



TANF Block Grant

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Temporary Assistance for Needy Families Elizabeth Lower-Basch

Nearly 20 years ago, 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 federal 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 that they can spend on a wide variety of activities to 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.

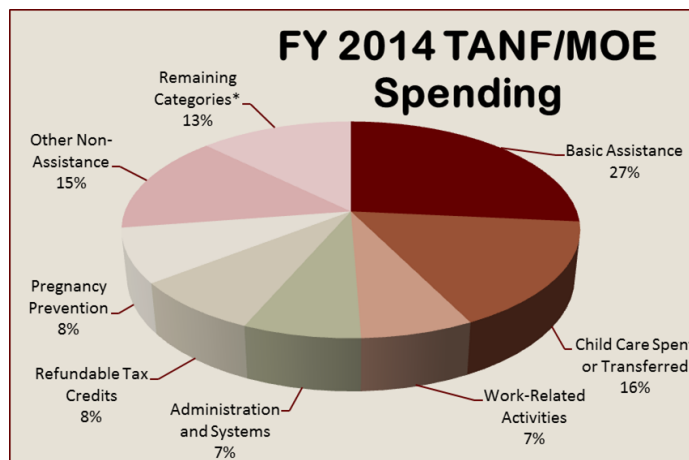
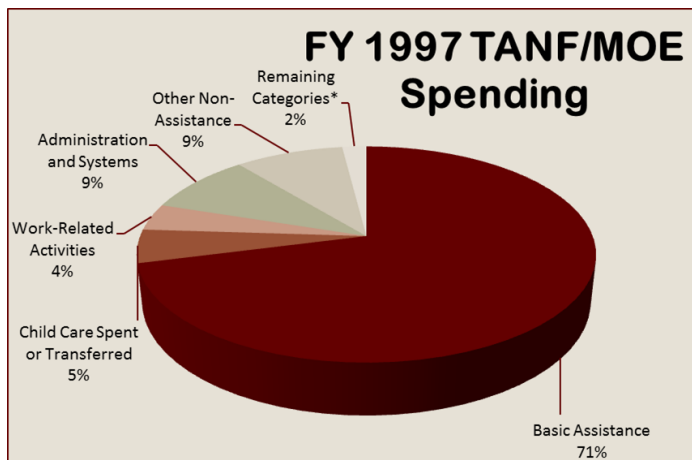
States can also use TANF funds for certain other activities, such as juvenile justice, that they supported under Emergency Assistance pre-1996.

The TANF block grant does not increase when assistance caseloads rise. (The TANF Emergency Fund, created by the American Recovery and Reinvestment Act of 2009, was a temporary exception to that rule.) When caseloads fall – as they did dramatically during the late 1990s¹ – 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, regardless of whether the families are getting cash aid. The income cut off for those programs can be higher than 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 Fiscal Year (FY) 2014, the most recent year for which data are available, **basic monthly assistance payments – what most people think of as “welfare” – accounted for just 27 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 2014, states also reported spending 7 percent of their TANF/MOE funds on supporting parents in getting the skills they need for employment, finding and keeping jobs, or other 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 (Arkansas and Texas) to more than half (Kentucky and 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 2014, states spent or transferred a total of \$5.1 billion in TANF and MOE funds on child care, accounting for 16.1 percent of all TANF/MOE spending.

TANF funds represent a substantial portion of the national investment in child care. States spent a combined \$2.7 billion on direct spending on child care and excess MOE spending on TANF MOE. And while states directed a total of \$2.3 billion toward TANF, a portion of TANF MOE funds spent on child care may also be directed toward states' CCDBG MOE requirement. As a result, the excess MOE spent on TANF in 2014 was \$1.6 billion. Total spending on child care—comprised of federal and state CCDBG funds and TANF and

MOE direct spending—was \$11.3 billion in FY 2013, of which nearly a quarter were TANF-related funds.³ However, as with cash assistance, there is a great deal of variation among states, with 21 states using less than 10 percent of their TANF and MOE funds on child care and only two 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.” In order to improve our understanding of how TANF funds are used, the U.S. Department of Health and Human Services’ Administration for Children and Families (ACF), which administers the program, will be collecting information on TANF spending in more detailed categories starting in FY 2015.⁴

¹ 1997 remaining categories are Transfers to SSBG and Transportation and Supportive Services; no funds were reported in Individual Development Accounts, Non-recurrent Short-Term Benefits, Authorized Under Prior Law, Pregnancy Prevention, Two-Parent Family Formation or Refundable Tax Credits. 2014 remaining categories are Transfers to SSBG, Transportation and Supportive Services, Individual Development Accounts, Non-recurrent Short-Term Benefits, and Two-Parent Family Formation, 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, 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.⁵ A study of child welfare financing found that \$2.8 billion in TANF funds was spent on child welfare related services in FY 2012 (not counting MOE spending or spending on TANF assistance for “child-only” cases.)⁶

In FY 2009, states reported using just \$52.5 million, which represented 0.2 percent of combined TANF/MOE funds, on subsidized employment. Such spending increased dramatically in FY 2010 under the TANF Emergency Fund, rising to 2.9 percent, which totaled \$1.05 billion. With the expiration of the Emergency Fund, this spending declined, but at \$128 million remains above previous levels.

State Spending on Social Services Has Declined Since 2002

During the early years of TANF, caseloads fell faster than anticipated. Therefore, all states 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 to encourage

teens 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 2001-2002 recession, a number of states began to substitute TANF and MOE funds for state general revenues supporting social services for low-income families.** It appears that this shift continued through the 2000s, and accelerated during the Great Recession, which placed state budgets under severe pressure.

One complication making it difficult to monitor spending trends over time is that starting in FY 2006, because of policy changes made by the Deficit Reduction Act of 2005, 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 such third parties as businesses, foundations, nonprofits, and local governments, as long as the third party agrees.⁸ For example, some states claim expenditures from private donations by nonprofit organizations on programs for disadvantaged youths as TANF MOE. Many states used this provision during FYs 2009 and 2010 to qualify for funding from the TANF Emergency Fund. In a few states, third-party expenditures accounted for nearly half of spending reported as MOE.⁹ While reported MOE spending increased

by over \$4 billion between FY 2005 and FY 2011, this almost certainly was partially driven by changes in data reporting and not true increases in the resources available to needy families since many these third-party activities were already taking place even when they were not claimed as MOE.¹⁰

Since the expiration of the Emergency Fund at the end of FY 2010, states have had weaker incentives to report additional spending. Reported MOE spending decreased by nearly \$450 million between FY 2011 and FY 2013. It is unclear how to apportion this decline among 1) reporting changes; 2) the end of temporary programs supported under the Emergency Fund; and 3) decreased need due to improving economic conditions. Reported MOE spending has rebounded slightly since, increasing from \$329 million from FY 2013 to FY 2014 for unknown reasons.

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.¹¹ 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 2008. During the Great Recession, increased demands for assistance and expanded federal support were counterbalanced by strained state budgets. At least 46 states responded to their budget deficits by imposing cuts in cash assistance and other social services.¹² Since the expanded federal assistance has come to an end, only some states have restored

the cuts they made, and even those only in part. Total spending on child care assistance is at a 11-year low¹³, and spending on child welfare has fallen for the first time in 20 years.¹⁴

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 33 percent.**

The TANF amount available for each state was set based on its spending under the AFDC program.¹⁵ While poorer states received a higher federal match rate under AFDC, they also usually had much lower benefit levels. This meant that the value of the TANF block grant per poor child also varied widely. Thus, in the first years of the block grant, Arkansas received less than \$400 per year for each poor child in the state, while Alaska received more than eight times as much.

Some in Congress realized this inequity at the time, and thus the 1996 law provided an additional allocation of funds--the TANF supplemental grants--that provided additional dollars to states that had either particularly low grants per poor person or had high rates of population growth during the early 1990s. However, Congress allowed these grants to expire in FY 2011, resulting in a reduction of funding in these states. Overall, the block grant has not been adjusted to reflect either population growth or the rise of poverty. States that have experienced growth in the number of poor children have seen their funding per poor child decline substantially. Since 1997, states such as Indiana, Kansas, Nevada, and North Carolina, have seen the number of poor children climb by over 75 percent, cutting the

funds available per poor child by more than 60 percent. Nevada now receives less than \$200 per year from the block grant per poor child, and Texas and Arkansas follow close behind. (See Table 1.)

While some additional funding has been available to states under the regular Contingency Fund, this funding is allotted to states in proportion to the basic block grant allocation and is limited to states that are able to increase their MOE above historical levels. Therefore, these additional funds have primarily gone to more affluent states that are able to spend more of their own funds.¹⁶

Conclusion

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.¹⁷ The net result is a program under pressure. 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.

Notes

¹ For more detail on the changes in the cash assistance program, see Elizabeth Lower-Basch, *TANF 101: Cash Assistance*, CLASP, 2015, <http://www.clasp.org/resources-and-publications/publication-1/TANF-101-Cash-Assistance.pdf>

² Spending reports are available from HHS at: <http://www.acf.hhs.gov/programs/ofa/resource/tanf-financial-data-fy-2013>. Data can also be downloaded from <http://www.clasp.org/data>.

³ Stephanie Schmit and Rhiannon Reeves, *Child Care Assistance in 2013*, CLASP, 2015, <http://www.clasp.org/resources-and-publications/publication-1/Spending-and-Participation-Final.pdf>. Included in the \$2.7 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 Office of Family Assistance, “OMB approved Form ACF-196R State TANF Financial Report Form”, Administration for Children & Families, U.S. Dept. of Health and Human Services, 2014, <http://www.acf.hhs.gov/programs/ofa/resource/tanf-acf-pi-2014-02>.

⁵ 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.

⁶ Kerry DeVooght, Megan Fletcher, and Hope Cooper, *Federal, State, and Local Spending to Address Child Abuse and Neglect in SFY 2012*, Child Trends, September 2014, <http://www.childtrends.org/wp-content/uploads/2014/09/2014-47ChildWelfareSpending2012.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. For more details, see Kay E. Brown, *Temporary Assistance for Needy Families: State Maintenance of Effort Requirements and Trends: Testimony before the Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives*, U.S. Government Accountability Office, May 17, 2012, <http://www.gao.gov/assets/600/590958.pdf>.

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

⁹ Kay E. Brown, *Temporary Assistance for Needy Families: More States Counting Third Party Maintenance of Effort Spending: Letter to Chairman Geoff Davis of the Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives*, U.S. Government Accountability Office, July 23, 2012, <http://www.gao.gov/assets/600/592861.pdf>.

¹⁰ 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.

¹¹ 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.

Thomas Gais, Donald Boyd, and Lucy Dadayan, “The Social Safety Net, Health Care, and the Great Recession.” in: Robert D. Ebel and John E. Peterson, *The Oxford Handbook of State and Local Government Finance*, Oxford Press, 2012

¹² 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>.

¹³ Stephanie Schmit and Rhiannon Reeves, *Child Care Assistance in 2013*.

¹⁴ DeVooght, Fletcher, and Cooper, *Federal, State, and Local Spending*.

¹⁵ The amount for TANF was equal to the maximum amount that the state? received under AFDC and related to job training and emergency assistance programs during the 1992-1995 period, when caseloads were at their highest.

¹⁶ Office of Family Assistance, “TANF Contingency Fund Awards, 2006-2013”, Administration for Children & Families, U.S. Department of Health & Human Services, January 30, 2014.

<http://www.acf.hhs.gov/programs/ofa/resource/tanf-contingency-awards>.

¹⁷ Gais and Daclayan, *The New Retrenchment*.

Table 1: Real and Nominal Analysis of Temporary Assistance for Needy Families (TANF) Block Grant Amounts

STATE	State Financial Assistant Grant Nominal Amount, 1997 (in millions)	State Financial Assistant Grant Real Amount, 2013 (in millions)	Number of Poor Children, 1997-1998 (in thousands)	Number of Poor Children, 2012-2013 (in thousands)	Real Grant Amount per Poor Child, 1997-1998	Real Grant Amount per Poor Child, 2012-2013	Percent Change in Grant per Poor Child
Alabama	\$93.30	\$64.30	246	296	\$382.60	\$218.80	-43%
Alaska	\$63.60	\$31.20	21	26	\$3,119.70	\$1,208.20	-61%
Arizona	\$222.40	\$137.90	333	434	\$672.40	\$320.40	-52%
Arkansas	\$56.70	\$39.10	153	192	\$372.70	\$205.60	-45%
California	\$3,733.80	\$2,521.50	2185	1882	\$1,696.10	\$1,349.90	-20%
Colorado	\$136.10	\$93.70	114	178	\$1,198.30	\$532.00	-56%
Connecticut	\$266.80	\$183.80	90	105	\$2,958.10	\$1,763.50	-40%
Delaware	\$32.30	\$22.20	33	45	\$971.10	\$498.00	-49%
District of Columbia	\$92.60	\$63.80	45	37	\$2,065.10	\$1,737.20	-16%
Florida	\$562.30	\$387.50	646	803	\$875.60	\$486.00	-44%
Georgia	\$330.70	\$227.90	497	619	\$669.90	\$370.80	-45%
Hawaii	\$98.90	\$68.10	53	49	\$1,869.40	\$1,415.40	-24%
Idaho	\$31.90	\$21.00	76	74	\$422.60	\$287.20	-32%
Illinois	\$585.10	\$403.10	492	540	\$1,181.30	\$752.70	-36%
Indiana	\$206.80	\$142.50	160	309	\$1,282.60	\$464.50	-64%
Iowa	\$131.50	\$90.30	93	96	\$1,410.90	\$952.30	-33%
Kansas	\$101.90	\$70.20	79	143	\$1,288.30	\$494.70	-62%
Kentucky	\$181.30	\$124.90	198	273	\$908.60	\$460.90	-49%
Louisiana	\$164.00	\$113.00	291	313	\$567.10	\$363.60	-36%
Maine	\$78.10	\$53.80	38	46	\$2,067.00	\$1,178.70	-43%
Maryland	\$229.10	\$157.90	122	190	\$1,863.50	\$839.10	-55%
Massachusetts	\$459.40	\$316.50	231	208	\$1,973.40	\$1,536.50	-22%
Michigan	\$775.40	\$534.30	397	426	\$1,938.10	\$1,263.20	-35%
Minnesota	\$268.00	\$181.50	211	176	\$1,263.40	\$1,041.80	-18%
Mississippi	\$86.80	\$59.80	163	225	\$534.70	\$268.20	-50%
Missouri	\$217.10	\$149.60	229	285	\$942.70	\$529.50	-44%
Montana	\$45.50	\$26.20	51	44	\$906.10	\$606.90	-33%
Nebraska	\$58.00	\$39.60	68	76	\$852.90	\$523.30	-39%
Nevada	\$44.00	\$30.30	73	155	\$608.20	\$196.60	-68%
New Hampshire	\$38.50	\$26.50	43	32	\$888.70	\$835.50	-6%
New Jersey	\$404.00	\$278.40	256	297	\$1,569.20	\$945.80	-40%
New Mexico	\$126.10	\$76.20	158	147	\$802.00	\$523.90	-35%
New York	\$2,442.90	\$1,683.30	1134	910	\$2,138.70	\$1,864.20	-13%
North Carolina	\$302.20	\$207.70	330	583	\$923.20	\$359.60	-61%
North Dakota	\$26.40	\$18.20	34	23	\$770.50	\$796.60	3%
Ohio	\$728.00	\$501.60	467	494	\$1,548.60	\$1,022.80	-34%
Oklahoma	\$148.00	\$100.10	156	209	\$944.50	\$482.50	-49%
Oregon	\$167.90	\$114.90	154	141	\$1,085.50	\$821.00	-24%
Pennsylvania	\$719.50	\$495.80	491	480	\$1,454.10	\$1,041.40	-28%
Rhode Island	\$95.00	\$65.50	43	46	\$2,218.40	\$1,433.70	-35%
South Carolina	\$100.00	\$68.90	185	217	\$536.30	\$320.50	-40%
South Dakota	\$21.90	\$14.70	26	27	\$852.10	\$557.30	-35%
Tennessee	\$191.50	\$132.00	269	377	\$717.30	\$352.60	-51%
Texas	\$486.30	\$335.10	1264	1672	\$386.80	\$201.80	-48%
Utah	\$76.80	\$52.10	84	102	\$919.80	\$517.00	-44%
Vermont	\$47.40	\$32.60	17	17	\$2,765.50	\$1,991.90	-28%
Virginia	\$158.30	\$109.10	215	254	\$730.60	\$432.50	-41%
Washington	\$404.30	\$262.20	189	233	\$2,122.80	\$1,133.60	-47%
West Virginia	\$110.20	\$75.90	82	77	\$1,341.60	\$993.10	-26%
Wisconsin	\$318.20	\$216.30	146	205	\$2,170.10	\$1,066.40	-51%
Wyoming	\$21.80	\$12.70	19	16	\$1,138.10	\$828.40	-27%
United States	\$16,488.70	\$11,235.20	13,134	14,790	\$1,248.80	\$765.20	-39%

Source: Office of Family Assistance, TANF Financial Data for years 1997 through 2013; Current Population Survey March Supplement, "Related Children Under Age 18" for years 1997-2013.

NOTE: Real amounts of the TANF block grant are a summation of the State Family Assistant Grant and Supplement Grants awarded to states, adjusted for yearly inflation. This amount is divided by the number of children in poverty in each state to derive the real grant awarded per poor child in each state.