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House and Senate TANF Reauthorization Bills Would *Not* Free Up Large Sums for Child Care

By Mark Greenberg and Jennifer Mezey

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Introduction

Members of the Administration and others have asserted that enacting pending Temporary Assistance for Needy Families (TANF) legislation would free up $2 billion for states to use for child care. The Administration is seemingly referring to the fact that, under current law, unobligated TANF carryover funds (i.e., funds from prior years) can only be spent for "assistance," while under the bills passed by the House and approved by the Senate Finance Committee, unobligated carryover funds could be used for any allowable TANF expenditure.

Letting states use unobligated carryover funds for any allowable TANF expenditure *would* provide needed administrative simplification, but it would *not* result in $2 billion becoming newly available for child care or other purposes, for two reasons:

- For many states, unspent TANF balances are being held in reserve to meet future contingencies or will be needed to sustain current service levels. In most states, reserves are likely to be depleted within a few years unless states make significant cuts in *current levels of services.* These reserve funds are not available for expanding child care services.
- As a practical matter, the vast majority of states can already effectively use reserve funds for child care by rearranging how current and carryover funds are spent. The change in law will make the process of using the funds simpler, but doesn't change the amount of resources available to states.

Making it easier for states to exhaust their reserves is no substitute for increasing federal child care funding. Without additional federal child care funds, children will lose their child care subsidies and families will be less able to obtain and maintain employment.

This document explains current rules for use of carryover funds, what the proposed legislative change would do, and why it would not "free up" $2 billion for child care.

Modifying Allowable Uses of Carryover Funds Would Simplify Administration But Would Not Make New Funds Available

Each year, a state receives a TANF block grant. When funds are current-year funds, the state can spend them, transfer part of the funds to the child care or Title XX (Social Services) block grants, "obligate" the funds (i.e., make a contractual obligation for their future use), or leave them unspent and unobligated. The great majority of current-year funds are spent, transferred, or obligated. However, many states have wanted to leave some of their funds unspent and unobligated, so that these funds can remain available to address future needs—for instance, unanticipated caseload increases. At the end of FY 2002, states had an aggregate total of $2.7 billion in unobligated carryover funds. States also had $3.1 billion in "unliquidated obligations," i.e., unspent funds that were legally committed to future uses.

For most states, the amount of unobligated funds was, in relative terms, a fairly small amount:

- For 38 states, the amount of unobligated funds represented less than one-third of the state's FY 2002 funding—an amount that could not pay for four months of TANF expenditures. This includes nine states with no unobligated prior-year funds and 11 for which the amount of unobligated funds represented 10 percent or less of the state's FY 2002 funding.

- For 10 states, the amount of unobligated funds represented between one-third and two-thirds of the state's FY 2002 funding—an amount that could pay for four to eight months of the state's TANF expenditures.

- Only three states (Wyoming, Oklahoma, and South Dakota) reported unobligated funds representing more than two-thirds of the state's FY 2002 TANF funding.

The amount of state reserve funding would likely fall sharply in the next few years even if there were no changes in federal law. In fiscal years 2001-2003, state spending of TANF dollars exceeded the annual block grants by about $2 billion each year. It will be impossible to maintain this expenditure level without drawing on unspent funds. Even if states draw on unspent funds, it will be impossible to maintain this expenditure level for the next five years. States will eventually need to draw on carryover funds in efforts to maintain current levels of services. Thus, even if there was no restriction on use of carryover funds, few states would be in any position to treat these funds as available for service expansions.

When a state does seek to spend unobligated funds, TANF rules concerning "assistance" and "nonassistance" become relevant. Generally, under TANF, a benefit is considered "assistance" if it is designed to meet ongoing basic needs; benefits and services that don't fall within the definition of assistance are considered "nonassistance":

- Current-year funds can be spent or obligated for assistance or nonassistance.

- Funds that are obligated when they are current-year funds may be spent for either assistance or nonassistance, consistent with the terms of their obligation.

- Unobligated carryover funds may only be spent for assistance and its related administrative costs.

So, funds that are obligated for nonassistance when current can be spent for nonassistance in the subsequent year; funds that are not obligated when current can only be spent for assistance in subsequent years.

Many people and organizations (including CLASP) have criticized the current federal interpretation as unduly complex and restrictive, because it results in one set of rules for current-year funds and a different set for carryover funds, and limits state discretion in use of carryover funds. The Administration has proposed that states be allowed to use carryover funds for any allowable TANF expenditure. This recommendation was incorporated in both the House reauthorization bill and the Senate Finance bill. It has been uncontroversial and seems likely to become law when reauthorization is completed.

The proposed change would simplify program administration, but it would *not* make $2 billion newly available to states. States would be free to spend these funds for any TANF purpose immediately *if* they wished to exhaust their reserve funds and put in place a spending level that would be even more unsustainable in the future. States are likely to be very hesitant to do this. In the block grant structure, states receive a fixed amount of funds each year, even though costs may increase due to inflation, increased work requirements, or other new needs. Since virtually all pending reauthorization proposals would increase state work requirements, many states will likely wish to keep in reserve some funds to anticipate the increased requirements of later years. And, as noted above, states attempting to maintain their current levels of services will need to draw on their reserve funds in efforts to do so. So, while the administrative simplification would help states, it is no substitute for an increase in federal child care funding.

Carryover Rules Do Not Prevent Almost All States from Effectively Using Carryover Funds for Child Care

While current rules are needlessly complex, they do not prevent the vast majority of states from effectively accessing carryover funds for child care. Almost every state could effectively use all or virtually all of its unobligated carryover funds for child care in the next year or two if the state wished to be left with no reserves.

Recall that under U.S. Department of Health and Human Services interpretations, a state may only use unobligated carryover funds for assistance costs. Under current law, child care is considered *nonassistance* if provided to an employed family or if provided as a nonrecurrent short-term benefit; child care is considered *assistance* if provided to an unemployed family *unless* the benefit can be considered a nonrecurrent short-term benefit. Thus, a state can use unobligated carryover funds for ongoing child care costs for unemployed families, but not for employed families. The seeming irrationality of this distinction is one reason why there has been broad support for changing the definition of assistance and rules relating to carryover funds.

While complex, these rules do *not* prevent the vast majority of states from using unobligated funds for child care or other purposes, through a two-step process: (1) spend unobligated carryover funds for current-year assistance costs; then (2) spend the freed-up current-year funds for nonassistance:

- Suppose State A has $10 million in unobligated carryover funds and annual assistance costs of $30 million. The state cannot directly spend the unobligated carryover funds for child care for employed families, but can spend all of its carryover funds to pay $10 million of current-year assistance costs, which frees up $10 million of current-year funds for child care for employed families (or any other allowable expenditure).

- Suppose State B has $50 million in unobligated carryover funds and annual assistance costs of $30 million. The state can spend $30 million of carryover funds for assistance in Year 1 (freeing up $30 million of current-year funds for child care for employed families or other purposes). This would leave $20 million in carryover funds that could be spent for assistance costs in Year 2.

If they wished to do so, the vast majority of states could exhaust their carryover funds for a single year's assistance costs, thus freeing up the equivalent amount of funds for child care. Specifically, at the end of FY 2002, states had $2.7 billion in unobligated TANF carryover funds. Altogether, states spent $11.3 billion on assistance in FY 2002 ($5.8 billion in federal TANF funds and $5.3 billion in state maintenance of effort funds).

- For 45 states, the amount of assistance costs in FY 2002 exceeded the state's entire amount of unobligated carryover funds. These states could spend all of their carryover funds on assistance in the next year and effectively use all of their carryover funds for next year's child care costs. However, a state doing so would leave no funds in reserve. Thus, it would not be technically difficult to effectively commit the funds to child care, but the state may well conclude that it would be imprudent to do so.

- For three states (Oklahoma, South Dakota, and Idaho), carryover funds could be exhausted in two years by spending those funds for assistance costs at FY 2002 levels. For two states (Alabama and Georgia), the carryover funds could be exhausted in three years if used for assistance costs at FY 2002 levels.

- Wyoming (with carryover funds of $45 million and FY 2002 assistance costs of $8 million) is the only state that would not be able to spend all of its carryover funds over the next three years for current levels of assistance costs. Thus, it is probably the only state that would truly see funds "freed up" by the pending proposal.

Conclusion

The process of shifting between use of current and prior-year funds in order to "free up" dollars is needlessly complicated. It will therefore be a positive change if reauthorization allows states to use prior-year funds for any allowable TANF expenditure. At the same time, making this change will not free up large amounts of resources for child care or anything else. Urging states to exhaust their reserves is no substitute for increasing federal child care funding.

Difference Between Federal and State TANF Assistance Expenditures and Unobligated Balances, FY 2002, Ranked

	UNOBLIGATED BALANCE AS OF SEPTEMBER 30, 2002 (Rounded to the nearest million)	FEDERAL AND STATE TANF ASSISTANCE EXPENDITURES (Rounded to the nearest million)	UNOBLIGATED BALANCE AS PERCENTAGE OF FY 02 EXPENDITURES	STATES THAT COULD EXHAUST UNOBLIGATED FUNDS FOR ASSISTANCE WITHIN…
California	$0	$3,430,000,000	0.0%	One Year
Massachusetts	$0	$300,000,000	0.0%	
Connecticut	$0	$150,000,000	0.0%	
Illinois	$0	$150,000,000	0.0%	
Virginia	$0	$100,000,000	0.0%	
Rhode Island	$0	$100,000,000	0.0%	
Mississippi	$0	$70,000,000	0.0%	
Colorado	$0	$60,000,000	0.0%	
Vermont	$0	$50,000,000	0.0%	
South Carolina	$0	$40,000,000	0.0%	
Indiana	$0	$160,000,000	0.0%	
Delaware	$0	$40,000,000	0.0%	
Oregon	$0	$110,000,000	0.0%	
Missouri	$10,000,000	$200,000,000	5.0%	
Tennessee	$10,000,000	$160,000,000	6.3%	
Kentucky	$10,000,000	$110,000,000	9.1%	
Kansas	$10,000,000	$90,000,000	11.1%	
Washington	$30,000,000	$290,000,000	10.3%	
North Carolina	$20,000,000	$140,000,000	14.3%	
Alaska	$10,000,000	$70,000,000	14.3%	
Pennsylvania	$50,000,000	$360,000,000	13.9%	
Minnesota	$30,000,000	$180,000,000	16.7%	
Nebraska	$10,000,000	$50,000,000	20.0%	
Iowa	$20,000,000	$80,000,000	25.0%	
West Virginia	$30,000,000	$110,000,000	27.3%	
Nevada	$20,000,000	$50,000,000	40.0%	
New York	$550,000,000	$1,900,000,000	28.9%	
Maryland	$70,000,000	$230,000,000	30.4%	
Maine	$30,000,000	$90,000,000	33.3%	
Dist. of Col.	$20,000,000	$70,000,000	28.6%	
Utah	$20,000,000	$50,000,000	40.0%	
New Hampshire	$10,000,000	$40,000,000	25.0%	
Montana	$10,000,000	$30,000,000	33.3%	
Florida	$130,000,000	$300,000,000	43.3%	
Arizona	$60,000,000	$130,000,000	46.2%	
Michigan	$110,000,000	$240,000,000	45.8%	
New Jersey	$130,000,000	$240,000,000	54.2%	
New Mexico	$50,000,000	$80,000,000	62.5%	
Ohio	$240,000,000	$350,000,000	68.6%	
Louisiana	$50,000,000	$70,000,000	71.4%	
Hawaii	$70,000,000	$80,000,000	87.5%	
Texas	$230,000,000	$270,000,000	85.2%	
North Dakota	$20,000,000	$20,000,000	100.0%	
Wisconsin	$120,000,000	$130,000,000	92.3%	
Arkansas	$30,000,000	$30,000,000	100.0%	
Oklahoma	$150,000,000	$110,000,000	136.4%	Two Years
South Dakota	$20,000,000	$20,000,000	100.0%	
Idaho	$10,000,000	$10,000,000	100.0%	
Alabama	$70,000,000	$40,000,000	175.0%	Three Years
Georgia	$170,000,000	$70,000,000	242.9%	
Wyoming	$40,000,000	$10,000,000	400.0%	More than Three Years
Total	**$2,670,000,000**	**$11,260,000,000**		

CLASP calculations based on Fiscal Year 2002 TANF Financial Data reported by U.S. Department of Health and Human Services at http://www.acf.hhs.gov/programs/ofs/data/tanf_2002.html, Tables A, B, C.