CHAPTER V: Examining TANF Spending Priorities

Introduction

If states try to meet the higher work participation rates imposed by the DRA by engaging more families in work activities, rather than by simply restricting poor families' access to TANF, they will need to devote additional resources to welfare-to-work programs, child care for participants in those programs, and other aid to low-income working families. However, most states no longer have significant unspent TANF funds from prior years to use to augment their annual federal TANF block grant. Thus, most states will need either to redirect existing TANF and MOE funds away from other activities or to increase state funding for welfare-to-work and related programs. If a state chooses the former option, it likely will either need to increase state funding in those other areas to compensate or cut the affected services significantly.

The DRA also imposes significant cuts in federal funding for child support enforcement efforts. These cuts create potential challenges for state TANF programs. If the effectiveness of state child support efforts lags, as is likely, states could face federal penalties — in the form of a reduced TANF block grant — for failing to meet child support performance standards. Moreover, if fewer families receive the child support they are owed, more families may need TANF-related assistance.

TANF Spending Basics

Federal TANF Funding Under the DRA

- Basic block grant: $16.4 billion/year.
- Supplemental grants: $319 million/year. (These are additional TANF funds provided to 17 states; the DRA extended the supplemental grants through 2008.)
- Out-of-wedlock bonus: eliminated.
- High-performance bonus: eliminated.
- Marriage/fatherhood grants: $150 million/year. (These grants are awarded by HHS on a competitive basis and are available not only to states but to localities and nonprofit and for-profit entities.)

State "Maintenance-of-Effort" Requirement

Each state's annual spending on TANF-related programs must equal at least 80 percent of its spending on AFDC-related programs in 1994. States that meet the work participation rates (both the all-family rate and the two-parent family rate) need only spend 75 percent of what they spent in 1994.

This chapter discusses:

- how states use TANF and MOE funds;
- the impact of inflation on TANF funding;
- the impact on TANF funding of cuts in federal funding for child support;
- issues for states as they reexamine their TANF and MOE spending priorities; and
- the small additional child care funding included in the DRA.

Background: National Trends in State TANF Spending

The federal TANF statute permits states to use federal TANF and state MOE funds for a wide variety of programs and activities. Over the past decade, the share of these funds used for traditional cash assistance and welfare-to-work programs has declined. In 2005, only slightly more than one-third (38 percent) of TANF and MOE funds were used for basic assistance, and just under 8 percent were used for on "work-related activities" such as employment and training and work subsidies (see Figure 1).

At the same time, a growing share of TANF funds are now used for work supports, particularly child care. In 2005, 18 percent of TANF and MOE funds were spent on child care assistance or transferred to the child care block grant.

TANF and MOE funds also increasingly have been used to fund an array of other services. In particular, some states now spend a significant share of their TANF and MOE funds on services provided through state child welfare agencies. In some cases, TANF-related funds have been used to augment the services provided by these or other agencies; in other cases, they have been used to fill budget holes. As a result, welfare-to-work programs receive only a small share of TANF and MOE funds.

Spending priorities vary widely among states. For example, 12 states spent 50 percent or less of their total TANF and MOE funding on basic assistance, child care, and welfare-to-work activities in 2005, while another 14 states spent at least 75 percent of their TANF and MOE funding in these areas. Unfortunately, because of the paucity of information that states are required to submit to HHS on how they spend TANF funds, it is impossible to get a full accounting at the national level of the set of services that are being funded with TANF and MOE resources. For federal reporting purposes, states are required only to divide their TANF and MOE spending into a set of broad programmatic categories, such as "basic assistance," "child care," and "employment and training."[222] (Three of the programmatic categories — "other non-assistance," "transfers to the Social Services Block Grant," and activities that were "previously authorized" under the former AFDC or

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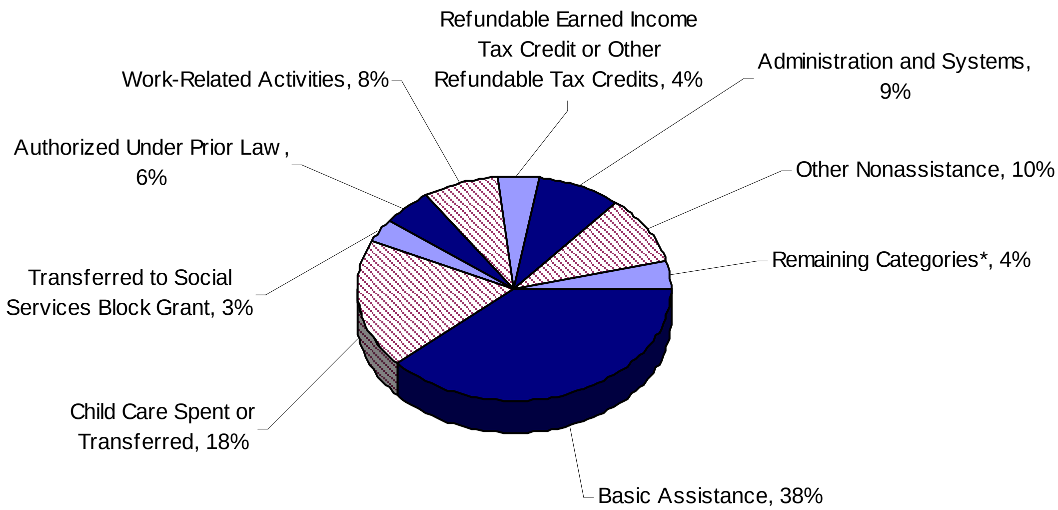
[222] State-by-state tables on TANF and MOE spending in 2005 are available at http://www.clasp.org/publications/state_moe_fy05.htm.

FIGURE 1

STATES SPEND TANF AND MOE FUNDS FOR A BROAD RANGE OF ACTIVITIES



* Remaining Categories: Nationally, less than 3 percent of total funds used were used in each of the following categories: Funds transferred to the Social Services Block Grant, Individual Development Accounts, Nonrecurrent Short-Term Benefits, Two-Parent Formation, and Transportation and Supportive Services.

Source: Center for Law and Social Policy based on FY 2005 data from the U.S. Department of Health and Human Services.

Emergency Assistance program — are particularly vague.[223]) Some states appear to be reporting all flexible funds they provide to counties in the "other" category, even though much of this spending could be counted under a more specific category.

One category of services that is often reported under these headings is child welfare-related services — including prevention and family support services, investigations, case management, counseling, parenting classes, substance abuse treatment, and mental health services — for families identified as at risk of abuse or neglect or for whom abuse or neglect has been substantiated. It is difficult under current reporting requirements to know the extent to which the child welfare-related services funded with TANF and MOE funds not only help parents meet their parenting responsibilities, but also improve their prospects for employment. For example, mental health services, substance abuse treatment, and counseling may help address issues — such as time management, the ability to interact appropriately with others, and basic mental health — which help meet both sets of important goals.

[223] Additional details about the particular programs or activities funded under these broad categories in a given state are often available from state human service agencies or state budget offices.

TANF and MOE Funds Are Not Keeping Pace with Inflation

The basic TANF block grant and each state's MOE requirement have been frozen since TANF's creation in 1996. While inflation during the past decade has been relatively low by historical standards, the purchasing power of these funding sources has declined quite substantially over this period.

- **In 2007, the basic TANF block grant is worth *23 percent less* than in 1997, the first year states received the block grant.** By 2011, the block grant will be worth just 71 percent of its 1997 value if it remains frozen.

- **States now spend significantly less on TANF-related programs than they did in 1994.** A state that meets the MOE requirement in 2007 of spending 80 percent of what it spent on AFDC-related programs in 1994 is actually spending *43 percent less* in this area than it did in 1994, once inflation is taken into account. By 2011, a state spending at the 80-percent MOE level will be spending just 52 percent of what it spent in 1994, after adjusting for inflation. Even when one takes into account the additional funds that states now spend on child care in order to receive matching federal funds, state spending in this area remains more than one-third below what states spent in 1994.

The Impact on TANF of Cuts in Federal Child Support Enforcement Funding

The DRA significantly cut funding for child support enforcement programs.[224] The Congressional Budget Office estimates that even if states replace half of the lost federal funds with state funds, the reduction in federal funding will result in $8.4 billion in child support going *uncollected* over the next ten years that would have been collected in the absence of these cuts. This loss of child support collections creates three potential problems for state TANF-related programs:

- **If states collect less child support, they will retain less of that child support and thus will have less funding available to meet their MOE requirement.** As discussed in Chapter III, the federal and state governments typically retain the child support collected on behalf of a family receiving TANF assistance in order to offset the cost of providing assistance to the family. (The federal government retains 50-76 percent of the child support collected; the state retains the remainder.) In addition, the federal and state governments retain some child support collected on behalf of former TANF recipients to offset the cost of aid provided in the past. Many states use the child support they retain to fund TANF-related programs.[225] The retained child support funds spent in this way can count toward the state's MOE requirement.

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[224] See Vicki Turetsky, "Families Will Lose At Least $8.4 Billion in Uncollected Child Support If Congress Cuts Funds — and Could Lose Billions More," CLASP, 2006, http://www.clasp.org/publications/incentivepayments_jan18.pdf.

[225] Michael Fishman, Kristin Dybdal, and John Tapogna, "State Financing of Child Support Enforcement Programs, 1999," http://www.acf.hhs.gov/programs/cse/rpt/financing.htm.

- **If states are unable to meet their child support performance standards, they could face a fiscal penalty, which is imposed through a reduction in their TANF block grant.** Under federal law, states are required to meet certain child support performance benchmarks. States failing to meet those standards can face up to a 5-percent reduction in their TANF block grant. Unlike with other TANF penalties, states cannot enter into a corrective compliance plan that would allow them to correct the violation without penalty.

- **If less child support is collected, more families may need assistance from TANF-related programs.** The cut in federal child support enforcement funding will likely force states to scale back their child support enforcement efforts, which means they will collect less child support — an important source of income for many single-parent families. That, in turn, means that more poor families will have trouble making ends meet and may need assistance from TANF programs.

States can avoid these negative consequences by increasing *state* funding for child support enforcement, which would entitle them to more federal child support enforcement matching funds. But to fully offset the cut in federal funding, each state would need to increase state funding by an amount that is equivalent to two-thirds of the amount of the state's performance incentive payment from the federal government. (Incentive payments are made on the basis of child support performance measures, including the child support collection rate).

Reexamining Spending Priorities and Funding Levels

In response to the new TANF work requirements in the DRA, states are likely to need to invest more resources in welfare-to-work programs, aid for working families, supports such as child care, and child support enforcement. Below are some factors states should consider:

- **States should aim to satisfy the 80-percent MOE requirement imposed on states that fail to meet the new federal work rates.** Under TANF's MOE requirement, a state that meets the federal work rates must spend an amount on low-income programs that is at least 75 percent of what it spent (in nominal terms) on AFDC-related programs in 1994. A state that fails to meet the federal work rates in a particular year is required to meet a higher level of MOE spending — 80 percent of its 1994 AFDC-related spending — *in that same year* that the state failed to meet the work rates. For example, if a state fails to meet the work rates in FY 2007, it must meet the 80-percent MOE requirement in FY 2007.

  States will not know whether they met the work rates in FY 2007 until sometime in FY 2009, but if they failed to meet the rates, they will have to be able to show that they met the 80-percent MOE requirement in FY 2007. Since most states are at risk of failing to meet the new work participation rates (at least initially), it is prudent for all states to plan to meet the higher MOE level; states that fail to meet the MOE requirements are subject to significant fiscal penalties.[226]

[226] In the past, once they have been informed that they have met the work rates (and thus do not have to satisfy the 80-percent MOE requirement), some states have retroactively recategorized certain MOE spending as TANF spending. This has the effect of reducing the state's unobligated balances within TANF and freeing up unrestricted state funds. HHS has not indicated its intention to change this policy.

States can meet the 80-percent MOE requirement in two ways. The most straightforward way is to spend more state funds on TANF-related programs and use these added funds to provide more services. Alternatively, states can identify existing areas of state spending that are not currently being counted toward the MOE requirement and count those expenditures toward the MOE requirement. States may also count cash or in-kind expenditures by nonprofit organizations and local governments toward the MOE requirement, if the spending meets the TANF purposes and other MOE-related requirements and if there is a written agreement between the state and the nonprofit or local government entity to do so.[227] But as discussed below, if states rely largely on this second strategy, the level of assistance and services provided to poor families through TANF-related programs will erode as inflation reduces the purchasing power of the TANF block grant and MOE funds and states will not have the resources they need to meet the new work participation rates by means other than restricting needy families' access to poor families.

- **States should consider identifying some state funding that can be used to assist families *outside* the TANF structure.** As discussed in earlier chapters, the activities that are countable toward the work participation rates may not be the most appropriate activities for some recipients. Thus, states may want to provide assistance to some families in programs that are funded with non-MOE state funds. States can establish their own rules in such programs, including the work activities in which program recipients must participate. Families assisted by state-funded programs outside the TANF structure are not considered when determining the federal work participation rates.

  States that want to provide state-funded assistance in this manner to some families have two options for securing the needed resources. First, as in the MOE discussion above, they can increase the overall level of state funding for TANF, MOE, and state-funded assistance programs. Alternatively, they can identify existing state services or benefits (that do not meet the definition of "assistance") that are financed with state or local resources, and *could* be financed with TANF or MOE funds, and "swap" funding streams. In other words, the state could use state funds (that do not count toward the MOE requirement) to assist families that once participated in TANF- or MOE-funded programs, and use the TANF or MOE funds formerly spent on those families to pay for programs that once were funded with state funds unrelated to TANF. States must be careful to ensure that any programs that are newly identified as counting toward the MOE requirement pass the "new spending test" and do not supplant state resources that were spent in these programs in 1995.[228]

- **States may need to redirect TANF and MOE resources so they can fund welfare-to-work, child care, and other supports for low-income working families adequately.** States should think very carefully about the effects of such a move, however. Some of the services that states are funding in agencies outside the TANF agency may be helping families move from welfare to work, supporting working families, or helping families avoid TANF receipt altogether; withdrawing TANF or MOE funds from these programs could weaken state efforts

[227] This policy, formerly explained in TANF Policy Announcement TANF-ACF-PA-2004-01, was added to the regulations at 45 C.F.R. §263.2(e) by the interim final regulations.

[228] Under the TANF statute, expenditures in programs that were not authorized under the prior AFDC statute can only count toward the MOE requirement to the extent that they are above state expenditures in that program in 1995.

in these areas. Similarly, TANF and MOE funds may be funding services that, while unrelated to the TANF goals of providing needy families with income assistance and helping them secure employment, are still critically important. Thus, if states redirect TANF and MOE funds to welfare-to-work programs and support for working families, additional resources likely will need to be secured for those areas that are losing these resources.

- **States should consider replacing lost federal child support enforcement funding with increased state resources.** As discussed above, federal cuts in child support enforcement funding could harm states' TANF- and MOE-funded programs — as well as families that rely on child support income. States can reduce or eliminate this harm by increasing their own funding for child support enforcement.

Ultimately, to ensure that benefits and services for poor families do not erode, states will need to increase overall resources for TANF-related programs — and state-funded assistance programs outside the TANF/MOE structure. As described above, there are ways that states can meet a higher MOE requirement or identify resources for assistance programs outside the TANF structure without investing net additional state funds. Such strategies are legal and may be necessary in the short term. Over the longer term, however, the set of programs that provide cash assistance, welfare-to-work activities, and work supports to low-income families will need additional funding if they are going to be effective at helping vulnerable families make ends meet and find and sustain employment.

Child Care Assistance

On average, annual child care costs for just one child are higher than families' clothing and health care costs combined,[229] and low-income families may spend as much as a quarter of their income on child care costs.[230] To offset these costs, child care assistance is critical both to helping families move from welfare to work and to helping working families remain employed.

The increased TANF work requirements in the DRA will require states to reexamine their approach to funding child care assistance for low-income families, including those receiving TANF, those leaving TANF, and those that have no connection to TANF but need child care assistance in order to work. Unfortunately, the lack of significant new federal resources for child care, coupled with the large increase in the number of TANF families that will need child care while they work or participate in welfare-to-work activities, may create difficult choices for states that want to continue serving both TANF families and other low-income working families.

The increase in the number of TANF families likely to need child care will vary significantly across states.[231] Some states may have to move thousands of families into work programs or

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[229] National Association of Child Care Resource and Referral Agencies. *Breaking the Piggy Bank: Parents and the High Price of Child Care,* 2006.

[230] U.S. Census Bureau, *Who's Minding the Kids? Child Care Arrangements:* Winter 2002. 2005.

[231] For state-by-state estimates, see Mark Greenberg, "Conference TANF Agreement Requires States to Increase Work Participation by 69 Percent, but New Funding Meets Only a Fraction of New Costs," Center for Law and Social Policy, 2006, http://www.clasp.org/publications/tanfagreement_update_jan12.pdf.

employment in order to meet the federal work rates (and thus avoid fiscal penalties), while other states may already be relatively close to meeting the work rates. Thus, states will need to estimate how many additional TANF families are likely to need child care assistance as a result of increased participation in work activities and employment and project the cost of providing that assistance. States then will need to see which federal and state funds are available to meet these increased child care costs.

States, policy analysts, and others widely acknowledge that cutting child care assistance for working families is contrary to the goals of welfare reform, since child care assistance helps families keep their jobs and stay off TANF. Thus, states likely will need to increase their overall investments in child care assistance and consider policy changes to ensure that low-income working families have access to child care.

How States Can Obtain the Additional Child Care Funding Provided by the DRA

The DRA includes $200 million per year in additional federal child care funding through the Child Care and Development Block Grant (CCDBG).[232] This money must be matched by state funds, so most states will need to increase their child care spending to obtain their share of these additional federal funds. In total, states will have to spend about $150 million in additional state funds to draw down the $200 million in additional federal funds.

Several types of state and private expenditures can be used as the state match for these federal funds. In addition to state spending on a basic child care subsidy program, they include:

- **Public expenditures on pre-kindergarten.** States are permitted to count funds spent on public pre-kindergarten programs for up to 20 percent of either CCDBG's state match requirement or its MOE requirement.[233] To count public pre-kindergarten funds toward the state match requirement, a state must describe in its annual plan how the pre-kindergarten program meets the needs of working parents. To count public pre-kindergarten funds toward the MOE requirement, a state must ensure that it will not reduce expenditures on full-day and full-year child care services.

- **Privately donated funds.** States may meet their state match and MOE requirements in part by using funds that private non-governmental agencies have donated to the state or to an entity designated by the state to receive these funds. There is no limit on the amount of private funds states may use towards the MOE and match requirements. (Donated funds can count toward these requirements only if they are donated without limitations that would require the funds to be used for a particular individual, organization, or facility.)

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232 CCDBG includes multiple funding streams, including discretionary (sometimes referred to as "appropriated") child care funding, whose level is set each year through the appropriations process, and mandatory (also called "entitlement") funding, whose level is set in the Social Security Act. The DRA increases *mandatory* child care funding from $2.717 billion per year to $2.917 billion.

233 A portion of federal CCDBG funding requires states to meet a state maintenance-of-effort requirement while a portion requires a state match.

Accessing New State Funds

It appears unlikely that enough new federal child care resources will be available over the next couple of years to erase — or, perhaps, even significantly reduce — the unmet need for child care assistance. Yet that unmet need is considerable,[234] and progress to reduce it will require states to make a major new financial commitment to child care funding. As revenues in many states recover from the declines that occurred in the early part of this decade, states should consider making new investments in child care and other early education initiatives.

Several states and local communities have successfully identified new sources of revenue through targeted tax approaches that either raise new funds to support a particular initiative or make child care more affordable for individual families.[235] These approaches include special property taxes that generate funds for child care subsidies and improvements in the quality of child care, sales taxes that support child care subsidies, tobacco and other "sin" taxes for child care, and the use of refundable dependent care tax credits to offset families' child care expenses. The pros and cons of each of these approaches should be weighed within the context of each community or state.[236]

Many states also have been encouraging private business and philanthropic entities to become more involved in child care issues. Using data on the economic impact of the child care sector,[237] the economic benefits to businesses from child care assistance programs[238] and other data, several

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[234] The U.S. Department of Health and Human Services estimated that in 2003, twenty-eight percent of children eligible under state eligibility rules received subsidies. There is no current information available on the percentage of children eligible under federal law that received child care assistance after 2000, but HHS reported that in 1999 that only 12 percent of federally-eligible children were served. In 2000, CLASP estimated that 14 percent of federally-eligible children were receiving help. See ASPE Office of Human Services Policy, "Child Care Eligibility and Enrollment Estimates for Fiscal Year 2003," April 2005; US Department of Health and Human Services News, "New Statistics Show Only Small Percentage of Families Receive Child Care Help," December 6, 2000; and Jennifer Mezey, Mark Greenberg, and Rachel Schumacher, "The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000" Center for Law and Social Policy, 2002.

[235] For more information on each of these types of investments and other financing strategies, see Louise Stoney and Karen Edwards, "Child Care Financing Matrix," http://nccic.org/pubs/ccfinancingmatrix.pdf; Anne Mitchell, "Innovative Strategies for Financing Quality Child Care," 2002. http://www.earlychildhoodfinance.org/handouts/InnovativeStrategiesForFinancingQualChildCare.ppt.

[236] See for example, Deborah Chalfie and Nancy Duff Campbell, "Power to the People: The Effectiveness of Ballot Measures in Advancing Early Care and Education," National Women's Law Center, September 2005, http://www.nwlc.org/pdf/PowertothePeopleFinal2005.pdf.

[237] See, for example, resources of the National Economic Development and Law Center at www.nedlc.org/Programs/divisions_cyf_childcare_impact.htm.

[238] See, for example: Tansneem Chipty & Ann Dryden Witte, "Employment Patterns of Workers Receiving Subsidized Child Care: A Study of Eight Counties in Alabama," Tri-State Child Care Research Partnership, 1998 (available from Margie Curry, Executive Director, Childcare Resources, 1904 First Ave. North, Birmingham, AL 35203-4006); Tasneem Chipty & Ann Dryden Witte, "Parents Receiving Subsidized Child Care: A study of Alabama's Labor Force" (working paper), Tri-State Child Care Research Partnership, 1997; Harriet Griesinger, Tasneem Chipty, & Ann Dryden Witte, "Employment of Parents Receiving Subsidized Child Care in Dade County, Florida" (working paper), Wellesley College, 1997; Christine Lee, Stephanie Ohlandt, & Ann Dryden Witte, "Parents Receiving Subsidized Child Care: Where do they work?" Florida Children's Forum, 1996, http://eric.ed.gov/ERICDocs/data/ericdocs2/content_storage_01/0000000b/80/10/f5/ab.pdf. (This article was featured in the National Child Care Information Center, Child Care Bulletin, Issue 11, October/November, 1996, and the study on which it is based has been replicated in Alabama, California, Oregon, and Washington, DC).

states and communities have created public-private partnerships in which the private sector makes new funds available for child care subsidies and other initiatives.