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Policy Brief: How States Use Funds Under the TANF Block Grant

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States spend only half of their combined federal and state dollars under Temporary Assistance for Needy Families (TANF) on the core welfare reform areas of basic assistance for families with children, child care for low-income families, and work-related activities or supports. A handful of states spend less than 20 percent of their TANF funds on these areas. These figures point up fundamental flaws with the TANF block grant, created under the 1996 welfare law, which gives states great flexibility on using the funds. A look at how states spend TANF funds provides compelling evidence on why basic safety net programs should not be block-granted. (See our full report for greater detail, as well as our fact sheets and spreadsheet with state-by-state information.[1])

States Spend Only Half of TANF Funds in Core Welfare Reform Areas

Two key purposes of welfare reform are providing a temporary safety net for families and preparing recipients for work. Yet nationally, states use just 51 percent of their TANF funds for basic assistance, work-related activities, work supports/supportive services, and child care, the latest data from fiscal year 2015 show (see Figure 1). Some states spend much less (see Figure 2).

- **States spend only a quarter of their TANF funds on basic assistance to help very poor families care for their children and meet very basic needs, such as shelter.** When TANF began, basic assistance was the single biggest use of TANF funds in all states.

  There is significant variation across states; seven states spent less than 10 percent of their TANF funds on basic assistance in 2015. Not surprisingly, the states that spend the smallest shares of their TANF funds on basic assistance generally have lower benefits and assist a smaller share of poor families than the typical state.

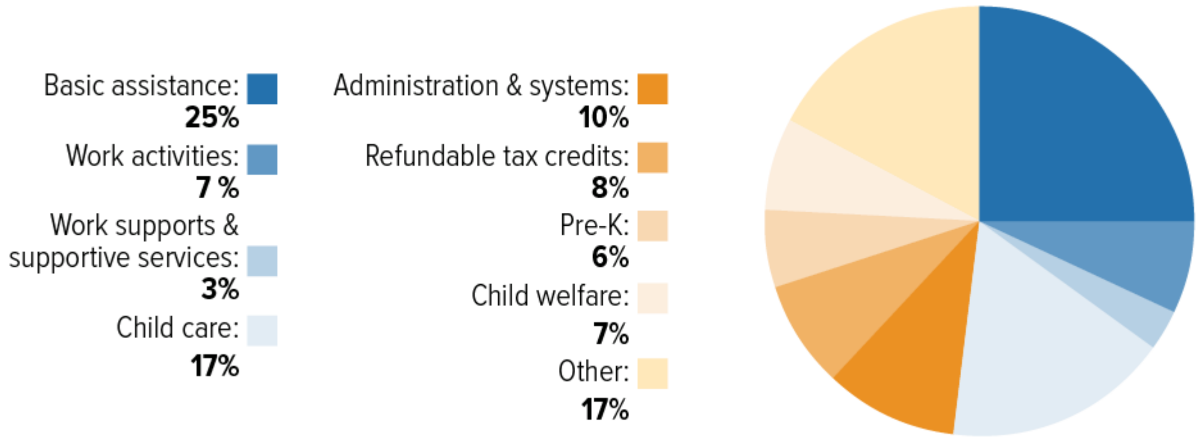
  Not only do states spend a much smaller share of their TANF funds on basic assistance than they used to, but the TANF block grant has lost a third of its value since its creation due to

[1] Liz Schott and Ife Floyd, "How States Use Funds Under the TANF Block Grant," Center on Budget and Policy Priorities, January 5, 2017, http://www.cbpp.org/research/family-income-support/how-states-use-funds-under-the-tanf-block-grant.

inflation. As a result, state spending on basic assistance has fallen by 62 percent since 1997, after adjusting for inflation.

FIGURE 1

How States Spent Federal and State TANF Funds in 2015



Note: TANF = Temporary Assistance for Needy Families.

Source: CBPP analysis of Department of Health and Human Services 2015 TANF financial data

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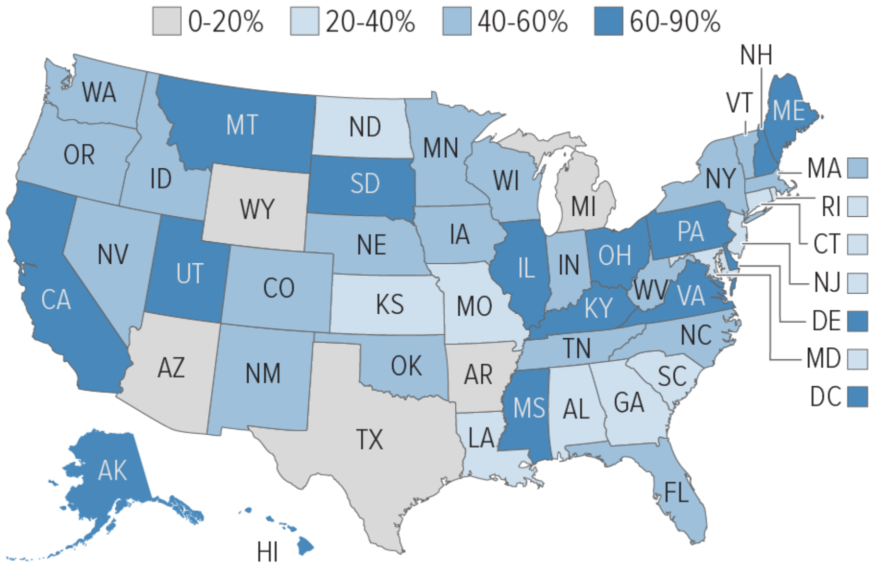
- **States spend little to help families work, using only 10 percent of their TANF funds for work activities and supports.** In 2015, states used only 7 percent of their TANF funds for work activities and another 3 percent on work supports or supportive services. A central tenet of TANF was that cash assistance should provide temporary support while a family engages in required activities to help it connect to or prepare for work. Yet most states spend little of their TANF funding on work-related activities. The share spent to help families work varies across states; ten states spent less than 5 percent of their funds on work activities and work supports/supportive services *combined.*

- **States use only 17 percent of their TANF funds to help low-income working families afford child care.** Another central tenet of welfare reform was that states could spend more of the funds on child care subsidies — which are essential to enabling low-income parents to work — rather than on cash aid. States' TANF spending on child care rose dramatically in TANF's early years but has been flat or declining for over a decade and has fallen by one-third since 2000, after adjusting for inflation. At the same time, need for child care subsidies remains high. Low-income parents who can't get a subsidy may not be able to take or keep a job or may have to leave children alone or in an unsafe situation.

  The share of federal and state TANF funds spent on child care varies tremendously. Nine states spent more than 30 percent of their TANF funds in this area, while 20 states spent less than 10 percent and half of them spent less than 3 percent; a handful of states put *no* TANF funds into child care.

FIGURE 2

Many States Spend Less Than Half of TANF Funds on Core Welfare Reform Services



Note: TANF=Temporary Assistance for Needy Families. Core services include basic assistance, work activities, work supports and supportive services, and child care. Figures reflect combined state and federal TANF spending.

Source: CBPP analysis of Department of Health and Human Services 2015 TANF financial data

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States Spend Half of TANF Funds Outside Core Welfare Reform Areas

Instead of investing in connecting families to work, supporting them in work, and providing a temporary cash assistance safety net, states use a large share of TANF funds — more than three-quarters in some states — in other areas.

Some states have used TANF funds to expand programs, such as Earned Income Tax Credits (EITCs) or pre-kindergarten, or to cover the growing costs of existing services, such as child welfare. While these are worthy and important investments, the question remains whether federal and state TANF funds — rather than other state funds — should be used for them, particularly when the average state spends only half of its TANF funds to provide a cash assistance safety net, connect welfare families to work, or provide child care help to low-income working families. Also, some states have used TANF funds to replace existing state funds, thereby freeing those state funds for purposes unrelated to providing a safety net or work opportunities for low-income families.

Key areas of spending outside of core welfare reform include:

- **Child welfare.** Some 34 states used TANF funds for child welfare services in 2015. This represents 7 percent of national TANF spending and 9 percent of spending for those 34 states. Seven states spent more than 20 percent of their TANF funds in this area.

- **Pre-K/Head Start.** Some 22 states used TANF funds for pre-K/Head Start in 2015. This represents 6 percent of national TANF spending and 11 percent for those 22 states. Four states spent more than 20 percent of their TANF funds in this area.
- **Working-family tax credits.** Refundable tax credits for low-income working families can be an important work support and a permissible use of federal and state TANF funds. In 2015, 20 states used these funds for refundable tax credits, most commonly a state EITC. This represented 8 percent of national TANF spending and 17 percent of spending for those 20 states. Seven of these states spent more than 20 percent of their TANF funds in this area.
- **Other areas.** The rest of federal TANF spending goes to areas such as program management (10 percent of TANF spending), emergency assistance (3 percent), transfers to the Social Services Block Grant (4 percent), preventing out-of-wedlock pregnancies and supporting marriage (4 percent), and services "Authorized Under Prior Law," meaning they are not within the four TANF purposes but were in the state's Aid to Families with Dependent Children (AFDC) Emergency Assistance plan when TANF replaced AFDC (2 percent).

TANF Experience Highlights Risk of Block Grants

The track record of state spending under TANF offers broader lessons about the risks of block-granting core programs for low-income families and giving states greater flexibility on how to spend funds previously used to meet basic needs.

TANF proponents said that states would use their flexibility to shift spending from cash welfare benefits to improved work programs and work supports. But that is not what happened. Instead, states diverted a significant portion of the funds from supporting needy families and used them to fill state budget holes. The bulk of funds withdrawn from the cash assistance safety net have *not* gone to programs that connect families to work or to support low-income working families.

In addition, as noted, the federal TANF block grant has no adjustment for inflation and thus has eroded badly over time, losing one-third of its value since 1997. These two factors — the funds' diminished value and broadened dispersal — have left states with fewer resources to serve needy families.