy circles, these approaches have been embraced by different research communities. A large contingent of the academic community has gravitated towards micro-level inquiries, employing variable-driven research methodologies. This research focus dominates peer-reviewed journals in the social sciences.

A smaller academic contingent and research institutes (including government entities and independent think tanks)⁴ tend to take a macro-policy perspective, adopting case-driven approaches to produce descriptive narratives on policy developments.

There is certainly overlap and a number of well-known scholars continue to employ the case-driven, analytic narrative in academic policy research.⁵ However, I suggest that the two groups *tend* to favor different research methodologies, and the distinction is sufficient to warrant some justification for taking a case-driven approach in an academic research project.

⁴ For example, the Government Accountability Office (GAO), the Congressional Research Service (CRS), the Center for Budget and Policy Priorities (CBPP), the Urban Institute, the Center for Law and Social Policy (CLASP), the Brookings Institution and others.

⁵ For example, Pierson, Skocpol, Finegold, Hacker and others.

In academic circles, the discretion-capacity could be criticized for its failure to resolve policy endogeneity, a methodological issue specific to micro-level, variable-driven research that is, in certain peer-reviewed journals, central to the debate on federalism and social policy. The proposed framework neither seeks nor claims to resolve these issues. However, in light of that potential criticism, it seems important to distinguish between variable and case-driven research and demonstrate why the methodological constraints of former should not be imposed on the latter.

In the next section, I justify the use of a case-driven approach and demonstrate how variable-driven techniques are incompatible with macro-level analysis. Consequently, I claim that the assumptions limiting the specification of econometric models are not applicable to the discretion-capacity framework.

Tension between a macro-level view of federalism and variable-driven analysis

The objective of variable-driven research is to test a falsifiable hypothesis (Steinmo 2008; Ragin 2004), drawing evidence from a large number of cases to determine the causal relationship among relevant variables (della Porta and Keating 2008). The methodology rests on a number of assumptions that are problematic for macro-policy research in which state policy choices are the units of analysis. Before addressing those limitations, I offer a brief overview of the theoretical justification for using statistical methods to estimate the effect of causal conditions on outcomes of interest.

Given the challenges of conducting state-level randomized experiments, variable-driven analyses of state-level outcomes are, at best, quasi-experimental. These techniques build on Rubin's statistical solution to the Fundamental Problem of Causal

Inference, which notes that units cannot be observed under both treatment and control conditions at the same time (see discussion in Holland 1986). Consequently, the researcher is forced to make assumptions in order to estimate the treatment effect, or the effect of a causal condition on the outcome of interest.

Rubin's model asserts that if a probability sample of sufficient size is drawn from the population and exposed to treatment then observed outcomes for the sample approximate the outcomes for the population. Likewise, if another sample of different units is drawn and exposed to the control conditions then those outcomes approximate the outcome under control conditions for the entire population. The difference between these two yields the average treatment effect for the population. Several problematic issues arise in extending this logic to analyses of state policy choices.

First, this approach implies that universal laws exist (Ragin 2004, 127). Properly specified models ascertain whether causal conditions produce measurable effects on state policy choices. This assumes homogeneity of units and constant effects—that a causal condition in one state is also a causal condition in another state. In reality, it is uncertain that causal conditions hold across states, policies or time, even when controlling for observable relevant differences in state characteristics. If causal conditions do not hold then it is untrue that “permanent causes are systemic attributes of sampled units that characterize all units of the population” (Ragin and Zaret 1983, 743). In such a scenario, the theoretical justification for using variable-driven analysis is flawed.

States display considerable diversity across as many variables as a researcher can collect yet it is essential to variable-driven analysis that they are “homogeneous observations drawn at random” (Ragin 2004, 125) so that the effects they display can be

used to make generalizations about other states, policies or time periods. It is difficult to construct a scenario in which causal conditions could be argued to have constant effects when the unit of analysis is the state. In fact, if the researcher is interested in the effect of federal legislation on state policy choices, the causal condition itself is often variable by definition. Federal social programs routinely include numerous state-specific provisions, grandfather clauses, waivers, and opt-out allowances that complicate clean definition of a causal condition.

Second, the methodology relies on statistical techniques to make causal inferences. Those techniques *require* the quantification of relevant variables, but consider the difficulty of quantifying concepts such as political ideology or past policy choices. Researchers have attempted to control for qualitative differences in state values by creating indices to quantify factors such as ideology (Berry et al 1998; Holbrook and Bibby 1999; Piven and Cloward 1988), policy entrepreneurialism (Weissert 1991; Mintrom 1997), administrative responsiveness (Fossett and Thompson 2005) and interest group activity (Nownes and Neeley 1996; Nownes and Freeman 1998; Wolak et al 2002). Such metrics are difficult for researchers to construct and easy for critics to deconstruct. Their inclusion raises serious questions about the rigor of variable definition but their exclusion certainly leaves substantial room for unobserved heterogeneity in the error term.

Each state constitutes a unique environment that has been shaped over time by a combination of political actors, partisan ideologies, fiscal resources, demographic profiles and population characteristics, considerations that are difficult to model comprehensively. Besley and Case (2000) address this challenge in their analysis of the

effects of state political and economic variables on workers compensation policies. They first omit and then incrementally introduce political and economic variables to demonstrate a significant impact on both the magnitude and direction of estimated effect sizes (Besley and Case 2000).

Third, Rubin's model requires a "sample of sufficient size." Considering the number of control variables required to minimize unobserved heterogeneity, the number of observations is often insufficient. Scholars of federalism who are interested in outcomes at the state level are faced with the reality that $N=50$ for each time period. Since panel data on states has not been consistently collected on many variables over a long period of time, it is often difficult to collect a sample size large enough to produce the necessary degrees of freedom to include a complete vector of control variables. Where panel data do exist on state policies, researchers are often faced with issues concerning consistent measurement and definition across states and even within states over time. This issue has been frequently cited in GAO reports on SCHIP and TANF in particular (Greenberg and Rahmanou 2005).

Fourth, Rubin's model assumes that exposure to treatment is determined independently of outcome, treatment and control variables. Without the independence assumption, it is difficult to claim that the observed outcomes are attributable to the causal condition. As mentioned above, federal legislation often includes differential policy provisions for states based on socio-economic or fiscal indicators, which could present challenges to disentangling the effects from population characteristics.

This segues into a major issue for variable-driven methodologies in the field of federalism. Statistical models are often challenged on the grounds that variables used to

control for state variations in an expenditure function are endogenous. For example, if state social policy choices are described as a function of federal policy parameters, state fiscal conditions (e.g. per capita income), state political characteristics (e.g. number of Democrats in state legislature) and a vector of time-variant state-level demographic variables, the following problematic arguments could be made: 1) that fiscal capacity is either caused by or causes certain political characteristics; 2) that demographic variables influence political composition or even; 3) that the specified causal direction could be reversed and that state policy choices dictate certain outcomes in terms of federal policy and its own fiscal or political characteristics. Any of the arguments above would violate important assumptions that underpin statistical models.

Yet federalism is inherently and simultaneously a political and fiscal proposition (Pierson 1995). Though endogeneity threatens statistical validity (Shadish, Cook and Campbell 2004), it is difficult to resolve methodologically when it persists in the actual policy environment (Besley and Case 2000).

Disentangling the institutional effects from the impact of state level characteristics on social policy presents a methodological quandary. Since quantitative or variable-driven empirical analysis of the effects of federalism *on state policy* is difficult to model econometrically, research questions consequently tend to cluster around the effects of *state policy on* enrollment (e.g. Kronebusch and Elbel 2004; Nicholson-Crotty 2007), health and welfare outcomes (e.g. Card and Shore-Shepard 2004), or expenditures (e.g. Barilleaux and Miller 1988; Miller 1991; Poterba 1994; Endersby and Towle 1997; Kousser 2002; Hoover and Pecorina 2005). The findings, though interesting in their

particulars and breathtaking in their collective scope, tend to sidestep positioning federalism as an explanatory variable.

There are, of course, exceptions to this generalization and a handful of scholars identify institutional constraints as key determinants of state policy decisions. Their results underscore the difficulty of imposing micro-level, variable-driven methods on essentially macro-level research questions.

For example, Grogan (1999) examines the impact of federal mandates on state policy choices concerning eligibility levels and benefit coverage in Medicaid and Assistance for Families with Dependent Children (AFDC, the pre-cursor to TANF) and finds that federally mandated expansions in one policy area tended to produce benefit reductions in areas where states retained discretionary power. Using state level political variables to control for ideological differences, a significant positive relationship is shown to exist between both Democratic and Republican control of the legislature and AFDC financial eligibility levels (Grogan 1999). This result illustrates possible shortcomings of a necessarily simplified measure of political ideology and opens the door for criticisms of omitted and unobservable variables. The study also reports a puzzling negative relationship between benefit coverage and state tax-capacity and effort, which the author concedes “raises some concerns about model specification” (Grogan 1999, 27).

Nicholson-Crotty et al. (2006) analyze the relative amounts of federal grant funding, controlling for variation in state needs and political ideology, to demonstrate how federal funding changes result in state-level budgeting tradeoffs. However, when counter-intuitive relationships are found between state needs and state expenditures, the

authors suggest they could be attributed to unobserved and omitted variables, including relative political power of beneficiary groups, institutional constraints, and increased state discretion over healthcare expenditures (Nicholson-Crotty et al. 2006).

While the Grogan (1999) and Nicholson et al. (2006) articles consider the effect of federal policies on state policy choices, as variable-driven analyses they encounter methodological hurdles related to policy considerations that are intrinsic to the federalist policy environment. In maintaining a macro-perspective, the discretion-capacity framework acknowledges, but does not seek to resolve methodologically, the deeply inter-connected set of explanatory variables that influence state policy choices in the American federal system.

Case-driven research as a methodology for macro-level analysis

In case-driven research, cases are treated as interdependent wholes and the search for a simple cause and effect relationship is abandoned to allow for “mutual influence among many factors” (della Porta and Keating 2008, 27-30). A case study has been defined as “...a method for learning about a complex instance, based on a comprehensive understanding of that instance obtained by extensive description and analysis of that instance taken as a whole and in its context” (GAO/PEMD-91-10.1.9).

Analyzing a state or policy as a “complex unit” permits the consideration of historical context and the impact of institutional arrangements (Steinmo 2008, 136) that are difficult to quantify for variable-driven analysis. Furthermore, case-driven research allows for “temporally discreet causes” (Ragin and Zaret 1983, 743) and enables the researcher “to understand the principles by which the parts consistently fit together” (Smelser 1976, 204).

Ragin (2004, 132) emphasizes the importance of distinguishing between population characteristics and causal conditions in variable-driven research. This is challenging in the federalist context since causal conditions are likely combinatorial *and* temporally discreet. There might not exist generally applicable propositions about which variables are descriptive of the population and those which are causal.

Case-oriented researchers “anticipate finding several major causal pathways in a given body of cross-state evidence. A typical finding is that different causes combine in different and sometimes contradictory ways to produce roughly similar outcomes in different settings” (Ragin 2004, 134). A case-driven approach may be appropriate for researchers interested in identifying “patterns of multiple conjunctural causation” (Ragin 2004, 134).

Case-driven research promotes *internal explanation* that Ferejohn (2004, 150) defines as focusing on the “reasons for an action”. While the motivations for state policy choices are varied and context specific, patterns may exist that yield insights about how states respond to shifts in federal parameters.

II. Proposed Methodological Approach

This research takes a macro-level, case-driven methodology that allows for full consideration of the multi-factorial, time variant causal conditions characteristic of the federalist environment. In so doing, the dissertation does not follow the trend towards large N, quantitative analysis in academic policy research. The choice of a case-oriented approach facilitates a focus on states’ social policy decisions, and allows the consideration of states and policies, as units of analysis, as complex wholes.

Case Selection: Block Grant Programs

I select two block grant programs to evaluate the role of federal parameters in delimiting state policy trajectories (Chapter 3) and analyze the variation in state policy responses over time (Chapters 4 and 5). Temporary Assistance for Needy Children (TANF) and the State Children's Health Insurance Program (SCHIP, later shortened to CHIP) were created in the late 1990s to provide assistance to low-income families. This temporal proximity ensures a certain measure of consistency in the broader political and fiscal conditions under which the two programs evolved. As chronicled in Chapter 3, TANF and SCHIP were created during the Clinton presidency, in the aftermath of the failed healthcare reform effort. The programs were enacted by the 104th and 105th Congresses, respectively, which featured similar partisan characteristics.⁶

Relative to Medicaid, the Earned Income Tax Credit and other federal efforts to assist low-income families, SCHIP and TANF are small in terms of expenditures, but their impact on the debate over social policy provision in the United States has been unmistakable. Their distinct approaches to block grant funding influenced subsequent efforts to convert Medicaid into a block grant, provide fiscal support to the states under the American Reinvestment and Recovery Act (ARRA) and implement healthcare reform under the Patient Protection and Affordable Care Act (ACA).

TANF and SCHIP continued a devolutionary trend that originated during the 1970s under the Nixon administration. The two block grants are relatively young programs, but they renewed the debate over the proper assignment of authority and

⁶ In the 104th Congress, Republicans controlled both legislative bodies, by a margin of 52-48 in the Senate and 230-204 in the House of Representatives. During the 105th Congress, Republicans retained control by a slightly higher margin in the Senate (55-45) and a slightly lower one in the House (226-207). Data on historical partisan composition is available at www.senate.gov and www.house.gov.

responsibility among federal and state governments in social policy. Since their enactment, they have endured periods of expansive and restrictive federal parameters and operated under variety of capacity constraints.

TANF and SCHIP share the basic block grant designation, but they differ in terms of federal parameters that define state policy options and orient state policy trajectories. They assign different levels of discretion to the states in determining policy content and incorporate distinct conditions for federal financial participation, which I explore in detail in Chapter 3.

Table 1: TANF and SCHIP Basic Facts

	TANF	SCHIP
Initial Federal Grant	\$16.5 billion per year	\$40 billion over 10 years
Initial Charter	5 years	10 years
Total Federal Expenditures	\$13.5 billion ⁷	\$7.0 billion ⁸

Sample Selection: States

I select four states to demonstrate the variation in state responses over time under each block grant program—Ohio, California, North Carolina and Texas. I draw on policy regimes proposed by Meyers et al. (2001) to select states for the sample.

Meyers et al. (2001) conduct a cluster analysis that defines different policy regimes based on states’ approaches to delivering support for low-income citizens. Where previous articles classified states along one or two designated dimensions related to policy outcomes (e.g. Berkman and O’Connor 1993; Berry et al. 1998; Cook et al.

⁷ Administration for Children and Families, federal expenditures on cash and non-cash assistance (excluding ARRA) for FY2009

⁸ Centers for Medicare and Medicaid Services, FY2008 (prior to CHIPRA)

1992; Elazar 1984; Erikson et al. 1985, 1987 and 1989; Gray 1973; Grogan 1994; Hanson 1983; Hero and Tolbert 1996; Hill et al. 1995; Peterson and Rom 1989; Plotnick and Winters 1985; Ringquist et al. 1997; Sharkansky 1971; Sharkansky and Hofferbert 1969; Tweedie 1994; Savage 1978; Walker 1969), their framework incorporates multiple measures of state effort across eleven programs for low-income individuals.

Meyers et al. (2001) develop a definition of generosity that incorporates adequacy, inclusion and commitment and is measured across thirty-one dimensions, including state eligibility levels, benefit definition, inclusion rates, tax policy and availability/quality of services. They identify five policy regimes based on how states cluster on the measured dimensions. They designate the regimes as minimal, limited, conservative, generous or integrated to reflect state efforts to provide support to low income families.

Integrated policy regimes were at or significantly above the national average across all dimensions of adequacy, inclusion and commitment, funding relatively generous benefits with progressive tax systems (Meyers et al. 2001). Generous policy regimes are described as providing more generous and inclusive benefits than the national average, though on certain dimensions (e.g. tax policy) they score closer to the average (Meyers et al. 2001). Conservative policy regimes tend to perform lower on measures of income and employment support, but higher on policies that reinforce personal responsibility (Meyers et al. 2001). Limited policy regimes are described as providing more income support than minimal policy regimes, but adequacy and inclusion measures were generally below or on par with the national average (Meyers et al. 2001). Minimal policy regimes are described as providing “meager or minimal support in nearly all

dimensions” (Meyers et al. 2001). States in this group have a regressive tax structure and score poorly on measures of inclusion and adequacy of benefits for the low-income families.

Analysis conducted with data pre- and post-welfare reform suggests that state cluster designations were relatively stable over the 1994-1998 time interval (Meyers et al. 2001), but has not been repeated recently to determine whether those clusters hold over a longer period. I use the Meyers et al. (2001) typology to identify states that had established different track records for providing support to low-income families at the start of the study period.

Consistent with the approach taken in the academic literature on varieties of federalism, the Meyers et al. (2001) policy regimes are structured as point-in-time classifications. The discretion-capacity framework enhances their approach by including the temporal dimension. Table 2 presents states in each policy regime, shown in descending order based on the number of low-income children in the state, with the sample states indicated.⁹

Table 2: Policy Regimes

Minimal	Limited	Conservative	Generous	Integrated
TX ✓	FL	IN	CA ✓	OH ✓
AR	GA	UT	NY	NJ
TN	NC ✓	KS	IL	WI
WV	AZ	ID	PA	MD
LA	VA	NE	MI	MN
AL	MO	MT	WA	NH
SC	OK	SD	MA	VT
KY	NV	ND	CO	
MS	NM	WY	OR	
	DE		IA	
			CT	
			ME	
			RI	

⁹ Policy regimes are from Meyers et al. 2001, 472. Order is based on the number of children living in families earning less than 200% FPL in FY2007, as reported in NCCP 2008

States were selected from the four policy regimes in which federal parameters were expected to act as binding constraints on state policy trajectories. Federal parameters were anticipated to act as lower bounds for states classified as minimal or limited policy regimes, and as upper bounds for states designated as generous or integrated. Conservative policy regimes were considered less likely to face binding federal parameters and this category was excluded to allow for more in-depth treatment of the sample states in the other four categories.

To explore the variation in state policy responses over time, I draw a purposive sample (GAO/PEMD-91-10.1.9) that includes four of the five social policy regimes identified by Meyers et al. (2001); represents the spectrum of socio-economic and political conditions present in the country as a whole; and accounts for a significant share of the low-income children in the United States and the expenditures and enrollment for the policies under investigation.

Referring to Table 3, note that the proposed sample of states incorporates a range of socio-economic and political characteristics. The political indicators reflect the percentage of time within the study period (1996-2010) that a Democrat (or a Democratic majority) held the political office. Fiscal measures (not shown) indicate variation both between states and, more notably, within states over time.¹⁰

¹⁰ Fiscal conditions are discussed at length in the text. They are excluded from the table since point-in-time statistics obscure extreme temporal variation within states (see NASBO, Fiscal Survey of the States, multiple years).

Table 3: Selected characteristics of the sample states*rank in ()*

	US	CA	NC	OH	TX
Socio-economic					
Median Household Income ¹¹	\$49,945	\$56,862 (13 th)	\$43,229 (41 st)	\$47,809 (31 st)	\$47,143 (34 th)
Poverty Rate by Household Income ¹²	14.3%	15.3% (16 th)	16.9% (9 th)	13.3% (26 th)	17.3% (7 th)
# children in low-income families, 000s ¹³	28.803	3,931 (1 st)	937 (9 th)	1,029 (7 th)	3,072 (2 nd)
% children in low-income families ¹⁴	39%	42%	43%	38%	47%
children as % population ¹⁵	26%	27%	26%	25%	30%
% children uninsured ¹⁶	10.0%	10.7%	11.8%	8.7%	16.5%
Political Offices¹⁷					
<i>% time held by Democrats 1996-2010</i>					
State Governor		29%	100%	21%	0%
State House/Assembly		100%	71%	14%	43%
State Senate		100%	100%	0%	0%

Table 4 and Table 5 illustrate the distribution of enrollment and expenditures across the sample states for each program. As summarized in Table 6, the sample represents 35 to 42% of total US enrollment and federal expenditures in each program.

Table 4: Medicaid, SCHIP and TANF Enrollment in the sample states*#s in 000s, rank in ()*

	US	CA	NC	OH	TX
<i>SCHIP¹⁸</i>	5,085	1,115 (1 st)	132 (10 th)	160 (8 th)	562 (2 nd)
<i>TANF¹⁹</i>	4,372	1,416 (1 st)	47 (24 th)	237 (3 rd)	115 (8 th)

¹¹ U.S. Census Bureau, 2009, Current Population Survey, ASES, 3 year average for 2007-2009

¹² U.S. Census Bureau, 2009, Current Population Survey, ASES, 3 year average for 2007-2009

¹³ NCCP 2008, Table 2 (Number of Children in Low-income Families) Data shown for 2007

¹⁴ NCCP 2008, Table 3 (Percent of Children in Low-Income Families) Data shown for 2007

¹⁵ U.S. Census Bureau, 2009, Current Population Survey

¹⁶ U.S. Census Bureau, 2009, Table HIA-5

¹⁷ Calculation based on data from the National Council of State Legislatures, 1996-2010

¹⁸ Kaiser Commission on Medicaid and the Uninsured 2009, Publication #7642-05, point in time enrollment for December 2009

¹⁹ Administration for Children and Families, average monthly caseloads FY2010

Table 5: SCHIP and TANF Expenditures in the sample states*\$s in millions, rank in ()*

	US	CA	NC	OH	TX
<i>SCHIP</i> ²⁰					
Federal	\$7,008	1,259 (1 st)	238 (8 th)	227 (9 th)	698 (2 nd)
State	\$3,038	707 (1 st)	90 (9 th)	86 (10 th)	266 (2 nd)
<i>TANF</i> ²¹					
Federal	\$13,524	3,116 (1 st)	276 (13 th)	821 (3 rd)	554 (4 th)
State	\$15,399	3,179 (1 st)	300 (11 th)	438 (8 th)	247 (14 th)

Table 6: Samples' portion of total SCHIP and TANF enrollment and expenditures²²*#s in 000s, rank in ()*

	US	Sample States	Sample States as % US Total
<i>SCHIP</i>			
Total Enrollment (#s in 000s)	5,085	1,969	39%
Total Federal Expenditures (\$ millions)	\$7,008	\$2,422	35%
<i>TANF</i>			
Total Enrollment (#s in 000s)	4,372	1,815	42%
Total Federal Expenditures (\$ millions)	\$13,524	\$4,767	35%

The case studies are used to illustrate variation in state policy responses over time. The objective of illustrative case studies is to add depth to a macro policy or program perspective (GAO/PEMD-91-10.1.9). Below, I provide background information on each state.

Ohio: An Integrated Policy Regime

Ohio has the largest population of low-income children among integrated policy regimes. Ohio is home to 1.03 million children living below 200% of the federal poverty level—equivalent to 38% of its population under 18, and on par with the national average

²⁰ Centers for Medicare and Medicaid Services, FY2008 (prior to CHIPRA)

²¹ Administration for Children and Families, FY2009, Federal TANF funds include cash and non cash assistance (excluding ARRA)

²² Estimate based on data in Tables 4 and 5

of 39% (see Table 3 above). Ohio households had a median income of \$47,809 per year, slightly lower than the national average of \$49,945, and ranking 31st out of 50 states. Approximately 8.7% of children in Ohio were considered uninsured, below the national average of 10%, and the lowest of the states in the sample.

The enhanced FMAP (eFMAP) used to calculate SCHIP matching payments, which ranges from 65 to 85%, was 74.58% for Ohio and its original federal allotment for the 1998-2007 period was approximately \$1.24 billion (Herz et al. 2009). Ohio received \$728 million per year in basic federal TANF allotments and did not qualify for supplemental grants (Ways and Means 2007).

Compared to other states in the “integrated” category, Ohio’s relatively conservative political environment is unusual. Over the course of SCHIP history, Republicans held the governor’s seat (continuously until 2007), the Senate (uninterrupted) and the House of Representatives (until the 2008 election) (NCSL).

As an example of an integrated policy regime, I expect Ohio’s policy responses to push the limits on discretion imposed by federal parameters, optimizing the state’s political, fiscal and structural resources to provide comprehensive benefits.

California: A Generous Policy Regime

California is the largest state in the nation and its population of low-income children represents 14-15% of the national total between 1997 and 2007 (NCCP 2008). California ranks first in all enrollment and expenditure measures of program size and was selected to represent “generous” social policy regimes.

An estimated 3.93 million low-income children reside in California, or 42% of its population under 18 (see Table 3 above). In 1999, 17.1% of children in California were

uninsured, a figure that had dropped to 12.2% by 2003 and stabilized at around 10.5% at the end of the decade. Over the same time period, California closed the gap between its own rate of uninsurance and the national average, from 4.6 to 0.6 percentage points between 1999 and 2008 (U.S. Census Bureau, Table HIA-5).

The Californian median household income is \$56,862, tracking above the national average of \$49,945, putting California in the top quartile of states (U.S. Census Bureau Table H-8) and making it the wealthiest state in this sample on this measure.

California's enhanced FMAP (eFMAP) was 65%, at the floor set for SCHIP matching payments and its initial federal allotment was \$6.89 billion over the 1998-2007 period (Herz et al. 2009). California's historical spending on AFDC qualified it for continued high levels of funding under TANF. California received an annual basic allotment of \$3.7 billion, which accounted for more than 22% of the total federal funding available for TANF (Ways and Means 2007).

California's political environment during the study period was marked by a high profile turnover of the governor's seat. Governor Gray Davis (D) was successfully removed in a recall vote in July 2003 and Arnold Schwarzenegger (R) was elected in his place. Though the state Senate and General Assembly operated under Democratic majorities the entire period, a peculiarity of California law requires a two-thirds majority in both houses to approve budgets,²³ and the Democrats never achieved a super-majority.

As an example of a generous policy regime, I expect California's policy responses to exploit the discretion afforded under federal parameters, drawing on the state's political, fiscal and structural resources to provide generous benefits.

²³ Only two other states, Arkansas and Rhode Island, share this budget provision (Zelman 2009)

North Carolina: A Limited Policy Regime

North Carolina was selected to represent the “limited” policy regime. While other regimes in this category are home to larger numbers of low-income children (NCCP 2008), the research for this dissertation was undertaken in North Carolina over a time period that coincided with the evolution of TANF and SCHIP described in the following chapters. Though smaller than other states in the sample, North Carolina nevertheless ranks between 8th and 10th on SCHIP expenditures and enrollment. Though only 24th in terms of TANF enrollment, state expenditures on that program exceed those in Texas, despite the enormous population differential (see Table 4 and Table 5 above).

Similar in size to Ohio, North Carolina is home to just under a million low-income children, though they represent a larger share of its population under 18—43% to Ohio’s 38% (NCCP 2008, see Table 3 above). North Carolina households have a median income of \$43,229 per year (below the national average of \$49,945)—it ranks 41st out of 50 states, making it the poorest state in the sample on this measure.

The share of uninsured children in North Carolina fluctuated over the time period, starting at 11.2% in 1999, dropping to 10% in 2004 before spiking to 14% in 2006 and settling back to 11.2% by 2009 (U.S. Census Bureau Table HIA-5). North Carolina’s enhanced FMAP (eFMAP) was, inversely, the highest in the sample at 75.3%. North Carolina’s original federal allotment was \$957 million over the 1998-2007 period, though the state qualified for an additional \$168 million in redistributed federal allotments (Herz et al. 2009). North Carolina received \$302 million in annual basic TANF allotments and an additional \$36 million per year in supplemental grants (Ways and Means 2007).

North Carolina's governor's seat was held by a series of Democrats: Jim Hunt (1993-2001), Mike Easley (2001-2009) and Beverly Perdue (2009-present). While the state Senate operated under a Democratic majority continuously after 1998, leadership in the House changed hands twice over the period.

As an example of a limited policy regime, I anticipate that North Carolina's policy responses will not exploit the discretion afforded under federal parameters, and that the state's political, fiscal and structural resources will allow for the provision of more limited benefits.

Texas: A Minimal Policy Regime

Texas was selected to represent the "minimal" policy regimes. The state's population of low-income children hovers around 10% of the national total over the period, second only to California (NCCP 2008), and by far the largest state with a minimal policy regime. SCHIP enrollment is consistent with the number of low-income children in the state, likewise ranking second nationally, however, with respect to TANF, the state ranks only 8th in terms of enrollment and 14th in terms of state expenditures (see Table 4 and Table 5).

More than three million children live below 200% FPL in Texas, about 47% of its population under the age of eighteen, considerably above the national average of 39% (NCCP 2008, see Table 3 above). Approximately 16.5% of children in Texas were counted as uninsured, again above the national average, and the highest rate of uninsurance in the country.

Texas households had a median income of \$47,173 per year, slightly lower than the national average of \$49,945, and ranking 34th out of 50 states (see Table 3 above).

The enhanced FMAP (eFMAP) used to calculate SCHIP matching payments was 72.39% for Texas and its initial federal allotment was \$4.48 billion over the 1998-2007 timeframe (Herz et al. 2009). With a history of low AFDC expenditures, Texas's original allotment was \$486 million, with supplemental grants of \$53 million (Ways and Means 2007).

Consistent with other states in the "minimal" category, Texas has a conservative political environment. Over the course of SCHIP history, Republicans continuously held the governor's seat and the Senate. The House had a Democratic majority until the 2004 election when the Republicans took over. Though the Republican majority diminished to a margin of only 2 seats in the 2008-2010 session, the subsequent election ushered in a landslide Republican majority, outnumbering the Democrats 101 to 49 (NCSL).

As an example of a minimal policy regime, I expect that federal parameters will function as a lower bound on Texas's policy responses, with the state's political, fiscal and structural resources acting as reinforcing constraints on benefit provision.

Conclusion

The remainder of the dissertation is organized around the research agenda outlined at the end of Chapter 1. In the next chapter, the analysis responds to the first research objective by detailing the origins and design of the TANF and SCHIP block grant programs. The intent is to specify the role of federal parameters in delimiting state policy options and orienting state policy trajectories.

CHAPTER 3. THE ORIGINS AND DESIGN OF TANF AND SCHIP

In 1996, the Clinton Administration and a Republican Congress replaced the AFDC entitlement with the Temporary Assistance for Needy Families (TANF) block grant program, devolving authority for welfare policy decisions to the states (Fellowes and Rowe 2004; Kamerman and Kahn 2001) and allowing for increased diversity across state programs (Kamerman and Kahn 2001; Martinson and Holcomb 2002). A year later, the State Children's Health Insurance program (SCHIP) block grant was created to serve low-income children who did not qualify for Medicaid (generally children whose families earned between 100 and 200% of the federal poverty level or FPL) but could not obtain private insurance.

The establishment of two high profile block grants continued a trend away from individual entitlements (Finegold et al. 2004; Schneider 1998; Soss et al. 2001). The programs enjoyed widespread support at the outset, but over time, that support splintered and both policies suffered through sustained reauthorization processes (Grogan and Rigby 2009; Peterson 2002). I begin this chapter with an abbreviated policy history of the two programs and follow with a detailed comparison of the block grant policy instruments as originally legislated.

I. Policy Background: Setting the Stage for TANF and SCHIP

A Brief History of Cash Assistance in the United States

Federal support for state efforts to provide cash assistance to low-income families was first formalized under the Social Security Act (SSA) of 1935. State participation in the Aid to Dependent Children (ADC) program was voluntary but states with approved plans were eligible for reimbursement of one third of their expenditures.²⁴

Initially, ADC covered only dependent children. Over time, the program was expanded, first at the discretion of participating states and later as a condition for federal funding, to include unemployed parents, their spouses and families. To reflect its expanded scope, the name of the program was changed in 1962 to Aid to Families with Dependent Children (AFDC).

In 1950, the Social Security Act was amended to provide additional federal funding to states that paid for welfare recipients' health care. In 1965, Title XIX Medicaid legislation formalized medical coverage for AFDC recipients. States' participation in the Medicaid program was voluntary, but fiscal incentives encouraged implementation. Higher, open-ended federal matching rates were applied for a portion of AFDC expenditures in states that implemented Medicaid. The matching rate was calculated on a sliding scale based on states' per capita incomes.²⁵

Federal AFDC monies were available to reimburse a percentage of states' cash assistance to all individuals with gross incomes less than 185% of that state's "need"

²⁴ This formulation originally set federal contributions at \$6 per month for the first child and \$4 per month for additional children, which were increased over time (see <http://aspe.hhs.gov/hsp/afdc/baseline/1history.pdf> for additional details).

²⁵ Wealthier states received the minimum 50% reimbursement while poorer states qualified for matching rates as high as 83% (see <http://aspe.hhs.gov/hsp/afdc/baseline/4spending.pdf> for additional information).

standard (used to determine eligibility) and net incomes below the “payment” standard (used to calculate the benefit paid). States were given flexibility in the determination of both the need and payment standards, neither of which was required to keep pace with the federal poverty level.²⁶

Over the years, the need standard continued to increase while the payment standard stagnated. By July 1994, the weighted average of states’ need standards was \$688 while the average payment standard was only \$420.²⁷ The Food Stamps program provided supplemental assistance to low-income families, but in 1996 the median *combined* maximum benefit for a family of three was \$699 (\$389 AFDC plus \$310 in Food Stamps), or 65% of the federal poverty level for a family of that size.²⁸

Despite relatively meager benefit levels, President Reagan’s “welfare queen” campaign and reports of welfare fraud eroded public support for the AFDC program in the 1980s. In 1988, the Family Support Act created the Job Opportunities and Basic Skills (JOBS) entitlement program, to provide education, training and job placement for AFDC recipients. The program provided federal matching funds, set quotas for participation and was intended to move welfare beneficiaries out of the AFDC caseload and into employment.²⁹

²⁶ For additional information see <http://www.census.gov/hhes/povmeas/methodology/nas/files/afdc.pdf>

²⁷ For details see <http://aspe.hhs.gov/hsp/afdc/baseline/1history.pdf>

²⁸ For additional discussion see <http://www.libraryindex.com/pages/910/Comparing-New-TANF-with-Old-AFDC-ELIGIBILITY-BENEFIT-PAYMENTS.html>

²⁹ JOBS provided uncapped federal funds at a 90% matching rate, up to the states’ 1987 allocation for the defunct Work Incentive Program, and at the Medicaid matching rate (with a floor of 60%) for additional funds.

AFDC caseloads continued to increase in the early 1990s, peaking at more than 5 million families per month in 1994.³⁰ Though the increase roughly corresponded to growing unemployment related to the recession, it persisted longer than previous recession related welfare expansions (Zedlewski et al. 1998) and fueled the controversy over rising welfare expenditures and perceived program inefficiencies that set the stage for welfare reform in the 1990s.

A Brief History of Child Health Insurance in the United States

Title XIX of the Social Security Act created Medicaid in 1965 to provide matching federal funds for states that covered the medical expenses for AFDC recipients. Initially, Medicaid eligibility was determined, like AFDC, by state definitions of “need” and thus varied considerably across states.

In a series of budget reconciliation acts beginning in the late 1980s, the basis for Medicaid eligibility determinations shifted (Schneider 1997) from *state* need standards to the *federal* poverty level. Federal provisions initially allowed and later required coverage of pregnant women and children under age five, first up to 100% FPL, then up to 133% FPL, and extended coverage to children aged 6-18 up to 100%FPL. Expanded Medicaid eligibility in the 6-18 age bracket was legislated in the Omnibus Budget Reconciliation Act (OBRA) of 1990, but states were allowed to phase in coverage through 2002.³¹

Rising healthcare costs and shrinking employer-based insurance coverage in the 80s and 90s brought healthcare issues to the fore in election campaigns. In 1991, Harry Wofford (D) won the vacant Pennsylvania Senate seat in a campaign that included a

³⁰ For details see <http://aspe.hhs.gov/hsp/afdc/baseline/2caseload.pdf>

³¹ For a complete timeline of OBRA provisions, see <http://www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&pageid=14255>

progressive stance on healthcare reform. Other Democrats, including presidential candidate Bill Clinton, seized on this victory as evidence of the growing national appetite for healthcare reform.

After his election, President Clinton launched a major healthcare reform initiative, placing Hillary Rodham Clinton at the helm. The Clintons' inability to capitalize on public support for reform in 1993-4 has been carefully chronicled and exhaustively analyzed. With various nuances, scholars have argued that the Clinton reform effort failed because there was something for everyone to object to in the plan (Skocpol 1995; Heclo 1995). Nevertheless, there remained a measure of consensus that the rates of rising healthcare costs and declining private coverage were alarming and that the solution would include substantial devolution of decision-making to the states (Sparer 1996).

The Shared Origins of TANF and SCHIP

In fact, efforts to devolve policy-making authority had been underway since Nixon was in office, though they gained momentum under the Reagan administration (Conlan 1984). In the early 80s, Reagan initiated a series of consolidations that converted numerous health, education and welfare categorical grants into block grants on the premise that states were better positioned to identify policy needs and closely manage program expenditures (Conlan 1986; Schneider 1997; Williamson 1986).

As state discretion expanded in the policy areas covered by these block grant conversions, programs like Medicaid and AFDC provided other escape mechanisms for states seeking more latitude in decision-making. In addition to legislated changes that (first) allowed (and often later required) expanded eligibility, state experimentation was permitted and increasingly encouraged via Section 1115 waivers (Holahan et al 1995;

Vladeck 1995; Schneider 1997; Arsneault 2000). Section 1115 of the Social Security Act allowed for waiver of federal statutes to permit limited state research demonstration projects (Williams 1994) as long as they were budget neutral over the life of the demonstration (Vladeck 1995). Waivers proliferated under President Clinton—for both AFDC and Medicaid—in the years leading up to TANF and SCHIP legislation.

Between 1993 and 1996, 43 states received waivers pertaining to AFDC provisions such as eligibility definition, work incentives and requirements, time limits on benefits and the calculation of income and asset disregards (Zedlewski et al 1998; HHS 1997). Waivers approved in the early 90s proved successful testing grounds for many of the reforms later featured in the 1996 TANF legislation.

Medicaid waivers were less widespread than their AFDC counterparts, but state Medicaid programs were certainly not uniform. In the early 1990s, eight statewide Medicaid waivers had been approved by HCFA (Vladek 1995; Holahan et al 1995). These waivers generally favored implementation of managed care plans for Medicaid recipients, using the projected savings to offset costs of expanding coverage to additional groups of low-income uninsured individuals (Holahan et al 1995; Ryan 2002). The significance of waivers in expanding coverage for children has been considerable. Waivers have allowed for increases in eligibility thresholds, expansions of target populations, and experimentation with service provision and cost-sharing alternatives (Ryan 2002; GAO/HEHS-99-65).

In both cash assistance and health coverage, states pushed the boundaries imposed by federal parameters. States actively pursued waivers when necessary and continued their own efforts outside the federal policy sphere. In retrospect, it may be clear that the

policy environment leading up to the adoption of TANF and SCHIP was trending towards devolution, but at the time, politicians continued to debate the appropriate balance of federal and state policy making authority and funding responsibility.

Under specific requirements imposed by SCHIP and TANF legislation, states retained authority over different aspects of policy making under the two programs. In the following sections, I detail the federal provisions that defined the boundaries on state discretion and shaped the portfolio of policy options available to the states.

II. Temporary Assistance for Needy Families (TANF)

President Clinton had campaigned on a promise to “end welfare as we know it”. Two years into his first term, his healthcare plan had failed and the public, in an apparent repudiation of his policy agenda, elected substantial Republican majorities in both houses of Congress for the first time since 1954. The call to revamp welfare resonated across party lines and the new balance of power presented a unique opportunity to pursue substantive reform.

In agreement on the need for reform, the President and the Republican Congress nevertheless held different views on several key issues. The President vetoed the legislation twice, negotiating for the continuation of guaranteed medical coverage, increased child-care funding, cash incentives for states to move recipients into work activities, increasing the contingency fund from \$1 to \$2 billion and other provisions.³² Clinton finally signed the Personal Responsibility and Work Opportunity Resolution Act (PRWORA) into law on August 22, 1996 (Public Law No. 104-193).

³² For a detailed account of the legislative compromises, see <http://www.acf.hhs.gov/programs/cse/pubs/1996/news/prwora.htm>

PRWORA created Temporary Assistance for Needy Families (TANF), a federal block grant to the states, to replace the former AFDC federal entitlement program and consolidate federal funding previously disbursed under AFDC, Job Opportunities Basic Skills (JOBS), and Emergency Assistance (EA). The grant was funded at \$16.5 billion a year for five years after which congressional reauthorization would be required. The four stated objectives of the legislation were:

- assisting needy families so that children can be cared for in their own homes;
- reducing the dependency of needy parents by promoting job preparation, work and marriage;
- preventing out-of-wedlock pregnancies;
- encouraging the formation and maintenance of two-parent families (Public Law No. 104-193).

TANF expanded states' authority to use federal welfare funding to pursue a variety of policy objectives related to cash assistance, childcare and employment services. In return for this increase in policy-making authority, states were required to condition cash assistance on recipients' participation in work activities and to enforce time limits on benefit eligibility. States were able to exempt a portion of their caseload from the work requirements but the 60-month lifetime limit on federal benefits was to be strictly observed.

TANF provided three types of federal grants. The largest was the block grant, fixed at \$16.49 billion per year, and distributed in lump sums based on federal disbursements to the states in 1994 or 1995 under the programs replaced by TANF (principally AFDC, JOBS, and Emergency Assistance). This structure rewarded states

with historically high spending on welfare but reinforced disparities in states' spending per beneficiary.

Supplemental grants mitigated those penalties imposed by using historical expenditures to determine future fixed payments. States with substantially higher population growth, and/or lower historical spending per low-income individual, were eligible to receive supplemental grants. Seventeen states originally qualified for \$319 million in supplemental grants (Ways and Means 2007).

To prevent states from reducing their own contributions, states were required to maintain pre-TANF expenditures of state funds. Maintenance of effort (MOE) requirements kept state spending at 80% of 1994 or 1995 levels (or 75% for states meeting work participation targets). There was no statutory limit on the time states have to draw down federal TANF funds and unspent funds in early years could be carried without penalty into future fiscal years, and, in part, diverted to other programs.³³

As a counter-cyclical measure, a contingency fund of \$2 billion was set aside to provide for increased need during economic downturns. A state could qualify for contingency disbursements if it applied to HHS as a "needy state", with rising numbers of unemployed and/or food- stamp recipients. The provision was meant to reduce risk imposed on the states by the fixed grant structure. TANF was crafted during a period of declining caseloads and improving unemployment figures but, under the new legislation, if caseloads returned to peak levels, states would be fiscally responsible for 100% of expenditures in excess of the federal grant.

³³ States could transfer up to 30% of federal TANF funds into the Social Services Block Grant (SSBG) and the Child Care Development Block Grant (CCDBG, later known by the acronym CCDF) each year, with a limit of 10% imposed for SSBG transfers since 1997 (GAO-03-1094)

The TANF structure left states with considerable autonomy to pursue diverse portfolio of welfare-related policies, paving the way for state choices that would become increasingly controversial during the reauthorization debate.

III. State Children's Health Insurance Program (SCHIP/CHIP)

As part of the 1997 Balanced Budget Act, Title XXI of the Social Security Act established the State Children's Health Insurance Program (SCHIP, later shortened to CHIP) to target children living below 200% of the poverty level who were ineligible for Medicaid and not covered by private insurance.

The SCHIP block grant was funded for ten years, twice as long as TANF's initial five-year charter. The annual federal outlay was capped, limiting federal financial exposure and transitioning more decision making to the states (Finegold et al. 2004). The states would manage their SCHIP programs subject to federal guidelines and receive matching federal funds at 65-85% of qualifying state expenditures.

In contrast to the TANF allotments that were based on states' historical expenditures, SCHIP allocations were to be distributed via a "need" based formula. The formula reflects the number of low-income and low-income uninsured children in each state and is adjusted for the cost of state healthcare wages.³⁴ For the first two years of the program, the formula used the count of low-income uninsured children to determine the state's allotment. Over time, the count transitioned to an average of low-income and low-income uninsured children so that states would not be penalized for SCHIP's success in reducing the numbers of uninsured children.

³⁴ Distributions were also subject to floors and ceilings. For a detailed discussion of the formula and the relevant floors/ceilings, see <http://www.mrmib.ca.gov/mrmib/HFP/CRS10.06Report.pdf>

Congress considered a number of different options for expanding health care coverage for children. The broader political debate centered on the appropriate degree of discretion the states should be granted in designing their programs (Brandon et al. 2001). Democrats generally favored Medicaid expansions while Republicans supported devolving policy decisions to the states.

The bipartisan compromise allowed states to use SCHIP funding to expand their Medicaid programs (M-SCHIP), establish separate or stand-alone programs (S-SCHIP), or structure a combination of the two. States' initial choice concerning program structure involved tradeoffs between discretion and fiscal responsibility.

States choosing the more rigid M-SCHIP structure accepted more federal limits on state discretion. For M-SCHIPs, Congress imposed limits on states' authority to define benefits, set eligibility levels, manage enrollment, and structure administrative procedures (Weil 1997; GAO/HEHS-99-65). All benefits available under Medicaid had to be offered to the Medicaid expansion group.

M-SCHIPs were authorized to extend eligibility up to the higher of 200% FPL or fifty points above the state's Medicaid threshold. The state was required to accept all eligible applicants, forfeiting the ability to close or reduce enrollment. Cost sharing was generally prohibited unless the state's Medicaid program operated under a waiver that permitted it. In exchange for these limits on discretion, M-SCHIPs received the funding guarantee conveyed by the Medicaid program. If a state depleted its original SCHIP allotment, state expenditures for M-SCHIP participants would continue to qualify for federal matching payments, though at the lower Medicaid matching rate.³⁵

³⁵ For additional details on M-SCHIP structure see GAO/HEHS-99-65

States implementing S-SCHIP retained a higher level of discretion over their SCHIP policies. Congress allowed S-SCHIP programs more autonomy to manipulate enrollment, expand eligibility thresholds, and limit benefits. S-SCHIPs could (within broad guidelines) define the benefits to be included in the package; manage enrollment via freezes, waitlists, or closure; enforce waiting periods and impose cost-sharing requirements to reduce “crowd out” of private insurance; and manipulate other program details to achieve enrollment and/or expenditure objectives (Weil 1997; GAO/HEHS-99-65). S-SCHIP programs would not receive federal matching funds after a state’s allotment was depleted. Thus, for an increased level of state discretion, S-SCHIPs would face greater financial exposure if expenditures exceeded allotments.

States were allowed three years to use their allotments before unspent funds were diverted to a pool for redistribution.³⁶ This provision was more restrictive than TANF’s open-ended allowance to carry funds forward, though it was revised in August 2003 to extend states’ access to FY1998-99 allotments through FY2004 and enable states to retain 50% of unspent funds past the three-year deadline (Public Law No. 108-74). Under both TANF and SCHIP, states were prompted to accelerate spending or risk Congressional actions to reduce future allotments.

IV. Discretion under TANF and SCHIP

The initial statutory provisions placed different parameters on state discretion under the TANF and SCHIP block grants that structured subsequent policy developments. Table 7 summarizes key features of the two block grant programs.

³⁶ For additional information on SCHIP structure, see GAO/HEHS-99-65; Herz et al. 2005; Mann and Kenney 2005; Peterson 2006; Rose 2004

Table 7: TANF and SCHIP Key Block Grant Provisions

	TANF	SCHIP
Federal Grant	\$16.5 billion per year	\$40 billion over 10 years
Initial Funding	5 years	10 years
Maintenance of Effort Requirements	75-80% of '94-5 spending	not applicable
Carryover Limits	none	3 years (later revised)
Allotment Basis	historical spending	# low-income/uninsured children
Benefit Entitlement	none	S-SCHIP: none M-SCHIP: yes
Matching rate	not applicable	S-SCHIP: eFMAP M-SCHIP: eFMAP up to cap FMAP over cap
Federal conditions	Work Participation Rates 60 month lifetime benefit limit	S-SCHIP: none M-SCHIP: same as Medicaid
Countercyclical Measures	\$2 billion contingency fund	none

Both programs afforded states with an initial increase in discretion, encouraging program expansions under relatively generous federal funding terms. Over time, policy developments mirrored those observed in earlier block grant programs. The flexibility embedded in federal legislation permitted divergent state policy trajectories and initial federal support for the programs splintered as federal legislators lost control over policy trajectories (Ingram 1977; Nathan 1983). Conservatives, who initially supported policy devolution, criticized progressive states for expanding policies beyond original legislative intent (Posner and Wrightson 1996).

During SCHIP reauthorization, Republicans called for tighter federal control to prevent states from extending coverage beyond the initial 200%FPL threshold (Grogan and Rigby 2009; CMS 2007) and a contentious debate ensued. In TANF, loopholes in the definition of work participation rates and 60-month benefit limits enabled states to

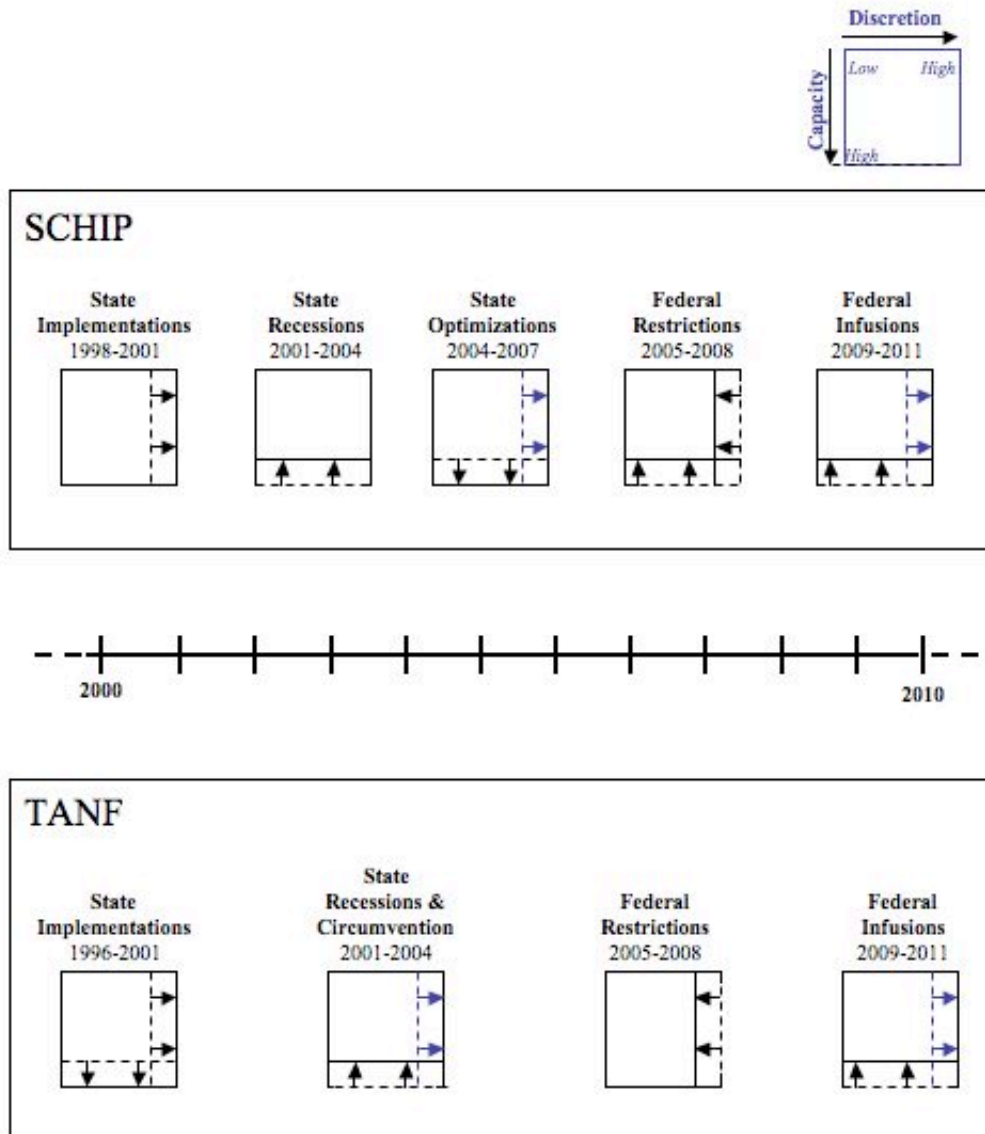
continue assisting individuals that the TANF legislation intended to exclude—states’ strategic manipulation of these metrics was well documented (Peterson 2002; Bowman 2002) and likewise sparked a litigious reauthorization process.

For both programs, the reauthorization process was prolonged and resulted in new restrictions on state discretion. In this respect, the TANF and SCHIP experience was compatible with prior research that demonstrated the tendency of state discretion over policy direction to produce instability in block grant provisions (Chernick 1998; Posner and Wrightson 1996). Likewise, the TANF and SCHIP timelines illustrate the tension between the relative continuity of institutional constraints in a dynamic political environment (Pierson 2004). Both programs had been signed into law by a Democratic administration and came up for reauthorization under a Republican president with a different social policy agenda.

Revisions to TANF and SCHIP provisions, achieved via administrative mechanisms before, and statutory channels during, the reauthorization process, restricted state discretion and demonstrate instability in block grant provisions. Furthermore, the direct correlation between state activity outside of desired federal parameters and specific federal actions to curtail that activity could be used to substantiate claims that the block grant structure itself functions as a policy feedback mechanism (Grogan and Rigby 2009).

Figure 2 represents the two policy timelines in tandem. The timelines structure the analysis in the next two chapters, as I explore variation in state policy responses in the evolution of the SCHIP and TANF block grant programs.

Figure 2: Policy Timelines for SCHIP and TANF



CHAPTER 4. THE STATE CHILDREN’S HEALTH INSURANCE PROGRAM

The proposed framework casts state decision making as a dynamic process in a federalist system. To briefly review, two dominant factors influence state policy choices: discretion and capacity. “Discretion” is a bounded range of statutory and administrative options permitted by federal parameters. “Capacity” is a state’s ability to optimize within those parameters based on political, fiscal and structural factors.

In SCHIP legislation, Congress defined the initial policy trade-offs and associated financial risk the states faced in choosing either to expand Medicaid (M-SCHIP) or establish a stand alone program (S-SCHIP). In subsequent periods, those tradeoffs were redefined by changes in federal parameters and state capacity. This chapter details the variation in state policy responses from SCHIP implementation up to the American Reinvestment and Recovery Act.

Working off the SCHIP policy timeline introduced in Chapter 3, I detail the sequence of federal parameters and capacity constraints. I then present the four state case studies to illustrate variation in state policy choices over time.

I. SCHIP Timeline

Subsequent to the passage of federal legislation described above, SCHIP evolution can be divided into five periods (see Figure 2):

1. *State* implementations (1998-2001)
2. *State* restrictions (2001-2004)

3. *State* expansions (2004-2007)
4. *Federal* restrictions (2005-2008)
5. *Federal* infusions (2009-2011)

Each period is characterized by a set of prevailing constraints and coincides with a pattern of state policy decisions. In the first phase, federal parameters interacted with state capacity constraints to shape initial implementations. The second and third periods are marked by significant shifts in state level resource constraints that prompted changes in the scope and direction of state SCHIP programs. In the final two phases, binding policy constraints originated primarily from federal level parameters that first restricted and then expanded state policy options. The overlap between the third and fourth phases reflects the iterative nature of federal and state policy developments, with expansive state policy trajectories provoking restrictive federal responses.

1. State Implementations (1998-2001)

During the implementation phase, constraints from federal parameters were statutory and related to the M-SCHIP/S-SCHIP choice outlined in Chapter 3. In conjunction with federal parameters, state responses were influenced by two state level factors: political and structural capacity. I look first at the state capacity constraints and follow with an overview of federal efforts to mitigate those constraints by publicizing the availability of waivers and flexibility of administrative rules.

Along the capacity dimension, political, fiscal and structural resources exerted countervailing pressures on implementation choices. Fiscal capacity was generally not restrictive. The states were operating in a period of economic growth and strong fiscal health (Howell et al. 2002) and enhanced federal matching rates encouraged state

participation. While some states with large populations of low-income, uninsured children were concerned with the long-term financial sustainability of the program (Dunkelberg and O'Malley 2004), in general, fiscal circumstances were conducive to SCHIP implementations.

Federal timeframes guiding plan submissions and funding availability gave the states only a few months to design their programs and pass the legislation (GAO/HEHS-99-65), generating temporary political and structural constraints. The M-SCHIP/S-SCHIP tradeoffs, which had been designed to bridge irreconcilable partisan differences at the federal level, sparked a replay of those debates in the state legislatures. Many states opted to temporarily table the M-SCHIP/S-SCHIP decision and leverage the higher SCHIP matching rates to accelerate compliance of their Medicaid programs with the expanding eligibility mandates. This was allowed under the SCHIP provisions though these populations would revert to the lower Medicaid matching rate in September 2002 (GAO/HEHS-99-65).

Structural constraints hinged on identification of the procedures and personnel to handle outreach, enrollment and program administration. As a program targeting a new population of beneficiaries, SCHIP implementation required significant infrastructure upgrades, via the expansion of Medicaid (for M-SCHIP) or the establishment of separate administrative procedures (for S-SCHIP). The abbreviated lead time between SCHIP authorization and the availability of federal funds would certainly have encouraged states to consider leveraging the existing Medicaid infrastructure. Title XXI was enacted in August 1997, only two months before funds were available for drawdown by the states (GAO/HEHS-99-65).

To encourage states to clear these hurdles, the Clinton administration initiated a federal publicity campaign and promoted procedures intended to facilitate SCHIP expansions. In a February 23, 1999 press release, the Department of Health and Human Services (HHS) outlined the comprehensive offensive initiated by the Clinton administration. The memo notes the launch of a national toll-free hotline, a nationwide radio campaign, an informational website, a coordinated federal effort to engage in outreach and education, and a number of partnerships with private foundations “to fund innovative state-local coalitions to design and conduct outreach initiatives, simplify enrollment processes, and coordinate existing coverage programs” (HHS 1999, 4).

The state capacity constraints proved temporary and by the end of the state implementation phase were non-binding. States’ choices of M-SCHIP versus S-SCHIP models reflected their preferences for balancing more discretion over policy specifics (S-SCHIP) with a financial guarantee that extended beyond the capped allotment (M-SCHIP). States pursuing S-SCHIP implementations shared a preference for greater autonomy but were divided by opposing inclinations to exercise that autonomy to expand or restrict SCHIP access.

The discretion dimension is shown as expanding during this phase, as the Clinton administration and favorable federal funding terms encouraged states to expand coverage of low-income children.

2. State Recessions (2001-2004)

As state implementations were gathering momentum, a different state level constraint came into play—fiscal capacity. The national recession that began in 2001 was accompanied by a series of fiscal crises across the states that severely restricted the

capacity dimension. In January 2002, the National Conference of State Legislatures (NCSL) reported that forty-six states collected revenues below projections, thirty states exceeded their budget for expenditures and thirty-nine states made budget cuts (NCSL 2002, Table 1). Though SCHIP was generally spared during the early months of the recession due to its favorable federal matching rate and relatively small size, by 2004 many states had acted to contain or reduce SCHIP costs (Coughlin and Zuckerman 2005; Hill et al. 2005, 2007; Howell et al. 2002).

Case studies indicate that cost-sharing, outreach reduction and income verification were employed to achieve those reductions (Kaye et al. 2006). Seven states operating separate programs were forced to cap enrollment and/or maintain waiting lists, either temporarily or for extended periods, until state revenues rebounded (Hill et al. 2007). As states struggled to balance their budgets, limits on SCHIP expansions were imposed by fiscal capacity. Graphically, this is represented by a contracting influence on the capacity dimension with no changes on the discretion axis.

State fiscal constraints curtailed expansions during this period and perpetuated the semblance of unrestrictive federal parameters. However, an ideological shift accompanied the ascent of George W. Bush (R) from governor of Texas to President of the United States in 2001. Though latent during the period of recession related state-led retrenchment, the shift would become highly visible in future periods.

3. State Optimizations 2004-2007

As state economies recovered from the recession, they redirected efforts to expand their SCHIP programs and made strategic decisions to optimize federal funding.

Despite the specter of state fiscal crises behind them and some uncertainty regarding future federal funding reauthorization, SCHIP enrollments continued to grow.

Propelled by improving fiscal conditions, states exploited waivers that had been approved by CMS during the permissive Clinton years and maximized federal funds to serve a widening range of beneficiaries. By 2005, eleven states covered parents and 5 states covered pregnant women under SCHIP waivers (Guyer et al. 2007). During the twelve-month period beginning in July 2005, seventeen states acted to implement fourteen eligibility increases (Cohen Ross and Cox 2007). Twenty-nine states and the District of Columbia developed proposals to cover more children through Medicaid and SCHIP between January 2006 and April 2007, about half of which were to be accomplished by raising income eligibility levels (Odeh and Arjun 2007).

In addition, many states reversed the administrative choices that had been implemented to reduce expenditures during the budget crises. Five states enacted enrollment procedure simplifications, two reduced children's premiums and, by this point, many operated programs without asset tests (46 states) or renewal interviews (48 states) (Cohen Ross and Cox 2007, 5-6). The following year saw a seven percent increase in SCHIP enrollment nationwide (Smith et al. 2008).

On the grid, the state optimization period is represented by rebounding state capacity. The states, reinvigorated by improved fiscal conditions, exploited the discretion permitted by SCHIP statutes and expanded by permissive waivers, many of which had been approved during the prior period. This sequence of events underscores the importance of prior state and federal actions (i.e. waiver submissions and approvals) in defining policy choices in subsequent periods. It also demonstrates how discretion and

capacity interact to influence policy trajectories. States operated under similar federal parameters during the 2001-2004 period, but SCHIP expansions required sufficient fiscal capacity to accelerate.

Meanwhile, the DRA of 2005 and projected budget shortfalls indicated that state efforts were approaching the limits of discretion and fiscal capacity in their SCHIP policy choices.

4. Federal Restrictions (2005-2008)

In 2005, Republicans controlled Congress and the Presidency. In the Deficit Reduction Act of 2005, the 109th Congress revised numerous safety net programs, including Medicaid, SCHIP and TANF. The DRA imposed more stringent citizenship documentation requirements for Medicaid benefits with spillover effects on SCHIP, since many states had developed a single screening and application process for Medicaid and SCHIP (Grady 2007). Coverage of parents and childless adults with SCHIP funds had come under increased scrutiny and the DRA prohibited CMS from approving new waivers to use SCHIP funds for those groups.

At the beginning of this period, despite overspending by some states, the redistribution of unspent SCHIP funds perpetuated a false sense of fiscal security. Redistributions protected states from the funding cap, but analysts began forecasting shortfalls in federal SCHIP allotments (Broaddus 2006; Broaddus and Park 2006).

The SCHIP program entered its reauthorization phase with bicameral support to increase the baseline SCHIP allotment (\$25 billion over a five-year period). For the first time in SCHIP history, Democrats controlled both houses of Congress, though only by a

slim margin.³⁷ In the mean time, the presidency had passed from a reform-minded Democrat to a conservative Republican who, as governor of Texas, had a track record of opposing SCHIP expansions.

SCHIP, like many block grants, had enjoyed widespread popularity in its early years. The program was credited with expanding coverage among low-income children, devolving decision-making to the states and providing flexibility and funding to make a substantial impact. Taking many by surprise, the reauthorization proceedings were contentious and highlighted the different mechanisms through which federal parameters can limit state discretion.

The debate pitted a liberal House version (featuring \$60 billion in additional funding and provisions to aggressively expand eligibility) against a more conservative Senate proposal (with \$35 billion in funding and provisions to promote enrollment but not expand eligibility). President George W. Bush had provided less than \$5 billion for additional SCHIP funding in his 2008 budget proposal, far below projected costs for maintaining existing enrollment (Broaddus and Park 2006).

In the midst of the controversy, CMS issued a policy directive that imposed substantial changes to SCHIP's eligibility rules to limit access for children in families with incomes over 250 percent of the poverty level. In a directive released August 21, 2007, CMS conditioned SCHIP funding for this group on a ninety-five percent participation rate for children under 200 percent FPL; imposed additional provisions to minimize the "crowd-out" of private coverage; instituted a minimum one year waiting period; required co-pays and premiums comparable to private insurance; and required

³⁷ Democrats controlled the 110th Congress (2007-2009) by a margin of 51-49 in the Senate (counting 2 Independents who caucused with them) and 233-202 in the House. Partisan breakdowns of Congress are available at www.senate.gov and www.house.gov.

states to adopt laws preventing employers from reducing their coverage policies and document that private coverage does not fall by two percent over a five year period (CMS August 2007). New policies were immediately subject to these rules and old policies had a year to comply.

In the aftermath of the directive and sustained negotiations to reconcile the House and Senate bills, Congress passed the Children's Health Insurance Program Reauthorization Act (CHIPRA). President Bush vetoed it. CHIPRA 2007 sought to close the growing SCHIP budget gap and took the Senate's relatively conservative approach to promoting enrollment but limiting state discretion to expand eligibility. Over a five-year period, CHIPRA 2007 would have provided \$35 billion in additional funding, but reduced matching rates for covering individuals over 300%FPL, prohibited approval of waivers to cover childless adults, and phased out coverage of parents (Mann et al. 2007).

The bill significantly revised the allotment formula, abandoning the "per low-income/uninsured child" basis in favor of historical spending.³⁸ States' FY2008 allotments were set at 110% of the highest of the following: 1) FY2007 expenditures (adjusted for population and inflation), 2) FY2007 allotments (similarly adjusted) or 3) projected FY2008 expenditures. Future allotments would be annually adjusted for inflation and population growth, and beginning in 2010, every two years the allotment would be "rebased" to reflect actual expenditures.

The 2007 CHIPRA also created a capped child contingency fund, which would provide supplemental funding per child enrolled beyond designated target levels. This removed many of the financial risks imposed by the original SCHIP financing structure

³⁸ See Mann et al. 2007 for additional details on funding formulas.

and essentially allowed for the conversion of the block grant to an open-ended matching payment for children over the threshold. Overall, CHIPRA rewarded states with higher expenditures and provided incentives to reach eligible but unenrolled children.

However, the President vetoed the CHIPRA legislation, signing only a continuance bill that allowed for emergency provisions to keep the program up and running through March 2009 (Kaiser Commission 2008). CHIPRA was tabled but the proposal was nevertheless significant as an indication of federal legislative (though not presidential) inclinations to temper expanded fiscal capacity with statutory restrictions on discretion.

Despite considerable legislative effort to address fiscal capacity, the major impact observed during this period was the restriction of discretion achieved through the CMS directive, represented as an inward shift along the discretion dimension. Particularly vulnerable in this instance were the eighteen states that already provided coverage above 250% FPL (Kaiser Daily Health Policy Report 2007). With its future federal funding and policy direction uncertain, states deliberated SCHIP policy options and struggled to define clear policy objectives.

The CMS directive was a federal parameter that restricted the discretion axis, but it imposed a simultaneous threshold on the states' fiscal capacity and underscored the degree of state dependence on federal funds for program sustainability. The vetoed CHIPRA legislation likewise highlighted the connection between the discretion and capacity dimensions in the SCHIP block grant. In the face of SCHIP expansions, maintenance of status quo fiscal arrangements spelled certain crisis in future periods for many states, even in a favorable economic climate.

Federal policy developments during this period provided the basis for Grogan and Rigby's (2009) observations about policy feedback in the SCHIP block grant. State expansions prompted federal restrictions, which in turn forced states to abandon more progressive policies. Developments were also consistent with theoretical literature on the subject that noted the tendency of federal support to erode as state policies diverged in unintended directions. (Chernick 1998; Ingram 1977; Nathan 1983; Posner and Wrightson 1996).

5. Federal infusions (2009-2011)

The collapse of the mortgage market and ensuing recession elicited an onslaught of federal legislative efforts to control the damage. The 2008 election unfolded in the midst of the crisis and ushered a Democratic President into the Oval Office, accompanied by substantial Democratic majorities in both the Senate and House of Representatives. In his first 14 months in office, President Barack Obama signed three pieces of legislation with direct implications for CHIP—the Children's Health Insurance Reauthorization Act (CHIPRA) in early February 2009, the American Recovery and Reinvestment Act (ARRA) only two weeks later, and the Patient Protection and Affordable Care Act (ACA) in March 2010. I cover the first two below and discuss ACA in the concluding chapter.

CHIPRA: On February 4th, 2009, only weeks after taking office, President Obama rescinded CMS's 2007 SCHIP directive and reauthorized the Children's Health Insurance Program (officially changing the name from SCHIP to CHIP) through FY2013. CHIPRA 2009 (Public Law 111-3) resuscitated many of the provisions of the failed 2007 reauthorization bill.³⁹

³⁹ For a detailed analysis of CHIPRA 2009 see Horner et al. 2009

CHIPRA 2009 adopted the allotment formula proposed in 2007 and took steps to end coverage of parents and childless adults with CHIP funds. It established the enrollment contingency fund and allowed states to request increases in their allotment (every second year) to fund expansions due to increased eligibility. CHIPRA also permitted the coverage of children beyond 300%FPL (at the lower Medicaid matching rate) and allowed for state options to cover pregnant women and legal immigrant children and pregnant women who had previously been subject to a five-year waiting period.

CHIPRA 2009 expanded discretion and contributed significantly to expand and stabilize state fiscal capacity for insuring low- and moderate-income children. Changed fiscal conditions plus uncertainty in the face of federal level policy reversals would moderate state responses to expanded discretion and federal fiscal support.

ARRA and Fiscal Capacity: Less than two weeks later, on February 17th, the President signed the massive \$787 billion American Recovery and Reinvestment Act (Public Law 111-5). ARRA provided approximately \$90 billion of direct fiscal relief to the states via temporary increases in the Medicaid matching rate (CSG 2009).

The severity of state fiscal crises in 2009 was described as the most drastic on record (CBPP 2009) and budget gaps were estimated to average 25% (NCSL July 2009). In state fiscal year 2010, ARRA funds helped the states close 30-40% of their budget shortfalls (CBPP 2009).

ARRA temporarily increased the Medicaid matching rate by a flat 6.2% plus an additional adjustment factor for the state's unemployment rate. States were prohibited from imposing more restrictive eligibility levels and requirements than those in place for FY2008 (Public Law No. 111-5) but were generally free to use any excess funds for other

line items in the state budget. The increased match was originally schedule to expire in December 2010 but as the recession persisted, it was extended through mid 2011. Federal ARRA provisions underscored the extreme dependence of state fiscal capacity on federal funds, especially in the face of adverse economic conditions.

In the preceding section, the discretion-capacity framework depicts SCHIP policy as a series of federal actions followed by patterns of state responses. This view enables a broad understanding of policy dynamics and illustrates the tendency for policy constraints to originate, alternately, from federal and state level factors. The perspective also supports the claim that block grants function as policy feedback mechanisms (Grogan and Rigby 2009), thus acknowledging a causal link between federal and state level policy choices.

Making these generalizations necessarily collapses complex configurations into two simple categories: federal and state constraints. In the following section, I draw details from four states’ experiences to excavate the state capacity dimension of the discretion-capacity framework and reveal the complex configuration of state level constraints that shaped state SCHIP policies.

Table 8: SCHIP enrollment and expenditures for the United States, 2000-2009

	2000	2003	2006	2009
SCHIP Enrollment ⁴⁰ <i>ever-enrolled, in 000s</i>	3,334	5,841	6,745	7,695
Federal Share of SCHIP Expenditures ⁴¹ <i>\$ in millions</i>	\$1,929	\$2,672	\$5,476	\$7,484

⁴⁰ Centers for Medicare and Medicaid Services, SCHIP Enrollment Data System, forms CMS-21 and 64. Due to cycling (children coming on and off coverage), there are significant differences between accumulated enrollment (ever-enrolled) and point in time estimates (last day of the quarter). Over a several year period, point in time estimates have tracked at approximately 33% less than the ever-enrolled numbers (Rosenbach et al 2006). Point in time estimates were not systematically reported in the early years of the program. Ever-enrolled statistics are presented here for continuity.

⁴¹ Centers for Medicare and Medicaid Services, Medicaid Budget Expenditure System, Form CMS-21, Federal share of Total CHIP expenditures (fiscal year).

II. SCHIP Case Studies

Ohio SCHIP Policy: Expanding Incrementally

When Republican Governor George Voinivich took office in 1991, he cited the health and education of the state's children among his top priorities. Legislation to expand Ohio's Medicaid program, Healthy Start, predated the federal SCHIP provisions (Brandon et al. 2001). The fortuitous timing of the SCHIP legislation enabled the state to subsidize that expansion at the higher matching rate. Effective January 1, 1998, Ohio's CHIP Phase I leveraged federal funds to bring Healthy Start into compliance with the federal Medicaid mandate (covering all children below 100 percent FPL) and further expanded coverage to 150 percent FPL.

Early work on SCHIP implementations suggested that Republican administrations were more likely to design a separate SCHIP (Beamer 1999). Ohio may have fit this profile of preferring discretion and devolution, as later indicated by its assignment of SCHIP outreach and enrollment to the counties (Irvin et al. 2004), but the state chose instead to implement an M-SCHIP. The decision to expand Medicaid mitigated the state's immediate and long-term financial exposure by reducing implementation costs and ensuring long-term federal funding if future SCHIP expenditures were to exceed allotments.

The second phase of Ohio's CHIP implementation was also a Medicaid expansion. A task force was appointed to consider the options for Ohio's CHIP Phase II and debate centered on entitlement status and choice of administrative model (Brandon et al. 2001). Though the task force recommended a separate program with cost sharing,

legislators deemed infrastructure costs of operating two programs excessive and chose a Medicaid expansion instead (Irvin et al. 2004).

On July 1, 2000, Ohio's CHIP Phase II was implemented to extend coverage to children up to 200 percent FPL. The state successfully pursued other incremental expansions—extending wrap-around coverage to Healthy Start enrollees up to 150 percent FPL, covering parents up to 100 percent FPL, and lengthening the renewal period from 6 to 12 months (Irvin et al. 2004).

Three features effected a substantial change in Ohio's second Medicaid expansion. First, the state received a waiver to impose sliding-scale cost-sharing provisions for enrollees in the 150 to 200 percent FPL range (Irvin et al. 2004). Second, lessons learned from the first expansion triggered revisions in the second effort that remodeled Ohio's Medicaid enrollment process to resemble the streamlined procedures of other states' separate programs (Irvin et al. 2004). Third, CHIP Phase II was made subject to available state funding (Brandon et al. 2001). These three changes transfigured Ohio's Medicaid expansion to share some of the characteristics more typical of separate SCHIP programs.

Ohio experienced its share of fiscal woes during the recessionary period of 2001-4, though the effects on SCHIP were minimal. For state fiscal year 2004, Ohio faced a \$2 billion budget shortfall, a 9.2% deficit that seems mild only in comparison to the national average of 14.5-18.0 % (Lav and Johnson 2003). Yet state SCHIP funding continued to grow, from just over \$52 million in 2002, to \$56 million in 2003 and nearly \$67 million by 2004 (CMS, Medicaid Budget Expenditure System⁴²). Enrollment also trended

⁴² https://www.cms.gov/MedicaidBudgetExpendSystem/04_CMS21.asp#TopOfPage

upwards over the same period, increasing from 158,265 to 220,190 beneficiaries (ever enrolled) in 2004.

Annual reports for the Ohio CHIP program report no restrictive changes to eligibility levels or enrollment procedures over the period, even though the state had specifically sought a waiver to allow it to condition coverage in the 150-200%FPL range on the availability of state funds. In general, Medicaid expansions retained a level of protection from state efforts to reduce costs. Under the original SCHIP legislation, M-SCHIPs placed more federal limits on state discretion, for example imposing limits on states' authority to manage enrollment, requiring the state to accept all eligible applicants and forfeit the ability to close or reduce enrollment (Weil 1997; GAO/HEHS-99-65). During economic downturns, these restrictions protected M-SCHIPs from the direct effects of state fiscal constraints that might otherwise produce policy reversals.

Ohio's experience through 2004 is a series of unexpected policy choices—a conservative state expanded Medicaid, specifically sought a waiver to condition the expansion on availability of state funding, and then protected that funding during a significant recession when unemployment in the state exceeded 6% (Bureau of Labor Statistics, 2003 and 2004). The sequence is less surprising in view of the Meyers et al. (2001) study that clustered Ohio with other progressive states in their “integrated” policy regime.

The sole restrictive measure imposed on Ohio's enrollment procedures related to the DRA of 2005's requirement for more stringent citizenship documentation. The change was noted in the 2005 SCHIP annual report and was followed by the first ever

decrease in Ohio's SCHIP enrollment, from 220,190 to 216,495 children between 2005 and 2006 (CMS, Medicaid Budget Expenditure System).

In January 2007, a Democrat assumed the Ohio governor's seat for the first time since SCHIP implementation. For state fiscal year 2008, new Governor Ted Strickland proposed a budget that included funds to expand Healthy Start eligibility from 200 to 300%FPL. The implementation was delayed due to litigation (Cohen Ross and Jarlenksi 2009) and set aside in the midst of the contentious reauthorization debate that made continued federal coverage of higher income brackets uncertain. Budget provisions also created a buy-in program for children in families with incomes over 300%FPL who had health conditions that made private insurance unaffordable. The buy-in cost was high (\$500/month up to 400%FPL and \$1,000/month up to 500%FPL, (Cohen Ross et al. 2009)), the program only served a handful of families and it was eliminated in 2011 (Heberlein et al. 2012).

Overall, Ohio's SCHIP expenditures were on budget, neither under- nor over-spending its federal allotments. While some states left considerable federal funds untouched and others relied heavily on redistributed funds to make up budget deficits, Ohio forfeited only 1.1% of its federal SCHIP allotments through 2007 (author's calculation based on data from Herz et al. 2009).

However, in FY2008, Ohio accumulated a \$7.2 million funding shortfall after depleting unspent reserves (\$61.4 million) along with its federal allotment for the year (\$157.9 million) (Herz et al. 2009). But instead of facing an immediate fiscal constraint, the state leveraged the Medicaid expansion status of its program to qualify for additional federal funding. The original SCHIP statutes provided for costs in excess of federal

allotments to be matched at the regular Medicaid rate for M-SCHIPs. Consequently, Ohio received \$6 million in matching Medicaid funds to help cover the \$7.2 million shortfall (Herz et al 2009).

Ohio continued to make incremental changes to its program following the enactment of CHIPRA in 2009. Having suffered from the effects of the DRA’s stringent documentation requirements, the state leveraged the Social Security Administration’s data match technology for citizenship verification (Brooks and Guyer 2012). Continuing its own process improvements and capitalizing on federal CHIPRA incentives, Ohio adopted enrollment simplification measures and achieved enrollment expansions to qualify for performance bonuses in 2010 and 2011, totaling more than \$24 million (insurekidsnow.gov).

Table 9: SCHIP indicators for OHIO, 1999-2009

	1999	2001	2003	2005	2007	2009
% kids uninsured⁴³						
Ohio	7.8%	7.2%	7.9%	7.6%	8.6%	8.7%
US	12.5%	11.3%	11.0%	10.9%	11.0%	10.0%
% kids under 200%FPL⁴⁴						
Ohio	38%	35%	34%	36%	38%	
US	39%	38%	39%	39%	39%	
SCHIP Enrollment⁴⁵	83,688	158,265	204,114	216,495	231,538	265,680
SCHIP Expenditures⁴⁶ <i>(\$ in millions)</i>						
Federal Share	35.9	100.2	138.5	172.3	186.9	252.0
State Share	14.8	40.3	56.1	67.8	73.6	90.9
Total SCHIP	50.7	140.4	194.6	240.1	260.5	343.0

Ohio’s SCHIP policy trajectory followed a steady course, for the most part operating safely within federal parameters and its own capacity constraints. Optimizing

⁴³ U.S. Census Bureau, Table HIA-5

⁴⁴ U.S. Census Bureau, Table 3

⁴⁵ Centers for Medicare and Medicaid Services, SCHIP Enrollment Data System, ever-enrolled

⁴⁶ Centers for Medicare and Medicaid Services, Medicaid Budget Expenditure System

the federal fiscal guarantees of the M-SCHIP structure and expanding incrementally, Ohio steered clear of the capacity constraints that forced dramatic policy reversals in other states.

California SCHIP Policy: Waxing and waning

Long before federal SCHIP legislation, California grappled with various strategies to extend health care coverage. Over the preceding 15 years, employer mandates, single-payer systems, play or pay provisions and universal access for children all languished for want of sufficient public support (McDonough and McGrath 2001, 95).

In lieu of major health care reform, California expanded coverage for certain populations prior to the SCHIP legislation. Programs such as Access for Infants and Mothers (AIM) (to assist uninsured pregnant women), Rural Health Services (to offset costs of uncompensated rural care), Expanded Access to Primary Care (to provide supplemental funding for primary care clinics serving low-income patients), and the Seasonal Agricultural and Migratory Workers Health Program (Rosenbach et al. 2003) demonstrated an ongoing commitment and capacity to expand health care coverage (Beamer 2004) that predated federal efforts.

After passage of SCHIP legislation, California was quick to capitalize on enhanced federal matching rates to extend coverage to low-income children. Like many other states, it was already in the process of complying with federal Medicaid mandates (GAO/HEHS-99-65, 38). In March 1998, California implemented the Medicaid expansion portion of its SCHIP plan to bring Medi-Cal eligibility into compliance and offer Medi-Cal coverage for children of AIM participants from birth to one year, up to 250 percent FPL (GAO/HEHS-99-65, 42).

The Healthy Families Program (HFP), a stand-alone component of the California CHIP implementation, was launched shortly after the Medi-Cal expansion, in July 1998. It was presented as a mechanism for introducing the uninsured to the private insurance market. Cost sharing based on sliding-scale premiums was a key component of the original program design (GAO/HEHS-99-65). The initiative established a purchasing pool for individuals in the 100 to 200 percent FPL range (GAO/HEHS-99-65) and offered a variety of plan options to enrollees.

A chronological summary of changes in the Healthy Families Program demonstrates a trend of expansion in service provision and target population in the early years of the new millennium. Amendments to increase eligibility levels from 200 to 250 percent FPL, provide coverage for Medi-Cal/HFP transitional periods, and offer presumptive eligibility for certain income segments contributed to steady enrollment growth (Sullivan et al. 2006). In 2001, California created the County Health Initiative Matching (CHIM) Fund, which allowed counties to draw down portions of California's unspent federal allotment using local funds as the qualifying state match. In 2004, CMS approved State Plan Amendments for four counties to use the CHIM Fund to raise eligibility from 250 to 300 percent FPL (Harbage et al. 2007). Ongoing improvements in enrollment procedures also fueled program expansion. Consequently, HFP enrollment reached 73,314 children in its first year of operation and had exceeded 800,000 by FY2006 (Carroll June 2007, 4).

Despite early successes in SCHIP, the policy environment in California experienced a series of fiscal misfortunes and political reversals beginning in 2003 that would affect the future trajectory of the state's Healthy Families program. Saddled with

a struggling economy and a \$36.5 billion budget deficit, Governor Gray Davis (D) was successfully removed in a recall vote in July 2003. Arnold Schwarzenegger (R) was elected in his place and took office in November 2003.

Unlike most other states, the California constitution did not (at the time) require a balanced *budget*, only a balanced budget *proposal* from the governor (Zelman 2009). Prior to a public referendum that imposed such a requirement in March 2004, it was common practice to loosely interpret the various constitutional provisions limiting indebtedness in the state budget (Krolack 1994). These practices, observed over several years of adverse economic conditions, had produced unsustainable deficits and resulted in contentious budget negotiations. Further complicating potential compromise, proposed budgets and tax increases required approval by a two-thirds majority of both houses of the California legislature.⁴⁷

Facing severe budget shortages in 2004, California acted to mitigate the impact on public programs and sustain slow growth in SCHIP enrollment (Hill et al. 2004). Estimates of the projected California deficit for SFY2004 ranged from \$18-\$26 billion, or 23.4-33.8% of the state budget (Lav and Johnson 2003). Outreach efforts were virtually eliminated and provider reimbursement rates were frozen, but the state continued to simplify enrollment procedures and regulations during this period (Hill et al. 2004) and, unlike many other states, California was not forced to freeze enrollment—it was even able to expand eligibility for children born to mothers in the AIM program.

As the national economy recovered in 2005 and other states were expanding their SCHIP programs, progress in California continued to encounter fiscal impediments.

⁴⁷ Revisions to this requirement were also included in a provision on the March 2004 public referendum but that proposition failed to pass.

Healthy Families was forced to impose additional premiums for families over 200%FPL in 2005 (California CHIP Annual Report 2005). The following year, California was able to temporarily revive outreach efforts, using grants to target counties with high numbers of eligible, unenrolled children, but they were discontinued a year later (California CHIP Annual Reports 2006-7). Fiscal constraints at the state level left excess federal allotments unspent and the state forfeited more than \$1.45 billion over the 1998-2007 period (Herz et al. 2009).

In 2007 and 2008, as federal legislators debated SCHIP reauthorization and the recession gathered momentum, California prepared for the impact of additional state-level fiscal capacity constraints. Emergency provisions were enacted by the oversight board (MRMIB) to ensure that SCHIP expenditures did not exceed the funds available (California CHIP Annual Report 2008). The board was granted power to establish waiting lists and disenroll children during their annual eligibility review, if and when it became necessary, though these measures were not implemented at the time. Only weeks before CHIPRA 2009 was signed by President Obama, California once again raised premiums, this time in the 150-200%FPL range (California CHIP Annual Report 2009).

Despite additional federal funds authorized in CHIPRA 2009, enrollment in Healthy Families was frozen in July due to state level fiscal constraints. California had been particularly hard hit by the recession and, in the face of another budget crisis, Governor Schwarzenegger proposed discontinuing the program and retrenching Medi-cal to minimum federal requirements (Lavarreda et al. 2010). The proposal was dismissed by the legislature but the Healthy Families program nevertheless lost \$178.6 million of its

state funding in the 2009-10 budget (California State Budget 2009-10).⁴⁸ The governor used his line item veto authority to impose a \$50 million dollar reduction in addition to the cuts proposed by the legislature. The Governor justified the additional reduction by observing that Healthy Families was not an entitlement and could be reduced given the extenuating economic circumstances (California State Budget 2009-10). The enrollment freeze remained in effect and the program would disenroll beneficiaries as they came up for annual renewals.

Fiscal constraints feature prominently in the evolution of SCHIP policy in California post-2003, eclipsing lower profile but binding political constraints. The process that turned Governor Davis (D) out of office in 2003 was certainly fractious, but the environment left in its wake divided the Republican party, generating an unexpected combination of political constraints.

Governor Schwarzenegger (R) inherited a budget crisis and immediately initiated negotiations to reach a compromise with Democrats in control of the Senate and Assembly. Many Republican legislators felt excluded and resented Schwarzenegger for proceeding without their input (Zelman 2009). Two years later, when the governor and Democratic legislators sought their support for a comprehensive health reform proposal, Republican legislators balked and obstructed the two-thirds majority vote needed for approval (Zelman 2009). The failed health reform measure underscored the nature of and the connections between political, fiscal and structural capacity constraints acting on state policy choices in California.

⁴⁸ California State Budget 2009-2010

Table 10: SCHIP indicators for CALIFORNIA, 1999-2009

	1999	2001	2003	2005	2007	2009
% kids uninsured⁴⁹						
California	17.1%	14.8%	12.2%	13.4%	10.7%	10.7%
US	12.5%	11.3%	11.0%	10.9%	11.0%	10.0%
% kids under 200%FPL⁵⁰						
California	47%	43%	41%	42%	42%	
US	39%	38%	39%	39%	39%	
SCHIP Enrollment⁵¹	222,351	693,048	955,152	1,223,475	1,538,416	1,748,135
SCHIP Expenditures⁵² <i>(\$ in millions)</i>						
Federal Share	67.7	311.5	565.0	760.0	980.7	1,146.7
State Share	34.8	161.3	304.3	441.6	557.7	620.7
Total SCHIP	102.5	472.7	869.3	1,201.6	1,538.4	1,767.4

California's experience could be divided into two distinct periods. The first showcased the state's commitment to expanding care and tailoring a network of programs under permissive federal parameters to increase coverage options for its large population of low-income, uninsured children. The second was marked by a sharp reversal of this policy trajectory, necessitated by state level fiscal and (fiscally fueled) political capacity constraints that trumped all other considerations.

California's SCHIP experience suggests that under non-binding state capacity constraints, policy trajectories are primarily guided by federal parameters. This observation is consistent with commentary that attributes the link between state and federal health reform efforts to states' dependence on federal funds (Zelman and Melamed 2009). However, when conditions activated more severe state-level capacity constraints, the federal-state connection was compromised and policy trajectories responded to state-level constraints.

⁴⁹ U.S. Census Bureau, Table HIA-5

⁵⁰ U.S. Census Bureau, Table 3

⁵¹ Centers for Medicare and Medicaid Services, SCHIP Enrollment Data System, ever-enrolled

⁵² Centers for Medicare and Medicaid Services, Medicaid Budget Expenditure System

North Carolina SCHIP Policy: Optimizing coverage

North Carolina is the only state in the sample that had already expanded its Medicaid program in accordance with the federal mandate prior to 1997. When federal SCHIP legislation was enacted, North Carolina responded with a special legislative session in February 1998 to develop its SCHIP plan (Lewin Group 2007).

Governor Hunt, a Democrat, and the Democratic Senate proposed a Medicaid expansion for children at 100 percent to 200 percent FPL. The Republican House resisted the M-SCHIP's lack of discretion in managing enrollment and instead proposed a stand-alone SCHIP implementation to cover children up to 185 percent FPL (Lewin Group 2007). The compromise legislation created North Carolina Health Choice (NCHC) as a separate program that covered children up to 200 percent FPL, with low annual premiums for children between 150 and 200 percent FPL.

NCHC was implemented on October 1, 1998 and immediately assumed responsibility for the 8,000 enrollees of Caring for Children, a privately funded, Blue Cross Blue Shield initiative to cover low-income children in the state (Rosenbach et al. 2003). Similar to Ohio, North Carolina relied on local efforts for outreach and enrollment, which met with stunning success (Lewin Group 2007). The unfortunate consequence was a state-level fiscal constraint that necessitated an enrollment freeze in February 2001 (Hill et al. 2007). The waiting list grew to 34,000 children before the state appropriated sufficient funds to reopen enrollment in October 2001 (Hill et al. 2007).

Though the additional appropriations enabled North Carolina to clear its waiting list, the state continued to significantly overspend its federal SCHIP allotment and

increasingly rely on redistributed federal funds to close the SCHIP spending gap (Lewin Group 2007).

Of the states examined in this chapter, North Carolina was the only one to face fiscal constraints at the federal *and* state level. Nationally, a growing number of states likewise struggled with insufficient federal allotments, and by 2007 eighteen other states would receive redistributed funds (Herz et al. 2009). North Carolina is unique in this sample in its optimization of federal financial participation through redistributed funds. Ohio forfeited a limited amount while California and Texas left hundreds of millions of federal dollars untapped (Herz et al. 2009).

Growing enrollment coincided with adverse economic conditions in North Carolina, as in the rest of the nation. In 2000, the unemployment rate in the state was only 3.7%, spiking to 6.6% in 2002 before subsiding to 5.5% in 2004 (Bureau of Labor Statistics). Faced with a chronic SCHIP budget deficit and tight federal *and* state fiscal constraints, North Carolina legislators sought programmatic changes to maintain gains in coverage for children with sustainable federal funding.

The North Carolina Assembly passed legislation that transitioned children up to age 5 from Health Choice to Medicaid, effective January 1, 2006 (NC Annual Report FY2006). Medicaid eligibility thresholds were increased to 200 percent FPL to accommodate the NCHC children up to age 5, with older children remaining in the separate Health Choice program. This strategic reorganization bestowed entitlement status on the younger group, guaranteeing federal funds above the SCHIP allotment, and maintained state discretion in coverage for the older age group. In the subsequent years,

North Carolina exploited its discretion over NCHC to limit enrollment by capping growth rates at 6-7% per year in the SFY 2008-10 budget appropriation bills.

On July 31, 2007, Governor Easley (D) signed a budget that allocated \$7 million, starting in July 2008, to establish NC Kids Care, to cover children in the 200 to 300 percent FPL range with affordable, state-subsidized health insurance to stem the growing loss of employer-based insurance in the state (Bradley June 2007). Crafted by a children's advocacy group, NC Kids' Care built on the existing tiers of children's health care programs in North Carolina. Using the experience and infrastructure of SCHIP, many other states took similar steps. By 2007, 18 other states had also moved to provide coverage over 200 percent FPL (Mann and Odeh 2007).

The NC Kids' Care legislation conditioned the submission of the SCHIP State Plan Amendment on congressional reauthorization of SCHIP at sufficient funding levels (S.L. 2008-107, Sec. 10.12). The amended legislation capped enrollment at 15,000 in the program's first year, even if state and federal funds were available to cover more, and imposed cost-sharing requirements to help support the program.

A few weeks after the Governor authorized NC Kids' Care, CMS issued its August 17th directive. The CHIP reauthorization debate escalated before subsiding into a stalemate that persisted until President Obama signed CHIPRA in February 2009. By that time, the fiscal situation had deteriorated and the momentum behind NC Kids' Care had disappeared.

CHIPRA 2009 reinvigorated North Carolina's CHIP agenda. The state's 2009 budget appropriations bill (S.L. 2009-0451) provided funds to streamline eligibility and renewal processes in accordance with Express Lane Eligibility provisions. The bill

directed NCHC to submit a State Plan Amendment to secure federal funds made available under CHIPRA to cover lawfully-residing children and pregnant women. Perhaps chastened by federal policy reversals that undercut previous efforts and cognizant of the fragile fiscal environment, North Carolina also authorized DHHS to cap enrollment growth in the separate NCHC program for the 2009-10 fiscal year to 9,098 children (or 6%).

Table 11: SCHIP indicators for NORTH CAROLINA, 1999-2009

	1999	2001	2003	2005	2007	2009
% kids uninsured⁵³						
North Carolina	11.2%	10.7%	11.7%	11.7%	12.1%	11.8%
US	12.5%	11.3%	11.0%	10.9%	11.0%	10.0%
% kids under 200%FPL⁵⁴						
North Carolina	42%	41%	44%	43%	43%	
US	39%	38%	39%	39%	39%	
SCHIP Enrollment⁵⁵	57,300	98,650	149,979	196,181	240,152	259,652
SCHIP Expenditures⁵⁶ <i>(\$ in millions)</i>						
Federal Share	34.9	70.9	130.7	211.0	207.5	275.4
State Share	12.2	25.3	46.4	72.1	77.5	91.9
Total SCHIP	47.1	96.1	177.1	283.0	285.0	367.4

North Carolina’s strategic responses to maximize coverage and federal financial participation appear inconsistent with the Meyers et al. (2001) depiction of “limited” policy regimes as underperforming on measures of commitment to support low-income families. Findings in this chapter support a more progressive view of North Carolina’s efforts to expand SCHIP coverage. Analysis of TANF in the next chapter may provide additional insights about this apparently contradictory result.

⁵³ U.S. Census Bureau Table HIA-5

⁵⁴ U.S. Census Bureau Table 3

⁵⁵ Centers for Medicare and Medicaid Services, SCHIP Enrollment Data System, ever-enrolled

⁵⁶ Centers for Medicare and Medicaid Services, Medicaid Budget Expenditure System

North Carolina's policy trajectory collided with multiple federal parameters. The state encountered federal fiscal limits when NCHC depleted its SCHIP allotments, prompting the transfer of young children from the state's separate SCHIP plan into a Medicaid expansion group. Since Medicaid expansions are matched even after SCHIP allotments have been exhausted (though at the lower Medicaid matching rate), the conversion removed federal fiscal constraints for that segment of the SCHIP population.

Furthermore, North Carolina pushed the limits of federal parameters in seeking to expand SCHIP coverage to families up to 300%FPL. States' momentum in this direction provoked a federal response, and the CMS directive of 2007 imposed constraints that extinguished North Carolina's Healthy Kids initiative. North Carolina demonstrated a willingness to structure its SCHIP policies to optimize federal financial participation and expand coverage.

Texas SCHIP Policy: Limiting Liability

Despite the potential of SCHIP funds to alleviate the state's high rate of uninsurance, then Texas Governor George W. Bush was reluctant to commit to an SCHIP program (Dunkelberg and O'Malley 2004). Fueling the ideological opposition to government expansion, fiscal capacity in Texas was perceived by the administration as insufficient to cover the large number of estimated eligibles—SCHIP expenditures would strain state funds, especially in the context of the governor's anti-tax rhetoric (Wiener and Brennan 2002). The thrust of the debate in Texas was about retaining authority to manage the state's fiscal exposure.

Texas submitted a placeholder M-SCHIP plan to use SCHIP funds to meet the 100% FPL Medicaid mandate and subsequently implemented a separate program in its

CHIP Phase II. On political and fiscal grounds, Texas was unwilling to grant entitlement status to SCHIP beneficiaries. CHIP Phase II was designed as a separate program and was enacted after an ongoing debate concerning eligibility levels. Coverage was eventually granted to children below 200 percent FPL, with the state imposing various forms of cost sharing and benefit restrictions to limit its financial exposure (Wiener and Brennan 2002). The CHIP Phase II implementation was a deliberate vote for increased state discretion in the public health insurance sphere—discretion to manage the state’s liability for the uninsured.

At first blush, the programs in Texas and Ohio seemed to share key features: initial eligibility was set at 200%FPL and included cost sharing mechanisms. From seemingly comparable starting points, the two states’ experiences diverged dramatically. The evolution of SCHIP in Texas is marked by recurring political and (politically driven) fiscal capacity constraints.

From the beginning, Texas struggled to manage the size of its CHIP program. The state had a large number of low-income families, a high proportion of its population was under 18 and its rates of employer-sponsored insurance were low. The original estimate of CHIP eligible beneficiaries was 478,000, but enrollment had already surpassed 516,000 by February 2002, less than two years after the separate CHIP program opened (Texas Medicaid in Perspective 2007, 7-2).

As program costs spiked, Texas was feeling the effects of the nationwide recession. The unemployment rate in the state, which was only 4.4% in 2000, had risen to 6.4% in 2002 and topped out at 6.7% in 2003, with only 7 states reporting a higher rate during the recession (Bureau of Labor Statistics 2000, 2002, 2003). Government

revenues were down, particularly problematic in a state that was already ranked 49th in terms of state spending per capita (Dunkelberg and O'Malley 2004). Nevertheless, the governor's administration maintained a steadfast opposition to raising tax revenues (Wiener and Brennan 2002). The result was an estimated \$4.0-\$7.8 billion shortfall (or 13-25%) in SFY2004 (Lav and Johnson 2003).

Budget cuts were deep and the legislature targeted administrative procedures to achieve decreases in enrollment and desired budget reductions in the CHIP program. Changes included implementation of a 90-day waiting period, shortened (from 12 to 6 months) continuous eligibility, elimination of income disregards, imposition of asset tests, and increased cost sharing and premiums (Dunkelberg and O'Malley 2004). Changes also targeted the state's Medicaid program, calling into question whether a M-SCHIP in Texas would have received more protection than a separate program.

Beginning in September 2003, enrollment fell precipitously from more than 507,000 to less than 327,000 in January 2005, even though eligibility levels were maintained at 200 percent FPL. After hovering for a year, enrollment dropped again after additional modifications to renewal requirements, down to 291,530.

As economic conditions improved, the state reversed course in 2006 and attempted to improve enrollment statistics (Texas Medicaid in Perspective 2007). The legislature restored 12-month continuous eligibility and eliminated the 90 waiting period in June 2007 (Texas House Bill 109).

Fiscal constraints abated, but the political constraints persisted. In 2004, Republicans had gained a majority in the House to make its control of state level offices complete. Conservative politicians continued to implement limits on state liabilities for

public insurance and enforce personal responsibility. In 2007, Texas received approval for a waiver to impose additional cost-sharing provisions in the 133-150%FPL income range (CMS, Section 1115 Waiver).

Reluctance to commit state funds had a direct impact on the state's ability to draw down matching federal funds. Texas chronically under-spent its federal allotment, forfeiting \$832 million in expired federal funding over the first ten years of the program's operation (Herz et al. 2009, Table 2, CRS-23). Originally authorized to receive \$4.48 billion in federal funds over the 1998-2007 time period, Texas had qualified for just \$2.51 billion in matching federal payments by the end of 2007 (ibid). Despite the high matching rate for its CHIP expenditures, "local stakeholders indicate[d] that ... the dollar amount of state spending and not the federal allocation or the matching rate [drove] state decisions about SCHIP funding" (Bergman et al. 2004, 4).

CHIPRA 2009 instituted a revised federal allotment formula, transitioning to determinations based on historical spending. Texas would be protected initially since the legislation also permitted states to use their prior year's allotment if it was higher than actual expenditures. However, beginning in 2010, the allotment would be re-based every two year to reflect actual expenditures. Texas had a reprieve but it was temporary. The longer-term implications of the new formula were potentially punitive for Texas and other low spenders.

In May 2009, Governor Perry (R) signed Senate Bill 187 into law, which authorized the establishment of a Medicaid buy-in program for disabled children in families under 300% FPL. Also post-CHIPRA, Texas took advantage of the provision allowing states to cover legal-resident immigrant children without the previously required

5-year waiting period (Heberlein et al. 2012).⁵⁷ Texas did not rush to introduce enrollment simplifications and expansions that would have qualified for performance bonuses under CHIPRA, but it did opt to implement the citizenship verification system and extend CHIP benefits to eligible children of state employees (Heberlein et al. 2012).

Table 12: SCHIP indicators for TEXAS, 1999-2009

	1999	2001	2003	2005	2007	2009
% kids uninsured⁵⁸						
Texas	22.7%	21.1%	19.6%	18.9%	21.4%	16.5%
US	12.5%	11.3%	11.0%	10.9%	11.0%	10.0%
% kids under 200%FPL⁵⁹						
Texas	48%	46%	49%	49%	47%	
US	39%	38%	39%	39%	39%	
SCHIP Enrollment⁶⁰	50,878	500,950	726,428	526,406	710,690	869,867
SCHIP Expenditures⁶¹ (<i>\$ in millions</i>)						
Federal Share	38.5	264.0	405.6	287.7	385.7	702.2
State Share	13.7	100.6	157.9	108.5	145.9	279.2
Total SCHIP	52.3	364.7	563.5	396.1	531.6	981.4

The Texan experience illustrates the potential of state-level political and (politically driven) fiscal capacity constraints to define the policy environment when federal parameters leave the state considerable room to maneuver. While some states exploited this discretion to expand CHIP in a progressive direction, Texas exercised it to limit liability.

⁵⁷ The state had previously supported this program with state-only funds.

⁵⁸ U.S. Census Bureau, Table HIA-5

⁵⁹ U.S. Census Bureau, Table 3

⁶⁰ Centers for Medicare and Medicaid Services, SCHIP Enrollment Data System, ever-enrolled

⁶¹ Centers for Medicare and Medicaid Services, Medicaid Budget Expenditure System

III. SCHIP and the Discretion-Capacity Framework

The SCHIP policy environment is defined by federal parameters and state capacity constraints. Over time, different parameters were employed to limit or expand state discretion over policy options. These parameters coincided with temporally discreet, state specific configurations of capacity constraints to produce variation in state policy responses.

Federal parameters circumscribed state policy choices by initially defining implementation options and setting the terms for federal financial participation. In subsequent time periods, those parameters were relaxed under permissive waivers, restricted by policy directives and revised by reauthorization legislation.

Federal constraints were, at times, overshadowed by more restrictive state-level capacity constraints. For example, though little changed in terms of federal parameters between 2001-2003 and 2005-2006, state policy trajectories over those two periods were markedly different due to severe fiscal crises in the first period that were generally resolved by the second.

Federal parameters set boundaries on state policy choices, but states retained discretion to pursue divergent policy trajectories. Depending on the circumstances, that discretion could be exploited to expand or retrench SCHIP coverage. As a result, federal parameters exerted differential pressures on state policy choices.

Among the sample states, federal parameters notably restricted North Carolina's policy trajectory when the state efforts to extend coverage to families above 250% FPL were precluded by the 2007 CMS directive. For North Carolina and other states planning to cover this segment of the population, the CMS directive imposed an upper bound on

policy expansions. The uncertainty surrounding federal parameters during the prolonged reauthorization period made it difficult for states to consider more progressive policy trajectories due to the degree of state dependence on federal funds (Zelman 2009).

Contrary to expectations, federal parameters were not always effective in acting as a lower bound on states pursuing minimalist policies. In Texas, political and (politically driven) fiscal constraints limited efforts to expand government's role in the health arena. Matching terms encouraged state participation, but Texas continued to leave portions of its federal allotment unspent, demonstrating a surprising level of indifference to the potential for additional federal funds. The lower bound was coercive in nature, but was ineffective for states that did not respond to federal financial incentives.

Absent clear cases of conflict between federal parameters and state policy choices, the influence of federal constraints was obscured by the variety and magnitude of state level capacity constraints. Comparing variation in states' responses revealed distinct configurations of state-level capacity constraints that profoundly influenced the sequence of policy choices.

California's experience showcased state level fiscal and (fiscally fueled) political constraints that necessitated a sharp reversal of an initially expansive policy trajectory. Motivated by different constraints, California and Texas pursued divergent policy choices but arrived at similar crossroads—a policy trajectory in conflict with a binding capacity constraint. State policy responses were similar, involving waitlists and cost-sharing mechanisms to limit enrollment and expenditures.

California's SCHIP experience in particular suggests that under non-binding state capacity constraints, policy trajectories may be primarily guided by federal parameters. However, when conditions activate state-level capacity constraints, policy trajectories respond to the more restrictive constraint.

Abstracting from the details of state experiences and focusing instead on patterns of state responses and their impact on future federal policy choices, there appears to be some support for the claim that block grants function as policy feedback mechanisms. Initially permissive federal parameters encouraged innovation and expansion until state policies conflicted with federal policy preferences and prompted restrictive federal responses. This pattern supports Grogan and Rigby's (2009) findings with respect to SCHIP.

In the next chapter, I examine Temporary Assistance for Needy Families (TANF), focusing again on the variation in state policy responses over time.

CHAPTER 5. TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Congress defined the initial TANF policy environment in the 1996 legislation that transitioned the former AFDC entitlement program to a block grant. States retained considerable autonomy in defining benefits as long as they complied with federal guidelines to condition cash assistance on work requirements and enforce time limits on benefit eligibility. The policy environment evolved over time and this chapter examines the variation in state policy responses from TANF implementation up to the American Reinvestment and Recovery Act.

Using the TANF policy timeline introduced in Chapter 3 as the foundation, I detail the sequence of federal parameters and capacity constraints. I then present the four state case studies to illustrate variation in state policy choices over time.

I. TANF Timeline

Subsequent to the passage of federal legislation described in Chapter 3, TANF evolution can be divided into four periods (see Figure 2):

- 1. State implementations (1996-2001)*
- 2. State recessions and strategic circumvention (2001-2004)*
- 3. Federal Restrictions (2005-2008)*
- 4. Federal Infusions (2009-2011)*

Each period is characterized by a set of prevailing constraints and coincides with a pattern of state policy decisions. In the first phase, residual state AFDC infrastructures

and new federal parameters shaped initial TANF implementations. The second period is marked by a significant shift in state level resource constraints and uncertainty surrounding future federal parameters as legislators debated reauthorization. The third period is characterized by a restriction in federal parameters that curtailed state discretion under the Deficit Reduction Act that reauthorized TANF in 2005. In the final phase, binding state-level capacity constraints were mitigated by the infusion of federal funds through the American Reinvestment and Recovery Act.

1. State implementations: Transitioning from AFDC to TANF (1996-2001)

Most legislative histories of TANF emphasize the degree of discretion the states were granted over program details that had formerly been restricted by AFDC stipulations. At first glance, the implementation phase of TANF appears to be characterized by a drastic expansion along the discretion dimension. Closer inspection reveals a more complicated reality.

Referring back to the proposed framework, federal actions that can expand or restrict discretion include revisions to policy content, waiver of statutory provisions or imposition of administrative rules, and redistribution of fiscal responsibility. The AFDC to TANF transition included concurrent changes to policy content and assignment of fiscal responsibility.

TANF lifted a number of federal restrictions imposed by former AFDC policy. In order to understand the impact of those parameter changes on state policy, it is important to first identify the base case. Zedlewski et al (1998) argue persuasively that the proper basis of comparison is not the original AFDC legislation, but the programs in effect in 1996. Due to the considerable waiver activity mentioned in Chapter 3, most states were

operating programs that varied substantially, from each other *and* from the basic federal AFDC provisions.

Basic federal AFDC provisions guaranteed assistance to all families that qualified under a state's definition of "needy". As mentioned above, the federal statutes did not specify the need standard nor did they require a certain payment standard—both were defined under state policy. Instead, AFDC entitled *all* individuals with gross incomes less than 185% of the need standard and net incomes below the payment standard to government assistance. AFDC imposed restrictions on the assets and earned income that could be disregarded in the calculation of net income, mandated participation in and specified exemption from JOBS participation, and barred states from setting time limits on benefits. However, in practice, states were pursuing a variety of courses under Section 1115 waivers.

In June 1997, the Department and Health and Human Services prepared a comprehensive report on AFDC waivers in effect prior to TANF (HHS 1997). The report detailed waiver activity, the majority of which fell into the following categories: work and training requirements, time limits, family cap provisions and income and asset disregards. The four sub-sections below compile the HHS findings with an Urban Institute evaluation of state policy changes implemented during the first year following TANF (Gallagher et al. 1999).

Work and Training Requirements: While AFDC required participation in JOBS specified activities (education, training, job search, etc) and imposed sanctions for individuals who did not comply, the provisions also included generous allowances for exemptions and lenient penalties. By 1996, 30 states had received waivers to impose

more stringent JOBS participation requirements and 37 had strengthened sanctions for non-compliance.

The JOBS program was absorbed under the TANF block grant, which continued to enforce work requirements. TANF recipients had to participate in one of twelve types of activities for a certain number of hours per week (20 in FY1997 and 1998, 25 in FY1999 and 30 for FY2000 and beyond) in order to qualify as a work “participant”. TANF permitted considerable state discretion to determine qualifying activities under the twelve work categories.

TANF replaced federal provisions on work-related activities and exemptions with a new performance metric: “work participation”. States had to achieve an “all families” work participation rate of 25% by 1997 and 50% by 2002 or incur fiscal penalties. Two parent families had to meet higher thresholds.

Time Limits: AFDC did not impose federal time limits on benefits (as long as individuals complied with eligibility requirements) nor did it allow states to impose time limits. In the early 1990s, thirty-two states operated under waivers that permitted limits on the length of benefit eligibility and work requirements or benefit reductions once participants exceeded certain time thresholds.

TANF imposed a maximum lifetime benefit of sixty months. States were allowed to exempt up to 20% of their caseload and could use state funds to extend coverage. States were permitted to include the cost of extending coverage beyond federal limits under their MOE requirements but could not fund it with federal TANF grants.

Family Caps: AFDC benefits were based on family size, creating a policy that was often cast as encouraging welfare recipients to have children in order to receive

additional benefits. Nineteen states had received approval to reduce or eliminate the increase in AFDC benefits for the birth of additional children. TANF contains no requirements that states base benefit levels on family size.

Income and Asset Disregards: AFDC set minimal allowances for disregarding income and assets in the estimation of net income that determined AFDC benefit payments. States maintained that the severe limitations on disregards created disincentives for welfare recipients to work. By 1996, thirty-two states had obtained waivers to redefine income disregards. Furthermore, twenty-five states received approval to increase asset disregards and thirty-two had acted to increase the vehicle allowance to assist in transportation to work.

TANF eliminated federal standards for disregards and states set their own. Going in to the first year of TANF, only twelve states had maintained the former federal asset limit of \$1,000 and the rest had increased it. Forty-eight states had raised the previous vehicular allowance of \$1,500, citing the importance of reliable transportation in retaining employment.

TANF removed a number of federal restrictions on state cash assistance policy, though many had already been eliminated in practice by preceding waiver approvals. States were permitted to continue operating under AFDC waivers until they expired, generally five years after their initial approval, so changes under TANF had a delayed effect in some states. In other cases, the new federal policy standardized pre-existing practices, reducing the immediate impact of the new TANF legislation on state policy choices.

In consideration of the number of state policy changes noted in the four categories above, TANF may have simply removed non-binding constraints, but it nevertheless prompted states to reconsider their policies and make numerous changes. TANF also imposed several new and binding constraints of its own (Zedlewski et al 1998), enforcing a sixty-month time limit on federal benefits and requiring states to meet work participation targets.

Following passage of welfare reform, state officials feared that caseloads would return to the peaks witnessed in 1994 (Tweedie 2000). Under the TANF block grant structure, states faced a significant fiscal impact if program expenditures exceeded the levels used to determine the fixed federal grant. Instead, caseloads continued on a steady downward trend, falling from an average monthly caseload of 3.94 million families in FY1997 to 2.26 million in FY2000 (ACF 1997 and 2000).

Federal funding designed to support the higher caseloads of 1994-95 resulted in a significant fiscal bonus for the states in the late nineties. With the number of recipients reduced by roughly 33%, state funding stabilized by MOE requirements and federal grants fixed by law, available funds per recipient soared.

The overall effect was a substantial increase in state fiscal capacity and state expenditures significantly lagged behind federal allotments. States were permitted to accumulate unused federal funds in a “rainy-day” fund. In 1999, those balances were estimated to exceed \$16 billion by 2000 (Cullinan 1999).

Fear of losing unspent federal TANF funds sparked a proliferation of state initiatives permissible under the flexible TANF rules (GAO 01-828). States offered childcare and transportation services to facilitate work participation, extended coverage

to a broader range of families (Tweedie 2000) and stepped up transfers to their CCDF and SSBG accounts (ACF, Chart 2, FY1998-FY2000). By September 2000, the states had accelerated their TANF spending, leaving \$8.6 billion unspent—still 13.5% of total TANF funds since 1997, but significantly below earlier projections (GAO 01-828).

States that were further along in implementation of AFDC waivers that closely paralleled TANF policy had more resources and infrastructure in place to pursue work-oriented reforms. States in which reforms were not yet underway prior to TANF legislation reported a harder time mobilizing their resources accordingly (Zedlewski et al 1998).

Two constraints shifted simultaneously during the first phase of TANF implementations. Federal parameters increased state discretion, though perhaps not to the degree emphasized in some accounts, and declining caseloads under fixed federal grants substantially expanded fiscal capacity.

2. State recessions and circumvention (2001-2004)

The new millennium ushered in a nationwide recession. Average annual unemployment rose from 4.0% in FY2000 to 6.0% in FY2003 before receding to 5.1% in FY2005 (Bureau of Labor Statistics).

Despite this trend, TANF caseloads continued to decline, though at a slower rate, over the same period, falling from 2.12 million families (monthly average) in FY2001 to 1.92 million in FY2005 (ACF). State fiscal capacity to fund TANF was somewhat shielded from deteriorating economic conditions by stable block grant funding, accumulated TANF reserves and declining caseloads (NASBO 2003-5).

States were under no illusions that the current reprieve from fiscal constraints on TANF would carry over into future downturns and the dismal economic climate brought renewed attention to the lack of counter-cyclical provisions in TANF (Weaver 2002). Federal grants were not indexed to inflation and the real value of federal grants to the states fell 11-12% between 1997 and 2001 (Neuberger et al. 2002). In constant 1997 dollars, the real value of the federal grants dropped from \$16.5 billion in 1997 to just over \$15 billion in 2001 and \$14 billion in 2005 (Schott 2011).

State TANF programs during this period did not experience the fiscal constraints evident both in other state programs (including SCHIP) and at the federal level. As the recession continued to depress state revenues and elevate safety net expenditures, states repeatedly revised budgets to close the widening gap. The Fiscal Survey of the States (NASBO 2004, 1) reported that “38 states cut their budgets by nearly \$13.7 billion in fiscal 2002 and 40 states cut their enacted budgets by \$11.8 billion in fiscal 2003, the highest dollar amount and number of cuts since this report began”. State TANF programs were buffered by accumulated unspent federal funds and weathered the recession relatively well.

Federal parameters governing state discretion did not change during this period. While states operated with the same degree of latitude, they continued to push the envelope on a number of procedures, exploiting the lack of specificity in the definition and oversight of work participation rates to enable compliance with federal work participation requirements.

Based on data submitted by the states to HHS, work participation rates ranged from 9 to 88% in 2003 (GAO-05-821). State variation is the norm, but variation on this scale is a bit unusual and requires some context to enable interpretation.

Federal TANF provisions specify twelve categories of work that can be included in the work participation rate, but significant variations existed between states as to what could be legitimately classified under those categories. For example, some states defined caring for a disabled member of the household, taking English as a Second Language (ESL) classes and substance abuse or other types of counseling as work activities while others did not (GAO-02-770). Only a subset of states instituted controls to ensure consistency in reported work participation while others left it to the discretion of caseworkers (GAO-02-770). These conditions resulted in unusually large variations in reported work participation requirements.⁶²

States continued to develop work incentives and employment support services, including childcare and transportation (Weaver 2002). The distribution of federal funds across assistance and non-assistance expenditure categories over time highlights the trend away from traditional cash assistance to work-oriented policies. In FY1997, federal funds directed to assistance totaled \$7.8 billion, with only \$2.3 billion spent on non-assistance (ACF, Federal TANF Expenditures, Chart 2, FY1997). By 2004, priorities had reversed and non-assistance expenditures totaled \$8.4 billion—assistance expenditures had dropped to \$6.0 billion and would continue to decline through 2009 (ACF, Federal TANF Expenditures, Chart 2).

⁶² Over time, states' interpretation of includable activities evolved, making work participation rates difficult to compare year over year, even within a given state (GAO-05-821).

State Supported Programs (SSPs) for low-income individuals also proliferated under the broad discretion accorded to the states under TANF. State expenditures on SSPs counted towards their TANF MOE requirements but SSP participants could be excluded from work participation rates. Consequently, states undertook initiatives to direct individuals with substantial barriers to employment into SSPs. Two-parent families that faced higher work requirements were likewise channeled into SSPs. Despite declining TANF caseloads over the same period, SSP caseloads grew from 82,459 families (monthly average) in FY2001 to 174,004 in FY2005 (ACF Caseload).

These strategies were allowable under the 1996 TANF provisions, but federal policy makers took note. In response to what the Bush Administration viewed as states' exploitation of federal TANF statutes, the White House reauthorization proposals during this period sought to place parameters on state discretion with regard to the definition and calculation of work participation rates, as well as revising the required thresholds upwards. The Administration proposed increasing the work requirement to 40 hours a week and raising the states' participation requirement from 50 to 70% of the caseload (Falk et al 2005).

Equally troubling to federal legislators were statistics that documented declining caseloads despite deteriorating economic conditions. The trend raised questions about the effectiveness of TANF policies in extending support to low-income families.

Federal tax revenues were also declining due to the recession. Pressure on the federal budget was compounded by the Bush tax cuts of 2001 and a spike in defense spending following the events of September 11, 2001 (Weaver 2002). As federal

legislators considered reauthorization, analysts examined the extent to which federal funds had supplanted, rather than supplemented, state TANF funds (GAO-01-828).

Federal legislation to reauthorize TANF repeatedly failed to pass and the program was funded through a series of short-term extensions from 2002 through 2005. Despite changes in general fiscal conditions and uncertainty surrounding future federal parameters, state TANF programs remained in a holding pattern as reauthorization idled.

3. Federal Restrictions: Deficit Reduction Act (2005-2008)

After eight years of permitting wide latitude in state TANF choices, federal legislators reauthorized TANF as part of the Deficit Reduction Act of 2005 and imposed new standards on key performance metrics, restricting state discretion over specific TANF policy choices.

Though the DRA structured more moderate changes than the Bush Administration had proposed in 2002 (Falk et al 2005), its implications were still significant. The legislation revised methodologies for calculating work participation rates, caseload declines and qualifying MOE expenditures. Furthermore, legislation directed the HHS to publish guidelines concerning the definition of work activities and standards for reporting and verifying them.

Since TANF implementation, states had been able to earn deductions from work participation requirements for decreases in caseloads, using 1995 as the base year (GAO-10-525). Under this formula, few states had trouble meeting the requirements since caseloads had dropped precipitously since 1995. In FY2005, prior to the DRA, fifteen states had effective work participation rates of 0% (including North Carolina and Texas), and an additional twenty-four states had effective rates less than 15% (including

California at 4.5%) (Memo No. TANF-ACF-IM-2007, Table 1A). That year, only one state (Indiana) failed to achieve the WPR.

Starting in FY2007, the DRA changed the base year used for calculating reduction credits from 1995 to 2005. States would be required to include all “work eligible” beneficiaries in their work participation rates. The DRA directed HHS to issue standards defining “work eligible” individuals, specifically addressing loopholes that states had exploited to inflate their work participation rates. “Work eligibles” would henceforth include individuals in state supported programs (SSPs) that were subsidized with MOE funds, adult beneficiaries and parents of child beneficiaries. States could not exclude sanctioned parents by reclassifying cases as “child-only”. Work hours reported would be periodically supervised and regularly verified (GAO-10-525).

The language allowed for certain narrow exclusions (minor-parents, aliens and SSI recipients) but most would be considered “work eligible” and subject to work requirements. In FY2007, when the DRA changes took effect, only three states had effective rates of 0%, and ten had rates under 15% (Memo No. TANF-ACF-IM-2009, Table 1A). In the first year the reporting requirements changed, twelve states failed to meet their work participation rates (GAO-10-525).

State policy trajectories during TANF implementation provoked restrictive federal parameters enacted under reauthorization in the DRA. The correspondence between state policy choices and specific provisions in federal requirements appears to corroborate Grogan and Rigby’s (2009) observation that block grants function as policy feedback mechanisms.

Furthermore, the pattern of state responses *subsequent* to the DRA restrictions reinforces evidence of a cyclical relationship between federal and state policy choices. While reauthorization statutes clamped down on state use of MOE funds to assist individuals excluded from the WPR, they also allowed states to count a broader range of state expenditures toward their MOE requirement. Consequently, states moved away from caseload credits and instead sought to claim this “excess” MOE to reduce work participation requirements. The GAO noted that it was unclear whether states changed policies or reporting practices to boost their MOE figures (GAO-10-525), but in either case the result illustrates a strategic state response to shifting federal parameters.

States also enacted new policies to protect their work participation rates (see GAO 10-525 for a detailed discussion). States revoked TANF eligibility for non-compliant beneficiaries to remove them from the count and invested in employment services since most of the DRA restrictions on “work participation” applied only to individuals receiving *cash* assistance. States also expanded support for the working poor, making them eligible for small cash payments that allowed them to be included in the states’ WPR (CBPP 2011).

Prior to the DRA, SSPs had harbored individuals with substantial employment barriers and, in many states, two-parent families that faced higher work requirements. Caseload data over the period support a view of strategic state responses to a change in federal parameters. SSP caseloads that had exceeded 174,000 families (monthly average) in FY2004, dropped to 55,680 in FY2007, the year that DRA changes took effect (ACF). Many of these families were transitioned out of state sponsored programs and into

programs financed with solely state funds (SSFs), thus continuing to keep them out of the WPR (GAO-10-525).

The DRA period introduced a host of restrictive federal parameters, curbing existing TANF policy choices, reorienting state TANF efforts and sparking a series of creative policy responses in the states. The DRA imposed financial penalties for failure to meet work participation rates but these were still pending at the time of this writing and it was unclear whether they would be enforced, at least under the extenuating economic circumstances of the following period.

This period was characterized by a sharp restriction of federal parameters on the TANF program enacted under the Deficit Reduction Act of 2005.

4. Federal Infusions: ARRA (2009-2011)

Following the collapse of financial markets in 2008, the American economy experienced a severe and prolonged recession. In an unprecedented move to provide fiscal relief to the states, the American Reinvestment and Recovery Act was passed in 2009. Billions of federal dollars were directed to the states via multiple channels, including increased Medicaid matching increases and expanded unemployment insurance.

As discussed in Chapter 4, the effects of the financial crisis on the states were severe and budget gaps averaged 25% (NCSL 2009). Unemployment spiked and programs designed to assist low-income families were overwhelmed by an influx of beneficiaries. The number of TANF enrollees increased by an estimated 13% between March 2008 and March 2010 (Falk 2010).

The block grant structure struggled to accommodate the influx of beneficiaries and ARRA created a \$5 billion Emergency Contingency Fund to supplement the original, or “regular” \$2 billion Contingency Fund. The regular contingency fund had remained largely untapped during previous downturns due to complex eligibility stipulations. The severity of the current crisis qualified states to receive these funds but they were insufficient to cover anticipated effects from the severe economic downturn (GAO-10-525).

Through the regular and emergency contingency funds, states were eligible to receive an additional 50% of their TANF block grant amounts over the 2009 and 2010 fiscal years. Emergency funds were available to cover up to 80% of increased state expenditures in TANF and MOE funded programs related to basic assistance, subsidized employment and short-term assistance (GAO-10-525; Schott and Pavetti 2010). Rather than forcing states to find “new money”, the emergency fund allowed states to count increased expenditures in their regular TANF programs towards their 20% share.

Nineteen states qualified for regular contingency funds in 2009-2010 and 49 states plus the District of Columbia qualified for emergency TANF funds over the same period (Falk 2010). The combined federal disbursements of \$7 billion are credited with preventing the severe budget cuts in TANF that were made in other state-funded programs (Lower-Basch 2011).

Both contingency funds expired in FY 2011, exposing states to renewed fiscal constraints in the midst of fragile recoveries. Exacerbating the shortage, the supplemental grants that had been distributed to states with high population growth and low historical welfare spending were only renewed in the federal budget for a portion of

FY2011—seventeen recipient states were poised to lose 33% of their supplemental grants in the summer of 2011 (Schott and Pavetti 2010).

The most recent period in TANF evolution is characterized by a severe fiscal capacity constraint and a temporary federal intervention to alleviate its effects. The sequence of fiscal events underscores the vulnerability of states during economic downturns and their dependence on federal financial participation to operate social safety net programs. The effects of withdrawn support will certainly shape state TANF policy trajectories over the coming years.

Table 13: Select TANF indicators for the United States, 1996-2010

	1996/7	2001	2006	2009/10
Maximum Eligibility ⁶³ <i>national median for family of 3</i>	\$631	\$693	\$799	\$851
Maximum Monthly Benefit ⁶⁴ <i>national median for family of 3 with no income</i>	\$377	\$389	\$396	\$429
TANF Caseload ⁶⁵ <i>average monthly</i>	3,936,610	2,117,289	1,804,953	1,726,799
Federal Expenditures ⁶⁶ <i>on assistance & non-assistance, in millions</i>	\$10,040	\$14,959	\$13,570	\$15,179

II. TANF Case Studies

In the preceding section, the discretion-capacity framework depicts TANF policy as a series of federal actions followed by patterns of state responses. This view enables a broad understanding of policy dynamics and illustrates the tendency for federal and state level factors to constrain policy choices. The perspective also extends findings about

⁶³ Kassabian et al. 2011, Welfare Rules Databook, Table L3, for fiscal years 1997, 2001, 2006, 2010

⁶⁴ Kassabian et al. 2011, Welfare Rules Databook, Table L5, for fiscal years 1997, 2001, 2006, 2010

⁶⁵ Administration for Children and Families, for fiscal years 1997, 2001, 2006, 2009

⁶⁶ Administration for Children and Families, Chart 2 for fiscal years 1997 and 2001, Table A for fiscal years 2006 and 2009

block grants as policy feedback mechanisms (Grogan and Rigby 2009), by demonstrating that the correspondence between federal and state level policy choices extended to the TANF block grant.

Identifying broad trends simplifies complex configurations of constraints operating on state choices. In the following section, I draw details from four states' experiences to explore specific state TANF policy choices as they respond to federal parameters and state capacity constraints.

Ohio TANF Policy: Building Momentum but Losing Ground

Ohio received \$728 million per year in basic federal TANF allotments, which represented approximately 66% of total TANF funds expended in the state—it did not qualify for supplemental grants (Ways and Means 2007).

Table 14: Selected TANF features for OHIO, 1996-2010 ⁶⁷

	1996	2001	2006	2010
Maximum Eligibility <i>for family of 3</i> <i>US Median:</i>	\$631 <i>\$631</i>	\$980 <i>\$693</i>	\$980 <i>\$799</i>	\$763 <i>\$851</i>
Maximum Monthly Benefit <i>for family of 3 with no income</i> <i>US Median:</i>	\$341 <i>\$377</i>	\$373 <i>\$389</i>	\$410 <i>\$396</i>	\$434 <i>\$429</i>
Earned Income Disregards	\$250+50% <i>for 12 months</i> \$90 <i>thereafter</i>	\$250+50%	\$250+50%	\$250+50%
Asset Limits	\$1,000	no limit	no limit	no limit

Prior to the federal TANF legislation, Ohio was in the minority of states that supplemented the federal AFDC program with an entirely state-funded general assistance initiative. The state offered a uniform, statewide benefit for individuals who were not eligible for AFDC, but only for families below 17% FPL (Gallagher et al.1998). Ohio was one of twenty-two states assisting couples, and one of only twelve providing cash

⁶⁷ Kassabian et al. 2011, Welfare Rules Databook, Table L3 (maximum eligibility), Table L5 (maximum monthly benefit), Table L4 (earned income disregards) and Table L8 (asset limits)

assistance to families of three, with *state* funds, but in both cases the maximum benefit was set at 18%FPL and was the lowest among states offering benefits to those populations (Gallagher et al. 1998). In terms of these benefits, Ohio's policies to assist low-income families could be described as inclusive but minimal, seemingly at odds with the Meyers et al. (2001) "integrated" categorization.

In 1995, when Congress failed to act on welfare reform,⁶⁸ Ohio adopted the Ohio First program, which significantly increased earned income disregards, but also imposed strict time limits, work requirements and sanctions in the state's AFDC program (Corlett 2006). Subsequent to federal PRWORA legislation, Ohio enacted its welfare reform program, Ohio Works First (OWF), in October 1997 (House Bill 408).

The program emphasized personal responsibility and self-sufficiency. OWF imposed time limits stricter than federal requirements, though not as strict as the 36-month cutoff originally proposed by the bill's Republican sponsor. OWF adopted a time limit of thirty-six consecutive months, after which participants were ineligible for benefits for a twenty-four month period (Mantovani et al. 2000). Individuals could reapply after two years had elapsed, but their subsequent eligibility would be determined by county-level policies and limited to a maximum of twenty-four additional months (Corlett 2006).

Devolving decisions to the counties was a prominent characteristic of Ohio's TANF program, following the pattern the state had adopted in delegating outreach and enrollment to the counties in its SCHIP Medicaid expansion program. Counties retained authority over determination of exemptions, supervision of the 30-hour work requirement

⁶⁸ S. 1117--104th Congress: Work First Act of 1995. (1995). In GovTrack.us (database of federal legislation). Retrieved April 1, 2012, from <http://www.govtrack.us/congress/bills/104/s1117>

and definitions of sanctions for non-compliance (Gallagher et al. 1999). Accordingly, the state passed along performance incentives and responsibility for sharing any financial penalties incurred for failure to meet work participation rates. Counties also administered non-recurrent assistance through the Prevention, Retention and Contingency (PRC) program—these benefits did not count towards the time limits and counties exercised broad discretion to determine benefits and eligibility (Corlett 2006; Gallagher et al. 1999).

As caseloads fell through the late nineties, Ohio accumulated significant reserves of unspent federal TANF funds. In 1999, HHS issued interim rules that limited the use of prior years' reserves to basic (cash) assistance, which was a diminishing share of Ohio's TANF program (ACF Memo No. TANF-ACF-PI-2002-02). In FY1999, Ohio spent \$414 million on cash assistance but this figure had dropped to \$336 million by 2001 and was less \$305 million by 2003 (TANF Form ACF-196, Table F, Line 5a).

Unobligated balances increased from \$216 million in FY2000 to a peak of \$341 million in FY2003 (TANF Form ACF-196, Line 10). As reauthorization proceedings brought these balances into the public eye, Ohio stepped up transfers to other block programs (CCDF and SSBG) as permitted under TANF legislation. In FY2001, the state transferred \$209.5 million and in FY2002, more than \$218 million (TANF Form ACF-196).

The effort to spend down reserves was abetted by deteriorating economic conditions over the 2001-2004 recessionary period. While still higher than the national average, relative to the states in this study, Ohio was less severely affected during the first recessionary period. Unemployment in the state peaked at 6.2% in 2003, though it

was slower to recover than in California, North Carolina and Texas (Bureau of Labor Statistics).

Feeling budgetary pressure, Ohio reallocated surplus TANF funds to other programs to avoid raising taxes. In FY 2002-3, the budget replaced \$175 million in state Head Start funds with federal TANF funds and used \$60 million from the TANF account for the “purpose of balancing the general revenue fund.” (Corlett 2006)

In SFY2004, the state was forced to reconcile a \$2 billion, or 9.2%, budget deficit (Lav and Johnson 2003). Cuts in Ohio’s TANF program were confined to its child-care program and were achieved by reducing eligibility (from 185 to 150%FPL), increasing co-payments and freezing provider reimbursement rates (Parrott and Wu 2003). Excess reserves protected the state’s TANF program from more extensive reductions.

In 2005, the DRA revised the definition of work activities and required additional supervision and verification of reported hours. In a memorandum to the directors of county departments (dated August 2009), the Deputy Director of Ohio Job & Family Services reported challenges in obtaining federal approval of the required work verification plan and difficulties in collecting and reporting data on work activities within the required timeframe. Ohio’s devolved TANF infrastructure had fostered wide variation across the counties in terms of eligibility and benefit definitions, as well as administrative procedures (Mantovani et al. 2000; Corlett 2006) and administrators expressed frustration with the time required to meet increased verification and monitoring requirements (Loprest et al. 2007). Distribution of the TANF infrastructure across Ohio’s counties complicated compliance with DRA requirements.

As discussed above, the DRA revised the formula for calculating caseload reduction credits, using 2005 as the new base year. The new formula made it more difficult to qualify for credits and Ohio's adjusted work participation requirement jumped from 15.7% to 46.2% between FY2005 and FY2007 (Memo No. TANF-ACF-IM-2007 and 2009, Table 1A). In FY2007, Ohio's all-family WPR was 23.7% and the state failed to meet its work participation target. Though Ohio had achieved some caseload reductions since 2005, it did not pursue the full panoply of strategies other states employed to maximize credits under DRA provisions. Ohio did not claim excess MOE or operate a worker supplement program, a solely state funded program or a diversion program in FY2007 (GAO 10-525).

Failure to meet work participation rates subjected states to federal financial penalties. HHS had discretion to consider extenuating circumstances in calculating the penalty and an unusual sequence of events had (at the time of this writing) granted Ohio and other non-compliant states a reprieve of undetermined duration. By the time the data had been collected, reported and reviewed by HHS, the financial crisis had hit. HHS delayed imposing sanctions while the states were already under fiscal duress and struggling to respond to an upsurge in TANF caseloads—it is unclear when, or even if, HHS would act on authority to penalize states for failure to meet their work participation rates (Falk 2010).

A week after federal ARRA legislation was signed into law in February 2009, the Director of the Ohio Department of Jobs and Family Services appeared before the House Finance and Appropriations Committee. In his testimony, he noted that unobligated TANF balances had been exhausted in the 2008-09 budget cycle and that budgeted

expenditures in the 2010-11 biennium exceeded available resources (Lumpkin 2009).

For the first time since TANF was created, Ohio experienced a binding fiscal constraint.

The original TANF legislation had created a \$2 billion contingency fund to offset pro-cyclical expenditures. States with increased costs in their Food Stamp or Unemployment Insurance qualified for disbursements, but only after MOE expenditures had returned to 100% of 1994 levels (Weaver 2002). This requirement precluded many states, including Ohio, from qualifying for regular contingency awards. Nevertheless, Ohio drew down \$244.7 million in emergency contingency funds under ARRA, or 67.2% of its available allotment (Falk 2010).

Table 15: TANF indicators for OHIO, 1999-2009

	1999	2001	2003	2005	2007	2009
Unemployment⁶⁹						
Ohio		4.4%	6.2%	5.9%	5.6%	10.1%
US		4.7%	6.0%	5.1%	4.6%	9.3%
Monthly Caseload⁷⁰ <i>average #families</i>	108,635	85,005	84,292	82,597	78,373	90,057
All-Family Work Participation Rate⁷¹						
Actual	53.7%	53.2%	62.3%	58.3%	23.7%	23.3%
Adjusted requirement	1.4%	0%	0%	15.7%	46.2%	42.0%
TANF Expenditures <i>(\$ in millions)</i>						
Federal Funds ⁷²	393.5	738.5	613.8	595.8	912.3	879.7
State MOE Funds ⁷³	415.9	412.6	388.3	390.2	379.2	437.8
Total TANF	809.4	1,151.1	1,002.1	986.0	1,291.5	1,317.5

TANF policy in Ohio operated within federal parameters, slower than other states to strategically deploy surplus federal funds in the early years of the program. The threat

⁶⁹ Bureau of Labor Statistics, for fiscal years

⁷⁰ Administration for Children and Families, for fiscal years

⁷¹ Administration for Children and Families, for fiscal years, TANF-ACF-IM-98, TANF excluding SSP

⁷² Administration for Children and Families, TANF assistance and non-assistance, Table A1

⁷³ Administration for Children and Families, MOE on TANF assistance and non-assistance, Table B1

of reduced funding under reauthorization accelerated expenditures, and imposed an inverse fiscal constraint that pressured the state to reallocate funds to other programs—an effort accelerated by budget pressures during the first recessionary period. As these efforts gained momentum, the DRA imposed stricter work participation measures that the state failed to achieve, even before economic conditions deteriorated following the financial crisis. The state’s TANF policy choices were reactive less progressive than other states, seemingly at odds with the Meyers et al.’s (2001) classification of Ohio as an integrated policy regime.

California TANF Policy: Reversing Course

California’s historically high AFDC expenditures qualified it for high levels of funding under TANF. California received an annual basic allotment of \$3.7, which accounted for more than 22% of the total federal funding available for TANF (Ways and Means 2007).

Table 16: Selected TANF features for CALIFORNIA, 1996-2010⁷⁴

	1996	2001	2006	2010
Maximum Eligibility <i>for family of 3</i> <i>US Median:</i>	\$820 \$631	\$906 \$693	\$981 \$799	\$1,203 \$851
Maximum Monthly Benefit <i>for family of 3 with no income</i> <i>US Median:</i>	\$596 \$377	\$645 \$389	\$704 \$396	\$694 \$429
Earned Income Disregards	\$120+33.3%	\$225+50%	\$225+50%	\$225+50%
Asset Limits	\$2,000	\$2,000	\$2,000	\$2,000

California had been operating its AFDC program under a number of waivers pertaining to eligibility levels and work requirements since 1994, pushing the boundaries of federal parameters on state discretion under AFDC. When PRWORA passed, California was operating the nation’s largest AFDC program, extending benefits to more

⁷⁴ Kassabian et al. 2011, Welfare Rules Databook, Table L3 (maximum eligibility), Table L5 (maximum monthly benefit), Table L4 (earned income disregards) and Table L8 (asset limits)

than 883,000 low-income families (Administration for Children and Families) at an annual cost of \$6.18 billion (NCSL 1996 *State Budget Actions*). The state spent approximately 6% of its general fund on assistance under AFDC in 1996, significantly more than other states in this study (Texas spent 0.8%) (Zedlewski et al. 1998).

Furthermore, California operated a state-funded general assistance program for individuals ineligible for federal benefits, including able-bodied adults without children (Gallagher et al. 1998). The state general assistance program covered populations ineligible for federal AFDC benefits and provided payments up to 33% of the federal poverty level (Gallagher et al. 1998).

Governor Gray Davis (D) signed AB 1542 into law in August 1997, establishing California Work Opportunity and Responsibility to Kids, or CalWORKS. The compromise followed a public showdown between the governor and the legislature over TANF exemptions related to mothers of young children.

The political constraints that delayed California's TANF implementation were of an entirely different nature than those that shaped the state's SCHIP policy choices in 2004. In the case of TANF, a Democratic governor opposed the more generous exemptions for mothers of young children (Zedlewski et al. 1998) that had overwhelmingly passed floor votes in the Senate and Assembly with bipartisan support (vote counts available for AB 1542 at www.leginfo.ca.gov).

The controversy centered on the age of the youngest child for which mothers would be exempt from work requirements. The governor had supported 3 months and the legislature promoted 12 months. They eventually compromised at 6 months, with

provisions for some counties to set the age as low as 12 weeks and as high as 12 months. (Zedlewski et al. 1998)

The session was extended through the summer to negotiate a compromise that was reached only in the final hours (Zedlewski et al. 1998). Some observers attributed the standoff to the entrenched interests created by the state's devolution of authority to county administrators, a policy the state adhered to in both its TANF and SCHIP programs. Under TANF, California counties retained discretion to set exemptions for parents of young children from 12 weeks up to 12 months, determine diversion assistance payments, exempt domestic violence victims and apply for waivers to implement employment-related pilot programs (Gallagher et al. 1999).

Under AFDC rules, California had actively sought waivers. In a typology developed by the Urban Institute (Zedlewski et al. 1998), California was classified as a "moderate" AFDC experimenter. The state imposed work requirements on beneficiaries who exceeded time thresholds and reduced benefits for children conceived while a family was on welfare (Zedlewski et al. 1998). Beginning in 1992, California expanded its earned income disregards and, in 1994, increased its asset limits and opted to provide child-care and Medicaid for participants transitioning to work to remove work disincentives (Zedlewski et al. 1998).

CalWORKS emphasized moving participants into work activities and, from the start, included diversion programs for individuals seeking assistance. The Legislative Highlights of 1997 (California Senate Office of Research, October 1997) listed job placement services, subsidized child-care and assistance from the district attorney's office in child support collection as some of the services available to help people avoid

welfare. The memo goes on to detail welfare-to-work services that include special needs assessment, job-search, child-care and transportation. Recipients who transitioned into jobs could continue to receive child-care, transitional Medi-Cal (Medicaid) and child support enforcement. In 1999, the state budget included an additional \$5 million to provide transitional housing for recipients moving into work (California Senate Office of Research, October 1999)

California tended to favor incentives to move families off welfare rather than sanctions or penalties and did not implement a full-family sanction (Loprest et al. 2007). This approach was also evident in the state's treatment of hard-to-employ individuals, for whom the state had created specific exemptions and special activities to be counted towards work requirements (Loprest et al. 2007).

California, like Texas, is home to a large number of non-citizens. Approximately 5.4 million residents, or 15.6% of the total population, were non-citizens (Bresette et al. 2002, Current Population Survey, March 2001 Annual Supplement, U.S. Bureau of the Census and U.S. Department of Labor, Bureau of Labor Statistics). Unlike Texas, California opted to offer TANF benefits to lawfully residing immigrants after the five-year waiting period (Bresette et al. 2002).

California creatively employed the discretion allowed by federal TANF legislation to structure state programs so that reported statistics complied with federal requirements (GAO-05-821). Like many other states, California operated a separate state program (SSP) for two parent families. Federal work participation requirements for 2 parent families were set at 70% (and later revised upwards), a level that most states had trouble achieving. SSP expenditures were counted towards the state's MOE, but the

recipients were not subject to the federal work participation requirements. While several states frankly admitted that their SSPs had been structured specifically to keep this population out of the work participation calculation, California officials stated that theirs had been designed “to study the unique characteristics and needs of this large and diverse population.” (GAO-05-821, 13)

California also removed non-compliant adults from TANF cases, reclassifying them as “child-only” and excluding them from the work participation rate (GAO-05-821). The GAO reported that this practice preceded TANF, but it nevertheless demonstrates the creative accounting that states could employ to ensure that their caseload statistics complied with federal TANF requirements.

During the recessionary period of 2001-2004, despite the measure of protection afforded by fixed federal grants and MOE requirements, CalWORKS suffered under fiscal constraints associated with the state’s budget crisis. Cost of living adjustments were delayed for cash assistance recipients, and budgets were reduced for county administrative costs and CalWORKS community college services (Parrott and Wu 2003).

The DRA’s restriction on state discretion had a significant impact in California. In 2006, the legislature approved Assembly Bill 1808 in response to changes in the federal TANF law. The new statutes required counties to submit plans for increasing work participation rates, detailed requirements for counties to pay half of any federal penalties imposed for failure to meet those rates, and removed lengthy sanctions for beneficiaries coming into compliance with work requirements. The bill explicitly prohibited the use of federal TANF or state MOE funds for any activities that might increase the number used determine the state’s caseload reduction credit.

AB 1808 also created a state funded program for families exempt from work requirements. The provisions stipulated that the Temporary Assistance Program (TAP) would not constitute an additional state expense because the funding stream would be swapped with other programs that qualified under the federal MOE definitions.

These strategic responses to the DRA fell short of the changes California needed to achieve its work participation rate. Despite claiming caseload reduction credits, allowing earned income disregards to keep working individuals in the count and operating a diversion program to keep non-compliant individuals out of the count, California failed to meet its work participation rate in FY 2007 (GAO 10-525, 60). These events took a back seat to the series of spectacular budget crises that engulfed the state in subsequent years.

California was particularly hard hit by the recession. The unemployment rate spiked from 5.4% in 2007, to 11.3% in 2009 and 12.4% in 2010 (Bureau of Labor Statistics). Governor Schwarzenegger (R) declared a fiscal emergency and convened four extraordinary legislative sessions (between December 2008 and July 2009) to address the budget gap. In December 2008 the two-year budget deficit was projected to reach \$28 billion—by the following July, that estimate had grown to \$63 billion, nearly a third of the state’s operating budget (O’Connell 2009). The Governor proposed tightening CalWORKS eligibility to reduce expenditures and improve the state’s work participation rate by imposing a full family sanction for non-compliant parents and limiting eligibility for children to sixty months, but the proposals were rejected by the legislature (WCLP 2011).

The American Reinvestment and Recovery Act of 2009 presented funding opportunities for California at a critical time. The state drew down 68.5% of its total TANF contingency allotments, failing to qualify for any of the regular contingency funds but still receiving over \$1.25 billion (Falk 2010). Among other provisions, the extraordinary session in July 2009 passed legislation to channel emergency funds to county-level initiatives providing subsidized employment (WCLP 2011).

The federal infusions offered by ARRA were insufficient to alleviate the severe fiscal constraints that continued to plague California. Through 2011, California implemented a series of drastic measures to reign in expenditures. Provisions affecting CalWORKS included grant reductions of 12%, elimination of cost-of-living adjustments, revisions in earned income disregards to lower the effective threshold from 112.6 to 88.7% FPL, funding reductions for employment services and subsidized child care and shortening lifetime limits on benefits from 60 to 48 months for most adults (CBP 2011).

Mirroring its SCHIP experience, the evolution of California's TANF program can be divided into two periods. In the first, progressive programs extended relatively generous benefits that were scaled back under severe fiscal constraints. It is difficult to characterize California as a "generous" policy regime given the fiscal events of recent years. The TANF experience in particular showcases more drastic cuts than SCHIP, perhaps due to federal requirements in ACA (March 2010) that stabilized SCHIP eligibility.

Table 17: TANF indicators for CALIFORNIA, 1999-2009

	1999	2001	2003	2005	2007	2009
Unemployment ⁷⁵						
California		5.4%	6.8%	5.4%	5.4%	11.3%
US		4.7%	6.0%	5.1%	4.6%	9.3%
Monthly Caseload ⁷⁶ <i>average #families</i>	624,096	468,747	449,650	463,569	471,995	532,907
All-Family Work Participation Rate ⁷⁷						
Actual	42.2%	25.9%	24.0%	25.9%	22.3%	26.8%
Adjusted requirement	8.5%	6.0%	5.8%	4.5%	32.3%	29.0%
TANF Expenditures <i>(\$ in millions)</i>						
Federal Funds ⁷⁸	3,552	3,716	3,671	3,015	3,067	3,347
State MOE Funds ⁷⁹	2,432	2,345	2,080	2,445	3,476	3,123
Total TANF	5,984	6,061	5,751	5,460	6,543	6,470

North Carolina TANF Policy: Maintaining Effort

Following the failure of federal welfare reform in 1995,⁸⁰ North Carolina Governor Jim Hunt (D) issued an executive order to establish Work First (*Almanac of American Politics 2000*). In 1996, just months before passage of PRWORA legislation, HHS approved waivers that allowed North Carolina to impose work requirements and time limits in their AFDC program, as part of the Work First initiative. The state set a 24-month limit on cash assistance, after which most individuals would be ineligible for 36 months, and imposed sanctions on families that refused to sign the Personal Responsibility Contract (HHS 1997).

⁷⁵ Bureau of Labor Statistics, for fiscal years

⁷⁶ Administration for Children and Families, for fiscal years

⁷⁷ Administration for Children and Families, for fiscal years, TANF-ACF-IM-98, TANF excluding SSP

⁷⁸ Administration for Children and Families, TANF assistance and non-assistance, Table A1

⁷⁹ Administration for Children and Families, MOE on TANF assistance and non-assistance, Table B1

⁸⁰ S. 1117--104th Congress: Work First Act of 1995. (1995). In GovTrack.us (database of federal legislation). Retrieved April 1, 2012, from <http://www.govtrack.us/congress/bills/104/s1117>

On these policy dimensions, North Carolina’s requirements were more restrictive than federal TANF parameters so it did not experience binding discretion constraints under the 1996 PROWRA legislation. North Carolina received \$302 million in annual basic TANF allotments and an additional \$36 million per year in supplemental grants (Ways and Means 2007).

Table 18: Selected TANF features for NORTH CAROLINA, 1996-2010⁸¹

	1996	2001	2006	2010
Maximum Eligibility <i>for family of 3</i> <i>US Median:</i>	\$936 \$631	\$750 \$693	\$781 \$799	\$844 \$851
Maximum Monthly Benefit <i>for family of 3 with no income</i> <i>US Median:</i>	\$272 \$377	\$272 \$389	\$272 \$396	\$272 \$429
Earned Income Disregards	\$120+33.3% <i>then step down</i>	100% <i>3 months 27.5% thereafter</i>	100% <i>3 months 27.5% thereafter</i>	100% <i>3 months 27.5% thereafter</i>
Asset Limits	\$3,000	\$3,000	\$3,000	\$3,000

North Carolina’s law maintained state and county MOE contributions at 100% of pre-existing levels, considerably higher than the federal requirement of 75-80%. As in other states, fixed federal funding and declining caseloads relaxed fiscal constraints in the early years of the program. The effect was magnified by the higher state and county MOE requirements stipulated in North Carolina’s TANF State Plan.

Similar to other states in this study, North Carolina’s Work First program devolved considerable policy authority to the implementing county agencies. Counties can opt to operate as “standard” or “electing” counties (NC TANF State Plan P.L.104-193). Standard counties implement the state’s Work First structure. Electing counties retain more flexibility over program design, and are permitted to reduce their MOE to 90% if they demonstrate compliance with program requirements. Twenty-five counties

⁸¹ Kassabian et al. 2011, Welfare Rules Databook, Table L3 (maximum eligibility), Table L5 (maximum monthly benefit), Table L4 (earned income disregards) and Table L8 (asset limits)

originally applied for this status, but currently only eight counties are operating as “electing” and the remaining ninety-two are “standard”. North Carolina law limits “electing” counties to a total of 15.5% of the total Work First caseload (NC TANF State Plan P.L.104-193). Devolved decision-making, the surplus of funds and the flexibility permitted under the new federal statutes fostered a proliferation of policy responses in North Carolina.

In addition to cash assistance, counties administered diversion and emergency assistance programs, employment services, child care subsidies, transportation assistance and other services were available to (qualifying and compliant) families under 200%FPL. County agencies made benefit and exemption determinations. Most of these programs were state supervised and county administered, supported by federal, state MOE and county MOE funds. Though the relative share of federal, state and local contributions fluctuated over time, in 1995 they were approximately 67%, 25% and 8% respectively (Wright and Cartron 1997), and somewhat stable under constant MOE requirements. This distribution is an average and funding shares varied across programs—for example, federal and state funds cover 100% of the cost of cash assistance.

In 1999 and 2000, North Carolina failed to meet the two-parent work participation rates, and it responded by devolving this responsibility to the counties. From 1999 until the DRA changes took effect in 2007, North Carolina’s all-families work participation rate was 0% after adjustments for caseload declines (data from ACF).

In 2002 and 2003, the same economic downturn and resulting fiscal constraints that had forced the state to open a wait list in its SCHIP program, were felt in North Carolina’s TANF programs. Despite receiving a \$3.5 million performance bonus for

improvements in measures of “success in workforce” in FY2002 (data from ACF), North Carolina made a series of budget-related cuts that year. Funding for pregnancy prevention, substance abuse, after-school programs and other initiatives was reduced (Parrott and Wu 2003). Childcare subsidies, which had been growing under the new TANF flexibility, suffered significant losses. In SFY2002, Smart Start lost \$59 million, state funding for Early Head Start was eliminated and childcare subsidies were cut by four percent (Parrott and Wu 2003). By the following year, more than 11,000 children were on the state waiting list for childcare assistance. (Parrott and Wu 2003). For SFY 2004, North Carolina had a projected \$2 billion, or 14.6%, budget gap (Lav and Johnson 2003).

As stipulated by the DRA, North Carolina required citizenship verification (NC TANF Change Notice 06-2006), adopted federal definitions of “work eligible” and “work activities”, and standardized procedures for counting, reporting and supervising hours worked (NC TANF Change Notice 08-2006).

In FY2007, pursuant to DRA requirements, the base year for calculating caseload reductions transitioned from 1995 to 2005. North Carolina’s adjusted work participation threshold jumped from 0% to 22.1%, though its rate for the year, 32.4%, was still compliant (ACF). In the face of tightening federal parameters, the state initiated a series of demonstration projects to identify policy options for increasing work participation. The Work First Demonstration Grant (WFDG) provided \$19 million to sponsor pilot projects in fifty-three counties (Weigensberg et al. 2008). Conducted over 2007 and 2008, the demonstrations included job preparation, transportation, childcare, pay-after-performance and other experimental programs (ibid). In this case, restrictive parameters

encouraged the state to search for innovative policy options to improve work participation.

As financial crisis took hold of the country in 2008, the effects in North Carolina were widespread. Since 2005, the state's Food Stamp receipts had qualified the state for supplemental federal TANF assistance in job search and job readiness activities (lengthening eligibility for state beneficiaries from six to 12 weeks) (ACF). By September 2008, it also qualified on the basis of higher than average unemployment and continued to do so, uninterrupted, through January 2011 (ACF).

Between 2008 and 2009, the state's unemployment rate jumped from 6.3 to 10.5% (Bureau of Labor Statistics). In FY2009, those unemployment levels and the state's 100% MOE policy qualified it for disbursements from the regular TANF contingency fund. In 2009 and 2010, North Carolina received \$71.7 million in regular contingency funds (ACF) and an additional \$79.7 million in emergency contingency funds (Falk 2010).

Federal ARRA assistance, in the form of increased Medicaid matching rates and TANF emergency funds, averted deeper budget cuts and enabled North Carolina to implement a subsidized employment program (Sirota 2010). The infusions were temporary and budget negotiations for FY2011-12 inherited a set of delayed fiscal constraints.

Where North Carolina's strategic policy choices to expand SCHIP were in conflict with expectations for a "limited" policy regime, the state's track record with regard to TANF was consistent with this classification. North Carolina's TANF program was more focused on maintenance than expansion.

Table 19: TANF indicators for NORTH CAROLINA, 1999-2009

	1999	2001	2003	2005	2007	2009
Unemployment ⁸²						
North Carolina		5.6%	6.5%	5.3%	4.8%	10.5%
US		4.7%	6.0%	5.1%	4.6%	9.3%
Monthly Caseload ⁸³ <i>average # families</i>	59,328	43,497	40,432	33,773	25,882	25,680
All-Family Work Participation Rate ⁸⁴						
Actual	16.0%	24.4%	25.3%	27.5%	32.4%	32.3%
Adjusted requirement	0%	0%	0%	0%	22.1%	0%
TANF Expenditures <i>(\$ in millions)</i>						
Federal Funds ⁸⁵	277.9	282.3	252.2	251.4	247.2	336.6
State MOE Funds ⁸⁶	166.1	192.2	204.3	196.1	188.1	300.2
Total TANF	444	474.5	456.5	447.5	435.3	636.8

Texas TANF Policy: Laying Low

Compared to other states in this sample and the rest of the nation, Texas operated an extremely conservative AFDC program. While the program assisted 246,500 low-income families (Administration for Children and Families) with total expenditures of \$590 million (NCSL 1996 State Budget Actions), it reached only 25% of poor families with children, significantly below the national average of 44% (calculation based on ACF and CPS data 1996) and the state did not have a state general assistance program to complement its AFDC program (Gallagher et al. 1998). With a history of low AFDC

⁸² Bureau of Labor Statistics, for fiscal years

⁸³ Administration for Children and Families, for fiscal years

⁸⁴ Administration for Children and Families, for fiscal years, TANF-ACF-IM-98, TANF excluding SSP

⁸⁵ Administration for Children and Families, TANF assistance and non-assistance, Table A1

⁸⁶ Administration for Children and Families, MOE on TANF assistance and non-assistance, Table B1

expenditures, Texas’s original allotment was \$486 million, with supplemental grants of \$53 million (Ways and Means 2007).

Table 20: Selected TANF features for TEXAS, 1996-2010⁸⁷

	1996	2001	2006	2010
Maximum Eligibility <i>for family of 3</i> <i>US Median:</i>	\$400 \$631	\$401 \$693	\$401 \$799	\$401 \$851
Maximum Monthly Benefit <i>for family of 3 with no income</i> <i>US Median:</i>	\$188 \$377	\$201 \$389	\$223 \$396	\$260 \$429
Earned Income Disregards	\$120+50% 4 months \$120 next 8 months \$90 thereafter	\$120+90% 4 of 12 mos	\$120+90% 4 of 12 mos	\$120+90% 4 of 12 mos
Asset Limits	\$1,000	\$2,000	\$1,000	\$1,000

Under AFDC rules, Texas had aggressively sought waivers to transition to a “work-first” policy focus. In the Urban Institute typology (Zedlewski et al. 1998), Texas was classified as an “extensive” AFDC experimenter, but, as in Ohio, most of the changes were made in anticipation of the TANF legislation. In 1996, the state received a waiver to sanction recipients who were not in compliance with JOBS work requirements by removing the offending adult from the calculation of the family’s AFDC benefit (HHS 1997). Texas also implemented a tiered time limit on beneficiaries in the AFDC-Unemployed Parent program and increased asset limits to remove work disincentives and provided for a range of childcare subsidies for individuals seeking or obtaining work (HHS 1997; Zedlewski et al. 1998).

For many states, parameters embedded in the federal TANF legislation curtailed state discretion by conditioning eligibility on work activities and enforcing time limits on benefits. Texas had already embraced the welfare-to-work mentality in legislation that

⁸⁷ Kassabian et al. 2011, Welfare Rules Databook, Table L3 (maximum eligibility), Table L5 (maximum monthly benefit), Table L4 (earned income disregards) and Table L8 (asset limits)

pre-dated TANF (Texas House Bill 1863, enacted in 1995). Texas encountered a different configuration of potential constraints in the aftermath of PRWORA's enactment. Federal TANF allotments were based on historical AFDC expenditures and Texas had a track record of minimal investment in the program. The calculation set the Texas allotment at \$486.3 million. Based on funds per low-income child, this allotment was ranked 49th out of 50 states (Weaver 2002).

The allotment could have constrained program development but Texas was spared by a combination of intervening circumstances. Texas and sixteen other states qualified for federal TANF disbursements from the Supplemental Fund that had been created specifically to assist historically low expenditure, high growth states. Texas qualified for an annual supplement of \$52.7 million, or an additional 10.8% of its basic allotment (Ways and Means 2007).

Caseloads in Texas dropped precipitously over the early years of TANF implementation. For cash assistance, the number of families receiving grants fell from 280,000 to 128,000 between 1995 and 2000, qualifying the state for performance bonuses in 2000 and 2001 of \$16 and \$24 million respectively (GAO-01-828).

The caseload reductions left Texas with a funding surplus. By the end of FY2000, the state had accumulated \$182.8 million in unobligated federal funds (GAO-01-828). Unlike SCHIP, which imposed a three-year limit on the availability of federal funds, federal TANF funds were not time restricted and the state considered options for using these funds to offset state investments in other programs (GAO-01-828).

The relatively meager federal allotment due to Texas did not constitute a binding fiscal constraint because the state never had the political capacity to pursue a progressive

benefit strategy (GAO-01-828). Over the program's lifetime, most assistance has continued to target individuals below 17% FPL (Texas TANF State Plans, multiple years).

Texan programs for low-income families confronted challenges associated with serving a large non-citizen population. Approximately 2.1 million non-citizens reside in Texas, or about 9.9% of the state's population (Bresette et al. 2002, Current Population Survey, March 2001 Annual Supplement, U.S. Bureau of the Census and U.S. Department of Labor, Bureau of Labor Statistics). Despite fact that Texas had offered AFDC benefits to all very-low-income families regardless of citizenship, the state was one of only five states to opt out of providing TANF benefits after the five-year waiting period that applied to lawfully residing immigrants (Bresette et al. 2002).

The political constraints featured in Texas' SCHIP policy choices were less pronounced in its TANF program. Conditioning public benefits on work requirements was an objective closely aligned with the state's stance on social provisioning. The Texas Workforce Commission described House Bill 1863 as "in line with three overriding philosophies in Texas government: (1) local control; (2) smaller, more efficient government; and (3) an emphasis on work and individual responsibility" (TWC). SCHIP's endorsement of an expanded role for government in healthcare was incompatible with this philosophy. SCHIP also extended assistance to children over 100% FPL, a population with means well above those deemed "needy" and eligible for TANF basic assistance in Texas. SCHIP legislation required identifying new state funds and galvanizing support to secure them, a process described by Texas state officials as politically difficult (GAO-01-828). By capitalizing on existing AFDC infrastructure and

funding streams, TANF may have averted some of the politically-driven fiscal constraints that characterized Texas' CHIP implementation.

However, the strategies observed in the state's CHIP case study to reduce caseloads were likewise employed in its TANF program during economic downturns. In 2003, as the state's unemployment rate reached 6.7% (Bureau of Labor Statistics) and fiscal conditions deteriorated, Texas implemented a full family sanction for the first instance of noncompliance with work requirements (Hagert 2007; Loprest et al. 2007).

Caseloads dropped further, earning the state additional performance bonuses (TWC). By the end of 2004, the number of families in the state's caseload had fallen below 100,000 (ACF). Texas's caseload reductions were not associated with commensurate reductions in the number of low-income families—the program simply served a shrinking number of individuals in poverty (Weaver 2002). Hagert (2007) criticized Texas' TANF program for failing to assist poor kids and pursuing a “singular goal of reducing caseloads.”

The DRA imposed binding federal parameters on TANF practices in Texas. From the beginning, Texas had operated a state funded (MOE) program for two-parent families to exclude them from caseload statistics used to calculate the work participation rate. In 2003, as the reauthorization debate raged on, HB 2970 proactively provided for the transfer of two-parent families into a solely state funded (SSF) program if federal legislation imposed more stringent work participation rates (Black and Martin 2003).

Effective October 1, 2007, the long anticipated federal changes took effect and Texas responded accordingly. State MOE funds were diverted to other programs and two-parent families were transitioned to the SSF, continuously shielded from inclusion in

the state's work participation rate. Along with declining caseloads, earned income disregards, and a diversion program, the two-parent reassignment helped Texas meet its participation rate even after the DRA changes were enacted (GAO-10-525).

In order to continue drawing down federal funds, states had to meet their MOE requirements and, as caseloads continued to fall, Texas sought to identify additional outlets for its \$251.4 million MOE requirement. The DRA's expanded allowances prompted a proliferation of MOE funded initiatives in Texas' state TANF plans. In 2000, the state listed 10 programs in addition to cash assistance that received federal TANF and state MOE funds (Texas TANF Plan 2000). By 2010, this number had jumped to twenty-five and the list included programs with purposes ranging from strengthening families, training workers, expanding literacy, subsidizing employment for youth, low income and the unemployed, transitioning foster children, funding pre-K programs, providing child care, operating food banks, investing in adult education, and preventing dropouts (Texas TANF Plan 2010, Section 2). The DRA of 2005 shifted federal parameters, limiting Texas' discretion in certain TANF policy choices but expanding it along other dimensions.

The recession following the financial crisis was associated with rising unemployment in Texas, the rate jumping from 4.9% to 7.5% between 2008 and 2009. The effects played out against an altered TANF policy landscape. The unspent reserves that had protected TANF programs during the prior recession had evaporated, and in FY2009, Texas reported \$0 in unobligated funds (TANF ACF Form 196 Line 10).

The original TANF legislation had created a \$2 billion contingency fund to offset pro-cyclical expenditures. States with increased costs in their Food Stamp or

Unemployment Insurance programs qualified for disbursements, but only after MOE expenditures had returned to 100% of 1994 levels (Weaver 2002). This requirement prevented Texas from qualifying for regular contingency awards. Nevertheless, Texas maximized its emergency contingency allotment, drawing down more than \$243 million, or 99.9% of its available funds (Falk 2010).

Emergency funds could only be used for cash assistance if caseloads increased over the lower of 2007 or 2008 levels. In a telling memo prepared for HHS in the early months of the recession, the Center for Public Policy Priorities observed that caseloads in Texas were not expected to increase (Cole 2009). In hindsight, one might be tempted to dismiss the statement as a severe underestimation of the unfolding recession.

On the contrary, a review of caseload statistics in Texas over the period largely supports this prediction. In October 2008, Texas reported approximately 50,800 families as TANF and SSP/MOE participants, a number that never exceeded 53,000 at the height of the crisis and had subsided to initial levels by January 2011 (ACF). In retrospect, the memo may have been a frank acknowledgement that stringent eligibility requirements and meager benefits had transformed Texas' TANF into a program that could not (or would not) absorb the impact of a drastic economic downturn on low-income families.

Regardless, caseload increases were not necessary to qualify for emergency funds to provide short-term, non-recurrent aid, so Texas temporarily increased the back-to-school supplement from \$30 to \$105 per child per year (Texas TANF Plan 2010). In the end, Texas allocated only 2.5% of its contingency funds to cash assistance, 61.3% to short-term non-recurrent expenses and 36.2% to subsidized employment (Falk 2010).

Table 21: TANF indicators for TEXAS, 1999-2009

	1999	2001	2003	2005	2007	2009
Unemployment⁸⁸						
Texas		5.0%	6.7%	5.4%	4.4%	7.5%
US		4.7%	6.0%	5.1%	4.6%	9.3%
Monthly Caseload⁸⁹ <i>average #families</i>	114,112	130,893	133,239	86,739	61,263	48,050
All-Family Work Participation Rate⁹⁰						
Actual	27.3%	41.5%	28.1%	38.9%	34.6%	37.0%
Adjusted requirement	0%	0%	0%	0%	31.2%	10.8%
TANF Expenditures <i>(\$ in millions)</i>						
Federal Funds ⁹¹	351.6	501.5	664.1	481.5	469.2	554.2
State MOE Funds ⁹²	251.6	251.5	225	359.8	314.4	247.2
Total TANF	603.2	753	889.1	841.3	783.6	801.4

On the whole, federal parameters governing TANF were not binding for Texas, a state that adopted strict work requirements and time limits in advance of federal TANF provisions. The exception to this observation was the DRA’s increased work participation requirements for two-parent families that prompted Texas to transfer certain recipients into a solely state funded program. Initial funding formulas would have fiscally constrained efforts to expand assistance, but Texas remained on a policy trajectory that narrowly targeted low levels of benefits, a trajectory characteristic of a “minimal” policy regime.

⁸⁸ Bureau of Labor Statistics, for fiscal years

⁸⁹ Administration for Children and Families, for fiscal years

⁹⁰ Administration for Children and Families, for fiscal years, TANF-ACF-IM-98, TANF excluding SSP

⁹¹ Administration for Children and Families, TANF assistance and non-assistance, Table A1

⁹² Administration for Children and Families, MOE on TANF assistance and non-assistance, Table B1

III. TANF and the Discretion-Capacity Framework

The TANF policy environment was shaped by federal parameters and state capacity constraints that changed over time. These parameters coincided with temporally discreet configurations of state capacity constraints to direct state policy trajectories, which, in turn, elicited federal responses of their own in subsequent policy iterations.

A close inspection of the sequence of state TANF policy decisions under the discretion-capacity framework provides additional support for a view of block grants as policy feedback mechanisms. States responded strategically to parameters that restricted discretion—structuring programs and funding streams to facilitate compliance with federal work participation rates. Federal legislators felt that state manipulations in the early years of the program circumvented legislative intent and, after a drawn-out reauthorization process, curbed those practices under restrictive parameters in the DRA of 2005. This prompted another series of state responses, though patterns therein were somewhat obscured by the fiscal havoc wreaked by the financial crisis and ensuing recession.

Discretion

In TANF, the extent to which federal parameters constrained state discretion was dependent on circumstances that encompassed both federal and state level considerations. At the state level, the initial impact of federal TANF parameters on state policy choices was dependent on states' prior decisions regarding AFDC programs. The states in this sample had been experimenting, to different degrees, with welfare-to-work policies prior to the enactment of federal TANF legislation.

AFDC waivers to pursue work-oriented policies were sought in anticipation of federal legislative changes and, in some cases, deflected the initial impact of federal parameters under TANF legislation. Even for states in this sample with “integrated” and “generous” policy regimes (Ohio and California, respectively), federal parameters on time limits were less restrictive than state measures previously imposed on cash assistance. For states in which these parameters were non-binding, federal TANF legislation did not elicit specific state-level policy responses. However, not all states had adopted work-oriented AFDC reforms.

In contrast to the states in this study, New York had only experimented with welfare policy on a limited basis prior to federal TANF legislation (Zedlewski et al. 1998). The federally legislated sixty-month time limit imposed a severe constraint on state discretion in its welfare policy. New York’s constitution includes a provision that *requires* it to assist the needy (Lurie 1998). Under TANF, New York would continue to assist low-income individuals beyond the federal cutoff, creating a state funded program to absorb welfare recipients who faced time-limit disqualifications.

Though many states conditioned eligibility on work requirements prior to TANF (under AFDC waivers), federal parameters on this policy dimension restricted state discretion in several respects. State (or, in many cases, county) implementing agencies, were directly confronted with complex issues, including mental health, substance abuse, domestic violence, and disabilities, that kept participants from working. States were more inclined to grant exemptions based on these barriers to employment and found federal allowances for exempting 20% of the caseload insufficient. Over time, the work participation rates became more restrictive as employment services were able to assist

work-ready individuals, leaving participants with serious barriers to employment as a growing share of the remaining caseload.

Prior to the DRA, states used permissive MOE definitions to assist these populations with state funds and exclude them from the work participation rate. When the DRA eliminated this practice, states were forced to redirect efforts for these individuals or allocate non-MOE funds. Specific provisions of TANF work requirements, both in their initial implementation and in subsequent revisions, made them more restrictive than most policies previously pursued under state AFDC waivers.

Capacity

The political constraints acting on TANF were rooted in state AFDC experiences. Momentum to reform welfare grew out of broad dissatisfaction with the program and TANF's emphasis on welfare-to-work enjoyed bipartisan support. Relative to the SCHIP policy timeline, the political capacity constraints seem to feature less prominently in the development of TANF. Explanations for this may be found in the particular combination of political and fiscal conditions. At the state level, TANF did not require identification of new funding streams. Federal funding remained constant, states' MOE requirements were set below previous expenditures and caseloads were declining. The TANF fiscal structure avoided the partisan wrangling over budget appropriations that mark the implementation of most social programs.

In subsequent periods, stable funding streams (with declining caseloads) seemed to alleviate the political constraints associated with ongoing budget negotiations. Though fiscal crises produced TANF budget cuts, MOE requirements exercised as a floor. Furthermore, the lack of pro-cyclical provisions in federal TANF allotments, and

increased vulnerability of the TANF population during economic downturns, seemed to afford the program a degree of protection from state budget swings.

Comparing the TANF experience in two different recessionary periods provides some interesting insights into the dynamics of fiscal constraints on state policy choices. In the first recession (2001-2004), most states carried unobligated balances from prior years and were able to draw on these to mitigate the impact of budget reductions on TANF. This period coincided with the TANF reauthorization debate and growing criticism of excess reserves. State efforts to deploy unobligated balances may have been accelerated by a fear of reduced federal support in the future. The combination of conditions motivated states to tap into unused balances and, for the most part, to continue investing in TANF through the first recession.

By the second recession (2008-2011), unobligated TANF balances had been substantially liquidated and caseloads were on the rise. The drastic change in circumstances prompted an infusion of federal funds under ARRA legislation in early 2009 that shielded states from the direct impact of a major fiscal constraint.

In each recessionary period, a combination of conditions sheltered TANF choices from severe fiscal constraints. Absent an example of state choices under a severe fiscal constraint, it will be interesting to observe state responses over the next several years, as ARRA funds are withdrawn before state budgets have fully recovered.

The Discretion-Capacity Framework

In structuring a view of state policy choices as trajectories that are subject to a variety of constraints originating from federal parameters and state capacity constraints, the framework highlights an interesting pattern of policy responses. Under TANF, when

federal parameters were binding, state responses tended to follow a two-step approach. The first response was to strategically structure programs and funding streams to manipulate the calculation of performance metrics and comply with federal requirements. Failing on the first effort, the second response tended to include the assignment of “solely-state funds” to continue providing the service. This result undermines theoretical arguments that the dynamics of a federalist system encourage a race to the bottom in social provisioning (Tweedie 2002).

This is not to claim that states uniformly pursued a policy trajectory more progressive than that supported by federal legislation. Federal TANF statutes left states sufficient discretion to pursue divergent policy trajectories, and did little to enforce a lower bound on states inclined to pursue limited policies. The AFDC to TANF transition removed the entitlement and states were free to determine eligibility and benefits as desired. The discrepancy across states on these policy dimensions reflect the divergent policy trajectories directed by different configurations of state level capacity constraints.

An unexpected finding in the analysis of TANF was the ability of policy trajectories to diverge, even *within* a state. Under TANF, there was a general retrenchment in cash assistance programs but expansions in work support programs that were allowed, but not specifically required, by federal statutes. These contradictory policy responses made it complicated to make generalizations about state responses.

The TANF analysis builds on the SCHIP research in the previous chapter by assessing variation in state responses over time in a second block grant program. In Chapter 6, I focus on the third research objective, using a comparative approach to evaluate variation across the SCHIP and TANF block grant programs.

CHAPTER 6. COMPARING BLOCK GRANT PROGRAMS

In Chapters 4 and 5, I used the discretion-capacity framework to analyze variation in state responses over time. In this chapter, I focus instead on the variation between the two block grant programs—first over time and then with respect to the discretion and capacity dimensions of the framework. In combination, the analyses of SCHIP and TANF offer an opportunity to assess whether combination of constraints and responses were policy specific or shared across the two block grant programs.

I. Evolution of the SCHIP and TANF Block Grant Programs

The TANF and SCHIP block grants arrived on the scene in the late 1990s, under similar political and fiscal conditions, to provide social goods to low-income individuals. Reviewing the timelines, the general sequence of constraints follows a similar pattern across the two programs—an implementation that was followed by a recessionary period; an extended reauthorization process under a new administration that restricted federal parameters; and, most recently, a financial crisis.

Furthermore, state level constraints cut across the two programs indiscriminately. In California, the political turmoil surrounding the governor's recall, and severe fiscal conditions associated with the ongoing budget crisis, similarly reoriented the state's SCHIP and TANF policy trajectories. In Texas, political opposition to generous public assistance programs predetermined a minimal response to both block grant programs.

Despite some similarities across the two programs, they differed in important ways that shaped state policy responses to these shared conditions. Federal legislation for the two programs were enacted back to back, but the infrastructure and constraints that TANF inherited from AFDC provided a different launching point. In comparison, SCHIP was new and relatively unencumbered by association with a failed entitlement program. SCHIP may have retained some links to Medicaid, especially for states adopting M-SCHIPs, but the program targeted a new population of beneficiaries and many states actively distinguished it from Medicaid.

The variation in starting points differentiated two constraints on SCHIP and TANF trajectories that were somewhat unexpected. The first revolved involved fiscal capacity. TANF replaced AFDC on federal and state budget plans, inheriting the program's secured resources and thus bypassing some of the partisan posturing over funding. SCHIP, on the other hand, required new state funds.

The second unexpected constraint was political. In the early stages of this research, I came across numerous reports that conjured Reagan's "welfare queen" and cited a widespread dissatisfaction with the AFDC entitlement program in the early nineties. Consequently, I expected to observe more restrictive political constraints on state TANF policy choices than on SCHIP choices. After all, relative to the larger healthcare reform effort, SCHIP had specifically targeted low-income uninsured children as a "deserving" segment of the population. On the contrary, the political constraints limiting SCHIP were more binding than those operating on TANF choices. In retrospect, it is not difficult to rationalize these findings—it is generally less palatable for states to be

told they have to provide more (funding and services) than to be relieved of federal requirements.

TANF targeted individuals in extreme poverty who, during economic downturns, were especially vulnerable. Moreover, federal TANF statutes afforded the states more discretion than SCHIP. TANF legislative language was open-ended, setting forth policy objectives rather than specific requirements. States were able to configure their own portfolio of cash assistance, childcare and welfare-to-work services as long as they met the work participation requirements and enforced the sixty-month time limit. As states reoriented former AFDC programs to provide employment and auxiliary services in lieu of cash assistance, TANF expenditures became easier to justify to both ends of the political spectrum.

On the other hand, SCHIP created an expanded role for government in healthcare, a proposition criticized by conservative legislators at both the federal and state level. Furthermore, while SCHIP was lauded for its flexibility relative to *Medicaid*, when compared to TANF, the SCHIP statutes were narrowly defined and targeted children *above* the poverty level. Legislators with a progressive SCHIP policy agenda could advocate for offering coverage to families at higher levels of the federal poverty level or providing more extensive benefits. Both of these trajectories met with ideological opposition from conservative constituencies.

Comparing the SCHIP and TANF experiences in two different recessionary periods provides insights into the dynamics of fiscal constraints on state policy choices. In the first recession (2001-2004), most state TANF programs carried unobligated balances from prior years and were able to draw on these to mitigate the impact of budget

reductions in TANF. This period coincided with the TANF reauthorization debate and growing criticism of excess reserves. State efforts to deploy unobligated balances may have been accelerated by a fear of reduced federal support. The combination of conditions motivated states to tap into unused balances and, for the most part, to continue investing in TANF through the first recession.

SCHIP initially allowed states only three years to use their allotments, but as programs were slow to get off the ground many states carried balances into the first recession. Nevertheless, when resources were tight, states acted to contain costs in their SCHIP programs as necessary. In the first recession, TANF seemed more resistant to recession-related cuts than SCHIP, perhaps partially due to different characteristics of the beneficiary populations discussed above that would prompt states to continue TANF investments as counter-cyclical measures.

TANF and SCHIP endured contentious, prolonged reauthorization debates, under completely different political conditions than those in which they had been enacted, highlighting the temporal disconnect between institutional and political constraints (Pierson 2004). TANF's initial charter was only five years, so its reauthorization coincided with the first recessionary period. Mired in disputes over how to curb the states' strategic circumvention of compliance with work participation requirements and perhaps unwilling to clamp down on such practices given the economic circumstances, reauthorization of TANF was not enacted until the DRA was passed in 2005. It included the restrictive measures discussed in previous chapters.

SCHIP followed a similar trajectory, though its initial ten-year charter expired in 2007, well after the effects of the first recession had receded. Meanwhile, many states

had been expanding their SCHIP programs in anticipation of expanded eligibility and funding under reauthorization. The CMS directive and presidential veto of CHIPRA 2007 indicated that federal dynamics had shifted and threatened an era of restrictive parameters comparable to federal interventions experienced two years earlier in the TANF program.

The TANF and SCHIP reauthorization experiences offer contradictory evidence about the stability of block grants. It is true that initial federal support splintered and state policies provoked restrictive federal parameters during reauthorization (Grogan and Rigby 2009). However, Congress had long been aware of state practices concerning work participation calculations in TANF. Considering the severity of the president's reauthorization proposals beginning in 2002, the length of time it took to build consensus for the relatively moderate restrictions imposed by the DRA could alternately be construed as evidence of block grant stability.

The severity of the second recession (2008-2011) provoked a federal response that deflected the direct impact of major fiscal constraints on both programs. TANF received emergency contingency funds under ARRA while SCHIP was supported both directly, through CHIPRA 2009, and indirectly through Medicaid matching rate increases in ARRA. Provisions in the Affordable Care Act in March 2010 prohibited states from reducing SCHIP eligibility and funding in preparation for broader reform through 2014, stabilizing SCHIP benefits through the worst of the second recessionary period.

A combination of conditions sheltered SCHIP and TANF choices from potentially severe fiscal constraints in both recessionary periods. While ACA continues to protect SCHIP, TANF will be fully exposed when federal ARRA funds are withdrawn in 2011.

II. The Discretion-Capacity Framework

In the following two sections, I consider generalizations concerning federal parameters and state capacity constraints that can be drawn from the TANF and SCHIP analyses.

Discretion

Federal parameters placed limits on state discretion in TANF and SCHIP policy choices. Across the board, states demonstrated a willingness to engage strategically with these parameters, seeking waivers to relieve restrictions where possible and manipulating program structures to comply with federal performance metrics as necessary.

Variation between state SCHIP programs was extensive, but the need to obtain waiver approval for certain policy choices nevertheless limited policy trajectories to an extent. Relative to TANF, SCHIP contained more narrowly defined objectives and recipient populations.

TANF's broad policy objectives permitted states to designate funds for a variety of purposes and seemed to promote a proliferation of state programs to assist with childcare, transportation, housing and employment services for the TANF population. Both before and after the DRA, states manipulated funding provisions to maximize federal financial participation, even though such strategies provoked restrictive federal parameters in subsequent periods.

Capacity

Results of the TANF and SCHIP analysis support the claim that variation in state-level capacity constraints orients divergent state policy trajectories. Comparing the

details of four states' experiences reveals distinct configurations of state-level capacity constraints that profoundly influenced the sequence of policy choices for each state.

Fiscal Capacity

Fiscal constraints feature prominently in state policy choices in the TANF and SCHIP block grants. The California experience, in particular, emphasizes the extent to which relatively progressive social policy trajectories are responsive to fiscal constraints. In California, fiscal conditions eclipsed all other considerations as the budget crisis deepened, forcing the state to reverse course and even prompting the governor to propose eliminating the state's SCHIP program.

Fiscal constraints stemming from periodic recessions produced different responses in the states. In the first recessionary period, unspent reserves moderated fiscal constraints and non-binding federal parameters left states more room to maneuver. Some states were able to continue investments in SCHIP and TANF, in particular. The severity of the second recession, compounded by non-existent reserves and tightened federal parameters, elicited a more uniform response from the states. Only federal intervention moderated TANF and SCHIP budget reductions.

Focusing on the fiscal dimension highlights several generalizations based on the SCHIP and TANF experiences. First, as discussed above, states responded differentially to block grant programs that increased, rather than decreased, demands on state resources. The distinction resurfaced in subsequent budget negotiations, magnified partisan divisions and oriented state policy responses.

Second, the financing provisions structured in the original policy instrument were key in shaping state responses. Matching rules, time limits on reserves, MOE

requirements and compliance with federal performance metrics delimited state policy choices. States demonstrated a willingness to manipulate funding provisions, to an unexpected extent, to optimize federal financial participation, even though such strategies were likely to provoke restrictive federal parameters in subsequent periods.

Third, the inability of state budgets to weather severe economic conditions underscored the importance of counter-cyclical funding provisions in social programs. SCHIP did not contain such measures and TANF's contingency fund (which Clinton had fought to double to \$2 billion in the 1996 PRWORA legislation) was insufficient to protect against a severe decline. Absent these provisions, additional federal support was provided via CHIPRA and ARRA legislation in 2009 to avert major cuts in state-level funding for these and other social programs. The necessity for federal intervention highlighted the ongoing financial dependence of the states in a federal system. This relationship may be obscured in times of growth and state budget surpluses, but to an advanced degree, state fiscal capacity relies on federal support (Zelman 2009).

Political Capacity

Focusing on political capacity, there are a number of interesting phenomena to consider. First, the differences in state-level political culture that have been assessed by numerous typologies continuously exert pressure on state policy choices, sometimes in unexpected directions. Ohio's relatively conservative political environment still produced a moderately progressive policy regime. Consequently, partisan composition of state level political offices seems an unsatisfactory measure of ideological differences. Defying measurement, those differences were nevertheless at the root of variations in

state inclinations to assist the distinct SCHIP and TANF recipient populations and in state perspectives on the proper role of government in those efforts.

Second, state discretion in prioritizing policy objectives diffused partisan disagreements to a greater extent than simply allowing states to determine eligibility and other program details. At the federal level, the broad policy objectives that oriented state TANF choices seemed to leave sufficient flexibility for state legislators to reach political compromises. States could appease a spectrum of political constituencies, for example, by tempering more stringent work requirements with more inclusive childcare subsidies.

This presents an interesting contrast to the SCHIP case in which policy options were limited and partisan divisions more distinctly delineated. As discussed above, progressive legislators could advocate to offer coverage to families at higher levels of the federal poverty level or provide additional benefits (dental, vision, etc.). Both of these trajectories met with ideological opposition. Many states experimented with cost-sharing mechanisms and measures to reduce crowd out of private insurance, but such steps did not alleviate the underlying objection of some legislators to an expanded government role in healthcare.

Structural Capacity

A range of state specific characteristics, including demographic profiles, state constitutional constraints, and budget approval procedures yielded substantial differences in policy trajectories. Though this analysis included in-depth analyses of only four states, the diversity and complexity of structural constraints that surfaced in each case suggests the possibility of additional structural variations in the other forty-six states.

In addition to state-level structural distinctions, the tendency for states to devolve program administration to the counties introduces another source of constraints on state policy choices. This was particularly pronounced in the case of TANF. Basic state TANF provisions are usually stipulated in state law (including funding levels, eligibility standards and benefit definitions), but in many states a subset is left up to the discretion of county-level implementing agencies. In several of the states reviewed, counties made the eligibility and exemption determinations. In some cases, the counties not only administered the programs, they were responsible for partial financial support and accountable for meeting federal performance metrics.

As TANF transitioned from the former welfare orientation of AFDC to a focus on welfare *and* work, program administration was sometimes divided across human services and employment agencies. In Texas, cash assistance was administered by the state's Health and Human Services Commission while employment services were managed by the Texas Workforce Commission. Divided responsibilities imply separate decision-making processes and considerations that are marginalized in a state-level analysis. The distribution of TANF policy making across state and county level, human services and employment agencies introduces a complex configuration of decision points.

Interconnected Constraints

Though I separate the discussion of federal parameters and capacity constraints into distinct subsections above, I do not intend to misrepresent the degree to which these factors are deeply interconnected and mutually reinforcing in a federalist system. These relationships connect federal-level parameters and state-level constraints, as well as different categories of state-level capacity constraints. Though I have attempted to

differentiate between politically-driven fiscal constraints and fiscally-driven political constraints in the Texas and California SCHIP case studies, this distinction is difficult to defend definitively and the relationship between political and fiscal considerations is hard to disentangle.

As discussed in earlier chapters, this is a feature of federalist systems, which are, by definition, political and fiscal in nature (Pierson 1995). The discretion-capacity framework was proposed as an alternative to variable-driven research that could accommodate the interconnected constraints inherent in a federalist system. However, the framework required a different set of simplifications and assumptions—a methodological limitation that I consider in the concluding chapter.

CHAPTER 7. CONCLUSIONS

Constructing variable-driven analyses of state social policy choices in a federalist system faces inherent challenges and the discretion-capacity framework was formulated as a potential alternative. The analysis focused on policy specifics rather than statistical considerations, but nevertheless faced challenges in effectively balancing specificity and generality. Methodological challenges notwithstanding, the forgoing analysis contributes to a number of ongoing debates in the academic literature. In this chapter, I discuss the contributions of the analysis as well as the methodological limitations of the approach.

I. Theoretical contributions

Policy Regimes

The Meyers et al. (2001) policy regimes acknowledge the numerous, interconnected dimensions that orient state policies to support low-income families. Evidence from the TANF and SCHIP analyses provided some support for this classification, though results were, at times, inconclusive.

On the whole, policy trajectories in Ohio and Texas were consistent with integrated and minimal regime characteristics, though California and North Carolina were not always in keeping with characteristics of generous and limited regimes. Consideration of four states is insufficient to determine whether this pattern suggests stability at the ends of the spectrum with reordering in the center categories.

Despite Meyers et al.'s (2001) finding that these categories were relatively stable between 1994 and 1998, the inconsistencies could be attributed to changes in state policies that have developed subsequent to the definition of those regimes. The discretion-capacity framework highlighted changes in federal parameters and in political and fiscal capacity from 1998 through 2010—many of which were severe enough to affect significant reversals of state policy trajectories.

The inconsistencies could also stem from the focus of this research on block grant programs. The Meyers et al. (2001) policy regimes were based on a portfolio of programs designed to assist low-income families, including Medicaid and a variety of categorical grants. As highlighted by the discretion-capacity framework, federal parameters define the feasible set of state policy responses. The parameters imposed by block grant programs are distinct from those associated with entitlements, categorical grants and other program structures. Different parameters orient different policy trajectories and response patterns observed under a block grant program would be expected to diverge from patterns under other program structures, even within the same state.

The Meyers et al. (2001) regimes presented a potential mechanism for justifying the generalization of state case study findings to other states within the same regime. However, the impact of intervening, state-specific capacity constraints, discussed in the case studies, cautions against this line of reasoning. This dissertation does not address capacity constraints in the other forty-six states, but information discovered in the research process suggests that state-specific constraints with significant effects on policy responses are widespread.

Policy Feedback

A time-lapse comparison of SCHIP and TANF supports the depiction of block grants as policy feedback mechanisms. Grogan and Rigby (2009) consider early state SCHIP policy decisions as explanatory variables in subsequent federal policy choices. The discretion-capacity framework facilitates a view of federalism and social policy that demonstrates how federal parameters evolved over time, eliciting state policy responses that reflected their own political, fiscal and structural constraints and which, in turn, shaped future federal decisions. A close inspection of the sequence of TANF policy decisions under the discretion-capacity framework provides supporting evidence for Grogan and Rigby’s analysis of SCHIP.

Prior to TANF, state welfare reform under AFDC waivers fueled federal efforts to revamp the legislation. With President Clinton in the White House and a newly-elected Republican majority in Congress, momentum seemed to reach a tipping point in 1994. But just when reform seemed imminent, in 1995 the Senate failed to act and states were left to direct their own reform efforts. The result was an explosion of AFDC waivers in 1995 and 1996, which initiated the transition from welfare to workfare in advance of the federal legislation and acted as a catalyst for enactment of PRWORA in August 1996.

States responded strategically to TANF parameters that restricted discretion—structuring programs and funding streams to facilitate compliance with federal work participation rates. Federal legislators felt that state manipulations in the early years of the program circumvented legislative intent and, after a drawn-out reauthorization process, curbed those practices under restrictive parameters in the DRA of 2005. This prompted another series of state responses, including claims of “excess MOE” and other

strategies that were still developing when the financial crisis hit and the ensuing recession overwhelmed state TANF efforts.

Evidence of policy feedback in block grant programs is relevant to the design of policy instruments in a federalist environment. A review of the TANF and SCHIP timelines through the discretion-capacity framework underscores the importance of the policy instrument as a mechanism that can mitigate or exacerbate constraints on state choices. Details of the policy design determine how states are authorized and able to make policy choices in response to a changing policy environment. Understanding these implications can assist policy makers in designing features likely to produce results consistent with legislative intent and avoid features that have elicited strategic state circumventions in the past.

Varieties of federalism

The discretion-capacity framework was formulated with the understanding that varieties of federalism discussed in the academic literature correspond to unique configurations of constraints on state policy choices. Focusing on underlying constraints clarifies how different models of federalism relate to each other and evolve, framing state policy responses over time.

Working from the SCHIP example, the program was described in its early years as a “new form of cooperative federalism” (Rich et al. 2004, 109). A few years later, it was used alongside Medicaid to motivate a discussion of “executive federalism” (Thompson and Burke 2006). While it seems unlikely that the underlying model of federalism had been transformed during this brief window, scholars had nevertheless observed significant changes in constraints that were classified as such.

The discretion-capacity logic offers a different perspective. Federalism is cooperative when state policy responses are not impeded by constraints on discretion or capacity. These conditions may hold for a point in time or over a period of time, enabling a broader range of policy options. SCHIP's variety of cooperative federalism felt "new" because of the (temporary) absence of binding constraints on both the discretion and capacity dimensions.

In a subsequent time period, the CMS 2007 directive imposed binding constraints on discretion over SCHIP policy choices. Though latent in prior periods, the potential for federal parameters to constrain state policy choices existed all along. The emergence of binding constraints does not constitute a new brand of federalism but rather reflects the dynamic constraints that govern all programs jointly managed by federal and state governments.

In the framework, it is clear that federal parameters delimit state discretion. When states enjoy a high degree of discretion they appear to be "centers of power" as first described by Elazar (1984). Yet the SCHIP and TANF examples show that high discretion in one period can be constrained by federal parameters during subsequent periods. In policy arenas historically dominated by the states, the constraints on discretion are latent but extant (see related discussion in Derthick 2001).

Interpreting federalism as a dynamic series of constraints provides depth and clarity to previous claims that federalism is cyclical (Nathan and Gais 1998; Nathan 2006a). There will, indeed, always appear to be a "new" federalism (Nathan 2006a), as federal parameters and state capacity constraints shift over time. However, the discretion-capacity framework positions these shifts as changing constraints in a

relatively stable federalist environment, rather than a transformation of the underlying federalist model.

Race to the bottom

In structuring a view of state policy choices as trajectories that are subject to a variety of constraints, the framework highlights an interesting pattern of policy responses that partially contradicts theoretical arguments that inter-state competition will produce a race to the bottom in social expenditures (Tiebout 1956; Buchanan 1960; Oates 1972; Inman and Rubinfeld 1997; Musgrave 1997).

When federal parameters were binding under TANF, state responses tended to follow a two-step approach. The first step was to structure programs and funding streams to manipulate the calculation of performance metrics and comply with federal parameters. This strategy would be consistent with “race to the bottom” arguments, since states attempted to meet federal requirements with minimal state effort.

However, when states were unable to achieve desired results with those strategies, the second response tended to include the assignment of solely-state funds (SSFs) to continue providing the service outside of the federal TANF program even though state-level efforts beyond the scope of TANF were not required by any federal legislation. This result directly contradicts theoretical arguments that the dynamics of a federalist system encourage a race to the bottom in social expenditures.

Tweedie (2002) noted this phenomenon in the early years of TANF when states relied on permissive MOE definitions to fund state sponsored programs (SSPs). The transition to SSFs subsequent to restrictive parameters imposed under the DRA (discussed in Chapter 5) provides additional evidence for this claim.

II. Methodological Limitations

In Chapter 2, I described the limitations of variable-driven methodologies in analyzing state-level policy choices and proposed the discretion-capacity framework as a potential alternative for structuring a macro-level view of those choices. In subsequent chapters I applied the framework in the analysis of SCHIP and TANF, recognizing the breadth of factors that influence state policy responses and demonstrating that those constraints are multiple, temporally discreet and dependent on state characteristics. Despite interesting findings discussed above, the proposed framework was unable to improve upon many of the issues that undermine efforts to quantitatively assess state policy choices in a federalist system.

The framework was reasonably successful in capturing the impact of constraints on relatively straightforward SCHIP policy choices. However, the array of possible state policy responses under TANF presented methodological challenges. At the federal level, broad policy objectives oriented state TANF programs, leaving sufficient flexibility for state legislators to identify a combination of cash assistance, employment services, childcare assistance and other support services.

The diversity of TANF policy options enabled states to comply with restrictive federal parameters on one policy dimension (i.e. sanctioning recipients who did not meet work requirements) and, concurrently, pursue expansive policy options along another dimension (i.e. providing those participants with additional employment services).

From a methodological perspective, the resulting network of interdependent policy choices (and funding decisions) complicates the analysis of state TANF policy choices under the discretion-capacity framework. One of the objectives in using the

framework was to promote a macro-view of state decision-making, but in this instance, identifying the components that constitute the state policy response was challenging.

The Welfare Rules Database compiles information on state TANF policies. This publication includes dozens of tables to comprehensively represent the various dimensions of state TANF programs, including eligibility standards, exemptions, income and asset disregards, benefit determinations and standards, family caps and sanction policies (Kassabian et al. 2011). Furthermore, the report acknowledges but does not catalogue the numerous state-funded initiatives that complement the federal program. The scope of the document speaks to the complexity of identifying policy responses, and, subsequently, linking those choices with the constraints that produced them.

The network of interdependent policy and funding decisions that is characteristic of state TANF programs obscured the nature of state choices and required considerable simplification to classify constraints in the framework. Even the notion of “state” policy choices was complicated by the distribution of policy-making authority across different implementing agencies at both the state and county level.

The methodological complications encountered in the discretion-capacity approach highlighted the assumptions involved in any research effort that spans multiple programs, years, and states. The number of variables required to enable rigorous comparison of state policy choices is challenging whether the process involves quantification or description (King, Keohane and Verba 1994).

A variable-driven approach would have enabled the inclusion of more dimensions but necessitated additional simplifications and assumptions in order to measure them. Research reports produced by federal and state organizations on policies and budgets

contain a wealth of information on inconsistencies in enrollment and expenditure statistics both across states and within states over time. Variations in state interpretations of includable activities, ongoing revisions in the definition of beneficiaries and cases, state discretion in classifying funds as unobligated versus unliquidated, questionable procedures for estimating the number of uninsured children, expanding definitions of MOE expenditures, and periodic accounting changes combine to threaten validity of variable-driven research based on reported federal and state data (Falk et al. 2005; GAO-02-770; GAO-05-821).

The discretion-capacity framework sidestepped statistical issues that would have been encountered in quantifying variables. The framework offered an in-depth view of a subset of policy dimensions, but faced limits on the number of considerations that could feasibly be addressed in an analysis of state policy choices. The dissertation demonstrated that, in a federalist system, definitively linking causal conditions with state policy choices is challenging for both variable and case-driven research methodologies.

III. The Future of SCHIP and TANF

The TANF and SCHIP policy environments continue to evolve as different combinations of federal parameters and state capacity constraints come into play. At the time of this writing, major changes were underway in each program.

The Deficit Reduction Act funded TANF for five years, and the program was due for reauthorization in 2010. Instead, Congress enacted a series of short-term extensions,

which expire at the end of FY2012.⁹³ The contingency funding provided by ARRA was depleted in September 2011 and not renewed.

While the pattern of short-term extensions recalls the first TANF reauthorization phase, the debate is framed around an entirely different set of issues. State budgets continue to experience the after-shocks of the recession and the inability of the program to provide counter-cyclical support has the National Association of State TANF Administrators (NASTA) calling for removal of restrictions imposed by the DRA and replenishment of the contingency funds (Casey 2011; Schott 2011). The federal response will be tempered by political and fiscal constraints that reflect a growing momentum to reduce the federal budget deficit.

The Patient Protection and Affordable Care Act (ACA) of 2010 significantly restructured the immediate and long-term federal parameters for the SCHIP block program. Federal funds that had been authorized under CHIPRA 2009 until 2013 were extended until 2015. ACA requires states to maintain existing coverage policies through 2014, when Medicaid eligibility will be expanded to 133% FPL for children of all ages, as well as adults. Children in that income bracket, who were previously covered by a separate CHIP program, can be transitioned to Medicaid. Children (and their families) in the 133%-400% range will qualify for subsidized coverage provided through federal exchanges. States can continue to operate CHIP programs after that time, but federal matching rates will jump by 23 points beginning in 2016 (to a cap of 100%) and states are likely to deplete any unspent allotments quickly (Kenney and Pelletier 2010).

⁹³ HR 4783 provided funding through FY 2011, HR 2943 through FY2012, and a two-month extension supported the program until HR 3630 funded it through FY2012.

The future of the Affordable Care Act is uncertain. The U.S. Supreme Court is currently considering the constitutionality of the individual mandate that is central to the program's financial viability (Caplan and Boffey, March 24, 2012). Even if the mandate stands and reform proceeds, it is unclear whether Congress will act to continue CHIP funding past 2015 (Holahan and Dorn 2010).

Given the uncertainty and magnitude of reforms ACA portends for the broader healthcare policy environment, predictions about the nature and impact of future federal parameters seem premature. However, the uncertainty around future federal parameters is reminiscent of conditions during the CHIP 2007-09 reauthorization phase. If state responses during that period are indicative, then continued uncertainty will eclipse any residual inclinations to pursue expansive CHIP policies.

States will continue to face severe fiscal constraints over the short term, and policy responses under TANF and SCHIP in previous recessionary periods warn of possible state retrenchments. State participation in federal grant programs is voluntary. In past cases, when state-level fiscal capacity was binding, states were unable (North Carolina and California) and in some cases unwilling (Texas) to respond to the financial incentives on which these and other social programs are based (see discussion in Kettl 2012). In these instances, contrary to expectations, federal parameters did not act as a lower bound on state policy trajectories.

IV. The Discretion-Capacity Framework and Future Research

The discretion-capacity framework was formulated to facilitate analysis of state social policy choices in a federalist system. My dissertation considered two block grant

programs to demonstrate the role of federal parameters and state capacity constraints in shaping state policy responses over time.

In future research, the framework could be applied to a wider variety of grant structures. While each social policy represents a unique configuration of federal parameters, the mechanisms through which the federal government can direct state policy choices are drawn from a finite set. The framework can accommodate different combinations of parameters and facilitate comparisons across policies, states and time.

For example, future analyses could build on the SCHIP and TANF cases to contrast block grants and categorical grants. Such extensions could illuminate variation in state responses across different grant structures. An analysis of Medicaid, alongside the SCHIP example, could provide additional insights into the variation in state responses due to differential funding arrangements within the health policy sphere. As the Affordable Care Act begins to transition segments of the SCHIP population onto Medicaid, the comparison would be particularly relevant. The framework lends itself to comparative analyses that could inform the design and implementation of social policy in a federalist system.

Consistent with the research objectives proposed in Chapter 1, I have employed the framework in an analysis of SCHIP and TANF to clarify the role of federal parameters in delimiting the feasible set of state policy choices; assess variation in state responses over time; and examine variation across the two block grant programs from 1996 through 2010. As the policy environment continues to evolve, the discretion-capacity framework offers an analytical approach to understanding the constraints that produce variation in state policy responses.

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