CHAPTER V: Examining TANF Spending Priorities

Introduction

The Deficit Reduction Act (DRA) requires states to meet significantly higher work participation requirements. If states try to increase their work rates by engaging more families in work activities (rather than simply restricting poor families' access to TANF assistance programs), they will need to devote additional resources to enhanced welfare-to-work programs, child care for participants in those programs, and other aid to low-income working families.

Most states no longer have significant unspent TANF funds from prior years to use to augment their annual federal TANF block grant. Thus, to increase the resources available for welfare-to-work programs, child care, and other TANF-related initiatives, states will either need to redirect existing TANF and MOE funds away from other activities or to increase state funding for these areas. If a state chooses to redirect TANF resources away from other areas, it likely will need to increase state funding to compensate for the reduction in TANF-related funds — or cut its TANF-funded services significantly.

TANF Spending Basics

Federal TANF Funding Under DRA

Basic Block Grant: $16.4 billion/year

Supplemental Grants: $319 million/year

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 will be awarded by HHS on a competitive basis and are available not only to states but to localities, non-profit and for-profit entities.

State Spending Requirement

States are required to meet a "maintenance-of-effort" requirement equal to 80% of its spending on AFDC-related programs in 1994. States that meet the work participation rates (all family and two-parent family) meet this state spending requirement if they spend at least 75% of what they spent in 1994.

The DRA also imposes significant cuts in funding for child support enforcement efforts. These cuts create potential challenges for state TANF programs. If the effectiveness of state child support efforts lag, 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.

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

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 TANF and MOE funds used for the combination of traditional cash assistance and welfare-to-work programs has declined. In 2004, only slightly more than one-third (36 percent) of TANF and MOE funds were used for basic assistance and just 8 percent were used for on "work related activities" (which includes employment and training, work subsidies, and other work-related programs). See Figure 1. A significant share of TANF funds are now used for work supports, particularly child care. In 2004, 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 have increasingly been used to fund an array of services outside of cash assistance, child care, and welfare-to-work programs. 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 others, 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.

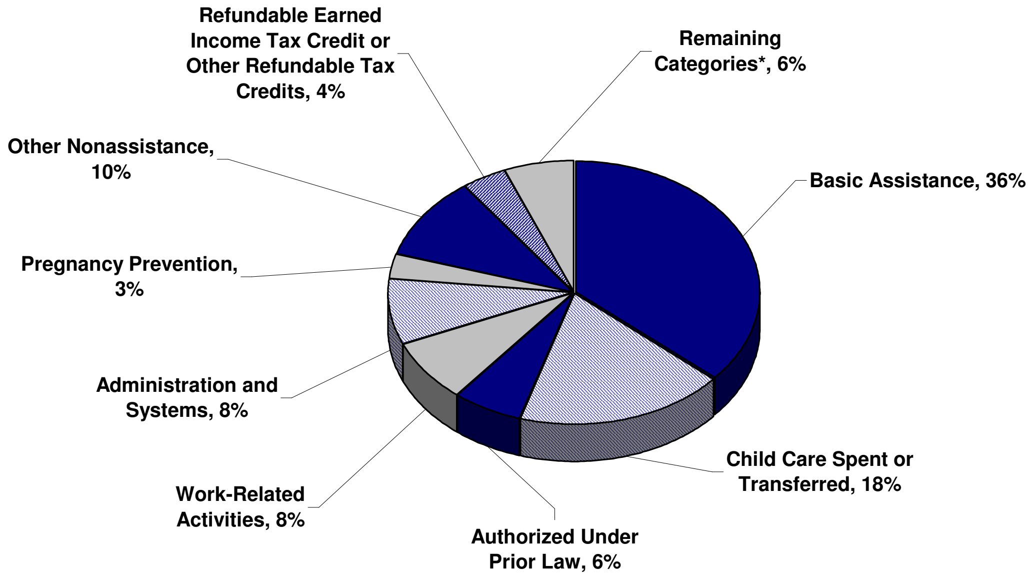
Spending priorities vary widely among states. For example, 11 states spent 50 percent or less of their total TANF and MOE funding on basic assistance, child care, and welfare-to-work activities in 2004, while another 11 states spent at least 75 percent of their TANF and MOE funding in these areas.

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 of the set of services that are being funded with TANF and MOE resources. 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."[183] Three of the programmatic categories — "other non-assistance,"

[183] State-by-state tables on TANF and MOE spending in 2004 are available at http://www.clasp.org/publications/state_moe_fy04.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 data from the U.S. Department of Health and Human services.

"transfers to the Social Services Block Grant," and activities that were "previously authorized" under the former AFDC program — are particularly vague and often include some services provided through child welfare agencies. It seems likely that a number of child welfare-related services are provided with these funds— including prevention and family support services, investigations, case management, counseling, parenting classes, substance abuse treatment, and mental health services — for families at risk of abuse or neglect or for whom abuse or neglect has been substantiated. More details about the particular programs or activities funded under these broad categories are often available from state human service agencies or state budget offices.

TANF and MOE Funds Are Not Keeping Pace with Inflation

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

- **In 2007, the basic TANF block grant will be worth *22 percent less* than it was worth in 1997, the first year states received the block grant.** By 2011, the block grant will be worth just 70 percent of its 1997 value.

- **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 *42 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 53 percent of what it spent in 1994, after adjusting for inflation. Even when one takes into account the additional funds that states now spend in order to receive matching federal child care 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.[184] The Congressional Budget Office estimates that even if states replace half of the lost federal funds with state funds, the reduction in federal funding for child support enforcement efforts 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:

1. **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.[185] The retained child support funds spent in this way can count toward the state's MOE requirement.

2. **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.

3. **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,

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184 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.

185 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.

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. In order to eliminate the effect of the cut in federal child support funding on overall child support enforcement funding, the state needs to increase state funding by two-thirds of the amount the state receives as performance incentive payments 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, 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.

- **States should count on meeting the 80-percent MOE requirement, rather than the lower 75-percent requirement.** Under TANF's "maintenance-of-effort" requirement, a state that meets the federal work participation 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 either or both of 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 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.

  States can meet the 80-percent MOE requirement in two ways. First, and most straightforward, they can 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. As discussed more 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.

- **States should consider identifying some state funding that can be used to assist families outside the TANF structure.** As discussed in earlier chapters, the set of work activities that are countable toward the federal 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 state funds that are not counted toward the MOE requirement. 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 TANF work rate.
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, the state can increase the overall level of state funding for TANF, MOE, and state-funded assistance programs. Alternatively, the state can identify existing state services or benefits (that do not meet the definition of assistance) that are financed with state or local resources that *could* be financed with TANF or MOE funds. The state then can "swap" funding streams. The state can use state funds (that don't count toward the MOE requirement) to provide assistance to families that once participated in TANF- or MOE-funded programs and use the TANF or MOE funds that once were spent to provide aid for those families to pay for programs that once were funded with state funds unrelated to the TANF structure.

- **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.** To be sure, other areas that now receive TANF and MOE funds may be critical to the well-being of children and families. Thus, if states redirect TANF and MOE funds to welfare-to-work activities and related programs, additional resources likely will need to be secured from 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 run. Over the longer term, however, the set of programs that provide assistance, welfare-to-work programs, and work supports to low-income families will need additional funding if these programs are going to be effective at helping vulnerable families make ends meet and find and sustain employment.

Child Care Assistance

Child care assistance is critical to helping families move from welfare to work and helping working families remain employed and make ends meet. 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

Using "Healthy Marriage" Funds for Services That Also Promote Employment

A growing body of research suggests a connection between earnings and marriage. Individuals who are stably employed are more likely to marry, and marriage has a positive effect on men's hours worked and wage levels.[a] Thus, the funding provided in the DRA for "healthy marriage" initiatives could be used for employment-related programs and services to TANF recipients and their partners.[b]

Public and private entities can use these DRA funds to operate demonstration projects that provide one or more of eight specified services. Many of these services involve improving basic relationship skills such as "commitment to a task" and "anger management." Since skills like these are useful in employment as well as relationships, states and organizations should consider applying for healthy marriage grants for programs that seek to improve both marriage readiness and employability.

Healthy marriage funding also could be used for programs designed to reduce or prevent domestic violence. Significant research shows that many low-income women are prevented from obtaining stable employment by physical and psychological violence from partners.[c] Stopping this violence, therefore, is key to women's employment success as well as the success of the relationship. States should consider using the DRA's healthy marriage funding to design anti-violence components of their programs for TANF recipients and their partners, as well as two-parent TANF families. It is worth noting that the federal legislation requires applicants to consult with domestic violence experts in designing their healthy marriage programs.

Finally, the DRA specifically authorizes the use of healthy marriage funding for programs targeted on non-married pregnant women and their partners. In addition to marriage/relationship skills, these programs may include financial management, conflict resolution, and *job/career advancement*. Thus, healthy marriage funds could be used for programs that would increase employment among this population, such as education and training.

HHS is expected to release the "request for proposals" (RFP) for the health marriage funds in May 2006. The RFP will clarify the options available to states and other entities that wish to apply for these funds.

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[a] See, e.g. Avner Ahituv & Robert Lerman, "How Do Marital Status, Wage Rates, and Work Commitment Interact?" a paper presented at the 27th annual Research Conference of the Association for Public Policy and Management, Nov. 3, 2005, Washington, DC.

[b] For a more detailed description of this money and its potential uses see Paula Roberts, "Update on the Marriage and Fatherhood Provisions of the 2006 Federal Budget and the 2007 Budget Proposal," Center for Law and Social Policy, 2006, http://www.clasp.org/publications/marriage_fatherhood_budget2006.pdf.

[c] See, for example, "Keeping Women Poor: How Domestic Violence Prevents Women from Leaving Welfare and Entering the World of Work," in *Battered Women, Children, and Welfare Reform: The Ties That Bind,* Brandwein ed., 1999.

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.[186] A few states already meet (or nearly meet) the federal TANF work rates, while other states will have to move thousands of families into work programs or employment to meet the work

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[186] 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.

rates and avoid fiscal penalties. 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.

Because the available resources are limited, states may be tempted to cut child care for non-TANF families in order to direct resources to TANF families that will be required to work. Such an approach, however, would not only harm low-income families, but also undermine states' efforts to reduce the need for cash assistance by helping working families make ends meet. Research has shown that low-income families are more likely to sustain their employment if they have help paying for child care.[187] Thus, states should consider expanding rather than shrinking the number of low-income working families receiving child care assistance.

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

The DRA includes $200 million per year in additional federal child care funding (as compared to nominal funding levels in 2005) through the Child Care and Development Block Grant (CCDBG).[188] 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. (Some states may not need to spend additional resources if they have been spending more than the amount required to match the federal child care funds currently available.) In total, states will have to spend about $150 million in additional state funds to draw down the $200 million in additional federal funding.

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 the CCDBG maintenance-of-effort (MOE) requirement or the state match requirement for CCDBG. To count public pre-kindergarten funds toward the CCDBG MOE requirement, a state must ensure that it will not reduce expenditures on full-day and full-year child care services. To count public pre-kindergarten funds as state matching funds, a state must describe in its annual plan how the pre-kindergarten program meets the needs of working parents.

- **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 match and MOE requirements. (Donated funds can count toward

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187 For a review of the impact of child care on employment outcomes, see, Hannah Matthews, "Child Care Assistance Helps Families Work:A Review of the Effects of Subsidy Receipt on Employment," Center for Law and Social Policy, 2006, http://www.clasp.org/publications/ccassistance_employment.pdf.

188 The Child Care and Development Block Grant 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.

the match or MOE requirements only if they are donated without limitations that would require the funds to be used for a particular individual, organization, or facility.)

In some cases, states may be able to use existing funds in these areas to meet the match requirement for the additional federal resources provided in the DRA. However, most states will need to consider increasing state support for child care programs if they are going to meet the increased child care costs associated with TANF work requirements without reducing child care assistance to low-income working families not receiving TANF. Moreover, most states have a significant unmet need for child care assistance, which can be addressed only by committing additional resources. As revenues in many states begin to recover from the declines that occurred in recent years, these states should carefully consider making new investments in child care and other early education initiatives.