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STATES NEED MORE FEDERAL TANF FUNDS

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Summary

Welfare reauthorization legislation that is pending in Congress will set Temporary Assistance for Needy Families (TANF) and child care block grant funding levels for the next five years. Some have suggested that because the number of families receiving cash assistance has fallen substantially since the 1996 welfare law was enacted, states do not need additional federal funds. While the number of families receiving *cash* assistance has fallen, states now provide work supports and other services — such as child care, transportation subsidies, wage supplements, and training for low-income working parents — to more than one million low-income families that do not get counted in official "caseload" figures because they do not receive cash aid.

The House-passed TANF reauthorization bill, H.R. 4737, would freeze the federal TANF block grant at its current level — so that by 2007, the purchasing power of the block grant would fall 22 percent below its level when it was established in 1997. The bill would increase mandatory child care funding by just $1 billion over five years — just under the amount needed so that the child care block grant keeps pace with inflation. (The bill also would increase the authorization level for discretionary child care funding, but there is no assurance these additional funds would be appropriated.)

The House bill's freeze in TANF funding and very modest increase in child care funding will force states to cut back benefits and services they now provide for two reasons. First, states already are spending over their annual block grant allocation by drawing on reserves from prior years, but these reserves are shrinking and in many states will soon be insufficient to maintain current program levels. Second, the House bill imposes costly new work requirements that will force states to redirect TANF funds away from supports for low-income working families and other efforts in order to pay for these new work mandates.

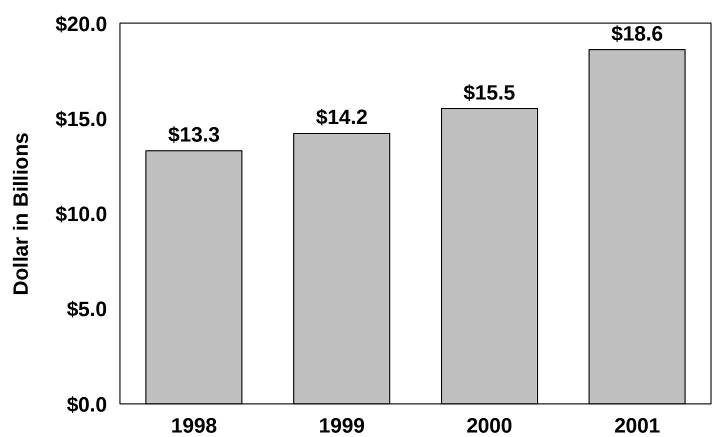
States Already Are Spending Above the Annual TANF Block Grant Level

Federal TANF spending data show that states are currently spending above their annual block grant allocation by drawing on reserves of unspent funds from prior years. These resources are dwindling quickly and as a result states are already considering cuts in TANF-funded benefits and services.[1] As the value of the underlying block grant erodes due to inflation and as reserves disappear, states would be unable to continue providing their current range of services to low-income families *even without additional work requirements*.

- Treasury Department data show that states spent a total of $18.6 billion in federal TANF funds in fiscal year 2001 — some $2 billion more than the basic annual TANF block grant. States augmented their annual TANF block grant with unspent funds from prior years. These reserves accrued during the early years of TANF implementation as cash assistance caseloads fell dramatically and states needed time to redirect freed up resources to programs to support low-income working families, many of whom were former welfare recipients.

- Federal data show that TANF reserves are diminishing. By the end of fiscal year 2001 most states had only modest reserves. 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 *this year*, fiscal year 2002. An additional six states have insufficient reserves to maintain their fiscal year 2001 program level through fiscal year 2003.

TANF Spending



Source: Treasury Department

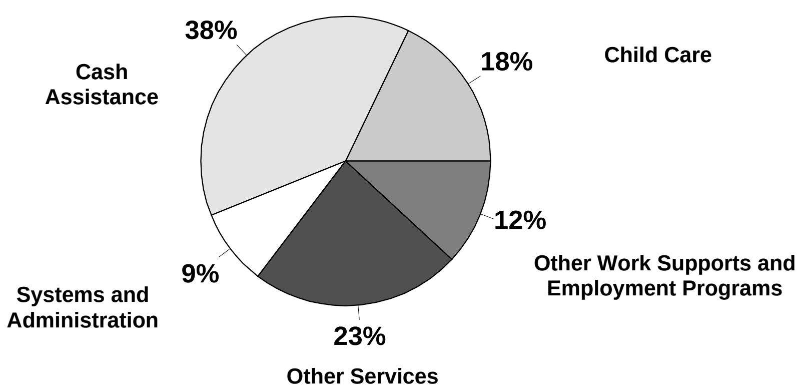
[1] For a description of cuts in TANF-funded programs that have been proposed or implemented, see Zoë Neuberger, *States Are Already Cutting Child Care and TANF-Funded Programs*, Center on Budget and Policy Priorities, May 16, 2002, http://www.cbpp.org/5-16-02wel.htm.

States now offer a broad range of supports to low-income working families to help them make ends meet and remain in the workforce. For example, some states bolster earnings through wage subsidies, earned income tax credits, or matches for individual savings accounts. In addition, many states provide work supports like child care or transportation subsidies to help working families retain jobs, or education and training to help families progress in the workforce. Of the various work supports that states provide, child care has received the most significant influx of TANF funds.

It is important to note that families that receive TANF-funded services and benefits, but do not receive cash assistance, are not counted in frequently-cited TANF caseload figures. A very conservative estimate, based primarily on a recent report by the General Accounting Office (GAO), indicates that more than one million working families receive TANF-funded services without being counted in the caseload. More complete data available from a few states suggest that the actual number of families receiving services in TANF-funded programs without being counted is much higher.[2]

The following chart, based on data reported by states to the U.S. Department of Health and Human Services, shows how states allocated the federal and state welfare funds they used in fiscal year 2001. *Less than 40 percent of funds were devoted to cash assistance* — down from 70 percent in fiscal year 1997 — while 30 percent of the funds were spent on work supports, child care, and welfare-to-work programs.

How Federal and State TANF Funds Were Used in Fiscal Year 2001



Source: Data reported by states to the Department of Health and Human Services

[2] For a more detailed discussion of the number of families that are not counted in the “caseload” but receive services in TANF-funded programs, see Shawn Fremstad and Zoë Neuberger, TANF's "Uncounted" Cases: More than One Million Working Families Receiving TANF-funded Services Not Counted in TANF Caseload, Center on Budget and Policy Priorities, April 25, 2002, http://www.centeronbudget.org/4-24-02tanf.htm.

Work Requirements in the House Bill Would be Costly for States

The House bill would increase the work participation rates states must meet, increase the number of hours parents must participate in work activities, and, for the bulk of the required hours, limit the types of activities that count toward the state's work participation rate. The Congressional Budget Office has estimated that it would cost states up to $11 billion to meet the new work participation rates — $6 billion in work program costs and $5 billion in child care costs.

If states have to comply with costly new work requirements without additional federal funds, they will not be able to maintain the range of supports they have put in place to help low-income working families keep their jobs and make ends meet.