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Administration's TANF Proposal Would *Not* Free Up \$2 Billion for Child Care

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In recent weeks, Administration representatives have suggested that enacting the Administration's Temporary Assistance for Needy Families (TANF) reauthorization proposal would free up \$2 billion for states to use for child care. The basis for these statements appears to be the fact that under current law, unobligated TANF carryover funds (i.e., uncommitted prior-year funds) can only be spent for "assistance," while under the Administration's proposal, such funds could be used for any allowable TANF expenditure. As of the end of 2003, states had \$2.3 billion in unobligated carryover funds.

Letting states use unobligated funds for any allowable TANF expenditure *would* provide administrative simplification, but would *not* result in any new funds becoming available for child care. At most, it would let a small number of states exhaust their reserve funds more quickly:

- **Under current law, states cannot *directly* spend unobligated carryover funds for child care for working families but they can *effectively* do so by rearranging how current and carryover funds are spent.** Any state wishing to use unobligated carryover funds for child care can simply choose to spend carryover funds to pay for current-year assistance costs, which frees up an equivalent amount of current-year funding to use for child care. This is not technically difficult to do; however, states have a finite amount of reserve funds, and spending these funds sooner will mean they are unavailable for future years. Forty-seven states (including the District of Columbia) could already, in effect, spend every penny of their unobligated funds on child care this year if they wished to exhaust their reserve funds. The other four states could spend all of their carryover funds for child care within two or three years.
- **Making it easier for states to exhaust their reserves is no substitute for increasing federal child care funding.** Historically, most states have tried to keep some unspent TANF funds in reserve to meet future contingencies, such as increases in their assistance caseloads. However, for the last three years, states have spent more for TANF-funded benefits and services than they have received in their annual block grants, and states have drawn down prior-year funds to help meet current service levels. This strategy cannot be sustained indefinitely; reserves for most states are likely to be depleted within a few years unless states cut *current levels of services*. Moreover, Congressional Budget Office (CBO) staff has preliminarily estimated that over the next five years, the cost of keeping pace with inflation for child care will be about \$4.8 billion, and the combined cost of keeping pace with inflation and meeting the Administration's proposed increased participation requirements by additional participation would be about \$12.5 billion. Thus, allowing states to spend their reserve funds more quickly does nothing to address the underlying fiscal problem faced in TANF or the shortfall in child care funding.

This document explains the proposed change and why it would not result in an additional \$2 billion becoming available for child care.

Under current law, unobligated carryover funds may only be used for assistance; a proposed change would allow such funds to be used for any allowable TANF expenditure.

In TANF, any funds not spent or transferred to other block grants when they are current remain available to the state for future years. Carryover funds fall into two categories: “unobligated balances,” which have not been committed to any particular use; and “unliquidated obligations,” which the state has made a contractual obligation to spend but has not yet spent. At the end of 2003, states had \$2.3 billion in unobligated balances and \$1.6 billion in unliquidated obligations.¹

Current rules restrict how states can use unobligated balances. TANF rules distinguish between “assistance” and “nonassistance.” 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.” Child care for employed families is considered “nonassistance,” while child care for unemployed families is considered “assistance.” Rules provide that:

- Funds that *are* obligated when they are current-year funds may be spent for either assistance or nonassistance, depending on the terms under which they were obligated.
- Funds that *are not* obligated when they are current-year funds become unobligated carryover funds, and can only be spent for assistance and its related administrative costs.

Under this structure, states can spend unobligated carryover funds on child care for unemployed, but not employed families. These rules have been criticized by many, including CLASP, as being complex and serving no apparent policy objective. The Administration has proposed that states be allowed to use carryover funds for any allowable TANF expenditure. This recommendation has been uncontroversial, is in pending House and Senate reauthorization bills, and seems likely to become law when reauthorization is completed.

The Administration contends that the proposed change would “unlock” \$2 billion for child care.

In recent statements, Administration representatives have suggested that the proposed change would result in \$2 billion becoming newly available for child care. For example, in recent Congressional testimony, Dr. Wade Horn, Assistant Secretary for Children and Families, stated:

One of the things that I think is important to keep in mind is that if we pass a TANF reauthorization bill today that incorporates a provision in both the President’s plan and in H.R. 240, if we pass that bill today, tomorrow, states will have nearly \$2 billion in additional funds that become freed up to spend for things like child care.

¹ See Greenberg M., & Rahmanou H. (February 2, 2005). *TANF Spending in 2003*. Washington, DC: CLASP. Available at http://www.clasp.org/publications/fy2003_tanf_spending.pdf

Why is that? Because right now there is almost \$2 billion that is put in what are called carryover funds. Under the TANF program, as you know, if you don't spend all the money in one year you get to carry it over from one year to the next.

Almost \$2 billion nationally is in an unobligated balance, carried over from prior years in the TANF program. The problem is that under current law, that \$2 billion can only be spent for cash assistance. But, the TANF program is no longer primarily a cash assistance program; it's a work support program. So why is it that we have a law that says that if you put money aside, the only way you can use that money in the future is for cash assistance, as opposed to other kinds of work supports? Well, under the President's proposal and H.R. 240, those funds would be freed up to be used for a variety of purposes including child care. So one of the consequences of not passing this bill is that \$2 billion stays locked up, unavailable for states to use for child care. So we do believe that there would be immediate influx of \$2 billion nationally in additional funds, which today cannot be used for child care, but could be used for child care if we passed this bill.²

Some states have no carryover funds; almost all of the rest could effectively use all of their carryover funds for child care now, if they wished to exhaust their reserve funds.

The majority of unobligated funds is concentrated in a handful of states. Thirteen states have none, and most states have amounts representing only a few months of TANF funding. (See Appendix for state-by-state data.)

As noted above, states with unobligated carryover funds can only spend those funds for assistance, but that does not mean the funds are "locked up." While a state cannot directly spend these funds for child care for employed families, any state wishing to do so can accomplish precisely the same result, by spending unobligated carryover funds for assistance costs, freeing up a corresponding amount of current-year funds to spend for child care. For example, suppose the state has \$10 million in unobligated carryover funds and annual assistance costs of \$30 million. The state can spend all of its unobligated carryover funds to pay \$10 million toward current-year assistance costs, which frees up \$10 million of current-year funds for child care for employed families (or any other allowable expenditure).

For most states, current assistance costs are much larger than the amount of unobligated funds, so every penny of carryover funds could be used for child care this year if the state chose to spend carryover funds for assistance and free up a corresponding amount of funds for child care.

- For 47 states, the amount of assistance costs in 2003 exceeded the state's entire amount of unobligated carryover funds. Thirteen states had no unobligated carryover funds; the other thirty-four could spend all of their carryover funds on assistance in the next year and effectively use *all* of their unobligated funds for next year's child care costs.

² Testimony of Dr. Wade Horn, Assistant Secretary for Children and Families, U.S. Department of Health and Human Services, before Subcommittee on 21 Century Competitiveness, Committee on Education and the Workforce, U.S. House of Representatives, March 15, 2005, web cast available at http://www.house.gov/ed_workforce/hearings/hrgarchive.htm.

- In Ohio and South Dakota, unobligated carryover funds are more than a single year's assistance costs, but less than two years of assistance costs. They could, in effect, spend all of their carryover funds for child care over a two-year period. Arkansas and Wyoming have the largest amount of unobligated funds relative to assistance costs, but could still, in effect, spend all of their carryover funds for child care over a three-year period.

Thus, based on 2003 data, four states could spend carryover funds for child care somewhat more quickly if they were allowed to spend carryover funds for any TANF purpose. Even for these states, the net result would not be more money for child care: it would just mean that the funds could all be spent in the first year, rather than over several years.

Most States Cannot Use Carryover Funds to Expand Child Care Services, Because States Will Need to Use These Funds Just to Maintain Current TANF-Funded Services

In light of unmet child care needs, why wouldn't states use available carryover funds for child care right now? The reason is that many states are seeking to keep some funds in reserve for future needs, and most states will need to spend their carryover funds in the coming years just to maintain current services.

In the early years of TANF, some states accumulated substantial amounts of unobligated carryover funds, but those amounts have steadily declined in recent years. At the end of 2003, states had a total of \$2.3 billion in unobligated carryover funds, the lowest level since 1997 (the first year of TANF implementation). For most states, the amount was, in relative terms, fairly small:

- For 40 states, the amount of unobligated funds at the end of 2003 represented less than one-third of the state's 2003 funding—an amount that could not pay for four months of TANF expenditures. This includes 13 states with no unobligated prior-year funds, and another 10 for which the amount of unobligated funds represented 10 percent or less of the state's FY 2003 funding.³
- Only five states (Arkansas, Hawaii, Oklahoma, South Dakota, and Wyoming) reported unobligated funds representing half or more of the state's 2003 TANF funding.

In making judgments about use of carryover funds, states face two key considerations. First, TANF funding is fixed and not expected to increase during reauthorization. Thus, any unexpected new costs must be borne with existing block grant funding levels. At the same time, pending reauthorization proposals would increase state work requirements, resulting in potential increased costs.

Second, states are now using carryover funds just to maintain current service levels. In each of the last three years, state TANF spending exceeded annual block grants. Over this period, total unspent funds fell from \$7.1 billion to \$3.9 billion, and unobligated balances fell from \$2.8 to \$2.3 billion. The aggregate amount of unspent funds fell by 33 percent between 2002 and 2003, and at the end of 2003, thirty-two states either had no unobligated funds or their amount of unobligated funds had fallen since 2002. Given these structural deficits, it is inevitable that states will eventually need to draw on carryover funds to maintain current levels of services, and eventually, most states will find it impossible to sustain current levels of services after carryover funds are exhausted. Thus, few states are in any position to treat these funds as available for service expansions.

³ Missouri has \$1 of unobligated funds. For these purposes, we count it as having no unobligated funds.

Costs of Sustaining Current Service Levels in Child Care and Meeting Administration's Work Costs Through Increased Participation Would Be High

Spending carryover funds more quickly would do nothing to address the overall child care shortfall states face in the next five years unless Congress appropriates significant new funds. Federal child care funding has now been essentially flat since 2002. The Administration has estimated that the number of children receiving child care assistance was 2.4 million in 2003, will fall to 2.2 million in 2005, and will further fall to 2 million by 2009.⁴ CBO staff has preliminarily estimated that \$4.8 billion in total funding (federal and state) would be needed to sustain 2005 service levels over the next five years.⁵ CBO has estimated that the cost of meeting the work requirements through increased work participation under the House bill (which largely reflects the Administration's proposal) would be \$8.3 billion; CBO staff preliminarily estimates that the combined costs of meeting inflation and increasing participation to meet the House bill's work requirements would be \$12.5 billion.⁶

The picture is different under the Senate's bill: it would provide \$6 billion in federal funds for child care, while its changes in work requirements are estimated to be less costly than those in the Administration's proposal, with CBO staff preliminarily estimating that the combined federal and state costs for keeping pace with inflation and meeting the participation requirements through increased participation to be \$6.3 billion.⁷ Thus, the Senate child care total is estimated to be in the range of what would be needed to meet the cost of inflation and increased participation requirements, though even this figure would not provide for expanded access to child care for additional working families outside welfare or for expanding quality investments.

Conclusion

The process of shifting between use of current and prior-year funds in order to "free up" dollars is needlessly complicated. It will be a positive change if reauthorization allows states to use prior-year funds for any allowable TANF expenditure. However, making this change will not free up large amounts of resources for child care or anything else. The Senate bill's child care provisions would provide for significant increased child care funding; the House bill and the Administration's approach would not. Urging states to exhaust their reserves and incur larger structural deficits in their TANF spending is no substitute for increasing federal child care funding.

⁴ See Matthews, H., & Ewen, D. (February 2004). *President's Budget Projects 300,000 Low-Income Children to Lose Child Care by 2010*. Washington, DC: Center for Law and Social Policy. Available at: http://www.clasp.org/publications/cc_2006_budget.pdf

⁵ See Congressional Budget Office. (February 19, 2005). *Child Care Cost Summary Table*. Preliminary Staff Estimate. Washington, DC: Author.

⁶ Holtz-Eakin, D. (February 9, 2005). *Letter to the Honorable Jim McDermott Regarding the Potential Additional Costs that States Could Incur to Implement the Work Participation Requirements Specified in H.R. 240 for Those Receiving Temporary Assistance for Needy Families (TANF)*. Washington, DC: Congressional Budget Office. Available at: <http://www.cbo.gov/ftpdocs/60xx/doc6095/workcostsHR240.pdf>

⁷ For a discussion, see Greenberg, M., Testimony before the Subcommittee on 21st Century Competitiveness, Committee on Education and the Workforce, House of Representatives, March 15, 2005, available at: http://clasp.org/publications/greenberg_testimony_031505.pdf

Difference Between Federal and State Assistance Expenditures and Unobligated Balances, FY 2003, Ranked

STATE	UNOBLIGATED BALANCE AS OF SEPTEMBER 30, 2003	FEDERAL AND STATE ASSISTANCE EXPENDITURES	UNOBLIGATED BALANCE AS PERCENTAGE OF ASSISTANCE EXPENDITURES	STATES COULD EXHAUST UNOBLIGATED FUNDS FOR ASSISTANCE WITHIN...
US FY2003	\$2,305,863,104	\$11,716,751,624	19.7%	
CALIFORNIA	0	3,436,478,853	0.0%	ONE YEAR
COLORADO	0	53,134,296	0.0%	
CONNECTICUT	0	161,530,053	0.0%	
ILLINOIS	0	132,158,787	0.0%	
INDIANA	0	125,103,658	0.0%	
LOUISIANA	0	72,662,358	0.0%	
MASSACHUSETTS	0	354,855,024	0.0%	
OREGON	0	120,243,203	0.0%	
SOUTH CAROLINA	0	51,230,339	0.0%	
TENNESSEE	0	165,189,209	0.0%	
VERMONT	0	41,847,608	0.0%	
WASHINGTON	0	269,268,706	0.0%	
MISSOURI	1	130,210,036	0.0%	
DELAWARE	223,366	36,513,068	0.6%	
NORTH CAROLINA	3,517,651	135,998,110	2.6%	
RHODE ISLAND	2,858,211	91,247,788	3.1%	
MISSISSIPPI	2,382,850	67,170,097	3.5%	
ARIZONA	8,976,781	175,366,099	5.1%	
KENTUCKY	8,490,818	119,438,006	7.1%	
NEW MEXICO	9,304,377	78,662,079	11.8%	
NEW YORK	261,369,147	2,096,654,578	12.5%	
IDAHO	861,159	6,636,135	13.0%	
VIRGINIA	18,189,221	128,988,634	14.1%	
WEST VIRGINIA	12,647,347	88,458,924	14.3%	
ALASKA	10,268,660	58,756,873	17.5%	
NEVADA	9,969,164	54,467,928	18.3%	
MINNESOTA	41,446,505	192,809,133	21.5%	
MONTANA	7,853,299	35,012,214	22.4%	
KANSAS	21,847,826	82,857,826	26.4%	
MICHIGAN	113,057,772	415,959,118	27.2%	
NEBRASKA	16,164,039	58,624,970	27.6%	
NEW HAMPSHIRE	11,460,127	36,731,875	31.2%	
TEXAS	132,877,234	404,660,330	32.8%	
NORTH DAKOTA	10,117,153	28,795,069	35.1%	
UTAH	20,027,565	55,634,366	36.0%	
IOWA	25,423,161	59,924,349	42.4%	
MAINE	36,860,814	86,880,778	42.4%	
PENNSYLVANIA	155,250,409	345,728,494	44.9%	
FLORIDA	159,656,604	293,210,455	54.5%	
ALABAMA	27,600,243	50,343,576	54.8%	
MARYLAND	18,844,488	32,088,461	58.7%	
DISTRICT OF COLUMBIA	43,142,744	67,565,242	63.9%	
OKLAHOMA	119,702,888	173,881,137	68.8%	
NEW JERSEY	199,953,017	273,575,443	73.1%	
WISCONSIN	85,047,992	108,526,016	78.4%	
GEORGIA	160,992,410	203,076,328	79.3%	
HAWAII	90,831,652	91,146,136	99.7%	
OHIO	341,920,613	309,620,546	110.4%	TWO YEARS
SOUTH DAKOTA	23,109,755	18,968,935	121.8%	
WYOMING	36,756,727	16,832,294	218.4%	THREE YEARS
ARKANSAS	56,859,314	22,028,084	258.1%	

CLASP calculations based on Fiscal Year 2003 TANF Financial Data, available at http://www.acf.dhhs.gov/programs/ofs/data/tanf_2003.html, Tables A, B, C