REAUTHORIZATION OF THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM AUTHORITY

SUBMITTED BY

FISCAL POLICY INSTITUTE
One Lear Jet Lane
Latham, New York 12110
November 30, 2001

These comments are submitted in response to the October 17, 2001 “Solicitation of Comments” issued by the Administration for Children and Families of the Department of Health and Human Services which invited public comment about what changes the Administration should propose for the Temporary Assistance to Needy Families (TANF) Program.

The Fiscal Policy Institute (FPI) is a nonprofit, nonpartisan research and education organization that focuses on tax, budget, economic and related public policy issues affecting low and moderate income New Yorkers. It was established in 1991 by a broad coalition of labor, religious, human services, good government and community organizations.

FPI has been an active participant in the welfare reform debate within New York State and has closely monitored the implementation of the TANF program. In February 2000, FPI published a report, “Improving New York State’s Utilization of its TANF Block Grant and Related ‘Maintenance of Effort’ Resources.” This report included a detailed analysis of the dozens of programs and initiatives receiving federal, state and local funds in conjunction with the TANF program. This year, FPI has co-sponsored with the Greater Upstate Law Project and Statewide Emergency Network for Social and Economic Security a series of forums around New York State at which representatives of state and local governmental agencies, nonprofit social service providers, and other community organizations shared their views on the ways in which the TANF program has been implemented in New York State and their priorities for the reauthorization process.

While the participants in these forums represented a wide range of perspectives and had different views on some specific issues, there was virtually unanimous agreement that the current economic downturn is going to provide a major test of the 1996 welfare reform law. Everyone agreed that as the economy weakens and job losses grow in the lower paying industries that have employed many of the people leaving welfare, it is essential that the federal government continue to provide the states with the resources necessary to support this ambitious effort. The Pataki administration has been holding its own public meetings around the state on the TANF reauthorization process and its representative at our forums emphasized the importance of :

- maintaining both the national allocation for TANF and New York State’s share;
- adding some sort of CPI or other cost of living adjustment that will ensure that the value of the block grants to the states are not eroded by inflation; and

-- maintaining and, where possible, increasing the existing level of state flexibility. The administration's position is that only in this way can New York and the other states build on the positive results and the knowledge that they have gained during the first five years of the TANF program's existence.

The views presented in the pages that follow do not necessarily represent the opinions of the participants in the forums that we have sponsored. While the views presented below have been informed by those forums, the conclusions and recommendations presented represent only the opinions of the Fiscal Policy Institute.

Background

During the first five years of the TANF program's existence, the U.S. economy did extremely well and welfare caseloads steadily declined. During this period, New York and the other states were able to reduce the share of their TANF block grants used for cash assistance and increase the share used for child care, transportation, assessment, training and other kinds of support services that everyone has come to see as essential to the success of a program that seeks to move people from welfare to work and ultimately to self-sufficiency. In this context, it would be particularly problematical if the administration and/or the Congress concluded that the reduction in caseloads justified a reduction in the level of federal funding for the TANF program.

The need to maintain and even increase the size of the TANF grants to states is reinforced by the current condition of the national economy. With the weakening of the economy, major downsizings are being implemented in a wide variety of industries, the number of workers on unemployment insurance is increasing even though a large number of laid-off workers in low wage industries are not qualifying for unemployment insurance, and many workers who were laid off in the spring and summer are beginning to see their unemployment insurance benefits run out at a time when it is increasingly difficult to find work. The result is that an increasing number of job seekers are competing for a declining number of jobs.

These developments, in turn, may very well lead to an increase in the number of people who must turn to public assistance to feed, clothe and house their families. As the graph on page 7 of these comments indicates, this is what happened during previous economic downturns and we should not be surprised if it happens again. This would create a tremendous challenge for the workings of the "reformed" welfare system – requiring states to spend an increasing share of their TANF funds on cash assistance at the same time that work-supporting services (like child care and transportation) and jobs programs are more important than ever. Reducing or even freezing TANF funds during a recession will make it impossible to continue the most impressive aspects of "welfare reform." During the FFY 1997 through FFY 2002 period, the grants to the states have remained constant. For example, New York's block grant for each federal fiscal year during this period has been $2.44 billion. This is clearly a large amount of money, but, just as clearly $2.44 billion can't buy as much in 2002 as it could in 1997. If the block grants to the states were to be continued a the same level for the next five years, and if inflation averaged a modest 2.5% per year during this period, the purchasing power of the federal block grants would have declined by 30% since 1997.

The comments below are organized into three major categories corresponding to our three major conclusions and recommendations.

- -- First, funding levels of the TANF block grant and required maintenance of effort expenditures must be protected by including an adjustment for changes in the cost of living to the 1996 block grant levels and MOE requirements.
- -- Second, child poverty reduction should be established as the primary goal of the TANF program.
- -- Third, the federal government should allow (and encourage) the states to use their TANF and MOE help long term welfare recipients find the kind of employment that can provide sufficient income to sustain their families and to provide supports to families who are poor despite work.

I. Funding levels of the TANF block grant and required maintenance of effort expenditures must be protected by including an adjustment for changes in the cost of living to the 1996 block grant levels and MOE requirements.

A. Inflation has eroded the purchasing power of the TANF grant.

Funding for the TANF program should be maintained, including an increase in the nominal appropriations to account for changes in the cost of living since August 1996. In New York, like other states, the TANF block grant has been used to fund a wide variety of services and supports for low-income families, particularly the working poor. In order to maintain these services and supports, the block grant must be increased to reflect the changes in the cost of living and subsequent increases in the cost of providing these services. New York's TANF grant of $2,442,930,000 was based on the level of federal support for the Aid to Families with Dependent Children and several other programs in federal fiscal year 1995. By the time the TANF legislation comes up for reauthorization in October 2001, New York's TANF black grant will have deteriorated by 13%. If the TANF block grant level is not adjusted for inflation in the upcoming reauthorization, the real value of New York's grant will fall by 30% by 2007.[1]

B. Although caseloads have declined, the TANF block grant is now used to fund a broad array of services to a much larger universe of low-income families and children.

New York's TANF block grant amount is set based on the amount of federal funds New York received for the Aid to Families with Dependent Children and related federal programs during the federal fiscal year that ended in 1995. In September 1995, there were 445,187 AFDC cases. In contrast, in October 2001, the latest month for which the state has released caseload statistics, there were 204,772 cases. This decline in caseload has been accompanied by a proportionate decline in expenditures on cash and work based assistance. In the last federal fiscal year, ending in September 2001, New York spent just over $640 million on cash and work based

---

[1] This estimate is based on the Congressional Budget Office August 2001 projections for changes in the CPI-U through 2007.

assistance, less than half the $1,327 million it spent on this category in federal fiscal year 1997.

However, this decline in expenditures for cash and work based assistance has been accompanied by a significant increase in other expenditures, most of which have been targeted to provide assistance to the working poor. The New York TANF plans sets income eligibility for most TANF services at 200% of the federal poverty guidelines or about $29,000 per year for a family of three. Therefore, the universe of New York families eligible for TANF services and programs today is much greater than the pre-TANF AFDC-eligible population. According to data from the U.S. Bureau of the Census's Current Population Survey analyzed by the Center on Budget and Policy Priorities, in the late 1990s there were 435,000 families with children in which the parents were not ill, disabled or retired with incomes below 100% of the federal poverty thresholds and there were another 420,000 families with children with incomes between 100% and 200% of the federal poverty thresholds. Together, more than 855,000 families were eligible for TANF programs and services. This is almost double the number of families receiving AFDC cash assistance in FFY1995.

As a result of the expansion of eligibility for TANF programs and services, despite historic declines in cash assistance caseloads, New York's expenditures and transfers from the TANF block grant in FFY2001 were the highest since the inception of the program — $2.3 billion. Last year New York spent almost $350 million from the TANF block grant on the state's refundable Earned Income Tax Credit. Since the inception of the TANF block grant, New York has transferred more than a billion dollars to the Child Care Development Block Grant and another billion to the Title XX Social Services block grants.

C. The failure of some states to spend all of their TANF block grant funding to date is not a reason to reduce grant levels. New York has spent more of its grant each year since the inception of TANF and with the anticipated World Trade Center Disaster and recession-related caseload increases, the state may need dip into its contingency fund this year.

Although, some may argue that additional funding is not required because for states that have not spent all the TANF block grant money they have been allocated, an examination of the most recent financial data from New York reveals that New York has sharply accelerated spending from the TANF block grant in recent years. For the federal fiscal year ending September 30, 2001, New York spent $2,299,3000 or 94 per cent of its annual TANF grant. In every year since FFY1998 (the first whole year of TANF funding for New York State), New York has spent or transferred an increasing percentage of its TANF block grant. These increases in expenditures came despite historic declines in TANF caseloads as New York State took advantage of the new flexibility and opportunities under the TANF legislation, clarified in the final regulations issued in 1999, to establish new programs and expand existing efforts. Many of these new programs and initiatives took time to design and implement and are just now operating at full scale.

	Total Expenditures and Transfers (millions)	Total Expenditures and Transfers as a Percent of the Total TANF Block Grant
FFY1998	**$1,837.7**	**75.23%**
FFY1999	**$2,009.5**	**82.26%**
FFY2000	**$2,265.7**	**92.44%**
FFY2001	**$2,299.3**	**94.12%**

Given the slow down in the national economy and the particular crisis faced by the New York state economy with the double whammy of the national recession and the World Trade Center disaster, TANF caseloads can be expected to rise precipitously this year. Based on caseload data from previous economic downturns, New York can expect an increase of 1,000 TANF public assistance cases for every 7,440 nonagricultural jobs lost to the economy.

Change in New York's Nonagricultural Jobs between May 1990 and September 1992	**(549,900)**
Change in AFDC/HR Family Cases	**73,871**
Ratio of Job Loss to Increase in Caseload	**-7.44**

FPI's recent study of the impact of the World Trade Center attack on the New York City job market estimated that approximately 100,000 jobs would be lost as a result of the attack.[2] If historic trends continue, the WTC attack alone would represent an increase in the caseload of 13,433 requiring approximately $38,055,689 in additional expenditures from the federal TANF block grant.[3]

If the current recession, in terms of percentage of jobs lost, is as bad as the 1990-1992 recession, we can expect an additional 78,000 public assistance cases and more than $220,974,000 in additional expenditures from the TANF block grant for cash assistance. This would bring total expenditures from the TANF block grant over $2.5 billion — requiring the state to use its rainy day and contingency funds to maintain cash assistance to needy New Yorkers.

[2]"World Trade Center Job Impacts Take a Heavy Toll on Low-Wage Workers: Occupational and Wage Implications of Job Losses Related to the September 11 World Trade Center Attack," Fiscal Policy Institute, November 5, 2001.

[3]In the last Federal Fiscal Year, New York spent approximately $2,833 from its TANF block grant on cash and work based assistance for each case.

D. Maintenance of Effort requirements should also be indexed for inflation.

Similarly, it is essential that the state Maintenance of Effort (MOE) requirement be maintained at its current level and indexed for inflation. The framers of the 1996 federal welfare law were particularly concerned that states might take advantage of the new flexibility and declining caseloads to dramatically decrease state spending in support of low-income families and children. In order to guard against this possibility, the law restricted the use of the federal block grant funds to specific activities and established “maintenance of effort” (MOE) requirements. The TANF MOE requirement is a requirement that a state must spend at least a specified amount of state funds for benefits and services for members of needy families each year. The specified amount is at least 80 percent (or 75 percent, if the state meets the TANF overall and two-parent participation rate requirements) of the 1994 state expenditure level for a set of federal programs providing benefits and services for members of needy families. A broad, but not unlimited, array of benefits and services for low-income families with children can count toward satisfying a state’s MOE obligation. Since the MOE was set at only a fraction (either 75 or 80 percent, depending on if the state meets the TANF overall and two-parent work participation rate requirements) of its historic state expenditures level and New York has not spent 25 percent more than its required MOE in any year[4], there are less state and local resources spent on benefits and services for low-income families than before the implementation of TANF, despite the fact that eligibility for these services has been vastly expanded. While historically eligibility for public assistance in New York was based on the state Standard of Need, a benchmark far below the federal poverty guidelines, currently many programs and services are available to families with incomes below 200% of the federal poverty guidelines.

E. States need to be held more accountable for the funding they receive.

New York, like other states, has taken advantage of the spending flexibility of the TANF program to use TANF resources to fund worthwhile investments in child and family services that had been funded prior to TANF from the general fund. This practice should be stopped by adding stronger language to require that states spend TANF resources in ways that supplement, not supplant, existing programs. The federal government should also require better reporting of how federal TANF and state MOE funds are spent and should require sufficient detail so that in states, like New York, in which localities have broad authority over TANF spending, the funding decisions are transparent to the state and federal policymakers and the public.

F. The legislation should provide for a contingency fund to assist states facing recession-related increases in their caseloads.

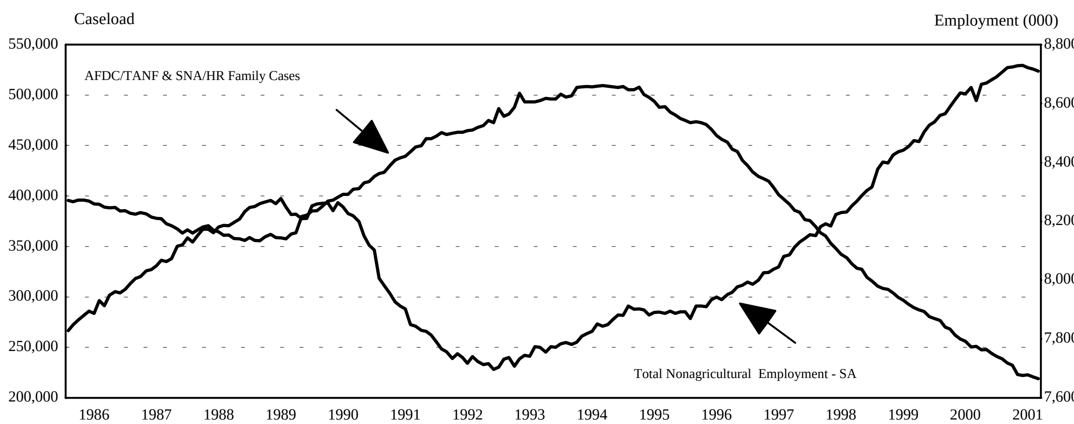
Historically, New York’s public assistance caseloads have gone down when the economy expanded and risen when the economy contracted. *See* Figure 1. If the current recession results

---

[4] New York's MOE expenditures exceeded the total required amount by $32 million in FFY 1997, $340 million in FFY 1999, $154 million in FFY 2000.

in prolonged economic stagnation with a significant increase in the TANF caseload, New York and other states may not be able to meet their cash public assistance obligations from the TANF block grant. In that case, there should be a mechanism to provide additional federal funding. The 1996 welfare law included a contingency fund mechanism which expired at the end of FY 2001. Unfortunately, that mechanism was poorly designed had a recession occurred prior to its - expiration at the end of FY 2001, it would not have provided needed help to states coping with rising caseloads and worsening state fiscal situations. A revamped contingency fund should ensure that states have access to federal funding to offset a significant portion of rising costs associated with increasing need and caseloads. State should not be required to meet a higher maintenance of effort standard in order to qualify for funds. The triggers must be reasonable to assure that states that need additional resources can access them. States should not be required to spend state matching funds to receive additional federal resources, though federal funds need not cover the full cost of rising need.

Figure 1: Welfare Caseloads and Total Nonfarm Employment New York State,
January 1986 to August 2001



G. Supplemental funds should be appropriated to provide additional federal funds to states whose current TANF block grant allocations are very low relative to the number of low-income families with children in their state.

While all states need increased federal TANF funding, some states currently receive very low TANF block grant allocations relative to the number of low-income families with children residing in their state. If these states are to offer important supports to low-income families and do more to help those parents with significant barriers to employment, additional resources will be needed. Seventeen states have been receiving TANF supplemental grants because they had historically low spending or relatively high population growth. Even with these supplemental grants, spending per poor child ranged from a high of $2,750 per child in Alaska to a low of $398 in Alabama. The existing supplemental grants should be built into these states' base block grants and supplemental grants should be provided to other states with low per-poor-child spending.

II. Child poverty reduction should be established as the primary goal of the TANF program.

Currently the TANF program has four purposes. The purposes are to:

> (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.

Most states have measured their success in achieving the second purpose of TANF by analyzing declines in the number of families receiving cash assistance. Like the rest of the nation, caseloads have fallen precipitously in New York since the implementation of welfare reform. Since December 1996, New York State has had caseloads fall by more than 46.6% — from 399,191 cases in December 1996 to 213,111 in August 2001. Some of this caseload decline is due to the strength of the economy and would have happened without welfare reform, however, it is likely that welfare reform has led to greater declines in caseload than would have occurred otherwise.

Some argue incorrectly that declining caseloads, in and of themselves, indicate that low-income families in New York are better off today than before welfare reform...e.g. that families forced off public assistance are working, bringing home paychecks, and, therefore, better off. However, neither the studies of families who have left welfare in New York nor the more general economic and social indicators support this position.

> A study by the Rockefeller Institute of Government used administrative data to track families who left welfare in the first quarter of 1997. This study found that only 40% of these families had an adult employed in at least one day in each quarter in the year after they left welfare and that outside New York City, the median annual earnings of families with an adult employed in all four quarters were only $12,611, far below the $16,660 poverty line for a family of four in 1998. Even in New York City, the median earnings were only a meager $17,431.

> Researchers working with the New York City Human Resources Administration conducted phone interviews in May 1998 with families who left public assistance in November 1997. These researchers were only able to find 211 of 596 randomly selected families and were able to complete interviews with only 126 of these families. Of these families, only 25 percent had incomes above the federal

poverty guidelines and less than a third said they were better off financially after leaving public assistance.

Social and economic indicators do not support some observers' rosy view of welfare caseload declines either. The poverty rate in New York State remains stubbornly high. In 2000, 13.4% of New York's population had incomes below the federal poverty threshold. Although this was a decrease from 1999, it was still higher than it had been in 1989 and still considerably above the national poverty rate of 11.3%. The poverty rate for families with children is even higher — in 2000 18.5% of families with children had incomes below the official poverty rate and the poverty rate for single parent families was 39%. A July 2001 study by the Economic Policy Institute found that 37% of New York families with children did not have sufficient income to support basic needs.

Between 1995 and 2000, the number of TANF recipients in New York State declined by 46% but the number of New Yorkers living in poverty declined by only 15%. How can we explain this apparent disconnection between reduced caseloads and persistent poverty? The answer is relatively simple. While there was a time in the United States and in New York when working full-time, even at the minimum wage, was sufficient to keep a family out of poverty, that is no longer true. Today thousands of families in New York are poor despite work The poverty rate of working families with children has doubled in New York from 5% in the late seventies to 10% in the late nineties. Sixty percent of poor families with children include a least one person who works outside the home and 23% include a full-time, year-round worker. Of the "near-poor"families with children — those with incomes between 100% and 200% of the federal poverty guidelines, or between about $18,000 and $36,000 for a family of four — 70% included a full-time worker

Establishing child poverty reduction as a primary goal of the TANF program is an important first step in correcting the problems with the TANF program as it has been implemented in New York and other states. Rather than rewarding states for reducing their caseloads, states should be rewarded for better-than-average poverty reduction. Establishing poverty reduction as an official "purpose" of TANF would make programs aimed at reducing child poverty eligible for TANF block grant funds and related maintenance of effort resources.

III. The federal government should allow (and encourage) the states to use their TANF and MOE help long term welfare recipients find the kind of employment that can provide sufficient income to sustain their families and to provide supports to families who are poor despite work.

While many public assistance recipients have found jobs, thousands of recipients remain dependent on the public assistance program either because they can not find employment or because their earnings from employment are not sufficient to support their families. As the economy enters a recession, it will be even more difficult for current recipients to find employment and we may find many former recipients returning to the cash assistance program as they lose their jobs, fail to qualify for unemployment benefits and/or are forced to accept less than full time work.

A. Restrictions on education and training must be removed.

Research has shown that effective training programs and post-secondary education are critical to wage progression and advancement on the job. The TANF legislation should be amended to eliminate or reduce the impediments to education and training. Specifically, the 30% cap on the number of TANF-supported families who may be engaged in education and training and count towards a state's work participation requirements should be lifted. The one year limit on vocational training for parents should be eliminated to allow parents adequate time to complete education and training.

B. Time limit "clocks" should be suspended in times of economic recession.

Until this year, welfare reform has been implemented in the most favorable economic context, the longest economic expansion in our nation's history. It should be considerably more difficult for welfare recipients to find gainful employment in the current economic recession. The new legislation should include a trigger mechanism, modeled after the extended benefits provisions of the unemployment insurance system, which would stop time limit clocks from running during periods of economic recession. Some have recommended that rather than stopping the "clocks," the five-year time limit be suspended during a recessionary period. Merely suspending the time limit during a recession would only address this problem for those participants whose time limits happen to expire during the recession. Other participants, who are also unable to find work during the same recession, but who are not near their time limits would not be helped by the time limit suspension. Stopping the clock would treat these two groups of recipients equally.

C. The time limit "clock" should be stopped for families who are working at their full capacity but still unable to earn sufficient income to maintain a decent standard of living.

The time limit should be suspended for all families who are in compliance with federal work requirements. Families who are playing by the rules should be rewarded, not penalized; families that are making every effort to lift their families out of poverty should not have their lifetime benefits clock ticking.

D. A new program should be created that provides publicly financed wage paying jobs to parents with limited skills and work experience.

Approximately 50 jurisdictions have created wage-paying public jobs programs for families in areas of high unemployment or for parents with little work experience. Such programs, in contrast to unpaid "workfare" programs, have shown promising results in increasing incomes and skills for participants. Congress should create a new public jobs program that provides grants to localities to create or expand such programs that provide good wages, benefits and education and training for participants.