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How States Used TANF and MOE Funds in FY 2002: The Picture from Federal Reporting

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The Department of Health and Human Services has released financial data for states' use of federal Temporary Assistance for Needy Families (TANF) and state maintenance of effort (MOE) funds for the 2002 fiscal year (FY). Drawing from this federal financial reporting, we describe here how TANF and MOE funds were used in FY 2002 and we discuss policy implications. An appendix provides details about rules relating to the use and spending of TANF and MOE funds.[1]

Our key findings and conclusions include:

- Spending and use of funds continued to grow in FY 2002. The amount of funds spent and transferred in FY 2002 exceeded the amount of annual block grants states received. This means that without additional funding, states will be forced to cut levels for TANF-funded benefits and services in future years.
- Spending on basic assistance continued to decline and now represents only about one third of TANF and MOE spending. The great majority of TANF and MOE funds are now being used for benefits and services other than cash assistance.
- Child care continues to be the second largest use of TANF funds after basic assistance, representing nearly one-fifth of TANF and MOE funding, though the share of TANF and MOE funding committed to child care was not substantially different in FY 2002 than in FY 2000.
- Relatively large amounts of TANF funds are being expended in categories for which there is only limited information: "Other Nonassistance" and "Activities Authorized Under Prior Law." Financial reporting requirements need to be reexamined and modified to improve the information available about use of

[1] Federal financial reporting information on TANF for FY 1997 through FY 2002 at http://www.acf.dhhs.gov/programs/ofs/data/index.html. In this paper, we provide occasional comparisons to the way funds were used in FY 2000. (CLASP's more detailed discussion of FY 2000 spending can be located at http://www.clasp.org/DMS/Documents/1011382930.14/anaylsis%20of%20fiscal%20year%202000.htm.) As discussed in the appendix, it is impossible to make a precise statement about how TANF funds are used in a year or how current-year use compares with that of a prior year, because under the reporting instructions, a state may modify its reported use of prior year funds and report this modification as an adjustment to current year spending. Thus, any statements about a current year or about comparisons to a prior year need to be viewed as approximate. In particular, the U.S. Department of Health and Human Services has indicated they will shortly release revised and updated financial reporting information for FY 2000. We therefore treat the unrevised FY 2000 figures cited here as approximate.

TANF funds in those areas for which federal reporting categories are not very informative.

We discuss these and additional findings below.

The 2002 Data

Combined TANF and MOE expenditures grew in FY 2002. In FY 2002, states spent and transferred more federal TANF funds than were allocated in the total block grant. States' use of federal funds totaled $17.5 billion in FY 2002, composed of $14.6 billion in spending, and $3 billion in transfers.[2] The FY 2002 spending level, $14.6 billion, represents a significant increase from the approximately $12.5 billion spent two years ago, in FY 2000. Reported maintenance of effort expenditures declined, however. MOE expenditures fell from $11.1 billion in 2000 to $10.8 billion in FY 2002. Overall, combined TANF and MOE expenditures and transfers grew from $23.6 billion in FY 2000 to $28.4 billion in FY 2002.

The amount of unobligated funds available for "rainy day" spending appears to have dropped significantly. Unspent TANF funds appear in two categories: unliquidated obligations and unobligated balances. Unliquidated obligations are funds that the state has made a legal commitment to spend, but has not yet spent, e.g., the amount of a state's contract for goods and services. Unobligated balances are funds that have not been legally committed, and are therefore sometimes referred to as "rainy day" funds, because they are available to help states cover unexpected costs. In FY 2002, the amount of unobligated funding available for states had dropped to $2.7 billion, from $3.2 billion in FY 2000. (The use of unliquidated and unobligated funds explains how states were able to expend more federal funds in FY 2002 than they received through the block grant: they used unspent money from prior years.) Unliquidated obligations also dropped, from $5.5 billion in FY 2000 to $3.1 billion in FY 2002.

"Basic Assistance" is still the largest spending category, but continued to decline, and represented only 33 percent of all funds used. In FY 2002, states spent $9.4 billion in TANF and MOE funds on basic assistance—about $2 billion less than in FY 2000. The amount spent on basic assistance has declined in every year since TANF implementation.

Child care is the second largest category of use of funds. States spent or transferred $5.4 billion in TANF and MOE funds for child care in FY 2002, representing 19 percent of all funds used that year. The child care total is comprised of $1.6 billion in TANF spending, $1.9 billion in transfers to the Child Care and Development Fund (CCDF), and $1.9 billion in MOE spending. It appears that the amount spent on transfers CCDF may have declined slightly, while the amount of "direct spending" of TANF funds for child care increased.

[2] Note that figures may not always sum precisely due to rounding.

Two categories for which there is little information—"Other Nonassistance" and "Activities Authorized Under Prior Law"—represent a substantial share and a large dollar amount of TANF and MOE expenditures. In FY 2002, states spent $2.8 billion on "Other Nonassistance" and $1.8 billion on benefits and services "Authorized Under Prior Law." Together, these two categories now make up 16 percent of all TANF and MOE funds used. While details are not provided, "Authorized Under Prior Law" is likely to include juvenile justice, foster care, and other child welfare-related expenditures. "Other Nonassistance" may include a broad range of unspecified benefits and services. It appears that expenditures in these categories, and particularly in Other Nonassistance, have risen dramatically since FY 2000. In FY 2000, states reported spending $1.8 billion on Other Nonassistance and $1 billion on benefits and services authorized under prior law.

The amount of funds spent on "Education and Training" grew, though remains small as a share of funds spent. In FY 2002, $462 million was used for Education and Training, making up less than 2 percent of total funds used. In percentage terms, this figure does represent an increase from FY 2000 (when 1 percent was used for education and training) but the amount remains low.

States continue to spend substantially on "Other Work Activities/Expenses," and "Transportation and Supportive Services." In FY 2002, spending for other work activities/expenses (i.e., not including education and training) was $2.3 billion and spending for transportation and supportive services was $584 million. Spending on other work activities/expenses appears to be somewhat higher than what was spent in FY 2000, increasing by approximately $250 million. Spending on transportation and supportive services did not show a large change between the two years.

Spending on "Administration and Systems" makes up less than 10 percent of all funds used. In FY 2002, spending for "Administration and Systems" was $2.6 billion. Spending on administrative costs alone (not including systems) is capped at 15 percent.

In FY 2002, states transferred over $1 billion to the Social Services Block Grant. This amount appears to have remained relatively constant since FY 2000.

The amount of funds used for "Pregnancy Prevention" appears to have increased dramatically, although the share spent remains less than 3 percent of all TANF and MOE funds used. Reported pregnancy prevention expenditures reached $726 million in FY 2002. This appears to be a substantial increase from spending reported in FY 2000, which totaled only $102 million. Nonetheless, even at the new, higher level of spending, the share of funds used in this category represents only 2.6 percent of all funds used.

Funding in other categories remains relatively small. States reported no net spending for "Work Subsidies" in FY 2002.[3] The category with the least amount of funding in FY

[3] Net reported expenditures for "Work Subsidies" in FY 2002 actually appear as a cumulative negative sum for the year. The reason appears to be that states recategorized in FY 2002 prior year spending that had previously been reported as expenditures for "Work Subsidies."

2002 was "Individual Development Accounts," for which states spent $7.7 million. "Non-Recurrent Short-Term Benefits" were also modestly funded, at $238 million, as was "Two Parent Formation," for which states spent $284 million. States spent somewhat more on "Refundable EITC or Other Refundable Tax Credits" ($766 million). All of these levels of funding appear to be significantly higher than what was spent on them in FY 2000, even as the overall levels remain relatively low compared to many other categories.

Discussion

The data confirm the finding previously reported by the Center on Budget and Policy Priorities that in FY 2002, states were spending and using more federal TANF funds than they received from the federal government during that year.[4] As a result, the amount of unspent TANF funds dropped by close to $3 billion between FY 2000 and FY 2002. Given this level of usage, without increases in TANF funding, it will be impossible for states to sustain current levels of benefits and services over time. Since neither H.R. 4, the reauthorization bill which passed in the House, nor the bill that passed the Senate Finance Committee last year provided for additional TANF funding for all states, it seems likely that the TANF fiscal squeeze will become more severe in the coming years.

The data show the continuing decline in use of TANF for cash assistance, and the growth in use of TANF for a wide array of other benefits and services. Although TANF is often still perceived as a cash assistance program, "Basic Assistance" now comprises only 33 percent of TANF and MOE funds used. Instead, the FY 2002 data show that as welfare caseloads fell during the first several years of welfare reform, states have expanded their expenditures for education and training, work subsidies, and other work activities/expenses. Some share of the families receiving such benefits and services do not receive cash assistance, though it is impossible to tell from this reporting what share such families comprise. Nevertheless, it seems very likely that work-related expenditures per family receiving assistance grew in 2002. The funding directed away from basic assistance is also being used to build and expand supports for low-earning working families outside the traditional welfare system. This is evident in the amount of TANF and MOE funds being used for child care, and the growth of expenditures for refundable tax credits, nonrecurrent short-term benefits, and transportation and other supportive services.

In earlier years of TANF funding, the share committed to child care grew each year. That process appears to have essentially ended by FY 2002, reflecting competing priorities and the fact that annualized spending now exceeds the amount of the block grant. Redirection of TANF funds was the principal reason for the growth in child care spending from 1996 to 2000.[5] In reauthorizing the child care block grant, it will be

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[4] Neuberger, Z. (2002, October). *Annual TANF expenditures remain $2 billion above block grant.* Washington, DC: Center on Budget and Policy Priorities. Retrieved from http://www.cbpp.org/10-30-02wel.pdf, on June 19, 2003.

[5] Mezey, J. (2003, June). *Threatened progress: U.S. in danger of losing ground on child care for low-income working families*. Washington, DC: CLASP. Available at http://www.clasp.org/DMS/Documents/1054310396.55/CC_brief2.pdf.

important for Congress to keep in mind that TANF is no longer a likely source for a growth in child care spending, and that increased child care spending will be essential in order to sustain current levels of services, meet new work requirements, expand accessibility, and improve quality.

Limits in data reporting complicate the goal of obtaining a clear picture of how TANF and MOE funds are being spent. While federal financial reporting is significantly better than it was in the first years of the TANF program, the category of "Other Nonassistance" is large and growing, reaching $2.8 billion in FY 2002. A stand-alone $2.8 billion program would be a large program, and it is disturbing that federal data offer no clear information about how such a substantial sum of money is being spent.

It is also troubling that there is no clear information about how funds authorized under prior law are being spent. Funding in this category grew to $1.8 billion in FY 2002, an increase of approximately $750 million from FY 2000. This category involves spending that was allowed under the former programs that were incorporated into TANF, and is supposed to capture spending that is only permitted because of a "grandfather clause" that lets states continue spending funds for purposes that were permitted in 1995 or 1996. From anecdotal accounts and discussions, it seems likely that the principal categories here are juvenile justice, non-relative foster care, and certain other child welfare-related expenditures. The growth and size of this category suggests that it is important to improve reporting in order to get a much clearer picture of how these funds are being spent.

It is also impossible to get a clear picture of spending for "family formation" from the available data. Only 1 percent of TANF funds were classified as expenditures for "Two-Parent Family Formation and Maintenance." This is, in part, an artifact of how states are advised to report expenditures. In the reporting instructions, states are advised to include in this category "expenditures for two-parent family formation and maintenance activities that have not otherwise been reported." Thus, in any instance in which such expenditure could be listed in another category, it will not be listed here. For example, if a state has eliminated restrictions on eligibility for two-parent families for cash assistance or other benefits, such expenditures would be reported as expenditures for the assistance or other benefits rather than in this category. Similarly, employment and training services for non-custodial parents may be listed in a state's work activities expenditures. Since many of the activities that states have undertaken to promote marriage and family formation and to prevent family disintegration may also be reportable in another category, it is not possible to get a clear picture of the extent of such state spending under the current reporting. But, since family formation activities will often involve spending that could reasonably fall in multiple categories, it may ultimately be necessary to seek a better picture of such spending through narrative reports rather than through further adjustments to existing categories.

Conclusion

The FY 2002 data concerning use of TANF and MOE funds underscores that:

- Even before the state fiscal crisis reached its current magnitude, state use of TANF funds was exceeding the amount of state annual block grants. If federal funding remains flat for the next five years, the fiscal pressure on benefits and services funded with TANF dollars will grow steadily more severe with each passing year.
- While TANF discussions often center around the circumstances of and requirements applicable to families receiving TANF cash assistance, the significant majority of state expenditures are now likely to be for other low-income families that may have left or never received TANF assistance. Thus, when funding is fixed and TANF assistance caseloads rise (or, as under H.R. 4, potentially costly requirements applicable to TANF assistance families increase), the fiscal pressure will most likely be reflected in cuts in benefits and services to other low-income families.
- The steady TANF caseload decline in the early years of TANF was a principal driving force in allowing states to expand child care assistance for low-income families. If TANF is no longer able to play such a role, then the ability to sustain current levels of child care services or expand child care assistance will depend on whether Congress provides additional child care funding.
- While TANF financial reporting is significantly better than it was in the first years of TANF, it is troubling that a large share of funding is not well-described by the existing categories. There is a clear need to refine the reporting categories and improve program instructions to generate a clearer picture of how TANF funds are being used and how states are meeting their MOE obligations.

Appendix
Background: Rules Concerning Use of TANF and MOE funds

Each year, every state qualifies for an annual block grant of TANF funds. Basic block grants total $16.5 billion; in addition, a minority of states received supplemental grants that totaled $320 million in FY 2002. Under current law, states can also qualify for high-performance bonuses (for which $200 million is available each year) and a bonus for reducing the share of births out of wedlock in the state without an increase in the number of abortions (for which $100 million is available each year).

A state may use its TANF funds in three ways:

- **Transfer:** A state can transfer up to 30 percent of its current-year block grant funds to its program under the Child Care and Development Block Grant. The state can also transfer up to 10 percent of its TANF funds to its program under the Social Services Block Grant, provided that the total amount transferred may not exceed 30 percent of its current-year block grant.
- **Expenditures reasonably calculated to accomplish a TANF purpose:** Unless prohibited, a state can spend its TANF funds in any manner reasonably calculated to accomplish any of the four purposes of TANF. Those purposes are to provide assistance to needy families; to end the dependency of needy parents on government benefits through job preparation, work, and marriage; to reduce out of wedlock pregnancies; and to encourage the formation and maintenance of two-parent families.
- **Expenditures under a grandfather clause:** A state may also, unless prohibited, spend TANF funds in any manner in which the state was authorized to spend funds on September 30, 1995 (or at state option, August 21, 1996) under the programs that were repealed at the time TANF was enacted.

When TANF funds are used for benefits and services, the expenditure is classified as either "assistance" or "nonassistance." Any month in which a family receives federally funded "assistance" counts against time limits, and families receiving TANF assistance are considered part of the state's caseload for purposes of work requirements and certain other program requirements. A state is not required to spend TANF funds in the year in which the funds first become available. Rather, a year's unspent funds remain available in subsequent years, though under HHS interpretations, unobligated prior year funds can only be used for benefits that fall within the definition of assistance.

In order to avoid a TANF penalty each year, a state must also meet its maintenance of effort (MOE) requirement. The MOE requirement is to spend at least 80 percent of what the state had spent in 1994 for a set of programs repealed at the time TANF was enacted; if a state meets program work requirements, the MOE obligation falls to 75 percent. Generally, in order to satisfy the MOE requirement, a state must spend at least a specified amount of non-federal funds for needy families in a manner that is reasonably calculated to accomplish a TANF purpose. So, all MOE spending must be for needy families, and a state cannot transfer MOE funds or use such funds for spending which is only allowable under the grandfather clause.

States must report TANF and MOE financial data to the federal government on a quarterly basis. HHS has posted financial data for all years through FY 2002. However, until recently, states have been permitted to modify their reporting without limitation after it was submitted, and have also been allowed to make modifications of prior year spending either by amending reporting for prior years or by reporting "negative spending" for the current year. Unfortunately, this process has made it virtually impossible to precisely describe current year spending or compare it to prior year spending, for two reasons:

- Actual spending for a year in a category may be higher than reported, but offset by "negative spending." For example, suppose a state reports $10 million in spending for transportation. The actual figure could be $10 million, or it could also be possible that, for example, the state spent $15 million this year, while reducing spending for a prior year by $5 million.
- It is difficult to precisely compare current year spending to spending for a prior year, because the prior year spending reporting may have been substantially modified since originally posted on the HHS website. For example, in FY 2000, HHS reported that states had transferred $1.98 billion from TANF into CCDF. Other sources (including both CLASP and the Congressional Research Service) have found that states transferred as much as $2.3 billion from TANF to CCDF in FY 2000, because several states reported transfers too late for HHS to report. California alone transferred $520 million from TANF to CCDF in FY 2000, although official HHS reporting for that year shows California transferring only $61 million.

HHS has now directed that states cannot amend reporting for a quarter after the quarter in which the report is due.[6] Thus, if states wish to amend prior year spending, they will report it in the current or previous quarter, and in the year it actually happened. This direction will ensure consistency in state reporting, but will still mean that when one looks at reporting for a year, it will be impossible to separate actual spending for the year from adjustments to prior year spending.

[6] Under new instructions issued in April 2003, states may not amend reporting for a quarter after the quarter in which the report is due. TANF-ACF-PI-2003-02 (April 14, 2003), http://www.acf.dhhs.gov/programs/ofa/pi2003-2.htm.