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TANF Policy Brief

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The Temporary Assistance for Needy Families Block Grant

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The 1996 "welfare reform" law replaced Aid to Families with Dependent Children (AFDC) and related programs with the Temporary Assistance for Needy Families (TANF) block grant. AFDC was an uncapped federal matching program, under which states received more money when they spent more on cash assistance, and less when their caseloads declined. By contrast, under TANF states are given a fixed block grant which they can spend on a wide variety of activities that further any of the four statutory purposes:

(1) provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
(2) end the dependence 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.

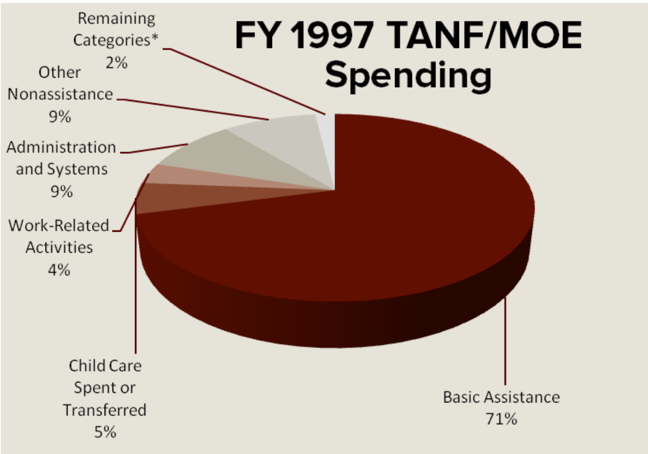
States can also use TANF funds for activities that were allowed under AFDC or Emergency Assistance prior to 1996.

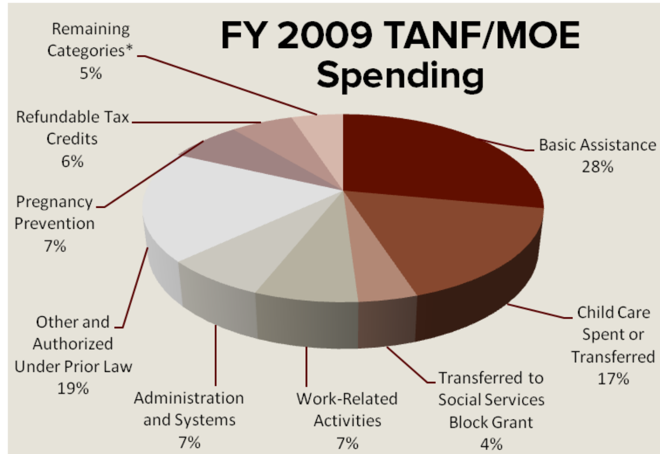
The TANF block grant does not increase when assistance caseloads rise. (However, in response to the recession, the American Recovery and Reinvestment Act created a new TANF Emergency Contingency Fund that did provide additional funds for two years only to states with rising caseloads.) When caseloads fall – as they did dramatically during the late 1990s[1] – this makes it easier for states to use the funds for other TANF purposes.

TANF also has a "maintenance of effort" (MOE) requirement under which states must continue to spend at least 75 percent of the amount that they did prior to welfare reform on programs serving needy families. The MOE requirement rises to 80 percent for states that fail another requirement called the work participation rate. TANF and MOE spending is not limited to cash assistance. States may spend funds on a range of programs and services for needy families with children. It can make those programs available not just to families that get cash aid but also other families. The income cut off for those programs can be the limit set for cash aid.

TANF/MOE Support a Broad Range of Services for Low-Income Families

States have used their flexibility under TANF to support a wide range of activities. In FY 2009, the most recent year for which data are available, **basic monthly assistance payments – what most people think of as "welfare" – accounted for just 28 percent of combined TANF/MOE spending**, down from 71 percent in FY 1997.[2] This primarily reflects the decline in TANF caseloads, which remain well under half their pre-welfare reform peak. In 2009, states also reported spending 7 percent of their TANF/MOE funds on work-related activities (although not all of these funds were used to serve families receiving assistance). These national figures conceal a great deal of state-to-state variation in spending priorities, with spending on basic assistance ranging from less than 10% of TANF/MOE spending (Illinois and Oklahoma) to more than half (Maine).





The second largest use of TANF/MOE funds is to provide child care subsidies to low-income families, including those receiving TANF, those who are transitioning from TANF, and those who have never received cash assistance or participated in the TANF program. Each state may transfer up to 30 percent of its TANF grant to the Child Care and Development Block Grant (CCDBG) or to a combination of CCDBG and the Social Services Block Grant (SSBG); TANF and MOE funds may also be spent directly on child care.

In FY 2009, states spent or transferred a total of $5.9 billion in TANF and MOE funds on child care subsidies, accounting for 17.5 percent of all TANF/MOE spending. TANF funds represent a substantial portion of the national investment in child care. Total spending on child care—comprised of federal and state CCDBG funds and TANF and MOE direct spending—was $12.4 billion in FY 2009, of which over a quarter were TANF-related funds.[3] However, as with cash assistance, there is a great deal of variation among states, with 14 states using less than 10 percent of their TANF and MOE funds on child care and four states using more than 40 percent.

The remaining 50 percent of TANF and MOE funds are reported under a variety of spending categories, including administration and systems, transfers to SSBG, refundable tax credits, such as state Earned Income Tax Credits, pregnancy prevention, two-parent family formation, transportation and supportive services, Individual Development Accounts, and two catch-all categories of "other non-assistance" and "authorized under prior law."

A 2009 study found that the most common uses of funds in the "other" and "authorized under prior law" categories were child welfare, personal supports such as mental health, substance abuse, and domestic violence services, and emergency assistance. Within the child welfare category, states reported using TANF funds for in-home services, family preservation, child protective services, foster care, and kinship care.[4] A study of child welfare financing found that $2.4 billion in TANF funds was spent on child welfare related services in FY 2006.[5] As part of the extension of TANF funding for FY 2011, Congress required states to provide additional detail on the uses of funds reported in these two categories.[6]

In FY 2009, states reported using just 0.2 percent of combined TANF/MOE funds on subsidized employment. Such spending increased dramatically in FY 2010 under the TANF Emergency Fund.

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* 1997 remaining categories are Transfers to SSBG and Transportation and Supportive Services. No funds were reported in Individual Development Accounts, Nonrecurrent Short-Term Benefits, Authorized Under Prior Law, Pregnancy Prevention, Two-Parent Family Formation or Refundable Tax Credits. 2009 remaining categories are Transportation and Supportive Services, Individual Development Accounts, Nonrecurrent Short-Term Benefits, and Two-Parent Family Formation

State Spending on Social Services Has Declined Since 2002

During the early years of TANF, caseloads fell faster than anticipated. All states therefore spent less than they had budgeted and accumulated funds they were allowed to carry-over from previous years. The TANF and MOE funds freed up by declining caseloads were often reinvested in a range of innovative programs designed to support low-income working families and to address the root causes of poverty. These included refundable earned income tax credits to make work pay, child care and transportation subsidies, home visiting programs for new parents, early education for young children, and programs for teens to encourage them to stay in school and avoid early childbearing.

As states realized the breadth of programs that could be supported by TANF/MOE funds, they rapidly drew down their carry-over funds. By 2001, states were spending more TANF funds each year than they received from the block grant. **However, as revenues declined during the 2001-02 recession, a number of states began to use TANF and MOE funds to substitute for state general revenues supporting social services for low-income families.** It appears that this shift continued through the 2000s, and accelerated during the current recession, which has placed state budgets under severe pressure.

One complication that makes it difficult to monitor spending trends over time is that, because of policy changes made by the Deficit Reduction Act of 2005, starting in FY 2006, states had a strong incentive to report MOE spending *in excess* of the minimum required.[7] Many states made an effort to identify existing state spending on low-income families that is aimed at the purposes of TANF and thus could be claimed as MOE. In addition, the availability of matching funds under the TANF Emergency Fund drew attention to a previously little noticed provision allowing states to claim as MOE otherwise qualifying expenditures by third parties, such as business, foundations, nonprofits, and local governments, as long as the third party agrees.[8] Many states used this provision during FYs 2009 and 2010 to qualify for funding from the TANF Emergency Fund.

This means while reported MOE spending increased by nearly $4 billion between FY 2005 and FY 2009, this almost certainly is partially driven by changes in data reporting and not true increases in the resources available to needy families.[9]

Researchers at the Rockefeller Institute of Government have attempted to monitor state spending on all social services, regardless of whether it was funded out of TANF or claimed toward the MOE requirement.[10] They found that, consistent with the declines in caseloads, spending on cash assistance has declined steadily since welfare reform. By contrast, spending on other non-medical social service programs – such as child care, child welfare, energy assistance, homeless shelters, and services for individuals with disabilities – increased significantly during the late 1990s but declined between 2002 and 2006. More recently, the recession has caused greater hardship for more families and at the same time put strains on state budgets. At least 46 states have responded to their budget deficits by imposing cuts in cash assistance and other social services.[11]

Inflation and Population Growth Have Cut into the TANF Block Grant

Under the 1996 law, the basic TANF block grant was fixed at $16.57 billion a year. This figure has not been increased to reflect inflation since TANF was first created. Thus, **the value of the block grant has been eroded by 28 percent.**

The TANF amount available for each state was set based on its spending under the AFDC program.[12] Under AFDC, as under TANF, the grant amounts were established at the state level and varied widely across states. Thus, the value of the TANF block grant per poor individual (or poor child), also varied widely. Thus, in 1997, Arkansas received just $110 per poor person, while Alaska received ten times as much per poor person.

Some in Congress realized this inequity at the time, and thus the 1996 law provided an additional pot of money, the TANF supplemental grants, that provided additional funding to states that had either particularly low grants per poor person, or had high rates of population growth during the early 1990s. However, in FY 2011, for the first time, these grants were not fully funded. Moreover, states that have experienced large growth in their low-income population more recently do not benefit from the supplemental grants and their block grant per poor person has fallen dramatically.

Moreover, the $2 billion Contingency Fund that Congress created in 1996 has been completely exhausted. For the first time since TANF was created, states have absolutely no ability to access additional federal funds to meet increased need.[13]

Conclusion

The net result is a program under pressure. The ambitious goals of the TANF program are not matched by proportionate resources, especially in states with high rates of poverty and low fiscal capacity.[14] States have the flexibility to allocate the block grants among a range of programs and services, but flexibility is not a substitute for adequate funding. With the expiration of the TANF Emergency Fund, simply maintaining cash assistance to needy families while unemployment remains high will require either cutting other services funded by the block grant or finding additional state funding at a time when states are facing record deficits.

Notes

[1] For more detail on the changes in the cash assistance program, see Elizabeth Lower-Basch, Cash Assistance Since Welfare Reform, CLASP, updated January 21, 2011, available at: http://www.clasp.org/admin/site/publications/files/CashAssistance.pdf

[2] Spending reports are available from HHS at: http://www.acf.hhs.gov/programs/ofs/data/index.html CLASP has prepared charts showing the distribution of spending for the US as a whole and for each state, which can be downloaded at: http://www.clasp.org/resources_and_publications/publication?id=0808&list=publications.

[3] Hannah Matthews, *Child Care Assistance Profile*, CLASP, January 2011, available at http://www.clasp.org/admin/site/publications/files/ccmap09us.pdf. Included in the $12.4 billion are TANF direct funds and excess TANF MOE excluding funds that may have been counted towards CCDBG MOE. TANF transfers to CCDBG are included in the sum of total child care spending when they are liquidated as CCDBG discretionary spending. Additionally, states are permitted to spend TANF/MOE funds on early education programs, which may be reported in various spending categories; see http://www.clasp.org/admin/site/publications/files/0293.pdf.

[4] Michelle K. Derr, Tara Anderson, LaDonna Pavetti, and Elizabeth Scott, *Understanding Two Categories of TANF Spending: "Other" and "Authorized Under Prior Law"*, Mathematica Policy Research, September 2009, http://www.mathematica-mpr.com/publications/PDFs/family_support/TANF_spending.pdf.

[5] Kerry DeVooght. Tiffany Allen, and Rob Geen. *Federal, State, and Local Spending to Address Child Abuse and Neglect in SFY 2006*, Child Trends, December 2008. http://www.childtrends.org/Files//Child_Trends-2009_02_17_FR_CWFinancePaper.pdf.

[6] For more details, see Elizabeth Lower-Basch, *2011 TANF Extension*, CLASP, December 2010, available at: http://www.clasp.org/admin/site/publications/files/2011-TANF-Extension.pdf.

[7] The DRA changes had the effect of making it much more difficult for states to meet the work participation rate requirement. Under the "Excess MOE" provision, states that claimed more MOE than the minimum required could adjust their caseload levels and claim additional caseload reduction credit. In addition, states with high levels of MOE could draw down additional funding from the TANF Contingency Fund.

[8] Third party expenditures may be claimed as MOE under 45 CFR § 263.2(e).

[9] States claiming third party expenditures as MOE that were not claimed as MOE during the base years of FYs 2007 or 2008 were required to provide HHS with information to document that they represented true increases in spending over the base year, but were not required to make retroactive changes to their MOE reports for the base years.

[10] Tom Gais and Lucy Dadayan. *The New Retrenchment: Social Welfare Spending, 1977-2006.* Rockefeller Institute, September 2008. http://www.rockinst.org/pdf/workforce_welfare_and_social_services/2008-09-15-the_new_retrenchment_social_welfare_spending_1977-2006.pdf.

[11] Nicholas Johnson, Phil Oliff, and Erica Williams, An Update on State Budget Cuts, Center on Budget and Policy Priorities, Updated November 5, 2010. http://www.cbpp.org/cms/index.cfm?fa=view&id=1214.

[12] The amount for TANF was equal to the maximum amount that it received under AFDC and related to job training and emergency assistance programs during the 1992-1995 period, when caseloads were at their highest.

[13] For more details, see: Liz Schott and LaDonna Pavetti, Federal TANF Funding Shrinking While Need Remains High, CBPP, December 2010. http://www.cbpp.org/cms/index.cfm?fa=view&id=3345.

[14] Gais and Daclayan.