



Key State TANF Policies Affecting Microenterprise: Minnesota

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Minnesota's restructured welfare program, Minnesota Family Investment Program (MFIP), was implemented in 1993 in seven counties under waivers of federal Aid to Families with Dependent Children (AFDC) rules. After the enactment of the 1996 federal welfare reform legislation, MFIP was implemented as a Temporary Assistance for Needy Families (TANF) block grant program in July 1997, with some amendments to the original design as the program was expanded statewide.

Beginning in 1988, Minnesota had a Self-Employment Investment Demonstration (SEID) pilot program to provide self-employment assistance for AFDC clients. Under MFIP, counties have the option to provide SEID services, and approximately half of the state's counties currently contract with a SEID program. Counties that do not have a local SEID provider may refer self-employed clients to other agencies in the community for assistance.

Minnesota's average monthly cash assistance caseload was approximately 38,558 families in fiscal year 2001. The state caseload declined by 32 percent between fiscal years 1995 and 2001, compared to a 56-percent decline in the national caseload.

Minnesota TANF Funding and Spending (in millions)	
Annual TANF block grant, FY 98-02	\$267.4
Welfare-to-Work formula grant, FY 99	\$14.5
80% MOE obligation, FY 00 ¹	\$191.1
75% MOE obligation, FY 00	\$179.1
State MOE spending (% of obligation), FY 00	\$191.1 (80.0%)
Unobligated TANF funds (FY 97 – FY 00 combined)	\$232.4

Sources: U.S. Department of Health and Human Services, Administration for Children and Families; Minnesota Department of Human Services

The maximum cash benefit levels for a single-parent family with two children and no earned income is \$532.² The cash portion of MFIP benefits is the 12th highest among the 50 states and DC; the national average is \$414 for a family of three. In 2001 Minnesota had the third lowest poverty rate among the 50 states and DC at 9.1 percent, compared to 11.6 percent for the U.S. as a whole. The state median income was the fourth highest in the nation 2001 at \$52,804. The national median income was \$42,873.³

TANF Spending to Support Microenterprise

The state has not identified any TANF block grant or state MOE funds to be used for microenterprise training or to support microenterprise initiatives.

Initial Participation Requirements

Minnesota, like most states, elected to opt out of the federal two-month community service requirement.⁴ The state requires adult caregivers to participate in work activities concurrent with MFIP receipt; counties have discretion to require participation sooner.⁵

¹ In order to receive its full federal TANF grant, a state must meet a maintenance of effort (MOE) obligation. A broad range of spending for needy families, in and outside of the TANF cash assistance program, can count toward MOE. The MOE obligation is based on state expenditures for AFDC and a set of related programs in FY 1994. It is set at 80 percent of those expenditures, and is reduced to 75 percent if the state meets federal work participation rates.

² Although Minnesota's benefits combine cash and food stamps, only the cash portion of the benefit is presented here. Source: Burke, Vee. (2002). *TANF Benefits and Earnings Limits, January 2002*. Washington, DC: Congressional Research Service.

³ Poverty rates and median income are three-year averages for 1999-2001. Source: U.S. Census Bureau, *Current Population Survey, 2000, 2001, and 2002 Annual Demographic Supplements*. This represents the most recent data available.

⁴ A federal TANF provision requires adults to participate in community service employment after receiving assistance for two months unless the state opts out of the requirement.

Many states require applicants for cash assistance and/or participants in work activities to pursue an initial job search. In Minnesota, following an assessment, clients determined to be job-ready must participate in full-time job search for up to eight weeks.

Countable Activities⁶

Minnesota claims that it has some flexibility to count work activities other than those enumerated in federal law toward the federal work participation rates because it is asserting that TANF requirements are inconsistent with its preexisting waiver provisions. A principal way in which participation in microenterprise training could count toward the federal participation rates is as vocational educational training.⁷ Minnesota defines vocational educational training as including educational programs that can be reasonably expected to lead to employment. The state does not impose a cap on the number or proportion of participants in vocational educational training, but individual participation is limited to 12 months (an additional 12 months can be approved on an exception basis if the participant agrees to repay funds used to support the educational program). Participation in SEID or similar programs is an allowable activity for MFIP clients interested in starting a business or improving an existing self-employment business, but it is not available in every county. Job counselors have discretion to determine whether self-employment is the best route to self-sufficiency.

Minnesota allows participants to meet TANF participation requirements by self-employment alone⁸ as long as an individual earns the equivalent of the federal minimum wage for the number of hours per week required to meet federal standards. If earnings from self-employment are lower, an individual must conduct a job search or work for the remaining required hours, regardless of the actual hours of self-employment. State law allows counties to exempt SEID participants from the minimum wage requirement for 24 months, but not all counties have chosen to implement this exemption.

⁵ The federal TANF statute requires all adults receiving assistance to be “engaged in work” after they have received assistance for 24 months. States have broad discretion to define what counts as being “engaged in work” for purposes of the 24-month requirement.

⁶ Under the federal TANF statute, a state may be penalized if it fails to meet overall and two-parent TANF participation rates. The law specifies the number of weekly hours required to be a countable participant and the permissible activities that can count toward participation. States can authorize and fund activities that are not countable toward the federal participation rate.

⁷ Under the federal TANF statute, only certain activities are countable toward TANF participation rates. Vocational educational training provides the principal category in which participation in education or training can count toward TANF participation rates. States can set their own reasonable definitions of what counts as vocational educational training, but countable participation is limited to 12 months per individual. No more than 30 percent of those counted toward the work participation rate can be in vocational educational training. Effective in FY 2000, the 30 percent limit applied to the combination of individuals in vocational educational training and parents under age 20 in school completion. A state is free to allow individuals to participate in vocational educational training for more than 12 months, but only 12 months will be countable toward participation rates.

⁸ For federal purposes, hours participating in unsubsidized employment are countable toward TANF participation rates. The federal law does not define unsubsidized employment or require a minimum amount of earnings, and states are permitted to develop their own reasonable definitions.

The following table shows TANF work participation data that the state reported for FY 98 through FY 00. The caseload reduction credit reduced the required overall participation rate to 17 percent in FY 98, 13.7 percent in FY 99, and 9.2 percent in FY 00. In all three years the state could have allowed for increased participation in microenterprise training while still meeting TANF participation rates.

In FY 98 and FY 99, the state could have counted a larger number of participants in vocational educational training toward meeting its participation rates. The fifth row compares the number of families reported as engaged in vocational educational training to the minimum number of families participating in any countable activity that Minnesota needed to meet its required overall participation rate. Seventeen percent in FY 98 and 19 percent in FY 99 were reported as being engaged in vocational educational training. In both years states were permitted to count up to 30 percent of participating families as engaged in vocational educational training. Minnesota could have counted many more families engaged in vocational training toward the overall rate in both FY 98 and FY 99.

In all three years the state could have fully satisfied the required overall participation rates simply because a sufficient number of families were participating in unsubsidized employment. Thus, Minnesota could have allowed many more families to participate in microenterprise training outside the rates. (See row six.)

Reported TANF Work Participation in Minnesota			
	FY 98	FY 99	FY 00
Families in overall participation rate ⁹	37,030	29,001	27,784
Families counting toward work participation rate	11,296	9,319	8,768
Overall participation rate achieved ¹⁰	30.6%	36.9%	34.7%
Overall participation rate required (30% for FY 98, 35% for FY 99, and 40% for FY 00; adjusted downward for caseload reduction credit)	17.0%	13.7%	9.2%
Families engaged in vocational educational training (as a % of participating families needed to meet overall rate) ¹¹	1,071 (17%)	753 (19%)	702 (28%)
Families engaged in unsubsidized employment (as a % of participating families needed to meet overall rate) ¹¹	8,514 (135%)	6,396 (161%)	6,001 (235%)
Number of participating families needed to meet overall participation rate required (adjusted downward for caseload reduction credit)	6,295	3,973	2,556

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

⁹ This figure is smaller than the total number of families receiving assistance because some families are not included in this participation rate denominator.

¹⁰ The overall participation rates provided in the third row represent the average of monthly participation rates for the year.

¹¹ These figures are calculated by multiplying the required overall participation rate by the number of families in the rate, and then dividing the number of families reported as engaged in each activity by the product.

Sanctions for Failing to Comply with Work Requirements

The first sanction for failing to comply with work requirements is a 10-percent grant reduction for a minimum of one month. For subsequent instances of failure to comply with work requirements, or if noncompliance continues for more than one month, the sanction escalates to vendored rent payments (and, at county option, utility payments) for a minimum of six months. In addition, 30 percent of the transitional standard is deducted from any remaining cash and food portions of the grant. During the spring of 2001, the Minnesota legislature was considering legislation that would allow for a full family sanction.

Time Limit

Minnesota has a 60-month lifetime time limit. For those subject to the time limit, assistance to the entire family is terminated after 60 cumulative months of cash assistance. Months of assistance began counting toward the time limit in July 1997. There are time limit exemptions (i.e., circumstances under which a month of assistance will not count toward the time limit) for families in which the adult is age 60 or older, victims of domestic violence, adults living on an Indian reservation of over 1,000 people with at least 50 percent joblessness, and some teen caregivers. As of April 2001, the state had not yet developed its policy on circumstances under which assistance can be extended for families that reach the time limit. The time limit clock runs while clients are participating in microenterprise training or operating a microenterprise.

Treatment of Income

For determining ongoing MFIP eligibility and benefit amount, 38 percent of monthly earned income is disregarded. For applicant families who have not received MFIP within the past four months, the earnings disregard applied to determine eligibility is 18 percent. For families with earnings, countable income is compared to 110 percent of the combined cash and food maximum benefit level to determine the grant amount. A single-parent recipient family with two children remains eligible for MFIP as long as the parent's monthly earnings are less than \$1,421.

For purposes of MFIP, self-employment earnings are treated the same as other earned income, and are determined by subtracting reported self-employment expenses from gross self-employment income.

Treatment of Resources

The resource limit for MFIP eligibility is \$2,000 for applicants and \$5,000 for recipients. The loan value of a car up to \$7,500 is excluded when counting a family's resources. Personal property needed for self-employment, such as sales stock, inventory, or tools, is exempt from consideration as a resource.

Minnesota legislation sets out the framework for an Individual Development Account (IDA) program that allows families with incomes below 200 percent of the federal poverty line and assets under \$25,000 to open IDAs and accumulate savings that are not counted toward the MFIP resource limit. IDA funds can be used for business capitalization as well as education and home purchase. IDA deposits will be matched at a rate of two to one with other funds.

Center for Law and Social Policy

Supportive Services

Child Care

Child care for families participating in MFIP work activities is fully funded, and can be authorized for up to 120 hours per child for each two-week period. MFIP participants who lose eligibility after receiving assistance for at least three of the past six months are eligible for transition year child care for up to 12 months if they continue working.

Subject to available funding, the state provides subsidized child care for families with income up to 75 percent of the state median income. Families with incomes above 75 percent of poverty must make co-payments for subsidized child care on an income-based sliding scale.

A self-employed individual is eligible for subsidized child care as long as he or she works an average of at least 20 hours per week and receives at least minimum wage (\$5.15) for hours worked, determined by dividing gross earned income by the minimum wage. Child care is provided only for the number of hours determined by dividing self-employment income by the minimum wage, regardless of hours actually worked. This restriction can be waived for up to 24 months for SEID participants.

Medicaid

Minnesota provides a joint application for MFIP and Medicaid, and under the state's Section 1931 Medicaid eligibility rules, all MFIP families are eligible for Medicaid.¹² Families who cease to be eligible for Section 1931 Medicaid due to earnings and/or child support may be eligible for transitional Medicaid for up to 12 months. Minnesota extends Medicaid eligibility to children under age two in families with incomes below 280 percent of the federal poverty level.¹³ MinnesotaCare, the state's Children's Health Insurance Program, provides subsidized health insurance to families with children. The monthly gross income limit is 275 percent of poverty.

Transportation and Other Support Services

Transportation expenses including public transportation, car pooling, mileage, essential car repairs, insurance, driver's license, and parking fees necessary for participation in employment or training activities can be covered at the discretion of county offices. Other expenses necessary for obtaining and retaining employment can be covered, including educational expenses, vocational testing and assessment, equipment, and clothing. Post-employment follow-up services, including counseling and transportation assistance, are provided for 12 months to families leaving MFIP for employment.

¹² The 1996 welfare law "delinked" Medicaid from family cash assistance, meaning that TANF recipients are not automatically eligible for Medicaid. The law created new eligibility criteria known as Section 1931, mandating Medicaid eligibility for families that meet a state's AFDC income, resource, and family composition standards in effect on July 16, 1996. States have limited ability to modify these requirements, although a state can broaden Medicaid eligibility by changing its methodology for calculating income or resources for purposes of determining eligibility. Because TANF and Medicaid eligibility rules may no longer be identical, it is possible that some family members could qualify for TANF but not Medicaid, and in many instances family members will qualify for Medicaid but not for TANF.

¹³ States are required to provide Medicaid coverage to children under age six with incomes below 133 percent of poverty and children born after September 30, 1993, with incomes below 100 percent of poverty.