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FUNDING ISSUES IN TANF REAUTHORIZATION

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Overview

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced the nation's basic cash assistance program for poor families with the Temporary Assistance for Needy Families (TANF) block grant. Since 1997, states have received $16.5 billion annually through the TANF block grant. States were required to spend roughly $10.5 billion in state resources to meet their "maintenance-of-effort" (MOE) requirement and qualify for these federal TANF funds.

The TANF block grant allows states to allocate resources to a broad array of services that promote the four purposes of the TANF statute: assisting needy families so children may be cared for at home, ending dependence of needy families on government benefits by promoting work and marriage, reducing nonmarital pregnancies, and encouraging the formation and maintenance of two-parent families.[2] As the number of families with children receiving basic cash assistance fell, states increasingly devoted TANF block grant funds to supports for low-income working families, such as child care, to more intensive employment efforts to help families that have not yet made the transition to work, and to efforts to meet the law's "family formation" goals, such as reducing teen pregnancy.

The remainder of this section discusses the issues that arise from the current-law funding structure, namely (1) the fixed funding level of the block grant, (2) the large disparities in block grant allocations among states, and (3) the lack of a mechanism to provide additional resources to states during recessions. The next section of this paper discusses how states have used their TANF funds over the past five years. A discussion of reauthorization proposals then follows.

[1] The analysis and recommendations presented in this paper were developed collaboratively with the Center for Law and Social Policy.

[2] One significant exception is that TANF restricted immigrants' eligibility for benefits, which is discussed in detail in Shawn Fremstad, *Immigrants and Welfare Reauthorization*, Center on Budget and Policy Priorities, January, 2002.

The appendix provides an overview of the current TANF funding mechanisms for readers with less familiarity with the program.[3]

The Effects of Inflation on the TANF Block Grant

Because the TANF block grant has been funded at a fixed level that is not adjusted for inflation, its inflation-adjusted value fell by more than 11 percent between fiscal year 1997 and fiscal year 2002. At the same time, cash assistance caseloads fell each year between fiscal year 1997 and fiscal year 2001 in nearly all states, freeing up resources to devote to non-cash assistance purposes, such as welfare-to-work efforts or supports for low-income working families.[4] Because cash assistance caseloads fell rapidly and states needed time to adjust to the flexibility the TANF block grant afforded them, many states initially accumulated "TANF reserves" — unspent TANF funds that could be spent by states in subsequent years. States have used these reserves in more recent years to expand their non-cash-assistance TANF programs. For these reasons, the decline in the value of the block grant, adjusting for inflation, generally has not posed serious problems for states during the first five years of TANF implementation.

The situation has now changed markedly, however. Further erosion in the inflation-adjusted value of the TANF block grant likely would force many additional states to *scale back* their current efforts to provide supports, such as child care, for low-income working families and to help parents still receiving cash assistance prepare for and find jobs.

- **In response to the current recession, cash assistance caseloads in many states now are rising, not falling.** Data collected by the Center for Law and Social Policy indicates that cash assistance caseloads rose in 33 states between March and September 2001. If assistance caseloads continue to rise, states will need more resources to pay for basic cash aid. This contrasts with the experience of the past five years in which cash assistance caseloads fell and states were able to use the resources freed up by those falling caseloads to fund a richer array of services. Even if the economy recovers, it is unlikely that caseloads will fall *below* their lowest levels for a considerable period of time. Research by Professor Rebecca Blank of the University of Michigan shows that in the last recession, welfare caseloads remained elevated above pre-recession levels for two year after state unemployment rates returned to pre-recession levels.[5]

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[3] This paper does not address all the TANF recommendations that would require funding, nor the appropriate funding level for programs closely related to TANF, but instead focuses on TANF's funding structure.

[4] Cash assistance caseloads began to increase in many states toward the end of 2001 due to the recession.

[5] Rebecca Blank, "What Causes Public Assistance Caseloads to Grow," March 2000.

- **Most states will not be able to rely on TANF reserves to augment their annual block grant allocations in future years.** Data from the Treasury Department indicate that TANF spending by states totaled $18.5 billion in fiscal year 2001 — about $2 billion *more* than the annual TANF block grant, indicating that many states used their unspent TANF reserves to supplement their fiscal year 2001 TANF block grant allocations. While final data from HHS are not yet available, it is likely that state TANF reserves fell in fiscal year 2001. TANF reserves are likely to fall further in fiscal year 2002, as states draw on them both to continue funding programs at or near their fiscal year 2001 levels and to meet the increased costs associated with the recession. States currently spending in excess of their block grant allocation will have to scale back funding of some initiatives as they exhaust their reserves unless additional resources are made available to states in TANF reauthorization legislation. If the block grant continues to fall in inflation-adjusted terms at the same time that states exhaust their TANF reserves, states will have to make even deeper cuts over time. Furthermore, some states never accumulated substantial TANF reserves; these states also will not have reserves from which they can draw to dampen the impact of further erosion in the inflation-adjusted value of the block grant.

During the upcoming state legislative sessions, many states will be considering how rising cash assistance caseloads will affect their ability to maintain other TANf-funded efforts, such as welfare-to-work efforts or supports for low-income working families. Just last week Montana, faced with a caseload increase of about 20 percent in the last year, shifted $9 million in federal TANF funds from 21 work support programs to cash assistance because the similar $9 million shift it made a few months ago proved insufficient. The work support programs — including job training, mental health services, and housing and transportation assistance — have now seen their $26 million budget reduced by nearly 70 percent.[6]

How Does Inflation Affect the Cost of Providing Services and Meeting Welfare Reform Goals?

If TANF reauthorization legislation continues to provide states with TANF funding that does not adjust for inflation, by 2007, the inflation-adjusted value of the block grant will be 14 percent lower than in fiscal year 2001 and 22 percent below its value in 1997. Because the cost of providing child care, employment and training services, and transportation assistance rises over time with inflation, a reduction in purchasing power of this magnitude will make it difficult for states to maintain their current welfare reform efforts.

A significant portion of the cost of providing these services is attributable to personnel. Since the salaries of child care workers or individuals who provide education and training services cannot be frozen over the next five years, the cost of providing these services will

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[6] See Bob Anez, *Growing Welfare Caseloads Siphons More Money from Other Programs*, The Associated Press State and Local Wire, January 17, 2002.

necessarily rise. Thus, if TANF block grant funding remains frozen thereby continuing to erode with inflation, states will be able to afford *fewer* child care or employment-services slots. Yet, the success of welfare reform efforts depends on states' ability to purchase such services.

Additional Resources are Needed to Continue Progress in Helping Parents Secure Employment and Reducing Poverty

States also need additional resources to address some of the still-unmet needs of low-income families. While cash assistance caseloads fell by roughly 50 percent between 1995 and 2000, the number of children in poverty fell by 22 percent, a much smaller reduction.[7] Part of the explanation for this difference is that families who leave welfare often remain poor. Studies of families that have left welfare indicate that about 60 percent of former cash assistance recipients are working, with a larger share having reported working *at some point* since leaving TANF. The wages of these former recipients are low — studies of former recipients from around the country indicate that wages tend to average between $6 and $8.50 per hour.[8]

In addition, Census data show that the poorest 700,000 single-mothers living only with their children 1999 had *less* income — when earnings, the earned income tax credit, and benefits such as cash assistance and food stamps are taken into account — than similar women in 1995, even though their earnings increased. This trend suggests that while the combination of a strong economy, state welfare reform efforts, and strengthened work supports (such as the earned income tax credit) increased the total number of single mothers who were working and led to reductions in child poverty, the lowest-income single-mother families became poorer.[9] Recent findings based on evaluations of welfare to work programs that pre-dated TANF, show that with regard to outcomes for children, total income matters. Programs that increased earnings, but in which incomes did not increase because benefit losses offset earnings gains, did not show clear positive impacts on children. In contrast, programs that increased *incomes* as well as earnings showed positive effects on children's school achievement and behavior.[10]

The programs needed to address lingering poverty, to continue moving welfare recipients into the workforce, and to help low-income working families secure jobs that pay above-poverty wages are likely to be more costly than programs already in place. For example, research has

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[7] The figure cited here on the reduction of the number of children in poverty considers a child poor if his or her family's income *excluding* means-tested benefits such as TANF cash assistance or food stamps falls below the poverty level.

[8] Elise Richer, Steve Savner, and Mark Greenberg, *Frequently Asked Questions About Working Welfare Leavers*, Center for Law and Social Policy, November 2001, http://www.clasp.org/pubs/TANF/leaversFAQ.pdf.

[9] Ron Haskins and Wendell Primus, "Welfare Reform and Poverty," Brookings Institution, July 2001.

[10] Pamela A. Morris, et al., How Welfare and Work Policies Affect Children: A synthesis of Research, Manpower Demonstration Research Corporation, March 2001, http://www.mdrc.org/Reports2001/NGChildSynth/NG-ChildSynth.pdf.

shown that many parents receiving cash assistance have substantial barriers to employment — such as physical or mental health impairments, substance abuse problems, limited English proficiency, or very low basic skill levels — and that parents with such barriers have difficulty finding and retaining employment.[11] To help such parents secure stable jobs, states will need to invest additional resources in welfare-to-work programs that provide intensive services to help families overcome such barriers. Similarly, if states are to make further progress in providing supports for low-income working families — including child care subsidies, earnings supplements, transportation assistance, and help in gaining skills so parents can secure employment that pays above-poverty wages — additional resources in these areas will be needed.

Finally, there is interest among some state and federal policymakers for states to do more to meet the "family formation" goals of TANF. States could undertake a range of activities to further these goals. For example, states could provide employment and parenting services to non-resident parents to increase the child support they pay and their involvement with their children. If the state also distributed a greater portion of child support payments directly to low-income children, rather than retaining those payments to offset TANF costs, the financial well-being of children could be improved. Similarly, states could use TANF resources to redouble efforts to reduce nonmarital childbearing. Any initiatives in this area, however, will require additional resources.

Very Low TANF Block Grant Allocations in Some States Hinder Welfare Reform Efforts

While it is important for TANF reauthorization legislation to ensure that the TANF block grant does not erode further in value, some states receive such low block grant allocations that they have been unable to fund adequate efforts to help parents find employment and to provide supports for those that do. The TANF block grant is allocated among states based on historical spending in the Aid to Families with Dependent Children (AFDC) program. Spending in that program varied greatly among states, in large measure based on the differences in cash assistance benefit levels set by states. Therefore, states with low cash benefit levels received far less in federal AFDC resources on a per-poor-child basis than states that set higher benefit levels.

A state's block grant allocation can be measured relative to its needy population by dividing the state's block grant by the number of poor children in the state.[12] In fiscal year 2001, eight states received less than $600 in block grant funding per-poor-child, while 12 states received more than $1,600 on that basis. The national average block grant allocation per poor child was roughly $1,200. These figures include additional TANF funds provided in "supplemental grants" that went to 17 states. These grants were designed, in large part, to

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[11] See Heidi Goldberg, *Improving TANF Program Outcomes for Families with Barriers to Employment,* Center on Budget and Policy Priorities, January, 2002.

[12] This is only one way to measure a state's block grant allocation relative to its needy population. For example, given the broad purposes of TANF, one could measure the block grant relative to the number of children below 200 percent of the poverty level.

ameliorate these very substantial disparities among states. The supplemental grants, which totaled $319 million in fiscal year 2001, were authorized only through fiscal year 2001, however. States will not receive these grants for the current fiscal year unless Congress approves legislation to extend them for fiscal year 2002.[13] (It should be noted that several states that received supplemental grants qualified based on high population growth not based on a low per-poor-child allocation.)

Under the AFDC program, the bulk of state spending was on cash assistance benefits. Many poor states chose to have very low cash assistance benefit levels. These benefit levels reflected, in part, differences in the cost of living in poor states such as Alabama, Mississippi, Arkansas, or Texas as compared to wealthier states such as New York, Massachusetts, California, or Illinois and, in part, state policy decisions about the level of cash benefits to provide. Under TANF, states still provide basic cash assistance to families, but a large portion of the block grant is used to fund work programs designed to help parents find and retain jobs and to provide work supports such as child care. The cost of these employment services vary among states far less than do the TANF block grant allocations on a per-poor-child basis. For example, salaries for child care workers and job trainers in a state such as Texas are not 80 percent *lower* than the salaries of such individuals in Maryland. Yet the per-poor-child block grant allocation in Texas is 80 percent *lower* than the allocation in Maryland. If states with very low block grant allocations are to be expected to help families move from welfare to work and to help support low-income working families, they will need additional resources to do so.

TANF Funding During Recessions

The 1996 welfare law included a “contingency fund” that was supposed to provide states with increased resources during economic downturns. The contingency fund expired in fiscal year 2001 and the design of the fund was so flawed that even if it were still authorized, it is unlikely that any state would be able to access it during the current recession.

During a recession, the number of poor families needing basic cash assistance increases. Between March and September 2001, 33 states reported increased cash assistance caseloads. The purpose of the contingency fund was to ensure that both the federal and state governments shared in the risk of such cost increases. Without a contingency fund, a state facing rising need for basic assistance and a fixed block grant allocation would have few choices. It could increase state funding for welfare programs, but that is very difficult for states to do during a recession when state revenues are falling and budgets must be balanced. Alternatively, such a state could reduce spending on efforts such as child care and work programs and direct those funds to basic cash assistance or it could restrict the number of families that receive basic cash assistance. Finally, if

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[13] The Senate passed a bill to extend the supplemental grants for fiscal year 2002. This bill did not include any provisions other than the extension of the supplemental grants. The House has not acted on the Senate-passed bill, but a provision to extend these grants was included in the House-passed economic stimulus bill which was approved in December of last year but did not pass in the Senate.

the state has unspent TANF reserves, it could draw upon those reserves. During this recession, it is likely that some states will use unspent TANF reserves to meet increased costs, but other states do not have substantial reserves to fall back upon.

A workable contingency fund is necessary to ensure that states can meet the needs of families affected by a recession without curtailing important welfare-to-work initiatives or supports for working families. Moreover, if states do not have access to additional TANF funding during recessions, some states may choose to save too large a portion of their current TANF funds during good economic times to protect them should a recession arise. While states should save some resources for a "rainy day," if states save too large a share of their funds, they will not have the resources needed on an on-going basis to meet important welfare reform goals.

How Have the States Used TANF Funds?

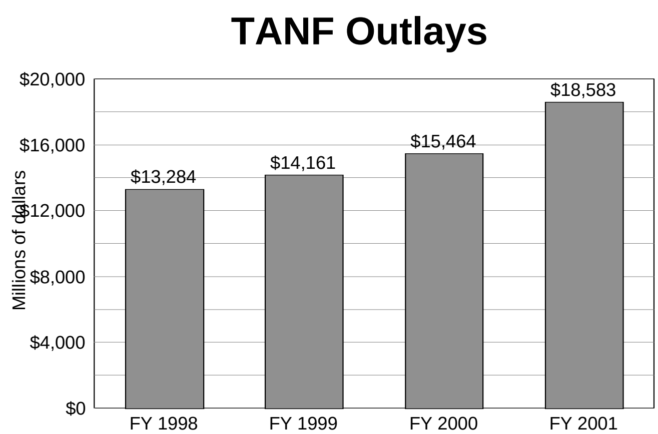
Under TANF, states are permitted to use block grant funds for a range of activities that extend far beyond providing cash assistance to families. Indeed, as cash assistance caseloads fell over the past five years, states redirected funds that were once used for cash assistance to programs that provide supports like child care to low-income working families, more intensive employment-preparation and placement programs, and programs that address the "family formation" goals of TANF, such as those aimed at reducing teen pregnancies. Because it took time for states to adjust to the expanded purposes of TANF, the reduction in cash assistance caseloads, and the funding flexibility inherent in the TANF block grant structure, many states did not spend all of their TANF funds in the first couple of years of TANF implementation. This is no longer the case; most states now spend all or nearly all of their annual grant amounts on a broad range of programs designed to help recipients overcome barriers to employment and provide a range of supports to working families that remain poor. Moreover, many states — some 16 in fiscal year 2000 and likely a larger number in fiscal year 2001 — now spend more than their annual TANF block grant allocation, drawing upon unspent TANF funds accumulated in the early years of implementation.

Spending Levels

States may spend TANF funds on any activity that is reasonably calculated to accomplish one of the four purposes identified in the TANF statute — assisting needy families so children may be cared for at home, ending dependence of needy families on government benefits by promoting work and marriage, reducing out-of-wedlock pregnancies, and encouraging two-parent family formation and maintenance. Funds remain available to states until they are spent, but states are more restricted in how they may use funds after the year in which the funds are awarded. In addition, states are permitted to transfer up to 30 percent of their federal TANF funds to the Social Services Block Grant and the Child Care and Development Fund.[14] Transferred funds must be spent according to the requirements of those programs.

TANF spending increased in each fiscal year between 1997 and 2000. In fiscal year 2000 (the last year for which complete data are available) the states collectively spent or transferred an amount equal to 93 percent of their annual TANF grants, as compared to 79 percent in fiscal year 1997.[15] In fiscal year 2000, nearly two-thirds of the states spent or transferred funds equivalent to more than 90 percent of their annual federal TANF grant, while nearly one-third of the states drew on unspent funds from prior years to fund programs at a level *higher than* their annual TANF allocation. In contrast, in fiscal year 1997, only 11 states used more than 90 percent of their TANF grant.

Although detailed expenditure data from each state are not yet available for fiscal year 2001, Treasury Department data on total expenditures in the TANF program show that TANF expenditures were $18.58 billion in fiscal year 2001, an increase of more than $3 billion over outlays in fiscal year 2000.[16] For the first time, TANF outlays *exceeded* the annual block grant level.



Source: Final Monthly Treasury Statement of Receipts and Outlays of the United States Government, Table 5, for September of fiscal years 1998, 1999, 2000, and 2001.

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[14] Transfers to the Social Services Block Grant have been capped at 10 percent of the state's federal TANF funds.

[15] Between fiscal year 1997 and fiscal year 1999 states consistently increased transfers both in absolute dollar amounts and as a portion of their annual grant. Transfers to CCDF have driven the increase, with transfers to SSBG remaining relatively stable since fiscal year 1998.

[16] Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 2001, available at http://www.fms.treas.gov/mts/ index.html. For a more detailed discussion, see Zoë Neuberger, *TANF Expenditures Increased in the Last Fiscal Year*, November 1, 2001, Center on Budget and Policy Priorities, http://www.cbpp.org/ 11-1-01wel.pdf.

While most TANF spending over the past few years has been used to maintain or expand a broad array of programs for low-income families, several states have used federal TANF funds to replace or "supplant" funds the state had previously spent on programs that now meet the broad TANF purposes. For example, prior to 1996 a state could have had substantial state resources devoted to child welfare services, low-income tax credits, or services for homeless families. Some states replaced state spending in such areas with federal TANF funds and then used the freed up state resources for other purposes, sometimes including state tax relief. When this occurred, the federal TANF funds did not result in expanded services for low-income families and were ultimately used instead for other state purposes. The 1996 welfare law prohibited such supplantation with state MOE funds, but due to what may have been a legislative oversight, a comparable restriction was not imposed on federal TANF funds.

The Nature of Spending

As cash assistance caseloads fell, states increasingly used their TANF resources to fund supports for low-income working families. Between the beginning of fiscal year 1997 and the end of fiscal year 2000, TANF cash assistance caseloads fell steadily, declining by a total of 49 percent. During that same period, spending on cash assistance declined from 70 percent of total TANF and MOE spending to 43 percent.

Spending on work supports, by contrast, increased. Expenditures on child care — the single largest category of work-support spending — more than doubled in just two years. In fiscal year 1998, $2 billion in TANF and MOE funds were spent directly on or transferred to child care programs. By 2000, the amount of TANF and MOE funds devoted to child care programs was $5.1 billion, or 19 percent of all TANF and MOE expenditures and transfers. Increased TANF expenditures on child care have allowed states to serve more children, expand income eligibility requirements, reduce co-payments, and increase reimbursement rates for child care providers.[17] While many low-income families who need child care subsidies still do not receive them, the additional resources devoted to child care over the past five years have resulted in significant increases in the number of families receiving subsidies.

Some of the funds no longer used for cash assistance were spent on other work-related programs. States now are providing more in the way of job preparation, wage subsidies, transportation subsidies, and refundable tax credits for working families. Together these work support activities constituted 11 percent of TANF and MOE spending in fiscal year 2000. The following are examples of how states have spent funds in this area:

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[17] For a more detailed discussion of states' use of TANF funds for child care, see Rachel Schumacher, Mark Greenberg, and Janellen Duffy, *The Impact of TANF funding on State Child Care Subsidy Programs*. September 2001, http://www.clasp.org/pubs/childcare/TANFChildCareFullReport.pdf.

- Washington State has used TANF funds to support its transitional jobs program, which provides temporary jobs combined with training for individuals who have difficulty finding unsubsidized employment.

- Tennessee has developed an innovative Family Counseling Services program, in which trained social workers help families identify and address a range of barriers to employment.

- New York has used TANF funds to expand refundable tax credits for working families. In fiscal year 2000, New York devoted $216 million to a refundable state earned income tax credit and $46 million to a refundable dependent care tax credit.

In addition, in fiscal year 2000, more than two-thirds of the states reported spending some funds on prevention of nonmarital pregnancies and programs to encourage the formation and stability of two-parent families. It is likely that additional states spent funds in this area but chose to report them in a different financial reporting category. For example, a state could use TANF funds for an after-school program for teens. The state could report spending on that program under the "child care" financial reporting category or under the "prevention of out-of-wedlock pregnancies" category. Moreover, cash assistance and employment services provided to two-parent families would be reported combined with such spending on single-parent families. As a result, it is hard to quantify spending that furthers TANF's family formation goals.

As an example of the types of activities that states have undertaken in this area, Missouri has used $10 million in TANF funds to expand its Parents Fair Share fatherhood program, in which non-resident parents receive parenting and employment services as well as group counseling. These services are intended to improve non-resident parents' earnings and increase the child support they pay. New York's Adolescent Pregnancy Prevention and Services program uses $7.7 million in TANF and MOE funds to offer abstinence education and family planning services, as well as education and vocational training, to disadvantaged pregnant and parenting teens.[18]

While examining collective state spending is a useful way to understand trends in the TANF program, it masks the tremendous variation in state policies and their associated spending patterns. Table 1 illustrates the wide variation in the portion of state spending devoted to specific categories. For example, even though nationally cash assistance constituted 43 percent of TANF and MOE spending in fiscal year 2000, eight states spent less than 25 percent of their block grant on cash aid while six states spent more than 50 percent. Similarly, nine states devoted less than ten percent of their expenditures (including transferred funds) to child care, while in eight states child care programs garnered more than 30 percent of TANF funds used.

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[18] For more examples of state activities designed to further TANF's family formation and stability goals, see Testimony of Theodora Ooms, Center for Law and Social Policy, before the House Committee on Ways and Means' Subcommittee on Human Resources, May 22, 2001and *State Efforts to Promote Marriage, Family Formation and Prevent Family Disintegration,* American Public Human Services Association.

Table 1
State Variation in TANF Spending

Shows Cash Assistance, Child Care, and Other Work-Related Activities and Supports as a Portion of All Federal and State TANF Spending in Fiscal Year 2000

	Cash Assistance	Child Care	Other Work-Related Activities and Supports*	Combined Spending in These Categories, as a Portion of Total TANF Spending
Idaho	6%	20%	15%	40%
Wisconsin	12%	35%	36%	83%
Colorado	19%	15%	1%	36%
South Carolina	20%	4%	30%	53%
Indiana	21%	42%	6%	69%
Mississippi	23%	29%	7%	59%
Wyoming	24%	-9%**	-1%**	24%
Kansas	24%	12%	3%	40%
Florida	25%	30%	15%	70%
Illinois	25%	36%	5%	67%
Michigan	26%	31%	16%	73%
Arkansas	26%	13%	34%	73%
North Carolina	27%	28%	15%	69%
Georgia	29%	18%	24%	71%
Alabama	29%	21%	13%	63%
Oregon	30%	12%	20%	62%
Nevada	31%	5%	5%	41%
Arizona	32%	26%	11%	69%
Ohio	32%	18%	8%	58%
Massachusetts	33%	36%	10%	79%
Delaware	33%	36%	16%	86%
Texas	34%	9%	10%	53%
North Dakota	36%	8%	4%	47%
Connecticut	36%	26%	5%	67%
West Virginia	36%	4%	0%	40%
South Dakota	37%	19%	12%	67%
Oklahoma	37%	35%	10%	81%
Montana	37%	16%	13%	66%
Virginia	38%	18%	24%	81%
Missouri	38%	22%	13%	73%
Iowa	39%	16%	12%	67%
Louisiana	39%	33%	3%	75%
Kentucky	40%	18%	14%	73%
Utah	41%	6%	26%	74%
Tennessee	42%	24%	15%	82%
New Hampshire	44%	6%	5%	55%
New York	44%	14%	11%	68%
District of Columbia	44%	29%	7%	80%
Minnesota	46%	19%	16%	82%
Washington	47%	21%	18%	86%
Pennsylvania	48%	13%	13%	73%
Maryland	49%	24%	9%	82%
Alaska	49%	21%	9%	79%
New Jersey	50%	18%	12%	81%
Vermont	50%	20%	4%	75%
Nebraska	51%	13%	19%	83%
Rhode Island	57%	16%	5%	78%
Maine	62%	15%	6%	82%
California	64%	13%	5%	82%
New Mexico	67%	13%	12%	92%
Hawaii	87%	1%	5%	92%
Total	43%	19%	11%	73%

* "Work-related activities and supports" includes expenditures on job training and job readiness activities for unemployed TANF recipeints as well as supports for low-income working families, such as wage subsidies, earned income tax credits, and transportation subsidies.

** States are permitted to report revisions of prior-year spending without distinguishing them from reports of current year spending. As a result, negative spending amounts appear if a state's downward revision of prior-year spending exceeds its total current year spending in a particular category. Even categories with positive spending figures may reflect upward or downward revisions to prior-year spending in addition to current year spending.

How to read this table: This table shows specific types of spending as a percentage of overall state and federal TANF funds expended directly through the TANF program or transferred to CCDF or SSBG. It does *not* show the portion of available funds that were spent. The last column shows the sum of the first three columns. Consider Massachusetts, for example. Of the total state and federal TANF funds that Massachusetts spent, the last column shows that 79 percent were devoted to cash assistance, child care, and work-related activities and supports combined. The first three columns show that, more specifically, of the total TANF funds that Massachusetts spent, 33 percent were devoted to cash assistance, 36 percent were devoted to child care, and 10 percent were devoted to work-related activities and supports.

Center on Budget and Policy Priorities

Unspent Funds

Unlike most other programs in which federal funds must be expended within a specified time period, federal TANF funds awarded to a state remain available to the state until they are spent. Unspent TANF funds are held in the federal Treasury and are not considered "spent" until they have actually been disbursed by the state or a locality for the provision of a benefit or service. As a result, funds defined by the federal government as "unspent" include funds that have been appropriated by state legislators for specific purposes but not yet expended and resources that have been set-aside as a "rainy day" fund to be used during a recession, as well as funds for which no plans have been made by the state.

By the end of fiscal year 1998, states had accumulated $6.28 billion in unspent funds, which represented a total of 21 percent of the funds that were made available in fiscal years 1997 and 1998. These funds included $3.24 billion in "unliquidated obligations," funds the state has committed to spend contractually but has not yet paid out, and $3.04 billion in "unobligated" funds, which the state is not under contractual obligation to spend, even though the funds may have been allocated by the state for a specific use. In fiscal years 1999 and 2000 the level of unspent funds grew much more slowly, to a total of $8.63 billion by the end of fiscal year 2000. This included $5.45 billion in unliquidated obligations and $3.18 billion in unobligated funds.

As noted earlier, the Treasury Department reported that fiscal year 2001 TANF expenditures totaled $18.58 billion — around $2 billion more than the basic annual block grant allocation. This marks the first year in which the states collectively expended more funds than they received for that year from their annual TANF block grant allocations.[19] When detailed state expenditure data for fiscal year 2001 become available, they likely will show a decrease in unspent funds.

When considering state spending and reserve levels, it is important to recognize that the fixed nature of the block grant structure poses a difficult spending decision for states — to what extent should TANF funds be set aside to cover potential future cost increases due to an economic downturn rather than used to serve families with immediate needs. There is a range of reasonable policy options a state may choose in allocating resources between meeting current needs and reserving funds for potential future needs. Taken together, the total level of unspent TANF reserves are not unreasonably large given the increased costs states could face during a recession. Of concern, however, is the substantial state variation in the level of reserves. Many states would not be able to absorb even modest increases in costs associated with a recession, while the very large balances of a few states suggest that these states could have devoted

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[19] Some of the increased expenditures reported by Treasury may be expenditures of funds transferred to either CCDF or SSBG in prior years, rather than expenditures of newly transferred funds or expenditures in the TANF program itself. States have three years to spend transfers to CCDF and two years to spend SSBG transfers. The Treasury data that track TANF expenditures include these transferred funds only when they are actually expended. For more details, see Zoë Neuberger, *TANF Expenditures Increased in the Last Fiscal Year*, November 2001, http://www.cbpp.org/11-1-01wel.htm.

substantial additional resources to welfare reform efforts and still have adequate funds to address increased costs associated with a recession. Through a combination of expenditure rules and contingency funding described in the recommendations below, federal policy should help states strike a balance between expending TANF funds and saving them for use when needs increase during an economic downturn.

Reauthorization Proposals

After five years of experience with the TANF block grant structure, reauthorization offers an opportunity to identify improvements in the funding mechanisms that are needed to ensure that states can achieve the purposes of TANF. To ensure that states have the resources necessary to maintain important services while building on their experiences to develop new initiatives to further welfare reform goals, TANF reauthorization should strengthen the long-term funding of TANF, make further progress in reducing the disparity in TANF block grant allocations among states relative to their needy populations, and ensure that the federal government shares in the increased costs associated with economic downturns. These funding improvements should be accompanied by additional financial accountability measures to ensure that TANF funds are used by states to further welfare reform goals.

Base Block Grant Funding

Reauthorization should include automatic annual increases so the TANF block grant and state spending requirements keep pace with inflation. Unlike most other federal programs, the TANF block grant was not structured to automatically keep pace with inflation. Between 1997 and 2002, the block grant has fallen in real value by 11.5 percent. If the block grant continues to be funded at the fixed $16.5 billion level, by fiscal year 2007 its inflation-adjusted value will be nearly 22 percent below its 1997 level. Had the base block grant maintained its real value, it would now be funded at $18.6 billion.

While the inflation-adjusted value of the TANF block grant fell during the past five years, this drop did not overly burden states. During that same period, states were able to use the funds freed up by falling cash assistance caseloads to expand programs that help recipients find jobs, provide supports, like child care, to low-income working families, and strive to meet the welfare law’s family formation goals. Yet caseloads are no longer falling and many states do not have substantial reserve funds to draw upon. Thus, states could find it difficult to continue their current welfare reform efforts if the block grant continues to erode in value. For example, states would be able to afford fewer child care slots or slots in employment and training programs as the cost of these services rises over time.

The fact that an inflation adjustment was not included in the 1996 statute has implications not only for the value of the block grant today but also for the cost of a proposal to adjust the block grant for inflation in the future. The cost of such an adjustment is not included in the

TANF funding "baseline" used by the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) to project expenditures in future years. By contrast, the CBO and OMB baselines do include inflation adjustments for nearly all other federal programs.[20] That is, when CBO and OMB project how much the federal government is expected to spend in a future year, they assume that virtually all other programs will increase each year as a result of inflation. Because the TANF budget baseline does not assume that TANF the block grant will be adjusted for inflation, a proposal to adjust the block grant so that it maintains its fiscal year 2002 value would be "scored" by CBO as costing approximately $6.6 billion over five years above the "baseline."[21] Similar inflation-related increases in most other programs would not be scored as having *any* cost. In nearly all other federal programs, only those proposals which increase spending above the prior year level *adjusted for inflation* would be considered by CBO to increase federal costs.[22]

In addition to adjusting the federal block grant for inflation, the level of funds *states* must contribute to TANF-related programs also should be adjusted. The 1996 law set the federal block grant at a level designed to maintain federal spending on welfare programs for low-income families by making it equal 100 percent of federal AFDC spending in the early to mid 1990s. The state maintenance-of-effort requirement, however, required states to maintain only 75 percent of 1994 state spending on AFDC-related programs. To maintain the balance between state and federal responsibility for funding programs for low-income families, if the federal government increases its base TANF funding level, states should be required to increase state spending by an equal percentage.

Finally, in the context of reauthorization, federal policymakers should consider whether additional resources should be provided to states to encourage experimentation or investments in promising programs. While adjusting the block grant for inflation would substantially strengthen long-term TANF funding, it does not provide additional real resources for developing new initiatives.

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[20] The only major federal programs for which the CBO and OMB baselines do not account for inflation are farm price supports and four programs that serve low-income individuals — CCDF, SSBG, the Promoting Safe and Stable Families program, and the State Child Health Insurance Program.

[21] When scoring reauthorization legislation CBO and OMB will develop ten-year cost estimates. Even though the policies recommended in this paper would be sound policies for the next ten years, this paper includes only five-year cost estimates because there are many ways to structure funding changes beyond the horizon of the reauthorization period, which is likely to be five years.

[22] In certain "entitlement" programs such as Medicare, Medicaid, Supplemental Security Income, the Food Stamp Program, and Social Security, the "baseline" includes the effects of both inflation and changes in the number of beneficiaries projected to receive program benefits.

Reducing Funding Disparities Among States

While all states need increased TANF funds to account for the effects of inflation, those states that receive very low block grant allocations relative to their needy populations need more substantial funding increases. For example, Alabama's per-poor-child allocation, even with the supplemental grant it received in fiscal year 2001, equals just one third of the national average allocation (see Table 2).[23] Reauthorization should allocate additional funding to reduce the large TANF funding disparities among states.

The large variation in allocations makes it much more difficult for some states to fund the range of services needed for low-income families to enter and remain in the workforce as compared to the states with substantially greater resources. If states that currently receive very low grants relative to their needy population are to meet the broad TANF goals of assisting parents find employment and supporting low-income working families, these states need additional resources. Reauthorization legislation should establish "equity grants" that would be awarded to states with low per-poor-child block grant allocations. These grants should be in addition to the supplemental grants for prior years, which should be incorporated into the base TANF grant at their fiscal year 2001 level.[24]

There are many ways to structure equity grants. For example, they could be awarded to states with per-poor-child block grant allocations below a certain threshold. Each qualifying state would receive a grant based on the number of poor children in the state.[25] Because a few states have large TANF reserves, and therefore do not currently need additional funding to expand their welfare reform efforts, equity grants could be limited to states with TANF reserves below a certain level, such as 50 percent of a state's annual block grant allocation. If equity grants were structured in this manner and funded at $80 million in FY 2003, each qualifying state would receive an estimated $22 extra per poor child. Alternatively, all states with per-poor-child allocations below the national average could be given additional resources, with the states with the lowest per-poor-child allocations receiving proportionately larger grants.

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[23] See discussion of state funding disparities on page 5.

[24] Because the supplemental grants were not included in the TANF baseline after fiscal year 2001, incorporating supplemental grants into the State Family Assistance Grants at the fiscal year 2001 level and inflating them along with the rest of the block grant would cost $1.7 billion over five years.

[25] Considering grant levels on a per-poor-child basis is a proxy for assessing the grant level relative to the state's population of needy families. A broader measure, such as children living in a family with income below 200 percent of the federal poverty level, could be used instead.

Table 2

TANF Grant per Poor Child by State

State (Shaded states receive) Supplemental Grants)	Basic TANF Grant per Poor Child*	Basic TANF Grant Plus FY01 Supplemental per Poor Child*
Alabama	$356	$398
Arkansas	369	410
Texas	372	413
Idaho	381	425
Mississippi	496	547
Nevada	507	550
South Carolina	552	552
Louisiana	537	593
Virginia	729	729
Georgia	684	761
Arizona	688	763
North Dakota	766	766
Tennessee	694	772
New Mexico	736	775
Montana	823	845
Missouri	861	861
New Hampshire	868	868
South Dakota	877	877
Nebraska	882	882
Delaware	887	887
Florida	802	888
Kentucky	919	919
Oklahoma	943	943
North Carolina	851	953
Kansas	956	956
Wyoming	974	974
Oregon	983	983
Illinois	1,085	1,085
Utah	982	1,093
Colorado	1,064	1,171
Indiana	1,194	1,194
West Virginia	1,219	1,219
Ohio	1,362	1,362
Iowa	1,411	1,411
Minnesota	1,441	1,441
Pennsylvania	1,444	1,444
New Jersey	1,585	1,585
Maine	1,587	1,587
California	1,599	1,599
Massachusetts	1,640	1,640
Michigan	1,694	1,694
Wisconsin	1,771	1,771
Hawaii	1,857	1,857
Maryland	1,933	1,933
New York	1,982	1,982
Washington	2,047	2,047
Rhode Island	2,106	2,106
District of Columbia	2,217	2,217
Vermont	2,279	2,279
Connecticut	2,478	2,478
Alaska	2,462	2,750
Supplemental State Average**	607	655
Non-Supplemental State Average**	1,497	1,497
Total US Average**	1,181	1,198

* The number of poor children in each state is based on data from the Census Bureau's Current Population Survey between 1997 and 1999. A three-year average is used to ensure that the results are statistically significant at the state level. The definition of poverty includes earned income, unemployment compensation, Social Security, some veterans' payments, survivor benefits, disability benefits, pension or retirement income, interest, dividends, income from rents, royalties, and estates and trusts, educational assistant, alimony, and child support. It does not include means-tested benefits.

** Averages weighted by the population of poor children.

Center on Budget and Policy Priorities

Counter-cyclical Funding

Reauthorization legislation should create a workable, counter-cyclical funding mechanism so that both the state and federal governments share in the increased costs associated with recessions. The 1996 welfare law recognized the importance of providing additional resources to states to meet recession-related costs and included a $2 billion "contingency fund" intended to provide states with additional funds if they met certain criteria related to economic hardship. Unfortunately, the design of the fund was seriously flawed and the fund expired at the end of fiscal year 2001. Only one state, New Mexico, ever qualified for contingency funding and it received those funds in 1998, not during the current downturn.

Under the expired contingency fund provisions, states had to meet a substantially higher MOE requirement in order to qualify for contingency funds. To qualify, a state was required to maintain 100 percent of its 1994 spending on cash assistance and work programs. A state also had to demonstrate economic distress, either with high and increasing unemployment or food stamp participation increases. Both the state spending requirement and the criteria for demonstrating economic hardship were problematic.

- **States meeting the law's basic MOE requirement would have had to increase state spending substantially to qualify for contingency funds.** Based on their fiscal year 2000 MOE expenditures, all but twelve states would have had to increase state spending on cash assistance and work programs by *more than one-third*, and twelve states would have had to increase spending in these areas by *more than 50 percent*, before qualifying for any contingency funding. States would be unlikely to increase state spending by such amounts during a recession when revenues fall and demands for a range of state-funded services increase. Even if states could increase state spending to meet the contingency fund's MOE requirement, states would then have to draw down federal contingency funds at a highly unfavorable matching rate.

- **The criteria for demonstrating economic distress also were flawed so that some states with increases in the number of families needing assistance would not have qualified.** To qualify based on the unemployment criteria, state unemployment rates would have had to reach at least 6.5 percent as well as have increased by 10 percent over the same period in either of the previous two years. Thus, a state with a four percent unemployment rate would have had to see their unemployment rate increase by *more than fifty percent* before qualifying for contingency funds. This is problematic because states could begin to see the number of families needing basic assistance rise long before unemployment rates increased so substantially and, without additional funding, could be forced to cut other programs such as those providing supports to working families as they increased cash aid spending. Similarly, the "trigger" for qualifying for contingency funding based on food stamp caseload increases became outdated and did not account for the substantial declines in food stamp caseloads that occurred after the enactment of the 1996 welfare law. Again, states would have had to see very large increases in the number of families receiving food stamps before qualifying for any contingency funding.

Is a Contingency Fund Mechanism Needed?

Some have argued that a contingency fund mechanism is not needed and that states should bear all of the fiscal risks associated with an economic downturn. The lack of a workable contingency fund, however, is problematic. If there is no contingency funding available for states during a recession, states that see an increased demand for basic assistance would face three undesirable choices — meeting those increased costs with additional state resources (which is very difficult to do when state revenues are declining), cutting cash benefits or reducing services for working families, or limiting access to benefits for the increasing numbers of families in which parents cannot find jobs. In addition, if all of the fiscal risk is placed on states, some states may choose to accumulate very large reserve balances in normal times to protect themselves in case of recession. While the federal government should encourage prudent savings for economic downturns, if states save too large a share of federal funds, they will not have the resources needed to meet important welfare reform goals.

A Redesigned Contingency Fund

To help states strike a balance between spending and saving federal TANF funds for a rainy day, states in which an increased number of families need assistance due to an economic downturn should receive additional federal resources to help meet those costs. Contingency funding should be available only to states that are providing basic assistance to *additional* families, and states should be required to use their TANF reserves before accessing contingency funding. In addition, the economic triggers that allow states to qualify for contingency funds should be redesigned to ensure that states facing economic difficulties qualify for these funds.

States should not be *required* to increase their overall state TANF expenditures to receive these additional federal funds, either through an explicit matching requirement or an increase in the MOE requirement. Instead, they should bear a small portion of the cost of *cash assistance* increases associated with the downturn either by increasing state spending or by redirecting some TANF or MOE funds from other areas. For example, suppose a state experienced a rise in its cash assistance caseload that increased the cost of cash benefits by $10 million and the state receive $8 million in federal contingency funds. The state would need to absorb the remaining $2 million in increased cash assistance costs with either new state funds or by redirecting TANF or MOE funds from other activities.

Accountability and Use of Funds

The 1996 welfare law provided states broad programmatic and spending flexibility. Several important changes are necessary, however, to ensure that states are accountable to an adequate degree for their use of this flexible federal funding.

- *Reporting.* Currently states are required to submit limited information to HHS about how TANF and MOE funds are spent. For example, states are not required to provide the names of each program that receives federal TANF funds or basic information — such as the eligibility criteria — about those programs. The lack of such information can make it difficult for policymakers and the public to understand and evaluate the choices states have made. Financial and programmatic reporting requirements should be strengthened in reauthorization to enhance state accountability to taxpayers as well as HHS's ability to oversee the use of program funds.

- *Preventing supplantation.* While most TANF spending over the past few years has been used to maintain or expand a broad array of programs for low-income families, several states have used federal TANF funds to replace or "supplant" funds the state had previously spent on programs that met the broad TANF purposes, such as low-income tax programs or child welfare services. States could then use the freed up state funds for other purposes, often unrelated to welfare reform goals. The 1996 welfare law prohibited states from using MOE funds to replace state funds committed to non-AFDC programs that nevertheless meet the broad TANF criteria. This restriction was not applied to the use of federal TANF funds. Reauthorization provides an opportunity to fix this inconsistency in the treatment of state and federal spending.[26]

Conclusion

In order for states to maintain current welfare reform efforts, build on their successes, and meet new challenges, they need sufficient TANF resources that do not erode in value over time. There are many important policy issues that will be debated during reauthorization, such as those related to work participation requirements or time limits. Whatever the outcome of those debates, however, without adequate resources states will be unable to provide the necessary services and supports to low-income families. If reauthorization legislation addresses the three key areas discussed in this paper — adjusting the base block grant to keep pace with inflation, reducing disparities among states in TANF allocations relative to needy populations, and sharing the financial risks associated with cost increases during recessions — states would be better able to continue their efforts to meet the critical goals of reducing poverty, moving low-income families into the workforce, supporting working families that continue to have modest earnings, and strengthening families.

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[26] That could be accomplished by prohibiting the use of TANF funds to substitute for state funds by prohibiting a state from increasing TANF spending on a pre-existing program unless the prior level of state funding for the program is maintained. This restriction should *not* apply in cases in which a state wishes to use federal TANF funds to replace state spending that could be counted toward the MOE requirement. In these cases, the MOE requirement itself ensures that appropriate state effort is maintained.

Appendix

An Overview of the Components of the TANF Funding Structure

Introduction

The 1996 welfare legislation established the Temporary Assistance to Needy Families block grant — the successor to the Aid to Families with Dependent Children program, which had been the main cash welfare program for poor families with children. Under the TANF funding structure, states receive a fixed federal TANF block grant each year and must contribute a fixed amount of their own funds under the maintenance-of-effort (MOE) requirement. States have broad discretion to determine how to spend TANF funds, though the funds must be spent on programs that are reasonably calculated to accomplish one of the four TANF statutory purposes: assisting needy families so children may be cared for at home, ending dependence of needy families on government benefits by promoting work and marriage, reducing nonmarital pregnancies, and encouraging the formation and maintenance of two-parent families.

This section briefly describes the components of TANF funding and the most significant rules regarding how states may spend TANF funds.

State Family Assistance Grants

The main portion of federal TANF funds, amounting to $16.5 billion annually, is distributed in State Family Assistance Grants. Each state's grant is based on the level of federal expenditures in that state's Aid to Families with Dependent Children program in the early 1990s. Each state's State Family Assistance Grant has remained at the same funding level since 1997, with no adjustment for inflation.

Funds remain available to states until they are spent, but states are more restricted in how they may use funds after the year in which the funds are awarded. In addition, states are permitted to transfer up to 30 percent of their federal TANF funds to the Social Services Block Grant and the Child Care and Development Fund.[27] Transferred funds must be spent according to the requirements of those programs.

Maintenance-of-Effort Requirement

Under TANF, states also must meet a maintenance-of-effort (MOE) requirement by spending a certain amount of their own funds on activities that serve needy families and meet one of the purposes of the welfare law. States must spend an amount equal to at least 75 percent of

[27] Transfers to the Social Services Block Grant by itself have been capped at 10 percent of the state's federal TANF funds.

the amount the state spent on AFDC-related programs in federal fiscal year 1994.[28] States face fiscal penalties for not meeting the MOE requirement, but every state has met its MOE requirement each year.

To be counted toward the MOE requirement, state spending must fall in one of the following categories:

- **Spending that would have been allowable under the prior AFDC or related programs.**[29] State spending in areas that would have been allowable under an AFDC-related program — such as spending on cash assistance benefits, work programs designed to help parents move from welfare to work, and child care programs — are countable toward the MOE requirement.

- **Spending on a broader range of programs for needy families *in excess* of the spending on such programs in 1995.** Spending that would not have been allowable under AFDC, but does further one of the broad TANF purposes and is directed at "needy families," may be counted if it *exceeds* spending in fiscal year 1995.[30] For example, if a state increased state spending on a program that provides mental health counseling to homeless families above what it had spent on such a program in 1995, the funds in excess of what it had spent in 1995 could count toward the MOE requirement. Similarly, if a state began a mentoring program for low-income teens designed to reduce teen pregnancy after 1995, all of the state spending in such a program could count toward the MOE requirement.

Supplemental Grants

In fiscal years 1998-2001, seventeen states received supplemental grants. The 1996 law awarded these grants to states that had historically low AFDC spending levels *or* relatively high population growth. These grants amounted to approximately $80 million in fiscal year 1998 and increased by roughly $80 million annually to a level of $319 million in fiscal year 2001 (for a total of $800 million over four years). These grants were authorized only through fiscal year 2001. Legislation to extend the grants through fiscal year 2002 has passed the Senate and is pending in Congress.

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[28] States that do not meet the work participation requirements must maintain state spending equal to 80 percent of state spending in fiscal year 1994.

[29] Related programs include the Job Opportunity and Basic Skills (JOBS) program, Emergency Assistance, Child Care for AFDC Recipients, At-Risk Child Care, and Transitional Child Care.

[30] States are permitted to define the criteria for determining whether a family is "needy," but generally programs funded with MOE funds must include some form of a means-test to determine eligibility.

Counter-cyclical Funding

While the TANF block grant structure requires states to take primary responsibility for managing increased program costs, the 1996 statute also established a $2 billion contingency fund intended to provide additional federal funds to states during recessions.[31] The contingency fund expired at the end of fiscal year 2001, with only New Mexico ever having received contingency funds. In order to qualify for federal contingency funds, states had to meet a substantially higher MOE requirement — they were required to maintain 100 percent of their 1994 spending on cash assistance and work programs — and demonstrate economic distress, either with high and increasing unemployment rates or food stamp participation increases.

Performance Bonuses

The 1996 law created two performance bonuses. One made available $100 million annually since 1999 for awards to up to five states that reduce the percentage of nonmarital births without an increase in the state's abortion rate above its 1995 level.[32] In addition, the High Performance Bonus provides $200 million in annual awards to the states that rank highest on a series of performance measures developed by the Department of Health and Human Services. Performance measures have focused on job placement, job retention, and wage progression. Beginning in 2002, measures will be added related to the availability of child care, health insurance, and food stamps, as well as the marital status of parents.

Related Funding Streams

The Social Services Block Grant and Child Care and Development Fund are linked to the TANF block grant in two ways: TANF funds can be transferred to SSBG and CCDF, and the populations served overlap. Thus, it is important to consider these block grants when considering TANF financing. In addition, for each of fiscal years 1998 and 1999 the TANF statute included $1.5 billion in Welfare-to-Work grants administered by the Department of Labor to help welfare recipients with barriers to employment find and keep lasting jobs. Many states are still spending Welfare-to-Work funds since they remain available for five years.

SSBG provides federal funds to states to provide a range of social services to families with children as well as other low-income populations such as the elderly or disabled. In 1995, SSBG was funded at $2.8 billion. The 1996 welfare law reduced SSBG funding to $2.38 billion between 1996 and 2002 but restored funding to $2.8 billion in 2003. Some further cuts were made, however, in subsequent legislation. In fiscal year 2002, for example, states received just

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[31] In addition, $1.7 billion was available for interest-bearing loans to states, but this loan fund has never been used.

[32] A proposal to replace the out-of-wedlock birth reduction bonus with a research and demonstration fund is described in Shawn Fremstad and Wendell Primus, *Strengthening Families: Ideas for TANF Reauthorization*, Center on Budget and Policy Priorities, January 2002.

$1.7 billion through SSBG. States have used their ability to transfer funds from TANF to SSBG to compensate for some of the federal funds lost as a result of these cuts.[33]

The 1996 welfare law also addressed child care funding. In contrast to SSBG, the 1996 welfare law *increased* mandatory federal child care funds by $6.5 billion over the six-year period of fiscal years 1997 to 2002. In fiscal year 2001, for example, mandatory child care funding was $1.3 billion higher than under prior law.[34] Since 1996 Congress has provided additional increases in discretionary child care funds. In addition to these dedicated federal child care funds, states also have used their ability to transfer or directly spend TANF funds on child care to expand child care programs substantially.[35]

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[33] Transferred TANF funds must be used to serve children or their families whose income is below 200 percent of the poverty level.

[34] The figures cited in the text represent *nominal*, not real, increases. Moreover, certain child care funding streams were uncapped prior to 1996 and could have risen even without the 1996 change in law.

[35] A more detailed discussion and recommendations regarding the Child Care and Development Fund appears in Comments Regarding the Reauthorization of the Child Care and Development Fund (CCDF), submitted to the U.S. Department of Health and Human Services by Mark Greenberg, Jennifer Mezey, and Rachel Schumacher on behalf of the Center for Law and Social Policy (CLASP), November 30, 2001, http://www.clasp.org/pubs/childcare/CCDFcomments1101.pdf.