

The TANF Fiscal Structure: Trends, Implications of Reauthorization and Katrina

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This presentation

- Background
- Trends and current picture
- Status, Impact of Reauthorization
- Katrina Issues and Impacts
- The TANF Fiscal Structure and the Future

1996 Law

- Repealed former program of open-ended federal match for benefit expenditures for eligible families, fixed sums of matching funds for employment and training.
- Replaced with lump sum block grants to states, subject to state maintenance of effort requirement.

TANF Purposes

- (1) provide assistance to needy families so that the children may be cared for in their homes or in the homes of relatives;
- (2) end the dependency of needy parents on government benefits by promoting job preparation, work, and marriage;
- (3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- (4) encourage the formation and maintenance of two-parent families.

Key Features of the TANF Fiscal Structure

- **TANF Funding**

- Each state receives block grant each year, with amount generally reflecting amount state had received in early/mid-1990s from programs repealed when TANF enacted.
 - AFDC benefits and administration, JOBS, Emergency Assistance
- 17 states receive supplemental grants, amounts grew through 2001, flat since then, and not permanently authorized, must be renewed.
- Only other adjustments are for bonuses, penalties, allocations to tribes.

- **Maintenance of Effort (MOE)**

- To avoid penalty, state must meet maintenance of effort obligation, set at 80 percent of 1994 spending for a set of programs (or 75 percent if state meets participation rate).

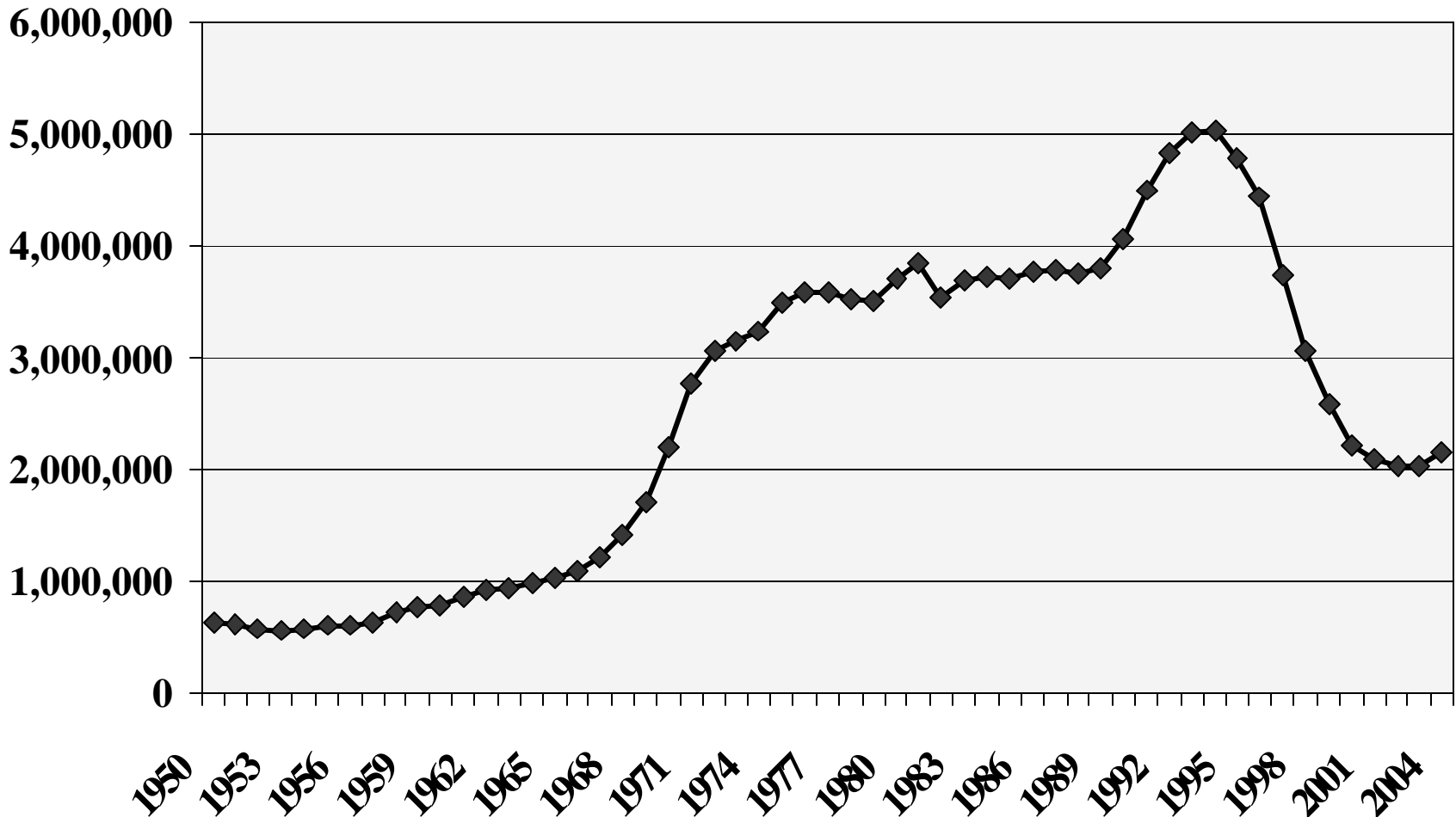
How Funds Can be used

- TANF
 - Expenditures reasonably calculated to accomplish a TANF purpose.
 - Authorized under prior law (generally, juvenile justice/foster care).
 - Transfer up to 30% to child care block grant and Title XX (Social Services), but no more than 10% to Social Services.
- Maintenance of effort
 - Expenditures reasonably calculated to accomplish a TANF purpose, but must be for needy families.
 - May be inside or outside of state TANF program.

The TANF Fiscal Story: Total Use of Funds

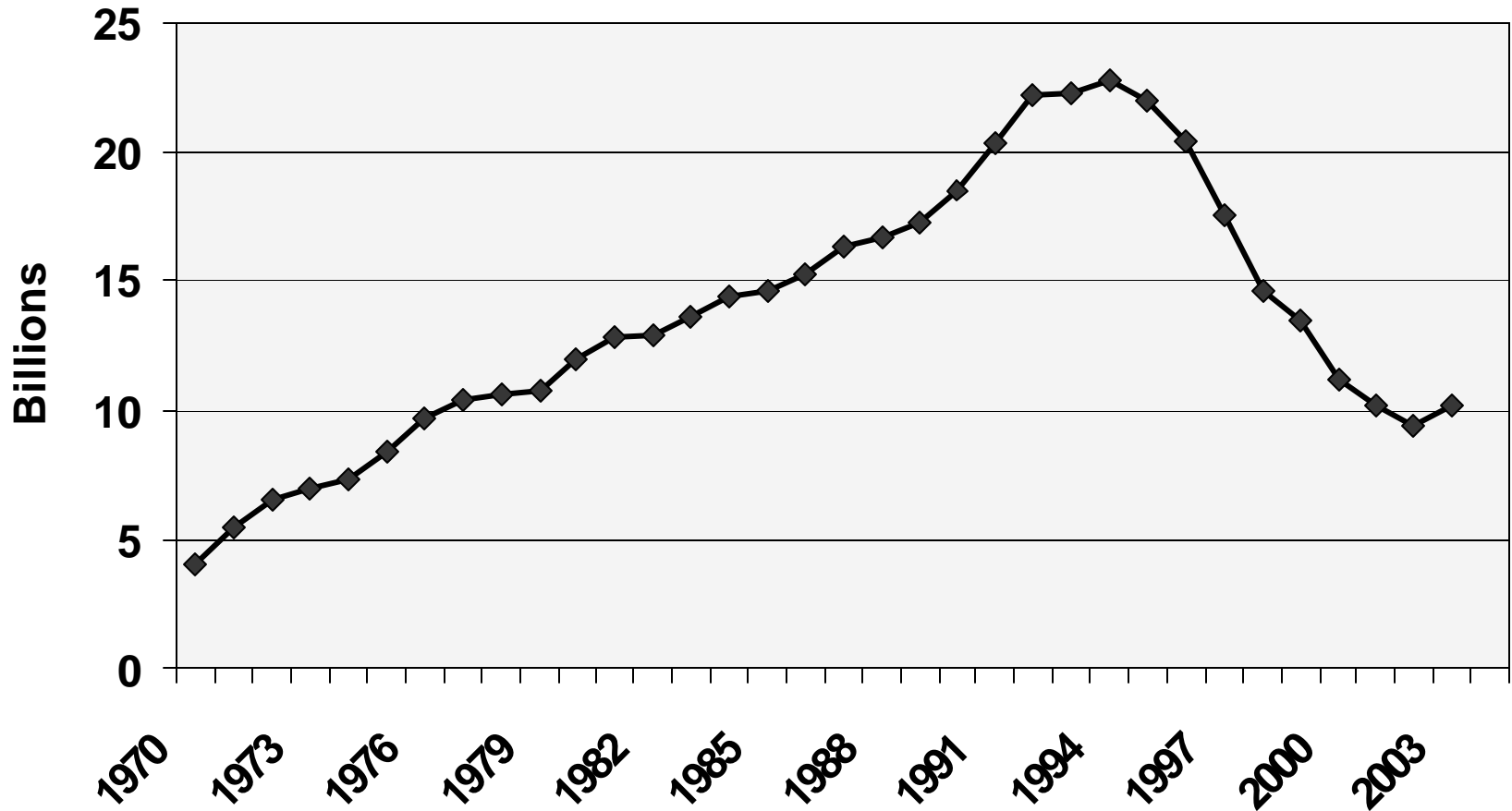
- In first years of TANF, cash assistance caseloads and expenditures fell sharply.
- This freed up substantial amounts of funds for other possible uses.
- Initially, states didn't spend full block grants, reserves accumulated.
- Reserves peaked in 2000, have been declining since then.

Number of Families Receiving AFDC/TANF, 1950-2004

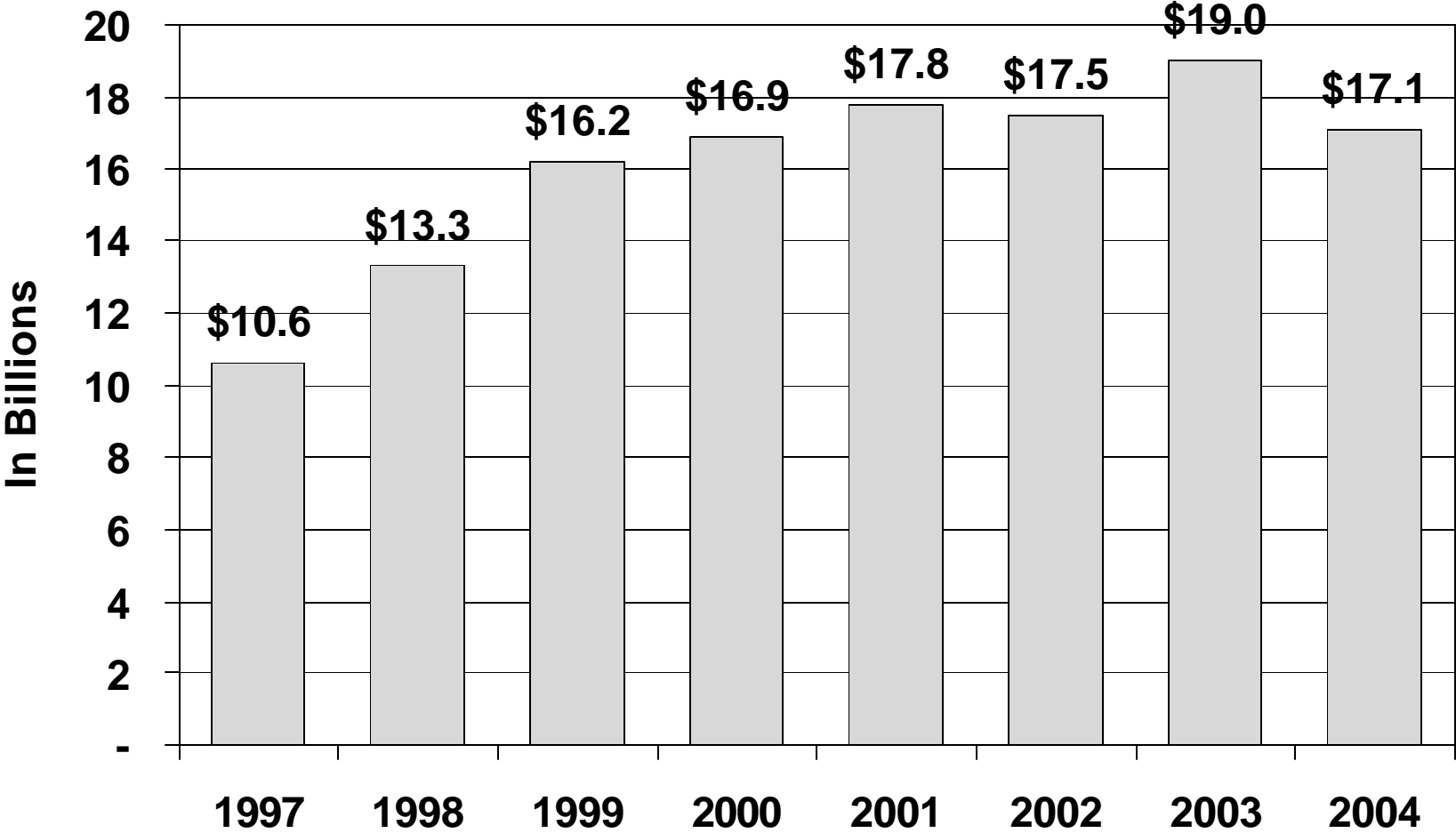


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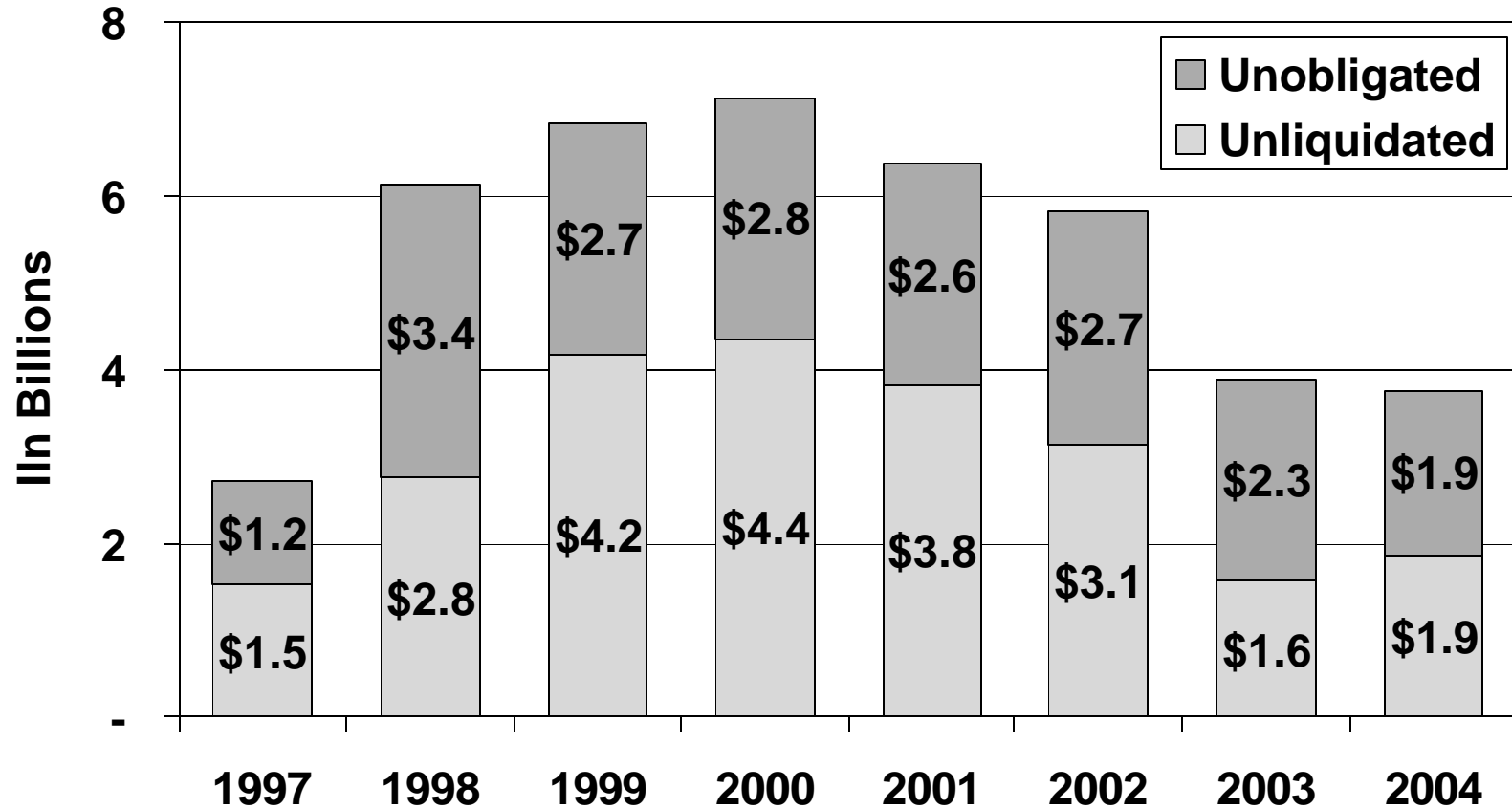
AFDC/TANF Cash Assistance Expenditures, 1970-2004



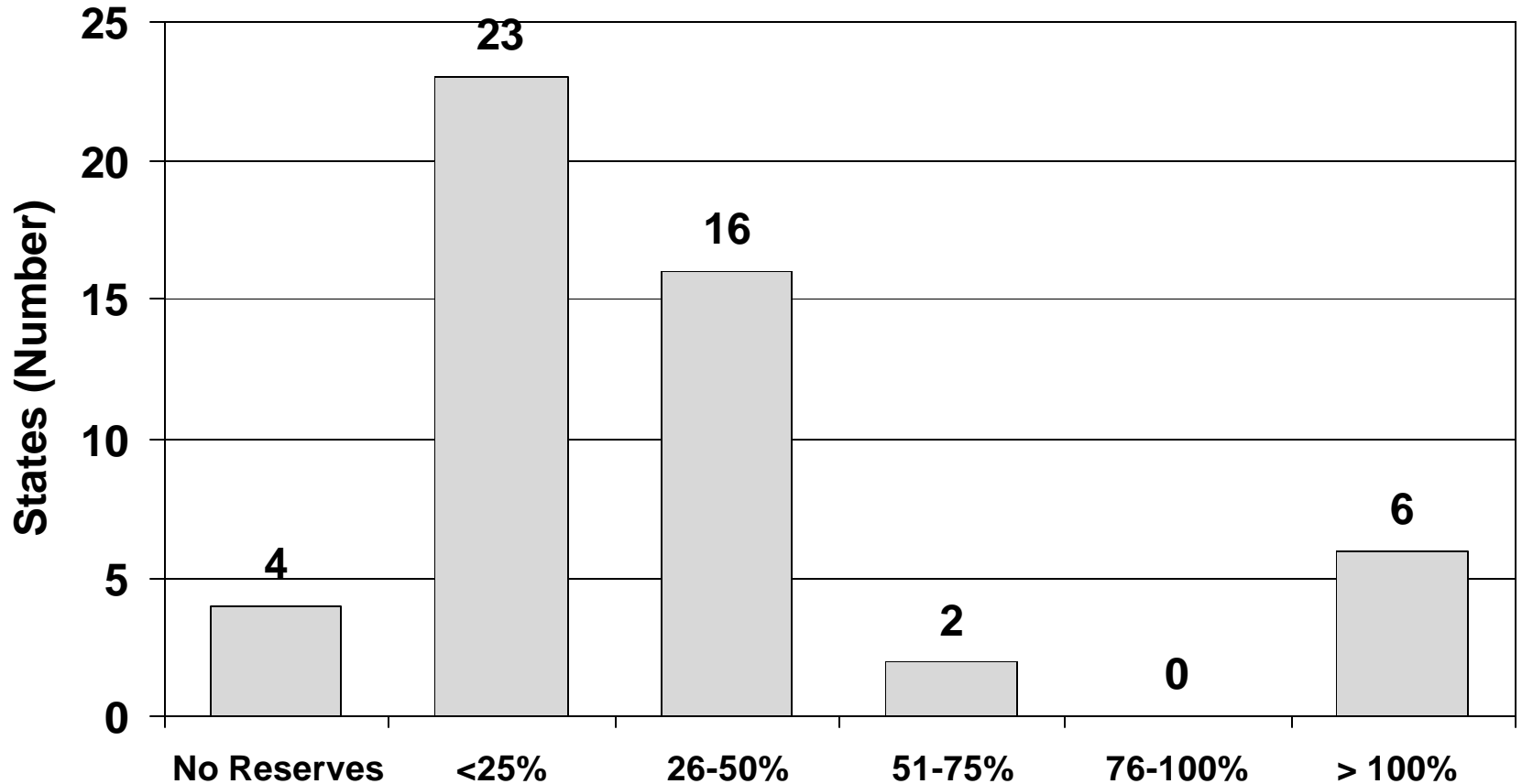
TANF Funds Used (Spent or Transferred), 1997-2004



Amount of unspent funds (unliquidated obligations and unobligated funds) 1997-2004



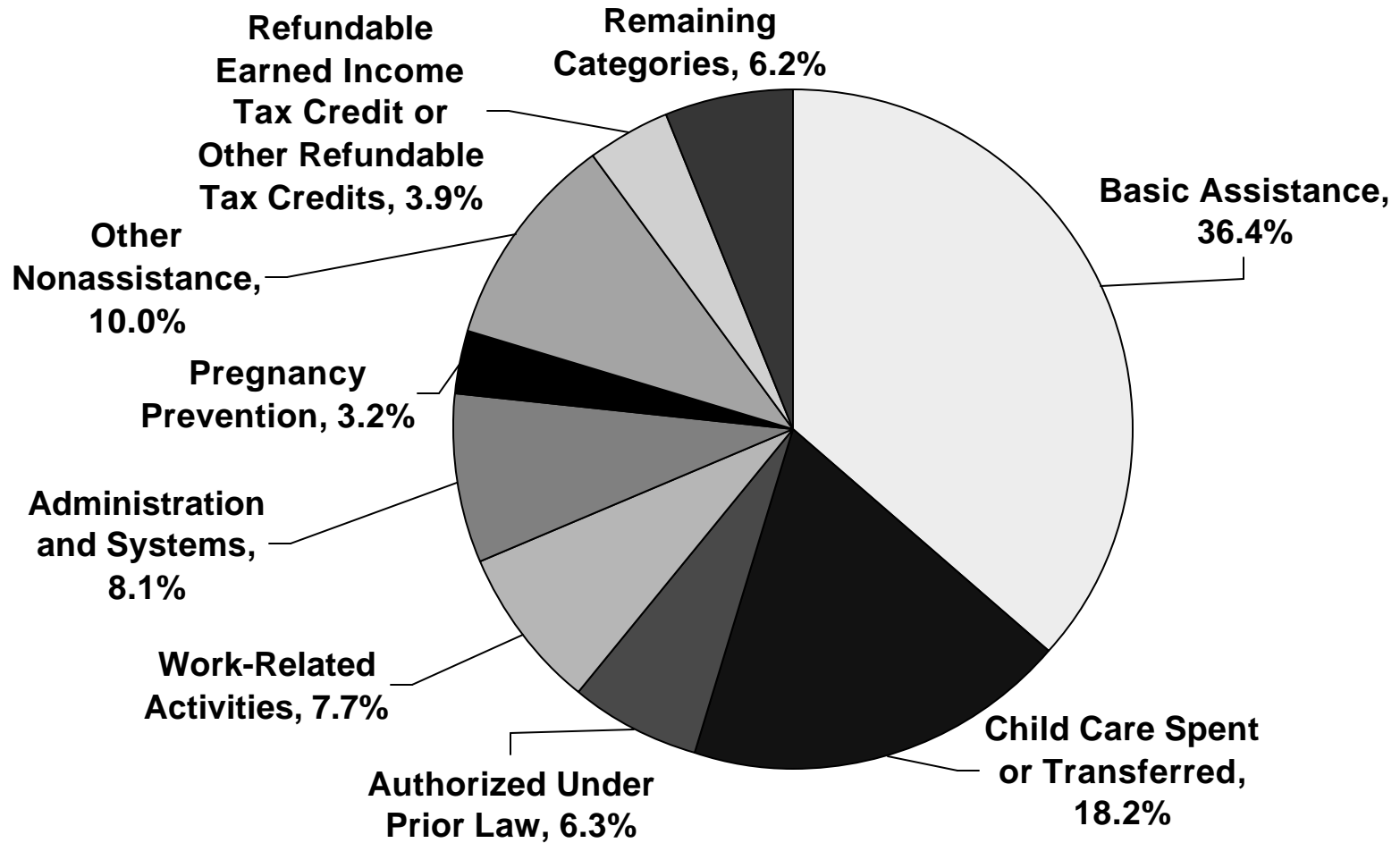
Unspent prior year funds as percentage of annual TANF grant in 2004



TANF Fiscal Story: How Funds Have Been Used

- Expenditures for cash assistance initially fell sharply, now represent about 36% of federal and state total.
- Initially, single biggest redirection to child care.
- Redirection to child care peaked in 2000, growth in “other nonassistance” and “authorized under prior law” in recent years.

Share of Federal and State TANF Funds Used by Category, 2004

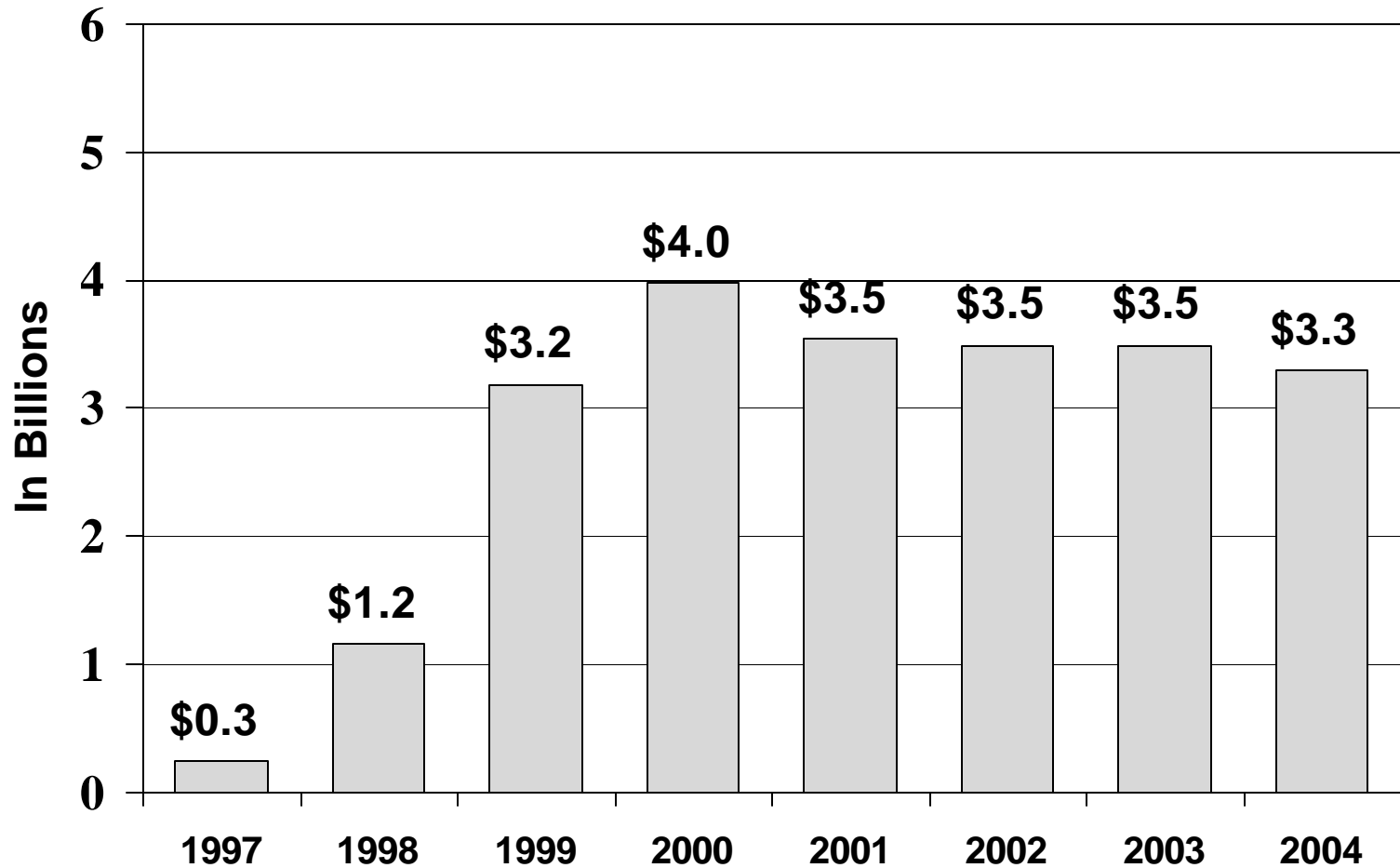


TANF and MOE Use of Funds, 1998-2004, in Billions

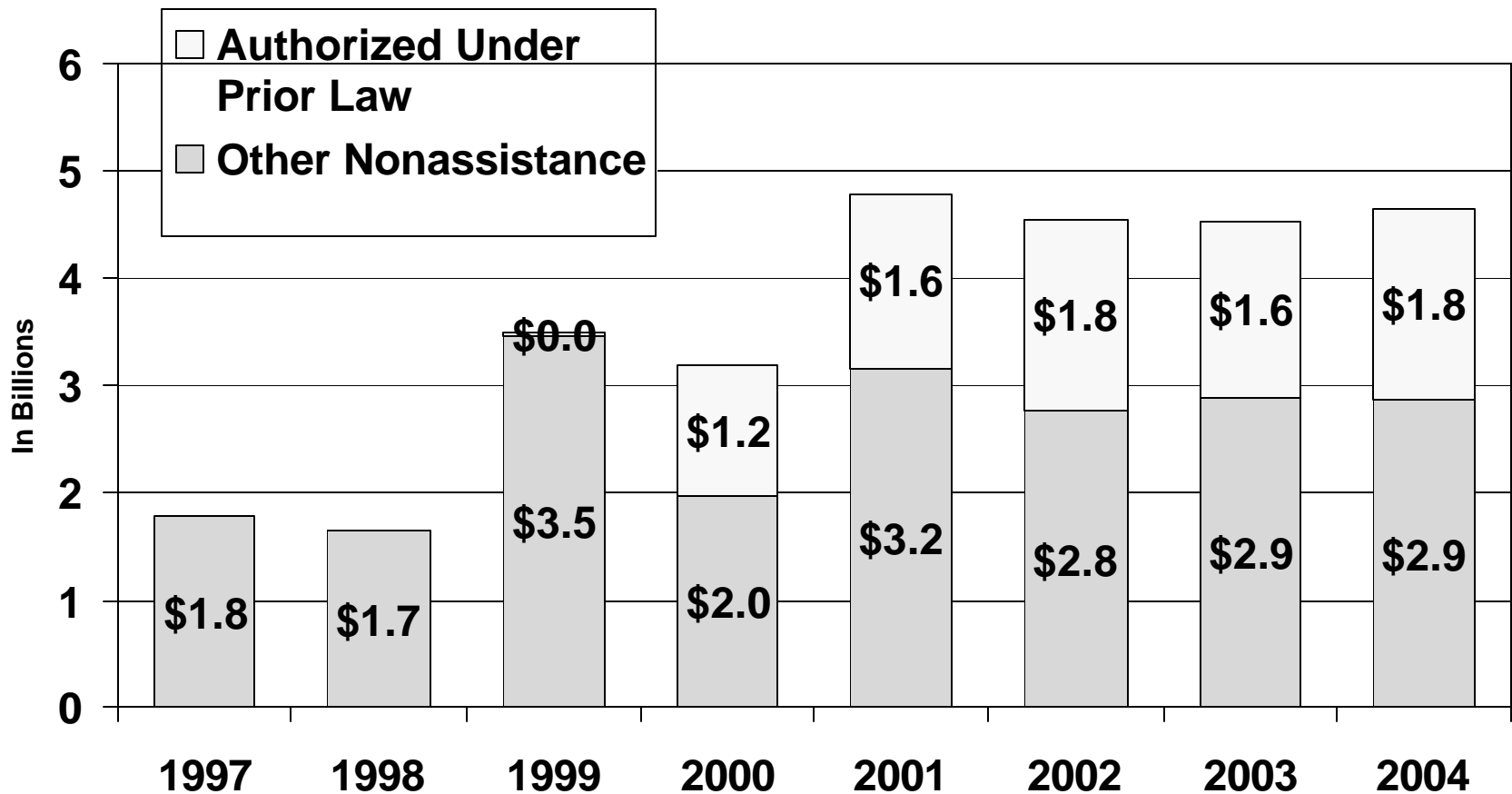
	1998	1999	2000	2001	2002	2003	2004
Basic Assistance	13.9	13.2	11.2	10.1	9.4	11.0	10.4
Child Care Spent or Transferred	2.2	4.7	5.9	5.3	5.4	5.5	5.2
Total Work Related Activities	1.6	1.8	2.5	2.7	2.7	2.5	2.2
Administration & Systems	2.3	2.4	2.6	2.7	2.6	2.5	2.3
Other	1.6	3.5	5.0	6.7	7.2	8.5	8.5

Other categories include Transportation and Supportive Services, Authorized Under Prior Law, Individual Development Accounts, Refundable EITC or Other Refundable Tax Credit, Nonrecurrent Short Term Benefits, Pregnancy Prevention, Two Parent Family Formation, and Other Non-Assistance.

Use of TANF for Child Care, 1997-2004



Spending on Other Nonassistance and Authorized Under Prior Law, 1997-2004



Note: Before 2000, states reported “other” rather than “other nonassistance” and “authorized under prior law” was not a reporting category.

Reauthorization Timetable

- Scheduled for 2002
- 10 short-term extensions so far, 11th is pending.
- Could occur later this year, but Congressional schedule unclear.
 - Had been anticipated that there would be an effort to include in budget reconciliation process.
 - Process delayed from September to October, unclear whether it will proceed as scheduled.
 - Bipartisan letter, including Senators Snowe and Smith, have urged indefinite delays in entitlement cuts.

Why hasn't reauthorization happened?

- Substantive disputes:
 - Principally about details of work participation rates for TANF recipients, amount of child care funding.
- Administrative proposal has been controversial, House has adopted, Senate has not.
- Sufficient controversy to prevent enactment, no compelling political or other reason to resolve differences.

If there's reauthorization along lines of current bills, states should anticipate...

- As to money:
 - TANF funding will be flat (at best) for next five years.
 - Most bonus funds will be redirected to funding for Administration's proposed marriage initiative, with these earmarked marriage funds allocated by HHS.
 - Unclear what will happen to child care funding:
 - Administration proposes no new funding.
 - House bill -- \$1 billion over 5 years.
 - Senate Finance bill -- \$6 billion over 5 years.
 - If in budget reconciliation, extremely difficult to add additional funding.

If reauthorization along current lines...

- As to policy:
 - Universal engagement – states must develop plans for all families receiving assistance.
 - Work participation rates will increase, but key details still unresolved:
 - Whether required rates adjusted based on caseload reduction or families getting jobs, other factors;
 - How many hours in order to count;
 - Which activities count, for how long.

Work Participation: Why details matter

- Both bills eventually require 70 percent rate before adjustments, but Congressional Research Service estimates that:
 - Almost all states (except DC, PA, TN) would face effective rate not exceeding 50 percent under Senate, because of credits;
 - National average rate (based on 2003 participation data) of 30 percent under House, 39 percent under Senate.

Katrina: HHS guidance

- HHS lacks general waiver authority in TANF, and no automatic provisions for additional funding to states.
- HHS guidance at <http://www.acf.hhs.gov/programs/ofa/hurricane.htm>
 - Emphasizes state flexibility, need to help, nonrecurrent short term benefits not subject to TANF “assistance” requirements
 - Most penalties subject to a “reasonable cause” exception, natural disaster can be reasonable cause.

Katrina: Legislation

- H.R. 3672, TANF Emergency Response and Recovery Act of 2005, passed House Sept. 7, Senate Sept. 15.
 - May be modified soon; Senators Grassley and Baucus introduced S. 1716, proposing changes, on Sept. 15.

Key features of H.R. 3672

- TANF funding extended through December 31, 2005 for all states.
- Loans up to 20 percent of their TANF grants, no penalty for nonrepayment, for Alabama, Louisiana, and Mississippi.
- All states eligible for 100 percent federal reimbursement through TANF contingency fund for nonrecurrent short term cash benefits for families affected by Katrina:
 - State must determine family is not receiving TANF cash benefits from another state.
 - State can qualify for up to 1/12 of 20% of its basic TANF grant each month for qualifying expenses, as long as there is funding remaining in the contingency fund (currently, about \$1.9 billion).
- States may use unspent prior-year TANF funds to provide any allowable TANF benefit or service for needy families affected by Hurricane Katrina.
- Short-term nonrecurrent benefits to meet subsistence needs resulting from Katrina not subject to TANF work requirements or time limits through FFY 06;
- Louisiana, Mississippi, and Alabama eligible for penalty relief for a number of TANF penalties if Secretary determines failure resulted from Hurricane Katrina or reasonable conduct in addressing needs of victims of Hurricane Katrina.

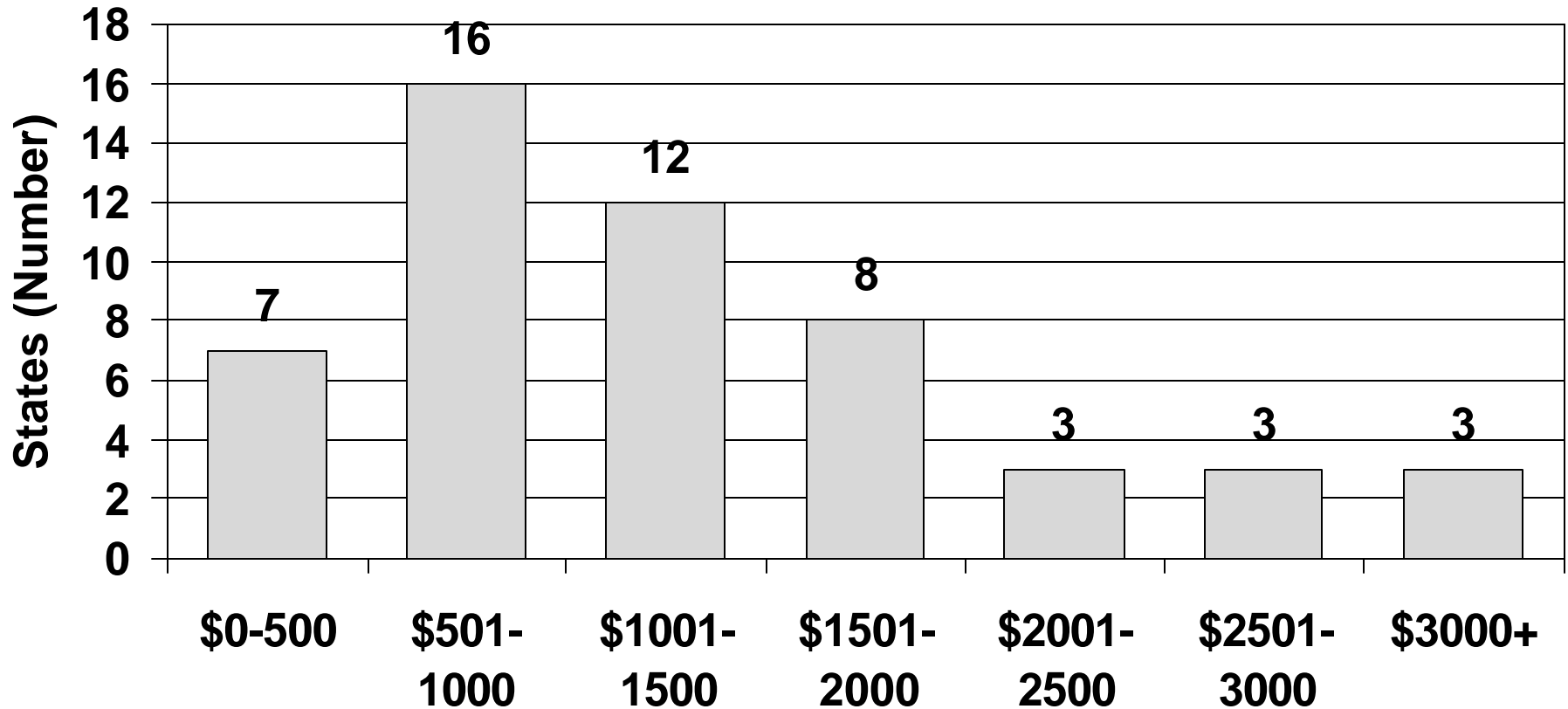
Grassley-Baucus proposed modifications to H.R. 3672

- Contingency fund available for any TANF benefit or service in Alabama, Louisiana and Mississippi (“direct impact states”), and other states for families that moved as a result of the hurricane;
- Direct impact states could receive 5% of their TANF family assistance grants each month; other states could receive reimbursements for allowable expenses up to 5% of TANF family assistance grants each month;
- No cap on contingency fund between 8-29-05 and 9-30-06;
- Costs incurred on or after 8-29-05 eligible for reimbursement;
- Amount of loan with no nonrepayment penalty for direct impact states increased to 40 percent of their family assistance grants;
- Katrina emergency benefits not subject to TANF time limits, work, child support assignment and cooperation requirements.
 - Defined as any allowable TANF benefit or service in direct impact states to families state deems needy based on their statement, circumstance, or inability to access resources, or families from direct impact states that have moved to other states.

The future?

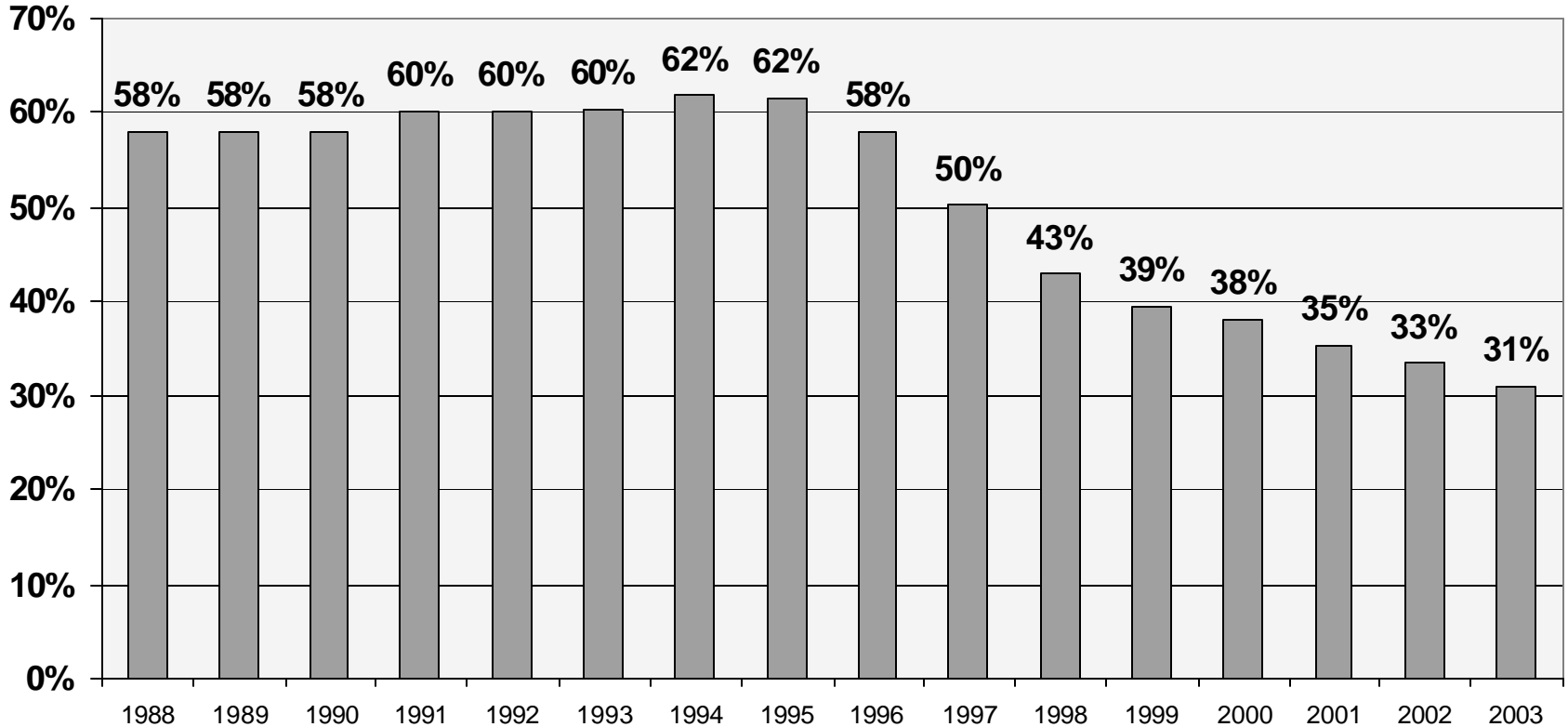
- Block grants continue to reflect amounts states received from federal government in early/mid 1990s
 - No inflation adjustment
 - Fiscal pressures will steadily grow over time
 - No adjustments for needs
- Controversies about what spending is appropriate
 - Supplantation
 - Expenditures allowable, but more distant from law's purposes
- Steadily smaller share of poor children served, Katrina raises new questions about responsiveness to needs.

State TANF grants, considered as amounts per child in poverty



Note: Numbers of children in poverty based on Department of Census,
American Community Survey, 2004

Share of Poor Children Receiving AFDC/TANF, 1988-2002



Source: HHS, Indicators of Welfare Dependence, 2005.

Calculation based on comparing number of children receiving TANF assistance to number in poverty.