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THE TANF-RELATED PROVISIONS IN THE PRESIDENT'S BUDGET

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Introduction

Because the Temporary Assistance for Needy Families (TANF) block grant must be reauthorized this year, the Administration's FY 2003 budget includes information about its reauthorization proposals that have budgetary impacts.[1] The budget does not call for cuts in the TANF block grant and reinstates two expired TANF provisions — the TANF supplemental grants and the contingency fund. The Administration's budget, however, would freeze funding for the basic block grant at the same level it has been funded at since 1997, allowing inflation to erode its value substantially and hindering states' ability to maintain their current welfare reform efforts.

The President's budget also includes budget proposals in the areas of child care, the Social Services Block Grant (SSBG), child support enforcement, and Transitional Medical Assistance (TMA) — all areas that were part of the 1996 welfare law and likely to be part of the upcoming reauthorization debate. The Administration's budget would freeze child care and SSBG funding at the 2002 levels for the next five years, allowing inflation to erode the value of these funding streams. In the child support area, the Administration's budget would provide states with two options that, if adopted by states, could increase the amount of child support directed to families rather than being retained by the state and federal governments to offset welfare-related costs. While positive, these two proposals are far more modest than similar provisions included in child support legislation that overwhelmingly passed the House of Representatives in 2000 (by a vote of 405 to 18). The Administration also proposes to finance these new state options in part with increased fees charged to families that receive child support through collections made by the state child support agency.

Finally, the Administration's budget proposes a one-year extension in Transitional Medical Assistance (TMA) — a Medicaid provision that allows families whose income rises above the Medicaid eligibility level (often set at the same level as TANF eligibility) to remain eligible for Medicaid coverage for an additional 12 months.

[1] See "Budget in Brief," U.S. Department of Health and Human Services, February 2002, http://www.hhs.gov/budget/pdf/hhs2003bib.pdf.

TANF Block Grant Proposals

The Administration's budget would freeze basic TANF block grant funding, reinstate the expired TANF supplemental grants (additional TANF grants that went to 17 states between 1998 and 2001) at the FY 2001 funding level, and includes a contingency fund mechanism, though details of that proposal are not yet available.

Basic Block Grant Funding

The Administration's budget freezes TANF block grant funding at $16.5 billion for each of the next five years. The block grant has been funded at this level since 1997 when it was first established. While it is encouraging that the Administration resisted calls from some to cut the TANF block grant below current levels, continued flat-funding of the block grant is cause for serious concern.

If the TANF block grant is frozen at $16.5 billion, its inflation-adjusted value will erode each year. Inflation has already eroded the value of the TANF block grant by more than 11 percent; if the block grant remains "flat-funded" for another five years, its inflation-adjusted value will fall 22 percent below its value in 1997. Since the cost of TANF-funded services such as child care and employment and training are comprised largely of salary costs which rise over time with inflation, as the value of the block grant falls, states will be able to afford *fewer* slots in such programs.[2] These work-related services have played a crucial role in helping states succeed in moving parents from welfare to work.

When considering TANF funding levels, it is important to recognize that states are already spending above the $16.5 billion level. In the early years of TANF implementation, states were able to accumulate some reserves due to unexpectedly large declines in cash assistance caseloads. These TANF reserves are dwindling, as states draw on them to implement welfare reform efforts. According to Treasury Department data, *states spent $18.6 billion in TANF funds in FY 2001 — some $2 billion above the basic block grant level.* The reserves that made this possible will be further diminished this year as more families lose their jobs and have to rely on TANF during the recession. Unless funding above a freeze level is provided, many states will be forced to cut back on current welfare reform efforts.

There is already evidence that states are beginning to consider cuts in TANF-funded programs. In January 2002, Montana, faced with a caseload increase of about 20 percent in the

[2] States could adopt other cost-cutting measures other than reducing the number of slots in these programs. For example, in the child care area, states could increase the co-payments that parents must make, thereby reducing the cost of the subsidy. Similarly, in programs such as those that provide employment services, states could limit access to more expensive training programs and place more people in low-cost job search programs. Overall, however, if resources are falling in inflation-adjusted terms, states will be forced to take steps to reduce the level of services and benefits they provide.

last year, shifted $9 million in federal TANF funds from 21 work support programs to cash assistance because a similar $9 million shift it made a few months prior 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. Cuts to TANF-funded programs already have been proposed or discussed in other states and counties, including Massachusetts, Minnesota, and West Virginia.

TANF Supplemental Grants

Between 1998 and 2001, some 17 states received "supplemental grants" — additional TANF funding awarded to states that had very low block grant allocations when considered on a per-poor-child basis and states that experienced rapid population growth. These grants expired in FY 2001. The Administration's budget reinstates the supplemental grants, but freezes the funding of these grants at the FY 2001 level rather than continuing the policy in the 1996 law of increasing these grants by about $80 million each year.

The supplemental grants were intended to reduce the substantial disparities in TANF funding among states. By increasing the size of these grants annually, progress was made each year in reducing the disparities among state block grant allocations. Even with the supplemental grants, the differences in block grant allocations remained very large. In fiscal year 2001, eight states received *less than $600* in block grant funding on a per-poor-child basis — even when supplemental grants are included — while 12 states received *more than $1,600* per poor child. The national average block grant allocation per poor child was roughly $1,200.

States that currently receive very low grants relative to their needy population cannot afford the same range of services to help low-income parents enter and remain in the workforce that states with higher block grant allocations can provide. By failing to provide additional resources above the FY 2001 supplemental grant level, the Administration's budget would lock in these substantial funding disparities for the next five years.

TANF Contingency Fund

The 1996 welfare law included a $2 billion contingency fund that was intended to provide states with additional TANF resources during recessions. The design of the contingency fund was deeply flawed, however, and the entire provision expired at the end of FY 2001. The Administration's budget includes $2 billion in funding for a contingency fund, and the budget documents suggest that the Administration will propose modifying the design of the fund. Without more detail, it is difficult to assess the extent to which this proposal would help states that face rising costs during a recession. The budget assumes that $45 million in contingency funds would be spent in FY 2003 in response to the current economic downturn.

Redirecting the Out-of-Wedlock Bonus

The Administration's budget redirects the current $100 million annual out-of-wedlock pregnancy reduction bonus to fund projects designed to promote the welfare law's "family formation" goals. Specifically, the budget documents indicate that these resources would be used to fund "research, demonstrations, and technical assistance efforts, primarily directed at building strong families, reducing out-of-wedlock pregnancies, and promoting healthy marriages."[3] The Administration has adopted this approach rather than setting aside a portion of the basic TANF block grant for marriage promotion activities as some have proposed.

Child Care

The mandatory funding of the Child Care and Development Fund (this fund includes both mandatory and discretionary resources) also is due to be reauthorized this year. The Administration's budget calls for freezing mandatory child care funding for the next five years at the FY 2002 level of $2.7 billion, ending the policy in the 1996 welfare law of *increasing* child care funding annually by an average of $150 million. Inflation will erode the purchasing power of these funds — in 2007, the inflation-adjusted value of this child care funding will be 12 percent lower than in FY 2002. (The Administration budget also assumes that discretionary child care funding for FY 2003 will be frozen at its FY 2002 level.)

As discussed above, child care costs are comprised largely of the salaries of providers, which rise over time with inflation. If child care funding is frozen while costs are rising, over time states will either have to cut the number of children who receive child care subsidies or will have to make policy changes like increasing parental co-payments, reducing income eligibility limits, or reducing provider reimbursement rates. Without additional funding, states also will be unable to extend child care assistance to the large numbers of low-income working families that currently do not have access to this important work support.

Social Services Block Grant

The Administration's budget also freezes funding for the Social Services Block Grant (SSBG) at the FY 2002 level of $1.7 billion for the next five years. SSBG funds an array of social service programs in states including child welfare services, services for the disabled and elderly, and child care.

Funding for SSBG has fallen dramatically in inflation-adjusted terms since it was established in 1977. In that year, states received $2.7 billion through SSBG. If SSBG funding

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[3] "Budget in Brief," U.S. Department of Health and Human Services, February 2002, page 89.

had kept pace with inflation, states would be receiving more than $8 billion in FY 2003. Even in non-inflation adjusted terms, SSBG has been cut substantially in recent years. Between 1991 and 1995, SSBG was funded at $2.8 billion. By 2002, states received just $1.7 billion in SSBG funding.

Child Support

The Administration's budget calls for several changes in the child support area that, taken together, would increase the amount of child support reaching low-income children. Its provisions are far less ambitious, however, than child support legislation that passed the House of Representatives in 2000 with overwhelming bipartisan support. The Administration's proposals would be financed in large part by increased fees charged to families who receive child support collected by the state child support agency, as well as by several measures aimed at increasing the child support paid by noncustodial parents.

Child Support Collected through the IRS Tax Intercept

The Administration is proposing to give states an option of directing delinquent child support payments collected by intercepting noncustodial parents' federal tax refund checks to the children of former welfare recipients. Currently, if a noncustodial parent (generally the father) is delinquent in paying his child support, his federal tax refund check can be intercepted by the IRS and applied toward the past-due child support bill. If his child ever received welfare benefits — even if the child is not currently receiving such benefits — the state generally keeps the tax refund to reimburse itself (and the federal government) for the cost of having provided welfare benefits. The state and federal governments keep the tax refund check even if the *family* also is owed past-due child support and is no longer receiving welfare. Under current law, the debt to the state must be satisfied first, before any funds collected by the tax refund intercept are paid to the custodial parent. The Administration's budget proposes to give states an option of passing on the intercepted tax refunds to families that no longer receive welfare benefits before using those refund dollars to compensate for past welfare costs.

While an improvement over current law, the Administration's proposal is more modest than the House-passed child support bill, sponsored by Representatives Nancy Johnson and Ben Cardin. In the House bill, all states would be *required* to give the intercepted tax refund to former welfare recipients who are owed past-due child support before being used to reimburse the state and federal governments for past welfare costs within five years of enactment.[4]

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[4] In addition to mandating the tax offset change, the House bill eliminated the requirement now in place that families "assign" to the state the right to any past-due child support that was owed to families before they applied for welfare benefits. Under current law, if a mother applies for welfare benefits after losing a job and is owed past-due child support from the father, she must give the state the right to keep any child support he pays — including (continued...)

Passing Through Child Support to Families Receiving TANF Assistance

The Administration also is proposing, at the option of the state, to help states pay for the cost of passing through up to $100 in child support paid to families currently receiving welfare benefits. Under current law, when a noncustodial parent pays child support on behalf of a child receiving welfare benefits, the state is required to send a share (generally between 50 and 75 percent) of that child support to the federal government. The state then has the option either to retain the remaining state share of the child support to offset welfare benefit costs or to pay the money to the family. The state, thus, must absorb the entire cost of any support passed through to the family. The Administration is proposing to share in the costs of passing through the first $100 in support to a family currently receiving welfare benefits. Under this proposal, the state would be required to send the federal government its share of the collected child support in excess of $100.

There is strong evidence that noncustodial parents are more likely to pay child support if they know that the support goes to their children. Research has shown that when child support is passed through to families receiving welfare, the child support paid by noncustodial parents increases, welfare receipt declines, and children's financial well-being improves.[5]

Currently, a number of states do pass through some child support — often $50 — to families receiving TANF cash assistance. The Administration's proposal impacts these states differently from those that do not currently pass through any child support collections. In the 17 states that currently pass-through less than $100, the Administration is proposing only to share in the costs of *increasing* the pass-through to the $100 level. For example, suppose a state currently passes-through $50 in child support to families. If this states opts to increase its disregard to $100, the federal government will not receive its share of child support collected in excess of $50 but less than $100, but it will continue to retain its share of the first $50 of child support collected. Under the Administration's proposal, for the few states that currently pass-through $100 or more in child support, the federal government would continue to receive its share of *all*

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[4] (...continued)
child support he pays to clear up debt he owed to the mother that accrued before she applied for welfare. In effect, the state becomes the "holder" of the debt owed by the father. Under the House bill, the state would not become the holder of this debt and when the father paid off that debt the money would go to the mother. Because this provision would reduce the amount of child support the state would retain, implementing it would cost the state money. Thus, the House bill allows states to use TANF and state maintenance-of-effort funds to "pay for" these child support changes. The Administration's proposal does not eliminate the requirement that welfare recipients assign to the state past-due child support owed to them and which accrued while they were not receiving welfare.

[5] Vicki Turetsky, *Reauthorization Issues: Child Support Distribution*, Fact Sheet: "Early Findings from Wisconsin Experiment to Get More Child Support to Families," Center for Law and Social Policy, February 2002, http://www.clasp.org/pubs/childenforce/Early%20Findings%20from%20Wisconsin%20W.pdf.

support collected — that is, these states would continue to send the federal government its share of the first $100 in child support collected.

The Administration's proposal in this area is considerably more modest than a related provision in the bipartisan House-passed child support bill. The House bill placed a substantially higher limit on the amount of child support that states could pass through to families without having to send the federal government its portion. For example, under the House bill, a state could pass-through up to $400 in child support to a family with one child receiving TANF cash assistance and would only have to send the federal government its share of child support collected above $400. Moreover, the House bill did not disadvantage states that had previously implemented a child support pass-through policy.

Administration Would Pay for a Portion of the Costs of Child Support Improvements Through Increased Fees Paid By Custodial Parents

The Administration offsets almost three-quarters of the projected costs associated with these state child support options by requiring custodial parents who receive child support through the child support agency and who have never received TANF benefits to pay a $25 annual fee to the agency.

Custodial parents currently are required to pay a $25 application fee, and states have the option to charge other fees and costs. When considering whether additional fees should be levied, it is important to recognize that although most custodial parents participating in the child support program do not receive welfare benefits, they generally have low-incomes. More than two-thirds of the families who participate in the child support program and do not receive welfare benefits have incomes at or below 250 percent of poverty level.[6] Nearly half of families participating in the child support and do no receive TANF cash assistance benefits have incomes low enough to qualify for other forms of public assistance such as Food Stamps, Medicaid, SSI, or subsidized housing.

Child Support Proposals Affecting Noncustodial Parents

The Administration proposes three changes that are projected to increase child support collections and, thus, reduce federal costs:

- The Administration's budget proposes to require states to review and adjust, on a more frequent basis, the amount of child support a noncustodial parent is required to pay. This is a useful provision that would ensure that the child support orders reflect a noncustodial parent's current income and circumstances.

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[6] This figure does include former TANF recipients who would not be required to pay the fee under the Administration's proposal.

- The Administration's budget also proposes to deny passports to noncustodial parents who owe more than $2,500 in past-due child support — the current limit is $5,000.

- Finally, the Administration is proposing to increase the extent to which a noncustodial parent's Social Security benefit can be intercepted to pay past-due child support owed both to the custodial parent and the state and federal governments. The Administration is proposing to limit the garnishment to no more than 15 percent of Social Security benefits in excess of a certain threshold level to which no garnishment would apply.

The Administration also has proposed a "Promoting Responsible Fatherhood and Healthy Marriages" initiative which would provide $20 million in competitive grants to faith- and community-based organizations to "encourage and help fathers to support their families and avoid welfare, improve fathers' ability to manage family business affairs, and encourage and support healthy marriages and married fatherhood."[7]

Transitional Medical Assistance

TMA allows families whose incomes rise (due to an increase in earnings or child support) above the Medicaid eligibility limit (set in most states at or near the TANF eligibility limit) to retain Medicaid coverage for up to an additional 12 months. TMA assures health care coverage to many former TANF recipients when they initially move from welfare to work.[8]

TMA is due to expire at the end of FY 2002. The Administration is proposing to extend TMA only through FY 2003. It is unclear why the Administration is not proposing a multi-year or permanent TMA extension. There is broad recognition that health insurance is a key work support that, like child care, helps families leaving welfare retain their jobs. As a result, TMA enjoys broad bipartisan support among Members of Congress and governors. The Administration may have chosen to propose only a one-year extension because it did not wish to

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[7] "Budget in Brief," U.S. Department of Health and Human Services, February 2002, page 84.

[8] Technically, a family does not have to receive welfare benefits to receive TMA. (The 1996 welfare law "delinked" Medicaid and welfare eligibility, including eligibility for TMA.) Instead, families who have received Medicaid for at least three months and then become ineligible due to an increase in earnings or child support income qualify for TMA. In most states, the eligibility limit for *families* is set at or near the eligibility level for TANF cash assistance. (The eligibility limit for *children* is generally higher than the eligibility limit for families. TMA eligibility is triggered when the family — including the parents — no longer qualify for Medicaid because its income increased.) Thus, when a family leaves welfare for work, they often qualify for TMA and welfare leavers constitute a large share of those who qualify for TMA.

show in its budget the costs of extending TMA over a longer period of time. It is unlikely, however, that the Administration and Congress would let the program expire in 2004.

The Administration's proposal also does not include important improvements in TMA that would have only a modest cost but could increase the program's effectiveness. Partly because of rigid federal rules that govern TMA, many working-poor families — including many families leaving welfare for work — fail to receive TMA at all despite being eligible or receive TMA for only part of the period for which they qualify. In addition, some families leaving welfare for work are ineligible for TMA entirely due to peculiar eligibility requirements. For example, if a family is on welfare and Medicaid for at least three months before it works its way off welfare, the family qualifies for TMA. But if a family goes to work before being on welfare and Medicaid for three months, it is *in*eligible for TMA. Other overly rigid federal TMA rules impose reporting and paperwork requirements that can be onerous for poor families and state agencies alike. These administrative requirements can both discourage participation in TMA altogether and can lead some families to lose eligibility for TMA before the end of the 12 month period because they fail to meet paperwork requirements. There is broad bipartisan support for according states more flexibility to make these rules more reasonable and thereby help increase the chances that low-income families will remain insured when they leave welfare for work.

Conclusion

TANF reauthorization legislation will set TANF and related policies for the next five years. While the Administration's budget does not cut TANF, child care, or SSBG funding below current levels, the budget proposes to freeze funding in these areas for the next five years. (The only exception is the reinstatement of the supplemental grants and the contingency fund, although the supplemental grants are frozen at their FY 2001 level.) Such a freeze will mean that as inflation erodes the value of these block grants, states will not be able to sustain their current welfare reform efforts and to invest in new initiatives to improve employment outcomes or family well-being.

In the related area of child support, the Administration's budget proposes some improvements that should be built upon in reauthorization legislation. The Administration's budget also proposes to extend TMA, but only for one year, and does not include important changes in the program that could improve its effectiveness.