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How States Use Funds Under the TANF Block Grant

By Liz Schott, Ife Floyd, and Ashley Burnside

States spend slightly more than half of their combined federal and state dollars under Temporary Assistance for Needy Families (TANF) on core welfare reform areas — basic assistance for families with children, child care for low-income families, and work-related activities or supports (see Figure 1) — and a handful of states spend less than a quarter on these areas, our look at the latest data from fiscal year 2016 shows. Those figures point to fundamental flaws with the TANF block grant, which the President and Congress created under the 1996 welfare law, and which gives states great flexibility on using the funds. A look at how states spend the TANF funds provides compelling evidence on why basic safety net programs should not be block-granted.

In 1996, policymakers replaced Aid to Families with Dependent Children (AFDC), which provided federal funds that matched half or more of every state dollar of cash assistance for a needy family, with the TANF block grant, which combines fixed federal funding with broad state flexibility to use the money. Proponents said that states would use their greater flexibility to shift spending from cash welfare benefits to improved work programs and work supports, such as child care subsidies to enable parents to work.

In TANF's early years, when the economy was strong and cash assistance caseloads were shrinking, states *did* use their flexibility to take some of the funds that had gone for benefits to families and redirect them to child care and welfare-to-work programs to further welfare reform efforts. But over time, states redirected a substantial portion of their state and federal TANF funds to other purposes, to fill state budget holes, and in some cases to substitute for existing state spending. Even when need rose during the Great Recession, states often didn't bring the funds back to the three core welfare reform services of basic assistance, child care, and work programs and, instead, cut them.

Among our other key findings for 2016:

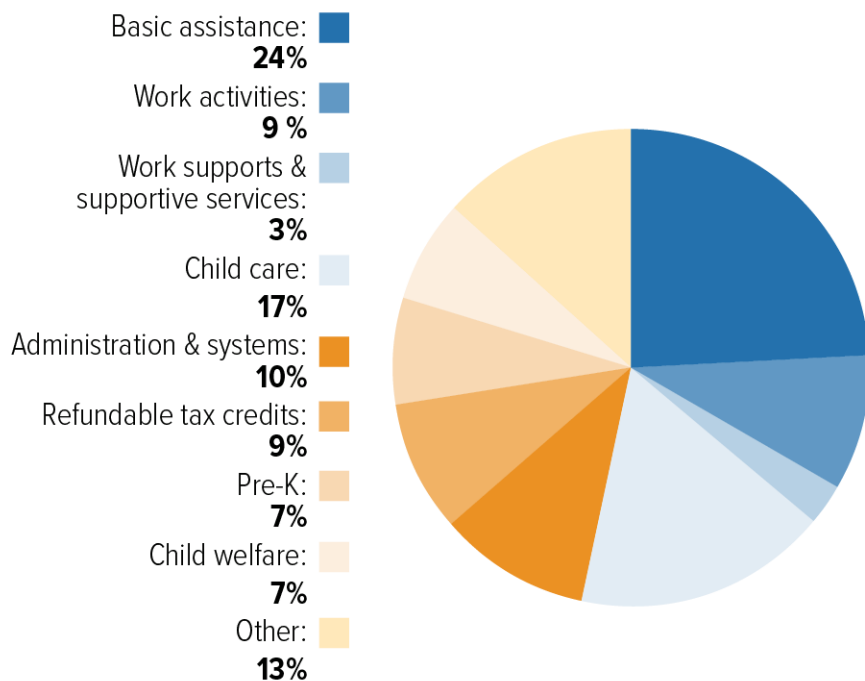
- **States spent about a quarter of their federal and state TANF funds on one core area: basic assistance to help very poor families care for their children and meet very basic needs such as shelter.** There is significant variation across states; nine states spent less than 10 percent of their funds on basic assistance in 2016.
- **States spent just above another quarter of their federal and state TANF dollars on the other core areas combined: child care, and work activities and supports.** States used 9

percent of their federal and state TANF funds for work activities, 3 percent for work supports or supportive services, and 17 percent for child care.

- **States used a large share of federal and state TANF funds that formerly helped poor families for other state services.** In some cases, states used TANF funds to expand programs, such as state Earned Income Tax Credits (EITCs) or pre-K education, or to cover the growing costs of existing services, such as child welfare. In other cases, they used TANF funds to replace existing state funds, thereby freeing those state funds for purposes unrelated to providing a safety net or work opportunities for low-income families.

FIGURE 1

How States Spent Federal and State TANF Funds in 2016



Note: TANF = Temporary Assistance for Needy Families.

Source: CBPP analysis of Department of Health and Human Services 2016 TANF financial data

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For the last two years, states have been required to provide the Department of Health and Human Services greater detail on how they spend federal and state TANF dollars outside the core welfare reform areas. The 2016 data represent a second year of this greater detail and provide insight into where states are spending substantial amounts of federal and state TANF funds. For example, states spent 8 percent of their TANF dollars on child welfare services in 2016 (ten states spent more than 20 percent) and 7 percent of their TANF dollars on pre-K education or Head Start (six states spent more than 20 percent). Although these are important investments for states to make, the federal policymakers who created TANF didn't intend for states to use their funds for such services. And when states use their TANF funds this way, they leave fewer resources to

provide cash assistance, child care, and employment assistance, even though need remains high. That’s especially troubling at a time when more than 2 million more families with children are in deep poverty, with incomes below *half* of the official poverty line, than when TANF was created.

The cash assistance safety net for the nation’s poorest families with children has weakened significantly under TANF, with potentially devastating long-term consequences for children growing up in families with little or no cash income to meet basic needs. In 2016, states provided cash assistance to just 23 families for every 100 families in poverty, down from 68 families when the TANF block grant was created. And states engage few recipients in work activities, leaving most unemployed low-income parents to find work on their own.

Background

Under TANF, the federal government gives states a fixed block grant totaling \$16.5 billion each year.¹ This annual amount has not increased for inflation over the past two decades and now is worth over one-third less than when TANF was created. Under the law’s maintenance-of-effort (MOE) requirement, states must maintain a certain level of *state* TANF spending, based on a state’s spending for AFDC and related programs prior to TANF’s creation in 1996. (States are required to maintain 80 percent, or in some cases 75 percent, of their historical spending level.) This minimum state spending threshold has also declined by one-third in value due to inflation. States may also qualify for federal “Contingency Funds”; roughly 20 states have done so for the last several years.

In 2016, states spent \$30.9 billion in combined federal TANF (\$15.9 billion) and state MOE (\$15 billion) funds.²

States can use these funds for a broad range of activities related to promoting the four purposes of TANF specified in federal law: (1) assisting needy families so children can be cared for in their own homes or the homes of relatives; (2) reducing the dependency of needy parents by promoting job preparation, work, and marriage; (3) preventing out-of-wedlock pregnancies; and (4) encouraging the formation and maintenance of two-parent families.³

States must report quarterly and annually to HHS on how much they have spent and for what purposes; the data cited here on states’ use of TANF and MOE funds come from these reports. Starting with fiscal year 2015, HHS has revised the financial data reporting form to provide greater and more uniform detail on how states spend the funds, particularly spending in other areas of state

¹ Additional background on the TANF block grant funding structure is available in Appendix I. See also Liz Schott *et al.*, “How States Have Spent Federal and State Funds under the TANF Block Grant,” Center on Budget and Policy Priorities, August 8, 2012, <http://www.cbpp.org/research/how-states-have-spent-federal-and-state-funds-under-the-tanf-block-grant> and “Temporary Assistance for Needy Families: Spending and Policy Options,” Congressional Budget Office, January 21, 2015, <http://www.cbo.gov/publication/49887>.

² Spending of federal TANF funds may vary from year to year as states can carry over some unspent federal TANF dollars to a subsequent year. The federal TANF funds are primarily the annual fixed block grant amount (the State Family Assistance Grant, or SFAG) but also include other federal dollars, primarily the TANF Contingency Fund, which 19 states received in 2016.

³ States may also spend funds on activities that they supported with Emergency Assistance funds prior to 1996 even if the activities do not fall under one of these four TANF purposes. Spending under this grandfathered authority is reported as “authorized under prior law” (AUPL).

budgets that was not foreseen when the original data reporting form was designed.⁴ Because some of the new detailed breakout is not available for years prior, this report focuses on the most recent, 2016 spending and how it varies across states.⁵

This report groups spending into nine categories:⁶

- Basic assistance
- Work-related activities
- Work supports and supportive services
- Child care (including transfers to the Child Care and Development Fund);
- Program management
- Refundable tax credits for low-income working families
- Child welfare services
- Pre-kindergarten or Head Start
- Other areas

This analysis uses the term “federal TANF dollars” to include the TANF block grant and any additional federal funds, such as the TANF Contingency Fund. It uses the term “state TANF funds” to refer to MOE spending. The analysis combines TANF and MOE spending data rather than focus on whether the funds used for a particular benefit or service were federal TANF funds or state MOE funds, and often generally refers to the combined funds as TANF funds. Since the federal and state dollars are mostly fungible, combined state and federal funds provide the best basis for comparisons across states.

⁴ The new reporting form and instructions are available at <http://www.acf.hhs.gov/ofa/resource/tanf-acf-pi-2014-02>. For a cross-walk between the pre-2015 TANF expenditure reporting categories and the new ones, see HHS’s State TANF Spending Fact Sheet, Figure 4, http://www.acf.hhs.gov/sites/default/files/ofa/2015_tanf_financial_data_report_factsheet_final.pdf.

⁵ The data used in this report are posted at https://www.acf.hhs.gov/sites/default/files/ofa/tanf_financial_data_fy_2016_121817.xlsx and are based on 2016 HHS data available at <http://www.acf.hhs.gov/ofa/resource/tanf-financial-data-fy-2016>. See also state fact sheets posted at <http://www.cbpp.org/research/family-income-support/state-fact-sheets-how-states-have-spent-federal-and-state-funds-under>.

Prior reports, which had a greater focus on longitudinal spending, are still available and supporting longitudinal data are available on request. See Liz Schott *et al.*, “How States Have Spent Federal and State Funds under the TANF Block Grant,” Center on Budget and Policy Priorities, August 8, 2012, <http://www.cbpp.org/research/how-states-have-spent-federal-and-state-funds-under-the-tanf-block-grant>; Liz Schott, LaDonna Pavetti, and Ife Floyd, “How States Use Federal and State Funds Under the TANF Block Grant,” Center on Budget and Policy Priorities, updated October 15, 2015, <http://www.cbpp.org/research/family-income-support/how-states-use-federal-and-state-funds-under-the-tanf-block-grant>.

⁶ Details of the new HHS reporting categories and how we group them into the nine categories used in this report are available in Appendix II.

States Spend About Half of TANF Funds in Core Welfare Reform Areas

Two key purposes of welfare reform were providing a temporary safety net and preparing recipients for work. We therefore consider spending related to these purposes to be for “core” welfare reform purposes — specifically, basic assistance, work-related activities, work supports/supportive services, and child care. Nationally, states use slightly more than half (53 percent) of federal and state TANF funds in these core areas and some states spend much less. Eleven states spend less than 30 percent of these funds on core activities.

Reduced Spending on Basic Assistance Means Fewer Families Get Help to Meet Needs

States spent \$7.4 billion (24 percent) of their federal and state TANF funds on basic assistance for poor families in 2016. By contrast, at TANF’s onset, states spent \$14 billion (70 percent) of their TANF funds on basic assistance. After adjusting for inflation, this change from 1997 to 2016 represents a 64 percent decrease in spending on basic assistance. Prior to TANF, basic assistance represented the single biggest use of federal and state AFDC funds for all states.

The share of federal and state TANF funds spent on basic assistance varies widely across states, from 5 percent to 62 percent in 2016. Nine states spent less than 10 percent on basic assistance, while ten states spent more than 30 percent (see Figure 2). Not surprisingly, the states that spend the smallest shares of their TANF funds on basic assistance generally have lower benefits and assist a smaller share of poor families than the typical state.⁷ In some states, TANF cash assistance reaches very few poor families; in 15 states, fewer than 10 of every 100 poor families received this help. For families that do receive assistance, benefit levels are at or below 60 percent of the poverty line in every state and below 30 percent of the poverty line in most states.

⁷ For information on the ratio of families receiving TANF to the number of families in poverty, by state and for the United States as a whole, see Ife Floyd, LaDonna Pavetti, and Liz Schott, “TANF Reaching Few Poor Families,” Center on Budget and Policy Priorities, updated December 13, 2017, <https://www.cbpp.org/research/family-income-support/tanf-reaching-few-poor-families>.

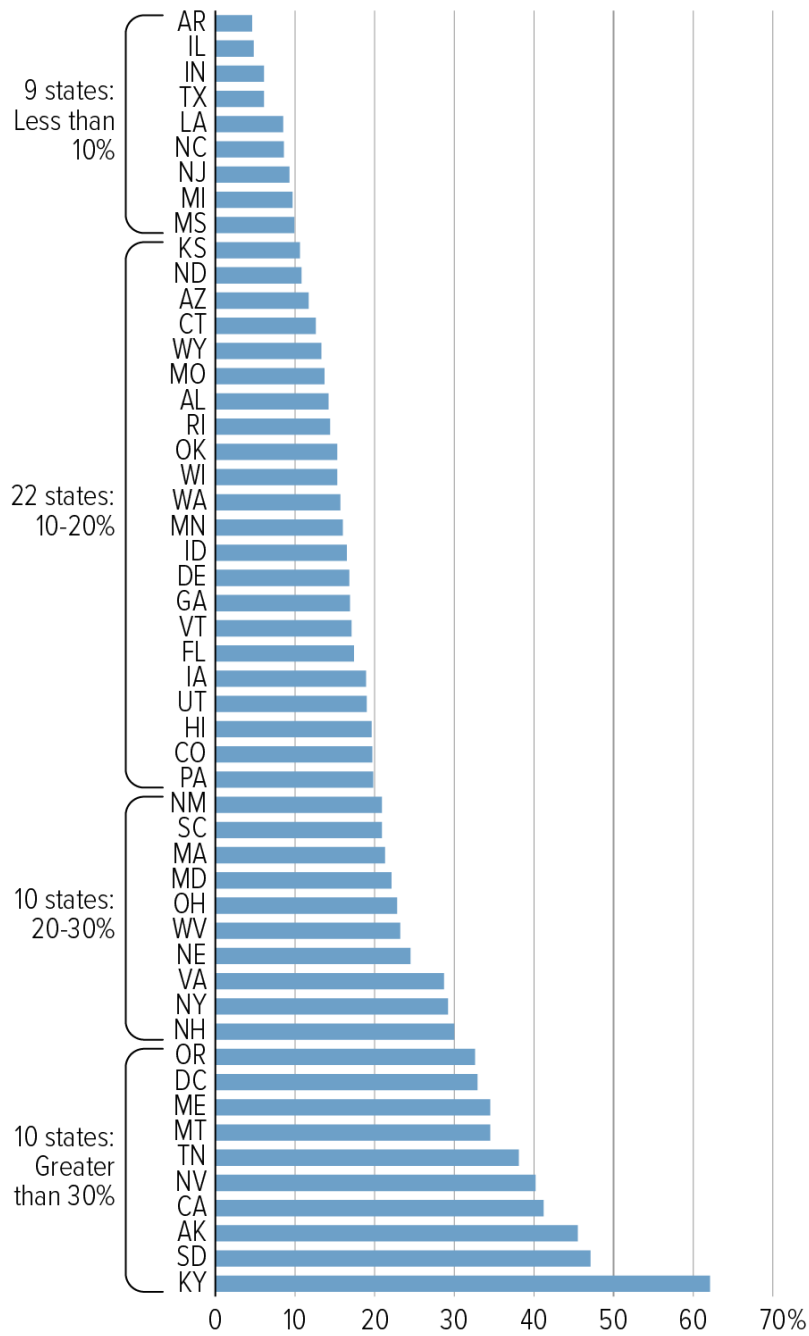
Race to the Bottom: What Low Spending on Basic Assistance Looks Like

States that spend a very small share of their federal and state TANF dollars on basic assistance provide a weak safety net for poor families. Particularly in these low-spending states, cash assistance from TANF reaches few poor families and, for those families that do manage to receive aid, benefit levels are extremely low. The cash assistance safety net has weakened sharply under TANF since the program's outset. Plummeting TANF caseloads often do not represent a drop in need or a welfare reform success, but instead reflect the shrinking reach of TANF to those in need. Some of the states with lowest spending on cash assistance provide dramatic examples of TANF's failure to reach families that remain very poor.

- **Indiana** spent only 6 percent of its TANF funds on basic assistance in 2016. The state's TANF caseload has fallen by more than *80 percent* since 2004 and continued to fall during the recession even when the number of unemployed and the number of poor and deeply poor families in the state grew. TANF reaches very few poor families in Indiana — only 7 of every 100 in 2015-16; in 2003-04, TANF reached 45 of every 100 poor Hoosier families. In 2015-16, fewer than 8,500 families received cash aid in Indiana but over 50,000 families were in deep poverty. Nor has Indiana reinvested any of its savings from the caseload decline to strengthen the temporary safety net for poor families. Benefits are just \$288 a month for a family of three and have lost more than a third of their value since 1996.
- **Louisiana** spent only 8 percent of its TANF funds on basic assistance in 2016. The state's TANF caseload has fallen by more than *67 percent* since 2004. TANF reaches very few poor families in Louisiana — only 4 of every 100 in 2015-16. In 2003-04, TANF reached 15 of every 100 poor families in the state; before TANF, AFDC reached nearly half the poor families in the state. In 2015-16, fewer than 6,000 families received cash aid in Louisiana but nearly 70,000 families were in deep poverty. For those receiving cash aid, benefits are just \$240 a month for a family of three.
- **North Carolina** spent only 9 percent of its TANF funds on basic assistance in 2016. The state's TANF caseload has fallen by more than *56 percent* since 2004. TANF reaches very few poor families in North Carolina — only 7 of every 100 in 2015-16. In 2003-04, TANF reached 18 of every 100 poor families in the state; before TANF, AFDC reached nearly three-quarters of the poor families in the state. In 2015-16, fewer than 17,000 families received cash aid in North Carolina but nearly 100,000 families were in deep poverty. For those receiving cash aid, benefits are just \$272 a month for a family of three.
- **Texas** spent only 6 percent of its TANF funds on basic assistance in 2016. The state's TANF caseload has fallen by more than *76 percent* since 2004. TANF reaches very few poor families in Texas — only 4 of every 100 in 2015-16. In 2003-04, TANF reached 19 of every 100 poor families in the state; before TANF, AFDC reached nearly half the poor families in the state. In 2015-16, fewer than 27,000 families received cash aid in Texas but over 280,000 families were in deep poverty. For those receiving cash aid, benefits are just \$286 a month for a family of three.

FIGURE 2

9 States Spent Less Than 10 Percent of Federal and State TANF Funds on Basic Assistance in 2016



Source: CBPP analysis of HHS 2016 TANF financial data

Despite Welfare Reform Rhetoric, States Spend Little on Work Activities or Supports

A central tenet of TANF was that cash assistance should provide temporary support while a family engages in required activities to help it connect to or prepare for work. Yet most states spend little of their TANF funding on work-related activities. States raised work-related spending somewhat in TANF's early years, but this spending has been flat or fallen for more than a decade, even though poor families are greatly in need of help preparing for and connecting to work. Nationwide, there are 4.2 million non-employed single parents.

In 2016, states spent \$2.8 billion (9 percent) of their federal and state TANF funds on work-related activities.⁸ As with basic assistance, the share varied widely among states, ranging from less than 1 percent to 32 percent (see Figure 3). Nine states spent less than 2 percent of their funds on work-related activities, while seven states spent more than 15 percent.

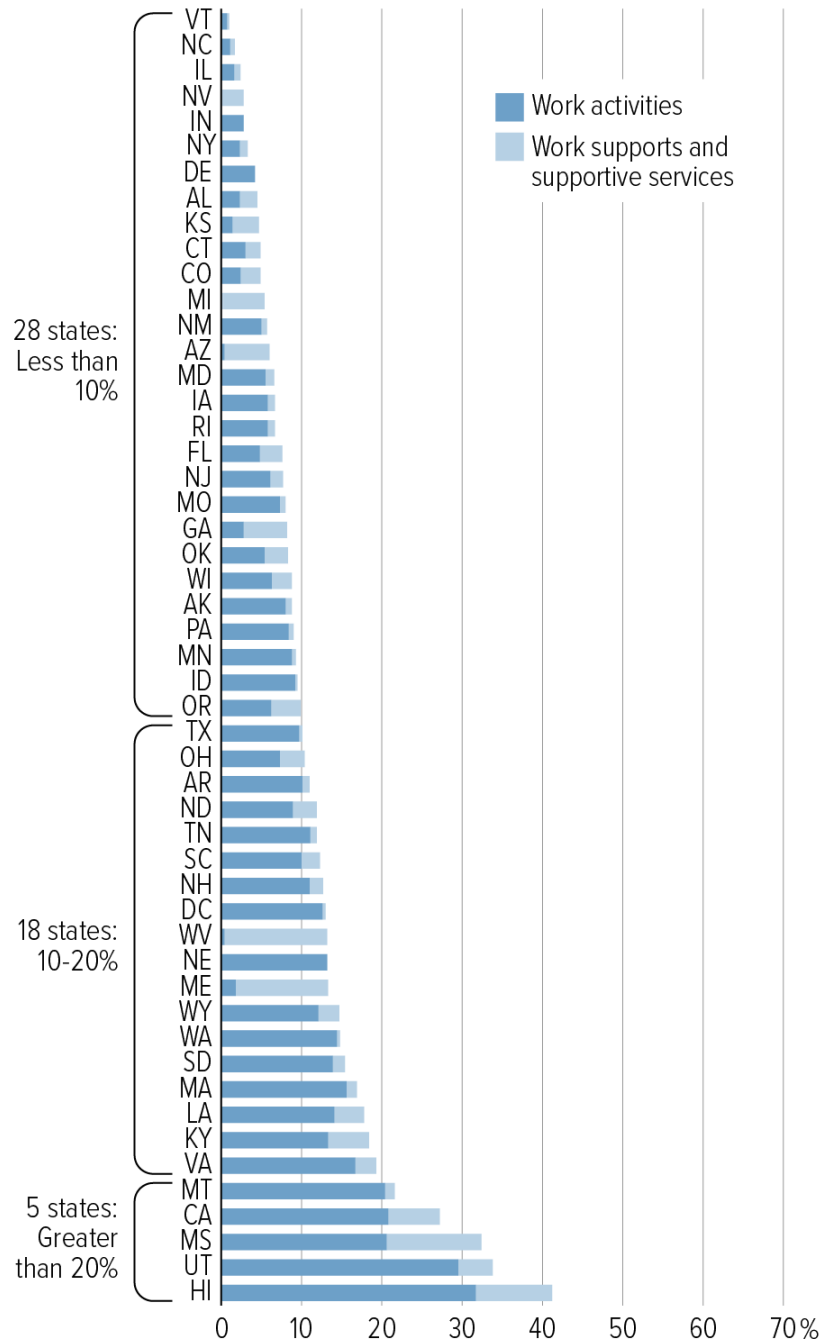
Similarly, states in 2016 spent just \$900 million (3 percent) of their federal and state TANF funds on work supports (such as transportation) or supportive services (such as mental health or domestic violence services). State spending in this area ranged from zero to 13 percent of total TANF spending, with 19 states spending less than 1 percent and nine states spending more than 5 percent.⁹ Eleven states spent less than 5 percent of their funds on work activities and work supports/supportive services *combined* (see Figure 3).

⁸ This analysis combines three categories as work-related activities: subsidized employment, education and training, and additional work activities. Previous CBPP analyses also included work supports such as transportation in this combined work category, but following the revised HHS data form, we now combine work supports with supportive services in a new category. See footnote 9.

⁹ Starting with 2015, we combine spending on work supports and supportive services and break this out separately from overall work-related activities. We include this work supports/supportive services category as part of core welfare reform spending. Previously, we included work supports as part of work-related activities and did not have specific state data on supportive services spending (as it was reported to HHS under "other nonassistance"). The new detail available starting in 2015 provides spending information for supportive services.

FIGURE 3

28 States Spent Less Than 10 Percent of Federal and State TANF Funds on Work Assistance in 2016



Source: CBPP analysis of HHS 2016 TANF financial data

TANF Spending on Child Care to Enable Parents to Work Is Not Sufficient to Meet Need

Another central tenet of welfare reform was that states could spend more of the funds on child care subsidies — which are essential to enabling low-income parents to work — rather than on cash aid. States' TANF spending on child care rose dramatically in TANF's early years (from \$1.1 billion in 1997 to \$5.9 billion in 2000)¹⁰ but has been flat or declining for over a decade, fluctuating between \$5 billion and \$6 billion annually. In 2016, states spent \$5.1 billion (17 percent) of their federal and state TANF funds on child care.¹¹ When considered in inflation-adjusted dollars, this change from 2000 to 2016 represents a 38 percent decrease in TANF spending on child care.

The share spent on child care varies tremendously across states, from zero percent to 61 percent (see Figure 4). Eleven states spent more than 30 percent of their TANF funds on child care, while 13 states spent less than 5 percent.

The need for child care subsidies remains high.¹² Twenty states either have waiting lists or have frozen admissions to their child care programs, and in half the states the income eligibility limit for child care subsidies is a *lower* percentage of the federal poverty line than in 2001.¹³ Low-income parents who can't get a subsidy may not be able to take or keep a job or may have to leave children alone or in an unsafe situation.

¹⁰ Recognizing the importance of child care to support work, the 1996 welfare law created a new Child Care Development Fund under the Child Care and Development Block Grant (CCDBG), which provides a set amount of federal funds for child care each year; CCDBG was reauthorized in 2014. The law also allows states to transfer some of their TANF block grant dollars to CCDBG (up to a cap). In addition, under TANF, states can spend federal or state TANF funds directly on child care (without having to transfer the funds to CCDBG and without any cap or limit) since spending on child care for needy families furthers the TANF goal of connecting families to work. States need not limit child care assistance financed by federal or state TANF funds to families receiving cash assistance; states can also use these funds for families that have left TANF for work or other low-income working families.

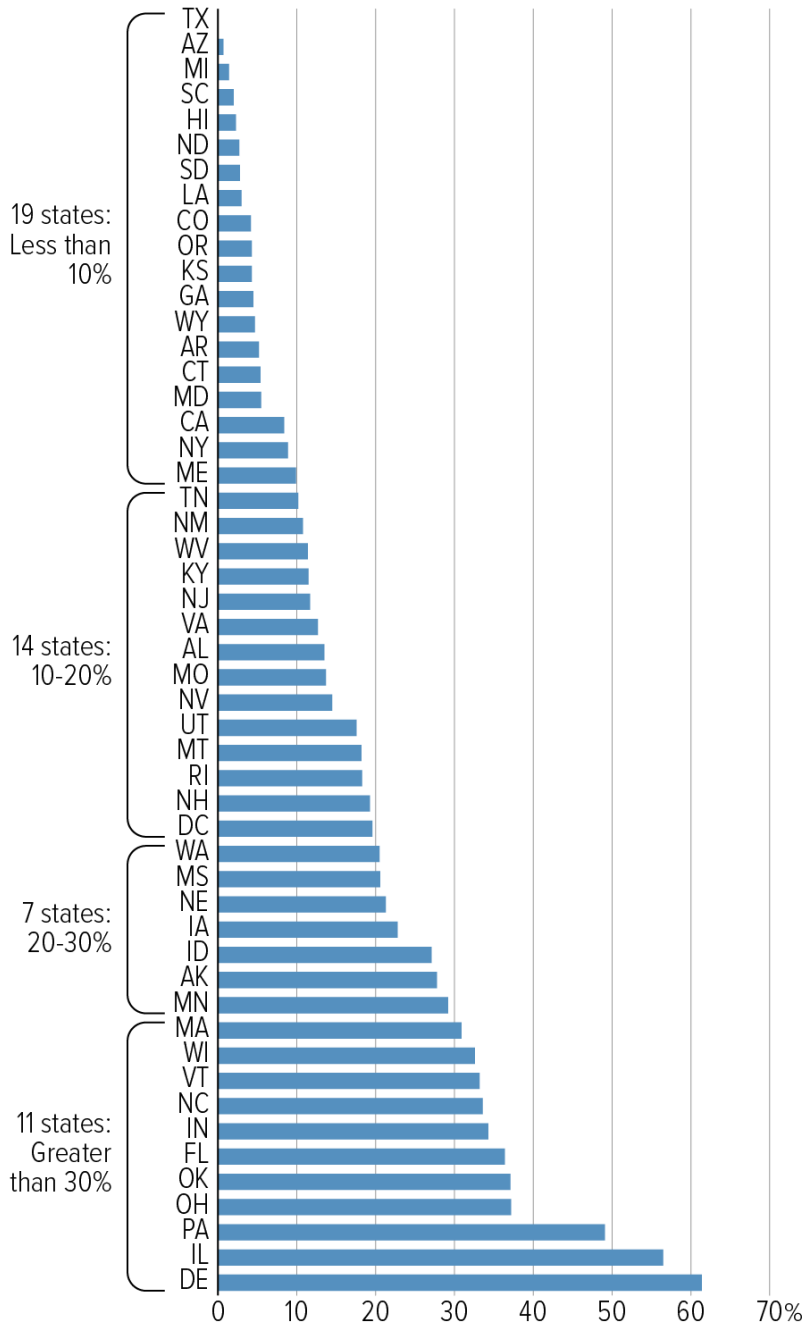
¹¹ This analysis examines trends in state use of federal or state TANF funds for child care, including federal TANF funds transferred to CCDBG, but not other federal funds, such as those directly appropriated to CCDBG.

¹² Karen Schulman and Helen Blank, "Persistent Gaps: State Child Care Assistance Policies in 2017," National Women's Law Center, <https://nwlc-ciw49tixgw5lbbab.stackpathdns.com/wp-content/uploads/2017/10/NWLC-State-Child-Care-Assistance-Policies-2017-1.pdf>.

¹³ *Ibid.*

FIGURE 4

19 States Spent Less Than 10 Percent of Federal and State TANF Funds on Child Care in 2016



Source: CBPP analysis of HHS 2016 TANF financial data

States Spend Nearly Half of TANF Funds Outside Core Welfare Reform Areas

States Spend Relatively Little on Program Management

In 2016, states spent \$3.1 billion (10 percent) of their federal and state TANF funds on program management, which includes administration and systems as well as the cost of screening and assessing applicants and recipients and providing case management services.

Spending on Working-Family Tax Credits Helps These Families Make Ends Meet

Refundable tax credits for low-income working families are an important work support and a permissible use of federal and state TANF funds. In 2016, 23 states spent \$2.8 billion of these funds for refundable tax credits, most commonly a state EITC — 9 percent of national federal and state TANF spending and 12 percent of spending for those 23 states. Among those states, the share of TANF spending going to refundable tax credits ranged from less than 1 percent to 33 percent; nine states spent more than 20 percent.

Refundable state EITCs help working families make ends meet and stay employed. They also reduce poverty among working families, with both immediate and long-lasting benefits for children.¹⁴ The availability of TANF funds may encourage a state to enact or retain a state EITC.

Detail Now Available on How States Spend Rest of TANF Funds

States use the rest of their federal and state TANF funds elsewhere, representing 28 percent of total spending nationwide and more than half of the TANF spending in ten states. The data available since 2015 give richer information on where these funds are used.

The biggest-ticket areas are child welfare services and pre-kindergarten/Head Start. While these and other areas of spending are worthy and important investments, the question remains whether federal and state TANF funds — rather than other state funds — should be used for them, particularly when the average state spends only around *half* of its TANF funds to provide a cash assistance safety net, connect welfare families to work, or provide child care help to low-income working families.

Child welfare. Some 37 states used \$2.2 billion in federal and state TANF funds for child welfare services.¹⁵ This represents 7 percent of total national TANF spending and 9 percent of spending for those 37 states. Among the 37 states, the share of spending going to child welfare services ranged from less than 1 percent to 64 percent; 18 states spent more than 10 percent and ten states spent more than 20 percent.

¹⁴ For more information on state EITCs, see Erica Williams, “States Can Adopt or Expand Earned Income Tax Credits to Build a Stronger Future Economy,” Center on Budget and Policy Priorities, updated February 7, 2018, <https://www.cbpp.org/research/state-budget-and-tax/states-can-adopt-or-expand-earned-income-tax-credits-to-build-a>.

¹⁵ 2016 is the second year for which comprehensive data are available for TANF spending on child welfare services. Child welfare services grouped here include child protective services, family support and preservation, and adoption support as well as foster care payments that are a permissible TANF use because they were “authorized under prior law.”

Pre-K/Head Start. Some 27 states used \$2.3 billion in federal and state TANF funds for pre-K/Head Start in 2016. This represents 7.5 percent of federal and state TANF spending and 13 percent of spending for those 27 states. Among the 27 states, the share of spending going to pre-K/Head Start ranged from less than 1 percent to 63 percent; six states spent more than 20 percent.

Other areas. The rest of federal TANF spending — \$4.1 billion in 2016, representing 13 percent of the total — goes to areas such as short-term non-recurring benefits, which are used to help low-income families in crisis situations (3 percent of total TANF spending), transfers to the Social Services Block Grant (4 percent), preventing out-of-wedlock pregnancies and supporting marriage (2 percent), and services “authorized under prior law,” meaning they are not within the four TANF purposes but were in the state’s AFDC Emergency Assistance plan when TANF replaced AFDC (a little more than 1 percent).¹⁶ The TANF spending data for 2016 provide greater detail on these other areas, showing the share of spending going to home visiting programs (0.2 percent) and services for youth and children (2 percent). (See Appendix I.) The share of spending going to other areas varies greatly across states, ranging from less than 1 percent to 38 percent.

¹⁶ The AUPL spending listed here does not include the child welfare or foster care expenditures that were “authorized under prior law”; those expenditures are included in child welfare services for this report and related state fact sheets and spreadsheet, as well as in the HHS fact sheets and pie charts.

Georgia, Texas, and Arkansas Exemplify Shift of TANF Funds from Core Areas

Three states that have shifted especially large shares of their federal and state TANF funds out of core welfare reform areas, even as poverty and deep poverty in the state have worsened, are Georgia, Texas, and Arkansas.

Georgia. Georgia has increasingly relied on TANF funds in recent years to help meet rising child welfare costs. In 2016, the state used over *half* (\$258 million) of its federal and state TANF funds for child welfare services and programs — more than all but two states.

At the same time, Georgia used less than one-third of its TANF funds for the core welfare reform areas, providing a cash assistance safety net to very few poor families. Only 5 out of every 100 poor families in Georgia received cash assistance in 2015-16, down from 82 of every 100 poor families when TANF was enacted. The state also spent little on activities or supports to help parents get or keep jobs even as poverty and deep poverty have grown in the state.

Texas. In 2016, Texas used nearly 40 percent (\$348 million) of its federal and state TANF funds for pre-K/Head Start, a larger share than any other state except Arkansas. Texas' pre-K spending consisted entirely of state MOE funds, which accounted for 86 percent of Texas' MOE for 2016. In other words, Texas has withdrawn a substantial portion of its own spending for any other uses under TANF. Texas also spent a significant share of federal and state TANF funds on child welfare services — \$366 million, representing 30 percent of the state's total spending. Texas' combined spending on child welfare, pre-K, and "other areas" accounts for over three-quarters of Texas' TANF spending.

Meanwhile, Texas spent only 16 percent of its TANF funds on core welfare reform areas. It provides a very weak temporary cash safety net, serving only 4 out of every 100 poor families in 2015-16, down from 47 out of 100 when TANF was enacted. It also used little TANF funding to help families get or keep jobs and *no* TANF funds on child care to enable low-income parents to keep their jobs and their children safe while they are at work. As in Georgia, the numbers of families in poverty and deep poverty have grown in Texas since 1996.

Arkansas. In 2016, Arkansas used 63 percent (\$97 million) of its federal and state TANF funds for pre-K/Head Start, a larger share than any other state. Arkansas' pre-K spending consisted entirely of state MOE funds, which accounted for 98 percent of the state's MOE for 2016. In other words, Arkansas has withdrawn virtually all of its own spending from any other uses under TANF.

Meanwhile, Arkansas spent only 21 percent of its TANF funds on core welfare reform areas. It provides a very weak temporary cash safety net, serving only 5 out of every 100 poor families in 2015-16, down from 33 out of 100 when TANF was enacted. While dropping in recent years, there are still more Arkansas families in poverty and deep poverty than in 1996.

Lessons from Spending Experience Under TANF Block Grant

The track record of state spending under TANF offers broader lessons about the risks of block-granting core programs for low-income families and giving states greater flexibility on how to spend funds that were previously used to meet basic needs. States' flexibility under TANF has enabled them to divert a significant portion of the funds from supporting needy families to using them to fill state budget holes. The bulk of funds withdrawn from the cash assistance safety net — which had been the primary use of AFDC funds — have *not* gone to programs that connect families to work or to support low-income working families. States sharply reduced the cash assistance safety net during

the early years of welfare reform, when a strong economy reduced the need for assistance, and then largely failed to reinvest in basic assistance when the economy weakened and need increased.

Under TANF, states generally bear the financial burden of meeting increased need for cash assistance when the economy slows or the low-income population grows for other reasons, but many states have not been willing to shoulder that burden. As a result, TANF did not provide an effective safety net in response to the recession. In fact, many states cut spending on basic assistance, work programs, and child care even while continuing to divert much of their federal or state TANF funding to other areas of the state budget.

Key lessons from the TANF experience include:

- **Maintaining a strong safety net for the most disadvantaged families and children has not been a priority for most states.** Block-grant proponents often argue that states are better than the federal government at determining how to help families in need. Yet under TANF, many states shifted substantial funds intended to help poor families meet their basic needs or find and maintain work to other uses, often leaving many of the most disadvantaged families without much of a safety net — *and* without the employment resources that might help them gain a foothold in the labor market. In every state, TANF plays a markedly smaller role in providing cash assistance to help very poor families meet basic needs than AFDC did.
- **States have not used the flexibility of the block grant to invest in helping families prepare for and connect to work.** Moreover, states have used only a modest share of their TANF resources to help individuals find or prepare for employment, and few have invested the necessary resources to help poor parents with the most serious employment barriers make the transition to work. Experience has not borne out proponents' claims that block-granting would enable states to become laboratories for developing new ways to help recipients move from welfare to work. While states had an opportunity and resources to innovate and rigorously evaluate new approaches to service delivery, that is not the path they chose.

TANF's combination of broadly defined purposes and limited accountability for much of its spending has enabled states to divert funds from supporting the poorest families and use them instead to help fill state budget holes. TANF should not bear the burden of inadequate funding from the federal and state governments in other areas, such as child welfare. In addition, the federal TANF block grant has no adjustment for inflation and thus has eroded badly over time, losing over one-third of its value since 1996. These two factors — the funds' diminished value and broadened dispersal — have left states with fewer resources to serve needy families. The lessons of TANF spending patterns should provide a cautionary tale for proposals to restructure other means-tested programs along similar lines.

Appendix I: Background on Funds Available to States Under TANF

Federal Funding

Each state receives a fixed annual amount of federal TANF funding, technically known as the State Family Assistance Grant but generally referred to as the TANF block grant. The total amount of federal block grant funds available to all states each year is \$16.5 billion. The TANF block grant allocations are set for each state in accordance with the 1996 welfare law, based on the amount of federal funding that the state had received in AFDC and related programs before 1996. Each state's annual block grant amount has remained unchanged since TANF's creation and thus has declined in value by more than one-third due to inflation. Because states can carry over unspent TANF funds to use in future years, the amount of federal TANF funds that a state spends in a given year may vary.

A state can transfer up to 30 percent of its block grant funds per year to the Child Care and Development Block Grant (CCDBG) and up to 10 percent to the Social Services Block Grant (SSBG), as long as the *total* amount transferred doesn't exceed 30 percent. Transferred funds are subject to the rules of the program to which they are transferred, not to TANF rules. Funds transferred to SSBG must be spent on programs and services for children or families with incomes below 200 percent of the poverty line.

In addition to the basic block grant, some states can receive additional TANF federal funds from the TANF Contingency Fund. Congress created this \$2 billion fund in the 1996 welfare law to provide additional help to states in hard economic times. States made little use of it until the latest recession, but they began to draw on it in 2008, and nearly half of the states have done so since then. After the original \$2 billion provided in 1996 was depleted early in fiscal year 2010, Congress has added limited funds for each year; qualifying states have received less than half of the amount for which they qualified each year since 2010.

State Maintenance-of-Effort Funding

Each year, states are required to meet a maintenance-of-effort (MOE) obligation under the TANF block grant or face a fiscal penalty. (The statute refers to this spending as "qualified state expenditures" but common usage is "state MOE.") Each state's MOE amount is based on its historical spending, defined as its 1994 financial contribution to AFDC and related work programs. To meet its MOE obligation, a state must report spending at least 80 percent of this historical spending level; this minimum share falls to 75 percent for any year in which a state meets its TANF work participation rate requirement.

The fact that the MOE requirement is only 75 percent or 80 percent of a state's historical spending, rather than the full 100 percent, itself allowed states to withdraw part of the funds they had spent on AFDC and related programs. Moreover, a state's MOE requirement is based on its 1994 expenditure level, with *no* adjustment for inflation over the years since then.

Expenditures that qualify as MOE include state and local government spending or other "third-party" spending that benefits members of needy families and meets one of TANF's four purposes. Examples of qualifying third-party expenditures include spending by food banks or domestic violence shelters on TANF-eligible families. Third-party MOE also can include *in-kind*

contributions, such as volunteer hours or employer-provided supervision and training for people in subsidized jobs.

Since the Deficit Reduction Act of 2005 made it harder for states to meet their TANF work participation rate requirements — thereby threatening some states with the loss of some federal TANF funds due to penalties — a number of states have found it advantageous to claim as MOE certain existing expenditures they hadn't previously claimed. States with MOE spending exceeding their minimum MOE requirement can obtain a “caseload reduction credit” that lowers their work participation rate requirement. Claiming excess MOE also helps a state qualify for additional federal money from the TANF Contingency Fund.

Thus, since 2006, total MOE spending across states has risen above the minimum required levels. In 2016, 38 states reported spending over 80 percent MOE, with 25 of these reporting spending of more than 100 percent. *This increase does not necessarily represent an increase either in underlying state spending or in benefits or services for low-income families.* Some of the reported MOE may represent existing state spending or existing third-party spending that the state hadn't previously counted as MOE. In analyzing a state's TANF and MOE expenditures, therefore, it is important to understand the extent to which they may be part of an “excess MOE” strategy.

MOE expenditures must occur during the year for which the state claims them; states cannot carry them over to a future year. MOE expenditures can come from any area of the state budget and are not limited to spending by the TANF agency. MOE spending, however, must be an actual expenditure, not simply forgone revenue; thus, a state can count the refundable portion of a state EITC as MOE but not the portion that simply reduces the amount of income tax owed to the state.

Appendix II: CBPP Groupings of Federal TANF Reporting Categories

CBPP Category	Federal Reporting Categories
Basic Assistance	Basic Assistance (excluding Relative Foster Care Maintenance Payments and Adoption and Guardianship Subsidies) Relative Foster Care Maintenance Payments and Adoption and Guardianship Subsidies
Work-Related Activities	Subsidized Employment Education and Training Additional Work Activities
Work Supports and Supportive Services	Work Supports Supportive Services
Child Care	Child Care - Assistance and Nonassistance Transferred to Child Care and Development Fund
Program Management	Administrative Costs Assessment/Service Provision Systems
Refundable Tax Credits	Refundable Earned Income Tax Credit Non-EITC Refundable State Tax Credits
Child Welfare Services	Family Support/Family Preservation/Reunification Adoption Services Additional Child Welfare Services Authorized Under Prior Law: Child Welfare or Foster Care (Assistance and Nonassistance)
Pre-Kindergarten/Head Start	Pre-Kindergarten/Head Start
Other Areas	Nonrecurrent Short-Term Benefits

Appendix II: CBPP Groupings of Federal TANF Reporting Categories

Transferred to Social Services Block Grant
Services for Children and Youth
Home Visiting Programs
Financial Education and Asset Development
Authorized Solely Under Prior Law (Assistance
and Nonassistance): Juvenile Justice Payments
Authorized Solely Under Prior Law (Assistance
and Nonassistance): Emergency Assistance
Authorized Solely Under Prior Law