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TANF Spending in 2003

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The Department of Health and Human Services has released financial data for use of Temporary Assistance for Needy Families (TANF) and state maintenance of effort (MOE) funds for federal fiscal year 2003. This document discusses national trends and policy implications. State-by-state tables are available at www.clasp.org/publications/state_moe_fy03.htm.

Our key findings include:

- For the third consecutive year, states spent and transferred more TANF funds than they received in their annual block grants. States continued to draw down unspent funds from prior years, and the total amount of carry-over funds for all states dropped from \$5.8 billion at the end of 2002 to \$3.9 billion by the end of 2003.
- Spending on basic assistance represented only about one-third (35 percent) of TANF and MOE funds used in 2003. Reported basic assistance spending rose in 2003, though it appears that most of the increase is explained by technical issues in reporting rather than an actual increase in spending for assistance during 2003.
- Child care is still the second largest use of TANF funds, representing nearly one-fifth (18 percent) of TANF and MOE funding. However, the share of TANF and MOE funds used for child care has stayed essentially flat for the last three years at a level below its 2000 peak.
- Spending for work-related activities (education and training, work subsidies, other work activities/expenses) remained essentially flat or declined from 2002, and represents less than one in ten TANF/MOE dollars.
- Relatively large amounts of TANF funds continue to be spent in categories for which there is limited information from federal reporting. Two categories—"other nonassistance" and "activities authorized under prior law"—comprise nearly \$4.5 billion—almost one in six TANF/MOE dollars. Much of this spending likely involves benefits and services relating to child welfare and juvenile justice.

- It remains impossible to get an entirely clear picture of current year spending from federal tables because they do not distinguish current year spending from various modifications (i.e., positive or negative adjustments) to prior year spending.

Some policy implications from the 2003 expenditure data are:

- Unless Congress increases TANF funding, it is virtually inevitable that states will need to cut (or further cut) TANF-funded services and benefits in the coming years.
- In coming years, states will increasingly need to examine their priorities for use of TANF dollars and strategies for meeting MOE requirements, because without new funds, the only way to sustain spending in one area will be by reducing it in another.
- TANF was an important source for the growth of child care spending in the late 1990s, but that spending peaked in 2000 and has subsequently declined. It is not likely to be a source for new child care funding in the future.
- While much of the Congressional reauthorization focus has concerned work participation rates for families receiving TANF assistance, a large share of TANF expenditures are for low-income families outside the traditional welfare system.
- There are serious deficiencies in current financial reporting. It provides little meaningful information about a significant share of TANF and MOE spending. The use of “negative spending” further obscures the reporting picture. HHS or Congress should improve reporting categories, ensure that states provide needed supplementary narrative reports, and revise reporting requirements so that any modifications to prior year reporting are separated from reporting of current year expenditures.

In the following, we first summarize the 2003 data, and then discuss policy implications.

The 2003 Data

In 2003, states qualified for \$17.2 billion in new TANF funds but used a total of \$19 billion. In 2003, states qualified for \$17.2 billion in new TANF funds, comprised of \$16.4 billion in basic family assistance grants, \$319 million in supplemental grants to seventeen states, \$100 million in out-of-wedlock bonuses, and \$400 million in high performance bonuses (because two years of such bonuses were issued in 2003). During the year, states spent \$16.3 billion and transferred \$2.7 billion to other block grants, thus using \$19 billion.¹

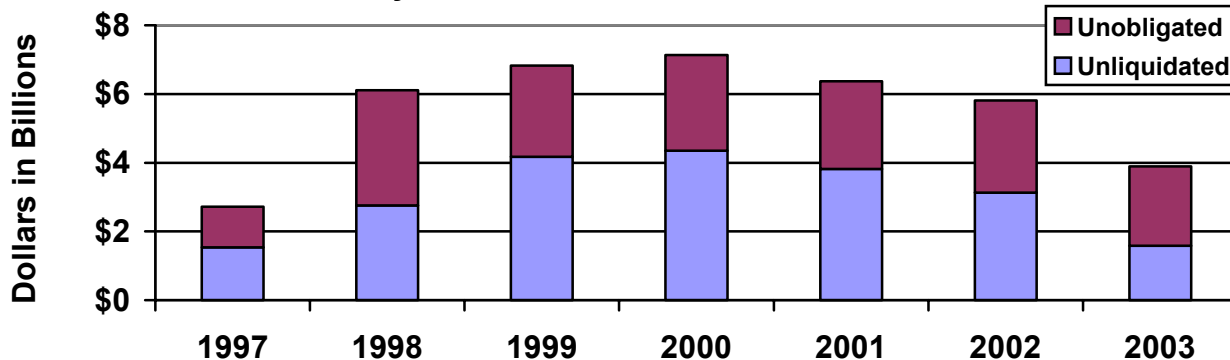
¹ Federal financial reporting information on TANF for FY 1997 through FY 2003 is posted at <http://www.acf.dhhs.gov/programs/ofs/data/index.html>. When funds are transferred to another block grant, those funds may be spent either that year or in a subsequent year. Since the federal reporting does not indicate the extent to which transferred funds were spent in the year, we refer to the combination of funds spent and funds transferred as “funds used.”

States met their maintenance of effort requirements, and made downward adjustments to prior MOE spending. States reported MOE expenditures of \$11 billion for 2003, exceeding the statutory requirement to spend at least 75 percent of their 1994 historic spending level (or 80 percent for any state that did not meet federal participation rate requirements). States also made nearly \$900 million in “adjustments” to prior year reporting, resulting in a “net” reported MOE figure of \$10.1 billion.

Total use of federal and state funds grew in 2003. The combination of TANF spending, transfers, and net MOE expenditures reached \$29.1 billion in 2003, compared with \$28.4 billion in FY 2002. The 2003 level was the highest of any year since TANF implementation began.

The amount of unspent TANF funds dropped by one-third as states drew down carry-over funds to meet current year costs. In TANF, any current year funds not spent in the year can be carried over to subsequent years. These carry-over funds are classified as unliquidated obligations or 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 contract for goods and services). Unobligated balances are funds that have not been legally committed.² In 2003, states spent carry-over funds to meet current year costs, and the amount of unobligated and unliquidated funds fell from \$5.8 billion at the end of 2002 to \$3.9 billion at the end of 2003. Unliquidated obligations fell from \$3.1 billion to \$1.6 billion; unobligated funds fell from \$2.7 billion to \$2.3 billion.

In 2003, carry-over funds fell to the lowest level since 1997



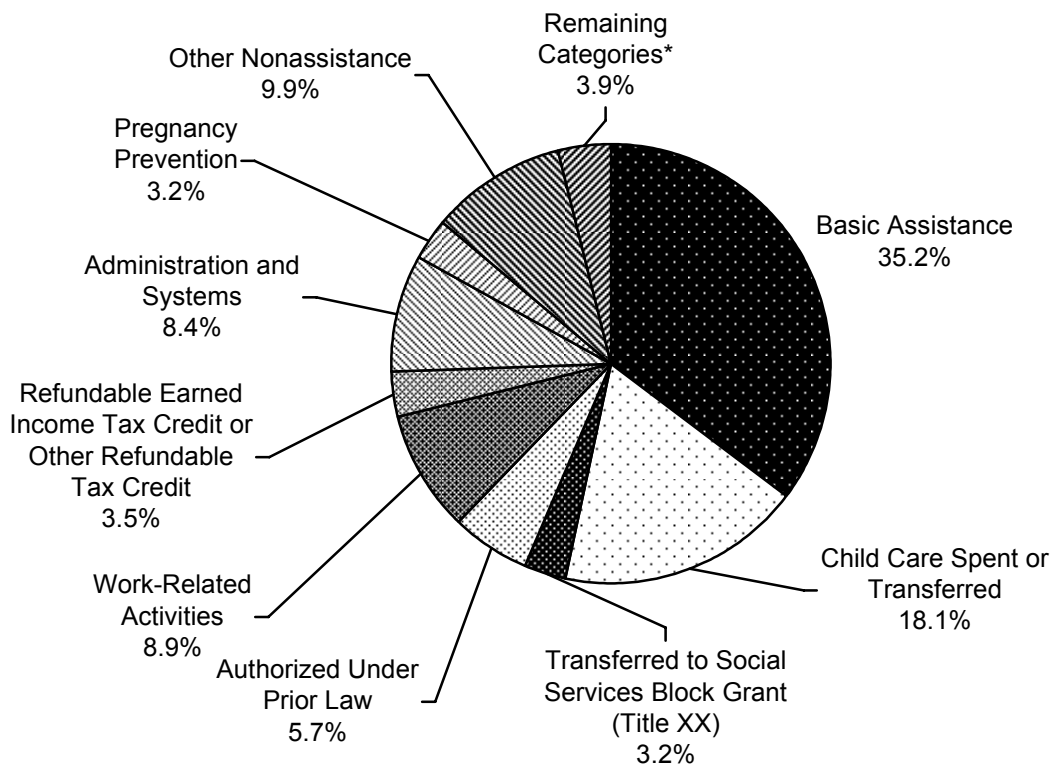
For the nation, the amount of unspent funds peaked at \$7.1 billion in 2000 and has declined with each subsequent year. The amount of carry-over funds at the end of 2003 was the lowest since 1997, the first year of TANF implementation.

² The GAO has cautioned that there has been some unclarity as to when unspent funds should be categorized as “unliquidated obligations” or “unobligated balances,” and that the information is not compiled consistently across states. See U.S. General Accounting Office. (2001, August). *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*. GAO-01-828. Washington, DC: Author. Available at: <http://www.gao.gov/new.items/d01828.pdf>; U.S. General Accounting Office. (2003, September). *Welfare Reform: Information on TANF Balances*. GAO-03-1094. Washington, DC: Author. Available at: <http://www.gao.gov/new.items/d031094.pdf>.

States vary in their amounts of carry-over funds. Six states report no carry-over funds, and another seven report no unobligated funds (i.e., all unspent funds are legally committed to particular purposes).³ For most states, the amount of carry-over funds represents less than one-quarter of the state's annual block grant funding level. Since states are using more than their annual block grant funding levels, carry-over funds actually represent only about 20 percent of the amount of funds used in 2003, i.e., less than the amount needed to pay for three months of current costs (see appendix).

Most TANF and MOE funds were used for basic assistance and child care, but nearly half were used for other benefits, services, and activities. Basic assistance is the largest category of use of TANF and MOE funds (35 percent), and child care is second (18 percent). After that, funds are disbursed across a range of categories.

Share of Federal and State Funds Used by Category, FY 2003



***Remaining Categories:** Less than 3% each used for Transportation and Supportive Services, Individual Development Accounts, Nonrecurrent Short Term Benefits, and Two-Parent Family Formation and Maintenance.

CLASP calculations based on

Administration for Children and Families. (2004). Fiscal Year 2003 TANF Financial Data. Washington, DC: US Department of Health and Human Services. Available at: http://www.acf.dhhs.gov/programs/ofis/data/tanf_2003.html

³ The six states reporting no unspent funds are Connecticut, Illinois, Massachusetts, South Carolina, Tennessee, and Vermont. The seven reporting no unobligated funds are Indiana, Oregon, Washington, Louisiana, Colorado, California, and Missouri.

Use of TANF and MOE Funds, 2002 and 2003				
	FY02	FY03	Change in \$	Change in %
Unliquidated Obligations at End of Fiscal Year	\$3,133,163,514	\$1,580,226,894	(\$1,552,936,620)	(49.6%)
Unobligated Balance at End of Fiscal Year	\$2,678,316,026	\$2,305,863,104	(\$372,452,922)	(13.9%)
Total Unspent Funds at End of Fiscal Year	\$5,811,479,540	\$3,886,089,998	(\$1,925,389,542)	(33.1%)
Total Funds Spent				
Total Funds Spent	\$25,414,382,543	\$26,339,994,359	\$925,611,816	3.6%
Transferred to Child Care and Development Fund (CCDF)	\$1,926,299,277	\$1,790,167,397	(\$136,131,880)	(7.1%)
Transferred to Social Services Block Grant (Title XX)	\$1,031,375,598	\$926,728,189	(\$104,647,409)	(10.1%)
Total Funds Used	\$28,372,057,418	\$29,056,889,945	\$684,832,527	2.4%
How Funds Were Used				
Basic Assistance	\$9,408,233,518	\$10,218,545,347	\$810,311,829	8.6%
Child Care Spent or Transferred	\$5,430,557,655	\$5,258,507,086	(\$172,050,569)	(3.2%)
<i>Spent Directly</i>	\$3,504,258,378	\$3,468,339,689	(\$35,918,689)	(1.0%)
<i>Transferred to CCDF</i>	\$1,926,299,277	\$1,790,167,397	(\$136,131,880)	(7.1%)
Transferred to SSBG (Title XX)	\$1,031,375,598	\$926,728,189	(\$104,647,409)	(10.1%)
Transportation and Supportive Services	\$584,010,285	\$543,075,764	(\$40,934,521)	(7.0%)
Authorized Under Prior Law	\$1,791,317,253	\$1,646,523,531	(\$144,793,722)	(8.1%)
<i>Authorized Under Prior Law--Assistance</i>	\$1,022,435,536	\$801,605,456	(\$220,830,080)	(21.6%)
<i>Authorized Under Prior Law--Nonassistance</i>	\$768,881,717	\$844,918,075	\$76,036,358	9.9%
Work-Related Activities	\$2,726,866,731	\$2,599,284,341	(\$127,582,390)	(4.7%)
<i>Work Subsidies</i>	(\$32,083,605)	\$30,699,038	\$62,782,643	N/A
<i>Education and Training</i>	\$461,506,096	\$494,463,691	\$32,957,595	7.1%
<i>Other Work Activities/Expenses</i>	\$2,297,444,240	\$2,074,121,612	(\$223,322,628)	(9.7%)
Individual Development Accounts	\$7,688,216	\$26,610,808	\$18,922,592	246.1%
Refundable Earned Income Tax Credit or Other Refundable Tax Credit	\$765,501,266	\$1,006,834,265	\$241,332,999	31.5%
Nonrecurrent Short Term Benefits	\$237,750,089	\$260,999,868	\$23,249,779	9.8%
Pregnancy Prevention	\$725,699,827	\$919,454,109	\$193,754,282	26.7%
Two-Parent Family Formation and Maintenance	\$284,105,666	\$310,470,427	\$26,364,761	9.3%
Administration and Systems	\$2,616,876,211	\$2,451,114,399	(\$165,761,812)	(6.3%)
Other Nonassistance	\$2,762,075,103	\$2,888,741,811	\$126,666,708	4.6%

CLASP calculations based on:

Administration for Children and Families. (2003). Fiscal Year 2002 TANF Financial Data. Washington, DC: US Department of Health and Human Services. Available at: http://www.acf.dhhs.gov/programs/ofs/data/tanf_2002.html; Administration for Children and Families. (2004). Fiscal Year 2003 TANF Financial Data. Washington, DC: U.S. Department of Health and Human Services. Available at: http://www.acf.dhhs.gov/programs/ofs/data/tanf_2003.html.

“Basic Assistance” is still the largest spending category, and grew in 2003, but only represented only 35 percent of all funds used. In 2003, states spent \$10.2 billion in TANF and MOE funds on basic assistance, compared with \$9.4 billion in 2002. Basic assistance spending grew for the first time since TANF implementation began, but is still far below its prior levels. In 1994, the peak year for the Aid to Families with Dependent Children (AFDC) program, the nation spent \$23 billion for AFDC cash assistance.⁴ The 2003 figure represents a 64 percent decline since 1994, adjusted for inflation.

The growth in basic assistance spending in 2003 appears to have been, in significant part, a result of accounting and claiming issues rather than an actual increase in assistance expenditures. Nationwide, the number of families receiving assistance through TANF and separate state programs stayed essentially flat in 2003,⁵ as caseloads grew in 29 states and fell in 22. A number of states with increased caseloads did have increased assistance expenditures, but most of the national growth in spending was attributable to California (\$511 million growth), New York (\$140 million) and Texas (\$120 million). In each of these three states, a significant part of the increase in reported assistance spending is due to a reporting or accounting issue rather than an actual increase in assistance spending.⁶

Child care is the second largest category of use of funds, but has been essentially flat for the last three years. States spent or transferred \$5.3 billion in TANF and MOE funds for child care in 2003, representing 18 percent of all funds used during the year. States spent \$1.7 billion in TANF funds, transferred \$1.8 billion to the Child Care and Development Fund (CCDF), and reported \$1.8 billion in MOE spending for child care.⁷ Use of TANF/MOE for child care has remained essentially flat for the last three years, below the 2000 peak of \$5.9 billion. Use of federal TANF funds for child care peaked at \$4 billion in 2000, and has stayed at or near \$3.5 billion for the past three years.

Two categories for which there is little information—“other nonassistance” and “authorized under prior law”—represent a substantial share of TANF and MOE expenditures. “Other nonassistance” involves expenditures that meet a TANF purpose,

⁴ U.S. Department of Health and Human Services. (2004) “Table TANF 4: Total AFDC/TANF Expenditures on Cash Benefits and Administration, 1970 – 2002.” *Indicators of Welfare Dependence: Annual Report to Congress 2004*. Washington, DC: Assistant Secretary for Planning and Evaluation. Available at: <http://aspe.hhs.gov/hsp/indicators04/apa-tanf.htm#ttanf4>.

⁵ The number of families receiving assistance in TANF or separate state programs fell from 2,194,738 in FY 2002 to 2,181,018 in FY 2003. See Falk, G. (2004, March). *Caseload Trends*. Washington, DC: Congressional Research Service.

⁶ California’s caseload fell by 3.4 percent, New York’s caseload fell by 4.0 percent, and Texas’ caseload rose by 2.4 percent. California officials indicate that the state’s assistance expenditures grew by \$5 million, not \$511 million, and that their 2002 reported figure was depressed because of a \$326 million correction in how certain performance incentive funds had been characterized. New York officials indicate that the state’s overall assistance expenditures grew by \$68 million, not \$140 million in FY 03, and the increase was largely due to differences in timing between when state and federal data reflect the actual processing of claims for expenses incurred in earlier years. Texas officials indicate that spending for basic cash assistance grew by about \$7.5 million from 2002 to 2003, and that the figure reflected in federal reporting for 2002 reporting understates the state’s actual assistance expenditures for that year.

⁷ Of child care counting toward MOE, \$888 million is also allowed to count toward satisfying the MOE requirements for the Child Care and Development Block Grant.

do not fall within the definition of “assistance,”⁸ and do not fall within any other listed category. Expenditures “authorized under prior law” do not meet a TANF purpose, but were permitted under the programs that were repealed when TANF was enacted; this category includes juvenile justice and non-relative foster care. In 2003, states spent \$2.9 billion on “other nonassistance” and \$1.6 billion on benefits and services “authorized under prior law.” Together, these two categories made up 16 percent of all TANF and MOE funds used. Total spending for these categories remained essentially flat in 2003, with “other nonassistance” growing and “authorized under prior law” declining.

Under reporting instructions, states are supposed to provide narrative explanations for the use of these funds, but many states do not do so.⁹ Among states that have submitted descriptions, “other nonassistance” funds are used for a wide variety of benefits and services, including: child abuse and neglect-related services, diversion or emergency assistance programs, substance abuse treatment, services for victims of domestic violence, fatherhood initiatives, before- and after-school programs, and payments to food banks and homeless shelters. Among states reporting dollar amounts for expenditures, common uses included programs to prevent abuse and neglect, medical assessment and services, and case management. Only two states reported information on the use of funds “authorized under prior law” in 2003. In those states, expenditures included emergency shelter services to children, payments for foster family care, group or residential care or treatment for children separated from their families; services by county child welfare agencies; juvenile detention services; and in-home services by juvenile probation offices.

Less than one in ten TANF/MOE dollars were spent on work-related activities. In TANF reporting, work-related activities are comprised of education and training, work subsidies, and other work activities/expenses. The total for these three categories declined from \$2.7 billion in 2002 to \$2.6 billion in 2003, representing 9 percent of funds used. Within the total, the amount spent on education and training grew slightly (from \$462 million to \$494 million), but still represents less than 2 percent of total funds used.

Spending on “administration and systems” represented about 8 percent of overall use of funds. The reported amount was \$2.6 billion, compared with \$2.5 billion in 2002. The combined figure for administration and systems has ranged between \$2.4 and \$2.7 billion for each of the last five years. Spending on administrative costs alone (not including systems) is capped at 15 percent of TANF funds spent. On average, states spent 8.3 percent of TANF funds on administrative costs.

All other categories represent 5 percent or less of total use of funds.

- **Expenditures for refundable earned income tax credits or other refundable tax credits comprised 3.5 percent of funds used.** Almost all of these expenditures are attributable to New York, New Jersey, Minnesota, Wisconsin, and Colorado.

⁸ Generally, expenditures for “assistance” are ones that are designed to meet ongoing basic needs.

⁹ HHS provided to CLASP the narrative explanations it received for 2003. While 44 states provide “other nonassistance,” only 24 submitted narrative descriptions of the activities they were funding and only 11 specified specific dollar amounts. Twenty-one states use funds for “authorized under prior law” but only two states described the activities they were funding and one provided explicit dollar amounts.

- **Transfers to the Social Services Block Grant (Title XX) comprised 3.2 percent of funds used.** The amount transferred was the lowest since 1997, the initial year of TANF implementation. Data describing how these transferred funds were spent in 2003 are currently not available. In 2002, the top five uses of TANF funds transferred to the Social Services Block Grant (representing nearly two-thirds of transferred funds) were child protective services, foster care services, day care for children, prevention and intervention, and special services to disabled children.¹⁰
- **“Pregnancy prevention” comprised 3.2 percent of funds used.** The national total grew by \$193 million, but this was largely attributable to a \$194 million increase reported by New York State.
- **Expenditures for “transportation and supportive services” (other than child care) comprised 1.9 percent of funds used.** Spending in this category has declined each year since 2000.
- **Expenditures for “nonrecurrent short-term benefits” comprised 1 percent of funds used.** This category involves benefits designed to meet a specific crisis or episode of need not exceeding four months in length.
- **Expenditures for “two parent family formation and maintenance” comprised 1 percent of funds used.** National spending growth of \$36 million can be largely attributed to increases in New York State (\$39 million) and Louisiana (\$24 million).
- **Individual Development Accounts reflect only 0.1 percent of TANF and MOE funds used,** though total spending grew from \$8 million to \$27 million. Thirteen states reported at least some IDA expenditures, though most (86 percent) of the spending was attributable to Texas and Wisconsin.

Discussion

Our analysis of the expenditure data and historic trends suggest five important themes for federal and state policymakers:

Unless Congress increases TANF funding, it is virtually inevitable that states will need to cut (or further cut) TANF-funded services and benefits in the coming years.

Under the 1996 welfare law, most states received block grants frozen at the level of their spending for the AFDC program in the early-mid 1990s. Seventeen states received supplemental grants that grew through 2001, but all state grants have remained flat since

¹⁰ Data on how TANF funds are used after being transferred to SSBG are not available through TANF financial reporting, but are available through the annual SSBG expenditure report. See Administration for Children and Families. (2003). Chapter 3: Expenditures. In *SSBG 2002: Helping States Serve the Needs of America’s Families, Adults and Children*. Washington, DC. U.S. Department of Health and Human Services. Available at: <http://www.acf.hhs.gov/programs/ocs/ssbg/annrpt/2002/index.html>.

that time. During the first years of TANF, welfare caseloads fell rapidly, “freeing up” funds that were previously spent for cash assistance. As long as welfare caseloads kept falling, states could use an increasing share of their block grants for other benefits and services each year. States could also draw down unspent funds from the early years of TANF to supplement their expenditures.

The picture has sharply deteriorated in the last three years, for two reasons. First, welfare caseloads in most states stopped falling. Welfare caseloads are now growing in some states and falling in others, but, overall, the national caseload in 2003 was about the same, or only slightly lower, than in 2001.¹¹ Second, states began spending at levels above their annual block grants and drawing down prior year funds to do so. As a result, the level of carry-over funds has fallen for three consecutive years. If this rate of decline continues, carry-over funds for most states will be exhausted within the next few years.

In 2003-04, the TANF reauthorization bills passed by the House and approved by the Senate Finance Committee provided for flat TANF funding for the next five years. The House provided for \$1 billion in additional child care funding, and the Senate voted to increase child care funding by \$7 billion. Given the structural deficit now operating in TANF, it seems clear that even if Congress adopted the higher Senate figure, the TANF fiscal squeeze would still become more severe in the coming years. If Congress adopts a lower figure, the magnitude of cuts in TANF-funded benefits and services will be larger.

Already, states have cut a range of TANF-funded benefits and services, largely due to fiscal pressures.¹² States and families will likely face serious cuts in TANF-funded benefits and services unless Congress provides additional funding.

In coming years, states will increasingly need to examine their priorities for use of TANF dollars and strategies for meeting MOE requirements, because without new funds, the only way to sustain spending in one area will be by reducing it in another.

While additional federal funding could make a crucial difference, Congress has not yet shown interest in increasing TANF funds. At this point, the most optimistic scenario for reauthorization may be that it will provide some additional child care funding but little or no additional TANF funding. If that happens, then virtually all states will face a stark set of choices in coming years: the only way to increase or even sustain services in one area of TANF activities will be by cutting spending in other areas.

One key concern originally expressed about adopting a block grant structure was that it

¹¹ The number of families receiving assistance from TANF or separate state programs fell from 2,199,560 in FY 2001 to 2,181,018 in FY 2003. See Falk, G. (2004, March). *Caseload Trends*. Washington, DC: Congressional Research Service.

¹² Greenberg, M. (2004, August 13). Welfare Reform, Phase Two: Doing Less with Less. *The American Prospect Online*. Available at: <http://www.prospect.org/web/page.wv?section=root&name=ViewPrint&articleId=8358>. Parrott, S., & Wu., N. (2003, June). *States are Cutting TANF and Child Care Programs: Supports for Low-Income Working Families and Welfare-to-Work Programs are Particularly Hard Hit*. Washington, DC: Center for Budget and Policy Priorities. Available at: <http://www.cbpp.org/6-3-03tanf.pdf>.

forces a zero-sum trade-off among needed benefits and services rather than providing for funding that expands when needs expand. These difficult trade-offs were largely avoided in early TANF implementation because the caseload kept declining. However, absent an infusion of new funds, states will face these trade-offs in upcoming budget sessions.

The reported data do not provide enough detail to classify a substantial share of current TANF spending. Much of the spending is surely providing important needed services. In particular, in the last several years, states have drawn on TANF funds to respond to significant unmet needs for services for preventive and other services in state child welfare systems. At the same time, in 2003, states committed less TANF money to child care, transportation, and supportive services than in 2000, and committed less funding to work-related activities than in 2001. Less than one in ten TANF/MOE dollars are being used for work-related activities, and less than one in fifty for education or training. In addition, despite the availability of freed up funds after caseload decline, between 1996 and 2004, only eight states raised cash assistance benefits enough to keep pace with inflation; in most states, the nominal benefit is now the same or lower than in 1996.¹³

Federal data do not distinguish when an expenditure represents “new” spending or use of TANF funds to substitute for prior state spending. Some states have used TANF funds to supplant prior state spending in order to free up state funds for other uses.¹⁴ While this practice is lawful, supplantation effectively reduced the availability of TANF funds for needed benefits and services. As the TANF fiscal environment becomes increasingly difficult, states that engaged in supplantation should consider whether to recommit state funds to programs that were originally state-funded in light of the fact that TANF may no longer be able to sustain such spending.

There are not likely to be easy decisions in a context where the fundamental problem is insufficient funding to meet a range of social needs. At the same time, if states want to ensure that families with little or no income receive basic assistance, that unemployed or underemployed families have access to employment services, and that needed work supports are provided for low-earning families, it will be essential to revisit current choices about uses of TANF funds.

TANF was an important source for the growth of child care spending in the late 1990s, but peaked in 2000 and has subsequently declined; it is not likely to be a source for new child care funding in the future.

In the first years of TANF, the largest single redirection of TANF funding was to child care. Between 1997 and 2000, the amount of TANF funding used for child care grew from \$249 million to \$4 billion; the use of TANF was a major reason why states were able to double the number of children receiving subsidies, raise provider payment rates,

¹³ Between 1996 and 2004, six states cut basic assistance levels, while another 24 kept assistance benefits unchanged at 1996 levels. See Walters, M., Burke, V., & Falk, G. (2004, September). *TANF Cash Benefits as of January 1, 2004*. Report No. RL32598. Washington, DC: Congressional Research Service.

¹⁴ U.S. General Accounting Office. (2001, August). *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*. No. 01-828. Washington, DC. Available at <http://www.gao.gov/new.items/d01828.pdf>.

and expand child care quality initiatives during the late 1990s.¹⁵ However, the growth period ended in 2000; in each subsequent year, states have used about \$3.5 billion in TANF funds for child care. While this funding remains a key part of overall child care funding, TANF is no longer a source of growth, and given the trends noted above, it seems likely that TANF funding for child care will further decline as reserves are exhausted. Thus, as Congress considers child care reauthorization, it will be important to keep in mind that new child care resources will be needed just to sustain current levels of child care assistance and that reliance on TANF funds has built instability into a key source of child care funding. Similarly, states wanting to expand or even sustain current levels of child care funding will need to recognize that TANF will not likely be a future source of additional child care funding.

While much of the Congressional reauthorization focus has concerned work participation rates for families receiving TANF assistance, a large share of TANF expenditures are for low-income families outside the traditional welfare system.

A significant share of TANF and MOE spending is not for families receiving cash assistance. Broadly, this spending probably falls into four categories: expenditures for low-earning working families (e.g., child care, earned income credits) that help support work or meet basic needs; expenditures relating to the child welfare system, e.g., relative foster care, non-relative foster care, prevention and reunification services; expenditures for pregnancy prevention and family formation activities; and miscellaneous other expenditures that are allowable under TANF.

Much of the reauthorization debate has focused on rules concerning participation rates for families receiving cash assistance, without acknowledging the extent to which TANF funds are serving multiple other purposes. When Congress resumes the reauthorization discussion, it is important to recognize the multiple purposes of TANF; provide funding that reflects these multiple purposes; and allow for performance measures that more effectively encompass the range of TANF efforts.

There are serious deficiencies in the current financial reporting structure. It provides little meaningful information about a significant share of spending.

Data reporting deficiencies complicate the goal of understanding how TANF and MOE funds are being spent. In 2003, states spend \$4.5 billion for “other nonassistance” and expenditures “authorized under prior law” yet there are virtually no federal data about how these funds are being used in many states. Reporting instructions specify that states should explain these expenditures in a supplemental narrative, but the reporting form does not seek the information. Some states may be unaware of the requirement; in any case, a substantial number of states are not providing the required narrative information. HHS does not post the limited number of supplemental narratives it does receive (though the information was made available to CLASP in response to our request).

¹⁵ Mezey, J. (2003, June). *Threatened Progress: U.S. in Danger of Losing Ground on Child Care for Low-Income Working Families*. Washington, DC: Center for Law and Social Policy. Available at http://www.clasp.org/publications/CC_brief2.pdf.

For Congress, it should be unacceptable to have so little information about such a large share of TANF spending. In establishing reporting requirements for the reauthorized program, Congress should either review or direct HHS to review existing spending categories, and establish a requirement that significant “other” expenditures be explained, and that this information be promptly posted online and made available to the public.

While a far smaller amount of funding is involved, it is also impossible to get a clear picture of “family formation” spending 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, because reporting instructions direct states to only include in this category “expenditures for two-parent family formation and maintenance activities that have not otherwise been reported.” Since many activities to promote family formation and prevent family disintegration may be reportable in another category, one cannot readily determine the extent of such spending through current reporting.

Finally, the treatment of “negative expenditures” confuses existing reporting. States are allowed to, in effect, revise reporting of use of funds for prior years by treating such revisions as “negative spending” for the current year. This makes it impossible to precisely describe current year spending or compare it to prior year spending. For example, suppose a state reports \$10 million in spending for transportation. The actual figure could be \$10 million, or it could be possible that, for example, the state spent \$15 million this year, while reducing spending for a prior year by \$5 million.

The spending picture is also obscured because states may continuously revise previously reported MOE expenditures. Each year, some states make downward revisions of prior year MOE reporting, sometimes claiming TANF reimbursement for state expenditures that had been above the required MOE level. This results in a “negative adjustment” to current year MOE spending, making it difficult to determine the actual level of MOE spending for the current or a prior year. It also makes it difficult to determine when a TANF expenditure reflects an actual expenditure for a benefit or service in the current year, and when it is simply a reimbursement for a state expenditure that may have occurred one or a number of years ago.

To address the negative spending problem, federal law should limit the extent to which a state can make adjustments to spending that occurred many years ago, and HHS should report all negative adjustments separate from current year spending.

Conclusion

The TANF financial reporting provides important information about trends in use of TANF funds, but also highlights the challenges of a block grant system with flat funding, multiple purposes, and inadequate information. For states, the data underscore the need to make decisions about how to prioritize increasingly scarce funds. For the federal government, the data underscore the need to expand funding, improve reporting, and develop performance measures that reflect the range of state activities under TANF.

Appendix

Use of TANF and Maintenance of Effort (MOE) Funds in 2003				
	Federal TANF Funds	State (MOE Funds)*	Federal and State Funds	Share of Federal and State Funds Used
Total Funds Spent	\$16,253,643,459	\$10,086,350,900	\$26,339,994,359	
Transferred to Child Care and Development Fund (CCDF)	\$1,790,167,397	N/A	\$1,790,167,397	
Transferred to Social Services Block Grant (Title XX)	\$926,728,189	N/A	\$926,728,189	
Total Funds Used	\$18,970,539,045	\$10,086,350,900	\$29,056,889,945	
How Funds Were Used				
Basic Assistance	\$5,820,242,915	\$4,398,302,432	\$10,218,545,347	35.2%
Child Care Spent or Transferred	\$3,488,438,611	\$1,770,068,475	\$5,258,507,086	18.1%
<i>Spent Directly</i>	\$1,698,271,214	\$1,770,068,475	\$3,468,339,689	11.9%
<i>Transferred to CCDF</i>	\$1,790,167,397	N/A	\$1,790,167,397	6.2%
Transferred to SSBG (Title XX)	\$926,728,189	N/A	\$926,728,189	3.2%
Transportation and Supportive Services	\$434,376,564	\$108,699,200	\$543,075,764	1.9%
Authorized Under Prior Law	\$1,646,523,531	N/A	\$1,646,523,531	5.7%
<i>Authorized Under Prior Law—Assistance</i>	\$801,605,456	N/A	\$801,605,456	2.8%
<i>Authorized Under Prior Law—Nonassistance</i>	\$844,918,075	N/A	\$844,918,075	2.9%
Work-Related Activities	\$1,937,218,753	\$662,065,588	\$2,599,284,341	8.9%
<i>Work Subsidies</i>	\$67,835,298	(\$37,136,260)	\$30,699,038	0.1%
<i>Education and Training</i>	\$267,477,832	\$226,985,859	\$494,463,691	1.7%
<i>Other Work Activities/Expenses</i>	\$1,601,905,623	\$472,215,989	\$2,074,121,612	7.1%
Individual Development Accounts	\$11,620,089	\$14,990,719	\$26,610,808	0.1%
Refundable Earned Income Tax Credit or Other Refundable Tax Credit	\$155,507,755	\$851,326,510	\$1,006,834,265	3.5%
Nonrecurrent Short Term Benefits	\$154,691,694	\$106,308,174	\$260,999,868	0.9%
Pregnancy Prevention	\$596,722,557	\$322,731,552	\$919,454,109	3.2%
Two-Parent Family Formation and Maintenance	\$258,997,595	\$51,472,832	\$310,470,427	1.1%
Administration and Systems	\$1,591,971,506	\$859,142,893	\$2,451,114,399	8.4%
Other Nonassistance	\$1,947,499,286	\$941,242,525	\$2,888,741,811	9.9%

*Net after offsetting 2003 expenditures by reductions for prior years.

CLASP calculations based on:

Administration for Children and Families. (2004). *Fiscal Year 2003 TANF Financial Data*. Washington, DC: U.S. Department of Health and Human Services. Available at:

http://www.acf.dhhs.gov/programs/ofs/data/tanf_2003.html.

Use of TANF and MOE Funds, 1998-2003						
	1998	1999	2000	2001	2002	2003
Basic Assistance	\$13,927,623,731	\$13,165,747,213	\$11,180,400,974	\$10,143,465,544	\$9,408,233,518	\$10,218,545,347
Child Care Spent or Transferred	2,217,171,466	4,678,913,986	5,931,703,019	5,349,984,218	5,430,557,655	5,258,507,086
Transferred to Social Service Block Grant (Title XX)	1,118,203,453	1,317,950,149	1,096,283,464	933,654,437	1,031,375,598	926,728,189
Transportation and Supportive Services	(9,049,314)	3,257,655	662,557,576	651,190,341	584,010,285	543,075,764
Authorized Under Prior Law	N/A	28,844,617	1,225,039,126	1,625,631,589	1,791,317,253	1,646,523,531
Work-Related Activities	1,590,674,522	1,847,396,893	2,486,030,667	2,682,988,159	2,726,866,731	2,599,284,341
Administration & Systems	2,271,741,799	2,439,928,818	2,602,094,349	2,653,038,994	2,616,876,211	2,451,114,399
Individual Development Accounts	N/A	N/A	2,066,146	820,011	7,688,216	26,610,808
Refundable Earned Income Tax Credit or Other Refundable Tax Credits	N/A	11,300,000	689,047,459	671,822,697	765,501,266	1,006,834,265
Nonrecurrent Short Term Benefits	N/A	N/A	147,150,891	235,949,577	237,750,089	260,999,868
Pregnancy Prevention	N/A	N/A	107,505,777	311,671,783	725,699,827	919,454,109
Two-Parent Family Formation and Maintenance	N/A	2,174,044	176,737,175	84,851,304	284,105,666	310,470,427
Other Nonassistance	1,656,064,925	3,459,469,887	1,968,557,990	3,154,121,828	2,762,075,103	2,888,741,811
N/A: Categories were not originally contained in TANF reporting; they were added effective 2000, though some states have subsequently classified some 1999 spending in these categories.						

CLASP calculations based on:

Administration for Children and Families. (1999-2004). *Fiscal Year 1998-2003 TANF Financial Data*. Washington, DC: U.S. Department of Health and Human Services. Available at: <http://www.acf.dhhs.gov/programs/ofs/data/index.html>.

TANF Carry-Over Funds at end of 2002 and 2003

	Carry-Over Funds, End of 2003	Carry-Over Funds, End of 2002	Change in Carry-Over Level, 2002-2003	TANF Funds Used in 2003 (Spent or Transferred)	2003 Carry-Over as Percentage of TANF Funds Used in 2003	TANF Basic and Supplemental Grants in 2003	2003 Carry-Over as Percentage of Basic and Supplemental Grants in 2003
U.S. TOTAL	\$3,886,089,998	\$5,811,479,540	-33%	\$18,970,539,045	20%	\$16,697,651,699	23%
ALABAMA	31,502,769	89,093,772	-65%	162,504,515	19%	104,408,461	30
ALASKA	10,268,660	7,763,322	32%	64,120,481	16%	60,264,911	17
ARIZONA	28,735,861	113,718,643	-75%	283,136,692	10%	226,130,536	13
ARKANSAS	56,859,314	25,077,659	127%	37,983,757	150%	62,951,233	90
CALIFORNIA	226,484,910	842,577,980	-73%	4,324,798,619	5%	3,694,902,217	6
COLORADO	81,240,787	59,502,649	37%	147,710,543	55%	149,626,381	54
CONNECTICUT	0	2,830,369	-100%	281,363,508	0%	266,788,107	0
DELAWARE	5,241,530	2,111,720	148%	30,385,421	17%	32,261,460	16
DIST.OF COLUMBIA	44,370,828	40,710,858	9%	113,569,658	39%	92,609,815	48
FLORIDA	159,656,604	179,016,398	-11%	658,392,008	24%	622,745,788	26
GEORGIA	181,566,853	186,337,459	-3%	377,193,780	48%	368,024,967	49
HAWAII	94,997,499	73,699,298	29%	78,473,383	121%	98,904,788	96
IDAHO	13,083,569	17,376,939	-25%	40,289,074	32%	33,910,608	39
ILLINOIS	0	0	N/A	585,056,960	0%	585,056,960	0
INDIANA	27,073,186	20,979,139	29%	220,149,103	12%	206,799,109	13
IOWA	30,867,853	25,768,256	20%	133,592,901	23%	131,524,959	23
KANSAS	21,847,826	8,497,335	157%	98,773,676	22%	101,931,061	21
KENTUCKY	52,559,090	23,077,621	128%	166,276,842	32%	181,287,669	29
LOUISIANA	72,013,287	170,293,503	-58%	283,039,377	25%	180,998,997	40
MAINE	45,413,859	36,151,191	26%	73,137,160	62%	78,120,889	58
MARYLAND	34,297,936	69,863,127	-51%	254,927,312	13%	229,098,032	15
MASSACHUSETTS	0	10,136,061	-100%	471,699,894	0%	459,371,116	0
MICHIGAN	113,057,772	114,991,006	-2%	755,893,578	15%	775,352,858	15
MINNESOTA	41,446,505	107,954,589	-62%	347,068,675	12%	267,161,347	16

	Carry-Over Funds, End of 2003	Carry-Over Funds, End of 2002	Change in Carry-Over Level, 2002-2003	TANF Funds Used in 2003 (Spent or Transferred)	2003 Carry-Over as Percentage of TANF Funds Used in 2003	TANF Basic and Supplemental Grants in 2003	2003 Carry-Over as Percentage of Basic and Supplemental Grants in 2003
MISSISSIPPI	\$3,587,184	\$24,578,983	-85%	\$117,610,991	3%	\$95,799,133	4
MISSOURI	21,705,174	24,965,420	-13%	217,051,741	10%	217,051,740	10
MONTANA	8,974,259	14,309,065	-37%	53,354,839	17%	44,109,471	20
NEBRASKA	16,164,039	21,150,403	-24%	58,976,497	27%	57,769,382	28
NEVADA	11,101,581	19,934,754	-44%	58,580,142	19%	47,710,284	23
NEW HAMPSHIRE	11,460,127	14,498,953	-21%	44,287,993	26%	38,521,261	30
NEW JERSEY	248,531,264	325,849,101	-24%	485,263,102	51%	404,034,823	62
NEW MEXICO	45,977,356	51,186,024	-10%	122,236,079	38%	117,131,204	39
NEW YORK	461,148,991	1,062,227,526	-57%	3,067,097,813	15%	2,442,930,602	19
NORTH CAROLINA	59,531,061	64,044,740	-7%	331,198,206	18%	338,324,416	18
NORTH DAKOTA	10,117,153	15,280,560	-34%	32,845,764	31%	26,399,809	38
OHIO	581,558,677	520,924,073	12%	688,719,593	84%	727,968,260	80
OKLAHOMA	119,702,888	153,921,147	-22%	188,328,612	64%	147,594,230	81
OREGON	28,420,486	15,427,835	84%	155,119,749	18%	166,798,629	17
PENNSYLVANIA	432,682,419	537,968,894	-20%	856,443,267	51%	719,499,305	60
RHODE ISLAND	2,858,211	0	N/A	95,021,587	3%	95,021,587	3
SOUTH CAROLINA	0	20,963,342	-100%	119,077,790	0%	99,967,824	0
SOUTH DAKOTA	23,496,552	22,535,302	4%	21,903,987	107%	21,279,651	110
TENNESSEE	0	19,027,671	-100%	243,292,515	0%	213,088,938	0
TEXAS	166,155,345	284,107,185	-42%	688,851,996	24%	538,964,526	31
UTAH	20,027,565	48,152,192	-58%	118,413,487	17%	84,313,871	24
VERMONT	0	0	N/A	48,623,462	0%	47,353,181	0
VIRGINIA	30,792,930	9,511,697	224%	152,832,457	20%	158,285,172	19
WASHINGTON	29,757,216	53,667,769	-45%	425,193,487	7%	392,570,385	8
WEST VIRGINIA	12,647,347	29,009,669	-56%	129,362,361	10%	110,176,310	11
WISCONSIN	100,360,508	173,503,638	-42%	399,686,039	25%	316,254,906	32
WYOMING	66,745,167	57,204,703	17%	61,628,572	108%	18,500,530	361

CLASP calculations based on:

Administration for Children and Families. (2003). Fiscal Year 2002 TANF Financial Data. Washington, DC: US Department of Health and Human Services.

Available at: http://www.acf.dhhs.gov/programs/ofs/data/tanf_2002.html;

Administration for Children and Families. (2004). Fiscal Year 2003 TANF Financial Data. Washington, DC: US Department of Health and Human Services.

Available at: http://www.acf.dhhs.gov/programs/ofs/data/tanf_2003.html