CENTER ON BUDGET AND POLICY PRIORITIES
820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org http://www.cbpp.org

May 16, 2002

STATES ARE ALREADY CUTTING CHILD CARE AND TANF-FUNDED PROGRAMS

by Zoë Neuberger

Introduction

In the last few months several states have implemented or proposed spending reductions in programs that are largely supported by the Temporary Assistance for Needy Families (TANF) block grant, which was created in the 1996 welfare legislation. The cuts generally target either programs that aid cash assistance recipients in overcoming barriers to work or programs that provide work supports, like child care, for low-income families that do not receive cash assistance. Most of these state budget reductions were motivated by dwindling reserves of federal TANF funds from prior years and/or by concerns that cash assistance caseloads might rise as a result of the recession, thereby increasing basic assistance costs.

These cuts come at the same time that Congress is considering TANF reauthorization legislation that will set TANF and child care block grant funding levels for the next five years. The Administration's TANF reauthorization proposal, as well as H.R 4737, the bill passed by the House, call for *freezing* federal TANF funding at its current level while imposing costly new requirements on states to expand and revamp their welfare-to-work programs. Since most states use some TANF funds for child care, the decisions on TANF funding and work requirements will have an impact on state child care budgets as well as on state TANF programs. The House bill does increase mandatory child care funding, but only by $1 billion over five years, which is just about the amount needed to ensure that the child care block grant does not lose purchasing power due to inflation. (The House bill also would increase the discretionary child care authorization level, but there is no assurance that additional child care funds actually would be appropriated.) According to Congressional Budget Office estimates, the new TANF work requirements would require states to spend between $8 and $11 billion more on child care and employment services for TANF recipients over five years; other estimates suggest states would need to spend even more to implement the requirements. If final TANF reauthorization does not provide increased TANF and child care resources but does increase welfare-to-work program costs, states will be forced to make still further cuts in other TANF-funded benefits and services.

Background: States Now Spend More than the Annual TANF Block Grant

In the first years of TANF implementation cash assistance caseloads fell more quickly than states had anticipated and states accumulated reserves of unspent federal funds. As states adjusted to the caseload trends and the new spending flexibility afforded under the TANF block grant, they recognized that they had an opportunity to further the goals of welfare reform by providing more intensive services to families with barriers to employment that were still receiving cash assistance and by helping a broader group of low-income *employed* families with fragile attachment to the workforce. States were able to expand critical supports for low-income working families — like child care and transportation subsidies — to help these families remain employed and make ends meet. Some states also began to bolster earnings through wage subsidies, earned income tax credits, matching contributions for individual savings accounts, or education and training to help families attain stabler, higher-paying jobs. In addition, states also expanded programs to promote the new family formation goals of the welfare legislation, such as nonmarital pregnancy prevention programs.

As a result of expanding their programs beyond traditional cash assistance payments and funding critical supports for low-income working families, states now spend in excess of their annual block grant allocation. In fiscal year 2001, the states collectively spent nearly $2 billion more in federal funds than they received. Twenty-seven states and the District of Columbia drew on unspent federal funds from prior years to augment their annual TANF block grant allocation.

States will not be able to maintain these program levels without additional funds, however, because reserves of federal TANF funds are dwindling in many states. In 17 of the states now spending above their annual funding level, unobligated TANF funds from prior years are insufficient to allow them to maintain their fiscal year 2001 spending level in 2002, the current fiscal year. An additional six states have insufficient reserves to maintain the fiscal year 2001 program level through fiscal year 2003. This means that without additional funds, by fiscal year 2003 nearly half the states would need to scale back TANF-funded programs.

At the same time, the recession has increased pressure on state TANF budgets in two ways. States with dwindling reserves of federal funds face a choice between scaling back TANF-funded programs and maintaining current program levels by devoting additional state funds to them. Facing revenue shortfalls, states are opting to scale back programs. Simultaneously, as a result of the recession and increasing unemployment rates, some states have projected increases in TANF cash assistance caseloads that would require additional spending on cash benefits. States that do not have reserves of federal TANF funds to cover these increased costs have redirected funds away from other programs to ensure adequate funding for basic assistance.

If TANF reauthorization legislation imposes costly new work requirements on states without increasing federal TANF and child care funding, many states will be forced to redirect further federal resources away from the work supports that currently help many low-income families to retain employment and remain off the welfare rolls or from more intensive efforts to help parents with serious barriers to employment overcome those barriers so they can work.

State Cuts

The state-by-state sections below describe both cuts that have been implemented and cuts that have been proposed and are still being considered. The cuts most often fall on programs designed to eliminate employment barriers faced by cash assistance recipients or on work supports for low-income families, particularly child care subsidies.

This list is not the result of a 50-state study of TANF funding decisions, nor does it provide an exhaustive account of the spending changes in each state. Instead, it is meant to provide illustrative examples of the kinds of cuts states are making or contemplating. Cuts to TANF-funded programs and child care programs, regardless of their funding source, are included. Where the state has articulated the rationale for the cuts, that is described as well. The following descriptions are not meant to convey any assessment of the wisdom of the state spending choices involved, but rather to illustrate the choices that states have made or are considering.

Arizona

In light of concern that the state was drawing down its reserves of federal TANF funds too quickly, TANF funding for a number of pilot programs was eliminated in 2001, including a program for young fathers, the Wheels to Work program that leases refurbished cars to low-income families, services to help families come into compliance with program rules rather than face a benefit reduction resulting from a sanction, job training, and job retention programs. Funding for other programs — including after-school, substance abuse treatment, and child abuse prevention programs — was reduced. In a special budget session in December 2001 the legislature also repealed an adjustment to child care subsidies designed to ensure that subsidies keep pace with the cost of obtaining child care, which had been enacted during the regular session and which would have cost $22 million in TANF and federal child care funds.

The Governor has proposed an additional $31 million cut in TANF-funded child care subsidies (compared to the originally enacted 2003 funding level) and a $6 million cut in TANF-funded employment services for cash assistance recipients (which represents 22 percent of the budget for such programs). The Governor has also proposed to eliminate a substance abuse treatment program for TANF cash assistance recipients and a $4 million TANF-funded after school program.

Arkansas

The Governor has implemented $3.4 million in state and federal TANF cuts, which fell heavily on programs designed to help families find employment and leave the welfare rolls. The state saved $449,068 in federal TANF funds by limiting eligibility for a program that helps cash assistance recipients purchase cars to commute to work. The state scaled back an independent evaluation of its Transitional Employment Assistance program (the state's TANF program) in order to save $462,000 in federal TANF funds. In addition, performance bonuses for caseworkers were reduced to lower TANF spending by another $725,000. The state also reduced the amount of state general revenue funds it commits to TANF-funded programs. It cancelled a $500,000 contract for transportation services for cash assistance recipients. The remaining $1.4 million in cuts took the form of reductions in flexible state funds given to local coalitions to provide child care, transportation, and an array of other services to low-income at-risk families.

Further cuts are going to be proposed for the state's 2003 fiscal year, but details have not been announced.

California

The Governor's 2002-2003 budget proposal, as revised on May 14, 2002, includes cuts in state and federal TANF spending. Several of these proposals would reduce employment services available to cash assistance recipients. For example, the Governors' proposal would reduce TANF spending by as much as $38 million by scaling back employment services that community colleges provide to TANF recipients who are enrolled in their vocational training and educational programs and would cut $36 million from adult education services offered by the Department of Education. The proposal would also reduce projected spending on cash benefits by $112 million by suspending for a year the annual inflation adjustment for cash assistance benefits that is required under state law and by an additional by $12.1 million by reinstating a policy of counting the income of parents of teen parents when determining the cash assistance benefit level for the grandchild.

Connecticut

In July 2002 the state will stop accepting child care subsidy applications from low-income families other than cash assistance recipients and teen parents attending school. This change is expected to reduce state child care spending by $9.5 million to $14.5 million. In January 2002 the state began requiring TANF cash assistance recipients to make child care co-payments from which they were previously exempt.

Iowa

Despite a one percent across-the-board cut in June 2001, a legislative special session was convened in November 2001 to address state revenue shortfalls. During the special session, the legislature implemented a 4.3 percent across-the-board cut that affected welfare-to-work and child care programs. For example, spending on employment training and other services for cash assistance recipients was reduced by $5.85 million and funding for after-school programs for at-risk children was reduced.

The proposed state fiscal year 2003 budget, which has been approved by the state legislature and was recently vetoed by the Governor, includes a $1.85 million cut to an emergency rent and utility assistance program that helps approximately 6,000 low-income families annually facing housing crises. Additional proposals include reduced funding for well-being home visits for cash assistance recipients, transportation aid, and parenting skills pilot projects. The cuts were proposed in part in response to increased cash assistance caseload projections and revenue shortfall estimates. Although the proposed budget was vetoed, new revenue estimates suggest that the state faces a larger shortfall than anticipated and that the proposed cuts will continue to be considered.

Michigan

The Governor's proposed budget for state fiscal year 2003 includes $20 million in TANF cuts. Spending on a program that provides an annual children's clothing allowance to cash assistance recipients would be reduced by $8.5 million by lowering the annual allowance from $75 to $25. A $10 million pilot before-and after-school program for low-income families would be eliminated. Another $1 million would be saved by cancelling a fatherhood initiative. Although the House and Senate have proposed partial restorations of these cuts, recent revenue projections are lower than anticipated and may lead to reconsideration of these cuts or others.

Minnesota

An increased cash assistance caseload forecast in November 2001 after federal TANF funds had been fully allocated for the 2002-2003 state budget, and the projection of a significant budget shortfall, led the Governor to propose a series of TANF spending shifts. In February 2002 the legislature implemented a few of those proposed changes for the state fiscal year 2002-2003 budget, including a reduction of $2 million in county administrative funds and a $12 million recapture of TANF funds that had been transferred to the Child Care and Development Fund, which eventually would have been used for child care subsidies but were being spent slowly.

Missouri

Anticipating that by the end of federal fiscal year 2001 the state would have fully exhausted reserves of federal TANF funds from earlier years, in July 2001 the state implemented several measures to reduce program costs. These spending cuts fall on benefits and services designed to enable cash assistance recipients to continue working or find a job. Transportation benefits for cash assistance recipients with earnings were scaled back from one year to 90 days. In addition, funding was reduced for other services for cash assistance recipients, including assessments, case management, work-related expenses, and job skills training.

The Governor also has proposed to eliminate funding that is used to link cash assistance recipients with employment opportunities.

Montana

In October 2001 the Governor implemented $9.2 million in TANF cuts to cover the costs associated with rising cash assistance caseloads, but that proved insufficient and in January 2002 an additional $8.8 million was cut. The reductions affect 21 programs including education and job training programs, transportation and housing aid, substance abuse and mental health services, and emergency diversion services. The programs received a one-time budget of $26 million from reserves of unobligated TANF funds from prior years, but funding was made contingent on cash assistance caseloads not rising. The cuts reduced the budget for these programs by 69 percent.

North Carolina

In July 2001, in anticipation of growing cash assistance costs, the state created a cash assistance reserve fund. Since the existing budget had allocated all remaining TANF reserves to be spent by the end of the 2002 state fiscal year, an across-the-board TANF cut was used to pay for the cash assistance reserve fund. Many TANF-funded programs saw a ten percent reduction in funding. Programs that were cut include teen pregnancy prevention, nonmarital pregnancy prevention, substance abuse, domestic violence, housing assistance, fatherhood, individual development accounts, and after-school programs. TANF spending on "Work-First" county block grants, child care, and child welfare services were protected from the cuts, but state funding for child care subsidies and quality was reduced. The state also eliminated $1.5 million in TANF funding for its evaluation of its Work-First program and $5.4 million in funding for pilot projects to address second-generation poverty.

Oregon

In anticipation of possible caseload rises and the absence of TANF reserves, the state has implemented a $3.6 million cut to the state's welfare-to-work program, which may include cuts to job retention services, a $2 million cut to a child care program for the children of students, and a $4.3 million cut to Emergency Assistance, which provides short-term aid to low-income families in crisis.

Washington

In February 2002 the Governor implemented $54 million in cuts to welfare programs. The Governor linked the cuts to increased costs associated with a rising cash assistance caseload and increased demand for child care subsidies. For example, a cut was made to the Families that Work program ($7.5 million), which provides literacy, parenting, and job skills training to parents, and the Job Success Coach Initiative ($5.4 million), designed to promote job retention, was eliminated. The Governor also eliminated pilot projects ($3.1 million) to test new means of moving welfare recipients into the workforce. Additional cuts were made to community college training programs, substance abuse treatment programs, and transportation programs.

Child care reductions amounting to $22.6 million will result from several policy changes. For example, income eligibility for subsidies was lowered from 225 percent of the federal poverty level to 200 percent, which cut costs by $3 million and will affect approximately 1,000 low-income working families. Another $13.5 million reduction was accomplished by increasing the child care co-payments that families pay by $5 a month. Cuts also were made to child care provider training programs and initiatives to expand care for children with disabilities or other special needs and school-age children.

West Virginia

In February and March 2002 the state implemented three child care policy changes estimated to reduce annual spending by $7.2 million. The income eligibility threshold for families already receiving child care subsidies was reduced from 200 percent of the federal poverty level to 185 percent of the federal poverty level, as a result of which an estimated 500 to 600 families lost subsidies. The income eligibility threshold for new applicants was also reduced, from 200 to 150 percent of the federal poverty level. All co-payments were increased by 50 percent and a supplemental subsidy for providers offering care during non-traditional work hours was scaled back. Earlier, in November 2001, the state had discontinued offering $10,000 expansion grants for child care centers.

In June and July 2002 the state will implement several TANF policy changes in order to reduce TANF spending. To save $2.2 million the state will reduce the amount of earnings that are disregarded when determining cash assistance eligibility, from 60 percent to 40 percent, which will have the effect of terminating cash assistance benefits for working families at a lower earnings level. The state will reduce spending by an additional $1.4 million by lowering payments to current and former cash assistance recipients for supportive services like transportation or work expenses; a six month lifetime limit for receipt of these payments will be introduced for former recipients. The state will also eliminate a series of monthly bonus payments for cash assistance recipients who reached certain milestones in their transition to employment, such as completing a vocational training program. Job retention bonus payments for working families that have remained employed and off the welfare rolls for a year will be eliminated. In addition, the state will lower the eligibility threshold for community based services provided to low-income families by lowering the state definition of "needy" from 185 percent to 150 percent of the federal poverty level.

Some of these changes had been recommended by the Governor's TANF Advisory Council, which had been convened in September 2001 to address a projected TANF funding shortfall. In December 2001 the Council made recommendations for $87 million in spending reductions beginning in 2003 federal fiscal year; the recommendation that have not already been adopted are still being considered by the Governor. Recommended cuts include eliminating the additional $100 monthly that married cash assistance recipients receive and reducing the amount of child support passed along to cash assistance recipients from $50 to $25 monthly. The Council also recommended that in lieu of $73.7 million in TANF funds, state revenues be devoted to many programs for low-income working families that currently receive TANF-funded benefits but not cash assistance. For example, the Council recommended the discontinuation or scaling back of TANF-funded contracts with community based organizations operating programs like home visits for new parents, truancy prevention, and pregnancy prevention; $3 million in further child care cuts; and reducing the number of months for which diversion payments may be provided to families at risk of needing cash assistance. Of the $73.7 million for which the Council recommended that state funds be provided, the state legislature approved only $20 million in state funds for foster care prevention and reunification programs, which were receiving approximately double that amount in TANF funds.