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## ABSTRACT

A study determined the extent to which states spend federal Temporary Assistance for Needy Families (TANF) and state maintenance-of-effort (MOE) funds for cash assistance and non-cash services and how this compares to welfare spending in fiscal year (FY) 1995. It also identified the extent to which states use TANF and MOE funds to provide services to low-income families not included in the reported welfare caseload; data limitations that hamper more complete reporting on such families; and how a downturn in the economy would affect the availability of TANF/MOE-funded benefits and services. Findings indicated the following: (1) the focus of welfare spending shifted from monthly cash payments to services; (2) nationwide, between FY1995-2000, state expenditures for cash assistance decreased from 71 to 43 percent of total welfare spending; (3) states used TANF/MOE funds to provide services to other low-income families; (4) data that states collect and report on families receiving services had many limitations that restrict their usefulness in producing a full count of all families served with TANF/MOE funds; and (5) the impact of an economic downturn on funding for work support programs was unclear and would depend on such factors as extent to which welfare caseloads increase, whether states have TANF reserves available, and the budgetary decisions states make to address the costs associated with increased caseloads. (YLB)

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GAO

Report to the Ranking Minority Member,  
Subcommittee on Human Resources,  
Committee on Ways and Means, House of  
Representatives

April 2002

# WELFARE REFORM

## States Provide TANF-Funded Services to Many Low-Income Families Who Do Not Receive Cash Assistance

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**United States General Accounting Office**  
Washington, D.C. 20548

April 5, 2002

The Honorable Benjamin L. Cardin  
Ranking Minority Member  
Subcommittee on Human Resources  
Committee on Ways and Means  
House of Representatives

Dear Mr. Cardin:

With the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the Congress made sweeping changes to federal welfare policy for needy families. PRWORA ended the Aid to Families with Dependent Children program and created the Temporary Assistance for Needy Families (TANF) block grant to states. TANF emphasizes work and responsibility over dependence on government benefits. The Department of Health and Human Services (HHS) oversees the TANF block grant program, which provides grants to states totaling up to \$16.5 billion each year through September 2002 and requires states to maintain a historical level of state spending on welfare-related programs.

To assist you in addressing issues being raised as the Congress considers reauthorizing the TANF block grant, you asked us to determine: (1) the extent to which states are spending federal TANF and state maintenance-of-effort (MOE) funds for cash assistance and noncash services and how this compares to welfare spending in fiscal year 1995; (2) the extent to which states are using TANF and MOE funds to provide services to low-income families not included in the welfare caseload reported by states to HHS; (3) data limitations that hamper more complete reporting on such families; and (4) how a downturn in the economy is likely to affect the availability of TANF/MOE-funded benefits and services.

To address your first question, we analyzed, for all 50 states, (1) fiscal year 1995 spending in the welfare programs that were replaced by the TANF program and (2) fiscal year 2000<sup>1</sup> spending of TANF and MOE funds. To address your second and third questions, we contacted 25 states to learn what data are available and to obtain data on TANF/MOE-funded services provided to low-income families not included in the reported welfare

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<sup>1</sup> More recent expenditure data were not available from HHS.

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caseload. Together, these are the 25 states receiving the most TANF funds. To address your fourth question, we (1) reviewed econometric studies, (2) analyzed caseload changes in the 25 states, and (3) interviewed TANF officials in 8 states regarding their state reserves and contingency plans for financing TANF/MOE-funded benefits and services in an economic downturn. The eight states were selected to represent a range of economic conditions and budgetary circumstances. We conducted our work from August 2001 to March 2002 in accordance with generally accepted government auditing standards.

On March 15, 2002, we briefed you on the results of our analysis. This report formally conveys the information provided during that briefing. In summary, we found:

The focus of welfare spending has shifted from monthly cash payments to services. Nationwide, between fiscal years 1995 and 2000, state expenditures for cash assistance decreased from 71 to 43 percent of total welfare spending. In fiscal year 2000, 26 states used more than 50 percent of their TANF and MOE expenditures on services other than cash assistance. This compares with fiscal year 1995, when no state spent more than 50 percent of its welfare dollars on these services.

In addition to providing benefits and services to families included in the welfare caseload, states are also using TANF/MOE funds to provide services to other low-income families. We estimated that at least 46 percent more families than are counted in the reported TANF caseload are receiving services funded, at least in part, with TANF/MOE funds. This estimate includes many low-income families who are receiving child care funded by TANF and the Child Care and Development Fund.<sup>2</sup>

The data that states collect and report on families receiving services have many limitations that restrict their usefulness in producing a full count of all families served with TANF/MOE funds. Addressing these limitations raises concerns for the states we spoke with.

The impact of an economic downturn on funding for work support programs is unclear and will depend on several factors such as, the extent to which welfare caseloads increase, whether states have TANF reserves

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<sup>2</sup> The Child Care and Development Fund provides federal funds for states to subsidize child care for low-income families and to address child care quality issues.

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available, and the budgetary decisions states make to address the costs associated with increased caseloads.

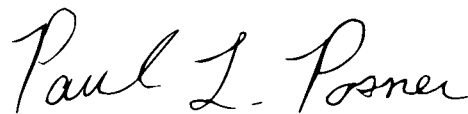
We provided a draft of this briefing to officials at HHS for their technical comments and incorporated their comments where appropriate.

We are sending copies of this report to relevant congressional committees and other interested parties and will make copies available to others upon request. If you or your staff have any questions about this report, please contact Cynthia M. Fagnoni or Gale C. Harris at (202) 512-7215 or Paul Posner at (202) 512-9573. Kathleen Peyman, Kristy Brown, Rachel Weber, Bill Keller, and Mary Reintsma also made key contributions to this report.

Sincerely yours,



Cynthia M. Fagnoni, Managing Director  
Education, Workforce, and  
Income Security Issues



Paul L. Posner, Managing Director  
Federal Budget Issues and  
Intergovernmental Relations

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# Congressional Briefing Slides: Welfare Reform



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## **Welfare Reform: States Provide TANF-Funded Services to Many Low-Income Families Who Do Not Receive Cash Assistance**

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**Briefing for Staff of Rep. Benjamin Cardin,  
Ranking Minority Member, Subcommittee on  
Human Resources, Committee on Ways and  
Means  
House of Representatives**

**March 15, 2002**

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## Objectives

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You asked us to determine:

- The extent to which states are spending federal Temporary Assistance for Needy Families (TANF) and state maintenance-of-effort (MOE) funds for cash assistance and non-cash services and how this compares to welfare spending in fiscal year (FY)1995.
  - The extent to which states are using TANF and MOE funds to provide services to low-income families not included in the reported welfare caseload.
  - Data limitations that hamper more complete reporting on such families.
  - How a downturn in the economy is likely to affect the availability of TANF/MOE-funded benefits and services.
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## Scope and Methodology

- To compare FY1995 and FY2000 welfare spending, we analyzed, for all 50 states, (1) FY1995 spending in the welfare programs that were replaced by the TANF program and (2) FY2000 spending of TANF and MOE funds.
- To obtain data on services provided with TANF/MOE funds to low-income families not receiving cash assistance, we visited five states (California, Indiana, Pennsylvania, Texas, and Wisconsin) and telephoned 20 other states. Together, these are the 25 states receiving the most TANF funds.





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## Scope and Methodology

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To learn how an economic downturn is likely to affect the availability of TANF/MOE-funded benefits and services, we

- reviewed major econometric studies that have identified and measured factors affecting historical welfare caseload changes;
- analyzed caseload changes in the 25 states receiving the most TANF funds; and
- interviewed officials in eight states (the five states plus Arizona, Minnesota, and Oregon) regarding their state reserves and contingency plans for financing TANF/MOE-funded benefits and services in an economic downturn.

The review was conducted in accordance with generally accepted government auditing standards.

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## Summary of Results

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- Nationwide, from FY1995 to FY2000, state expenditures for cash assistance decreased from 71 percent to 43 percent of total welfare spending. In FY2000, 26 states used more than 50 percent of their TANF and MOE expenditures on services other than cash assistance. This compares with FY 1995, when no state spent more than 50 percent of its welfare dollars on these services.
  - We estimated that at least 46 percent more families than are counted in the reported TANF caseload are receiving services funded, at least in part, with TANF/MOE funds. This estimate includes many low-income families who are receiving child care funded by TANF and the Child Care and Development Fund (CCDF).
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## Summary of Results

- The data that states collect and report on families receiving services have many limitations that restrict their usefulness in producing a full count of all families served with TANF/MOE funds. Addressing these limitations raises concerns for the states we spoke with.
- The impact of an economic downturn on funding for work support programs is unclear as states use block grant flexibility to address increased costs associated with higher cash assistance caseloads.



## Background

- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) replaced the Aid to Families With Dependent Children (AFDC) program with the TANF block grant.
- The TANF block grant made \$16.5 billion available to states each year, regardless of changes in the number of people receiving benefits. Therefore, states bear the fiscal risks in the event of an increase in caseload.
- States must spend a certain amount of state money—MOE funds—calculated based on their pre-PRWORA welfare spending, to qualify for their full TANF allotments.
- States may choose not to spend the entire block grant in the year in which it is allotted. Instead, states may choose to leave reserves of unspent TANF funds at the U.S. Treasury.



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## Background (continued)

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The amount of the TANF block grant was determined based on pre-PRWORA federal spending on

- AFDC—an entitlement program that provided monthly cash payments to needy families.
- Job Opportunities and Basic Skills (JOBS)—a program to prepare AFDC recipients for employment.
- Emergency Assistance—a program designed to aid needy families in crisis situations.

To meet the MOE requirement, states were to spend 80 percent or 75 percent of the state share of spending on AFDC, JOBS, Emergency Assistance and AFDC-related child care programs.



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## Background (continued)

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- States are allowed to transfer up to 30 percent of their TANF funds to the CCDF and the Social Services Block Grant (SSBG). Such transfers result in TANF dollars being spent indirectly—that is, through the SSBG and CCDF.
  - States have considerable flexibility in what they spend TANF and MOE funds on. In addition to spending on cash benefits—that is, monthly cash assistance payments to families to meet their ongoing basic needs—states can spend TANF/MOE funds on services for cash assistance recipients or other low-income families.
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## Background (continued)

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Some categories for services for welfare and other low-income families include:

- **Child Care**—this can include both (1) direct spending of TANF/MOE funds on child care and (2) transfers of TANF funds to the Child Care and Development Fund.
- **Family Stability** – Pregnancy prevention, promoting stable families, and treatment and prevention of substance abuse and domestic violence.
- **Workforce Development** – Work subsidies, secondary education, vocational training, employment counseling, information and referral, outreach, and work-related expenses.

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## Background (continued)

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Generally, federal data on TANF caseload includes families receiving cash assistance, but not low-income families who receive TANF/MOE-funded services and do not also receive monthly cash benefit payments.

- TANF regulations require states to report families receiving “assistance” to the Department of Health and Human Services (HHS) that oversees TANF. These data are reported by HHS as the TANF caseload.
- “Assistance” refers to benefits designed to meet a family’s ongoing basic needs, typically monthly cash payments. In this briefing, we refer to families getting monthly cash payments as receiving welfare.
- Low-income families who are receiving services funded with TANF/MOE dollars but who are not receiving “assistance” or welfare would not be included in the reported TANF caseload.





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## Focus of Welfare Spending Has Shifted From Monthly Cash Payments to Services

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- From FY1995 to FY2000, state expenditures for cash assistance decreased from 71 percent to 43 percent of total welfare spending, as shown on the next page.
- In FY2000, 26 of the states used more than 50 percent of their TANF and MOE expenditures on services other than cash. This compares to FY1995 when no state spent more than 50 percent of its welfare dollars on services or benefits other than monthly cash payments.
- Total welfare spending decreased as some states left reserves of unspent TANF funds at the U.S. Treasury.

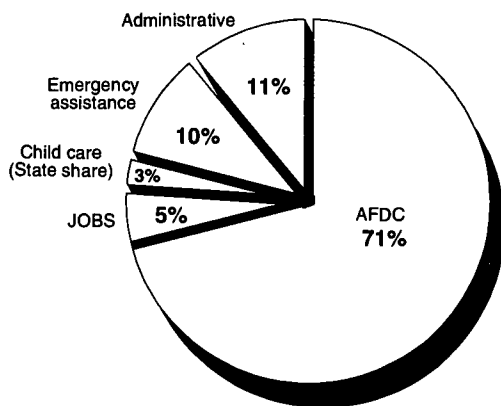
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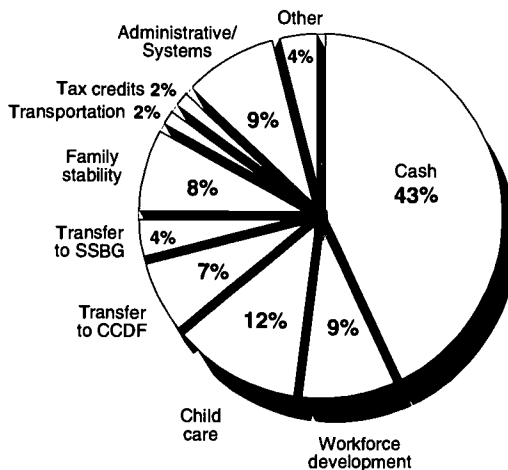


## Extent of Service Spending: Most Welfare-Related Dollars No Longer Used for Cash Aid

**United States: FY 1995 Expenditures in Programs Used to Determine the Amount of TANF Block Grant and MOE**  
Total = \$31,041,007,637



**United States: FY 2000 TANF/MOE Expenditures and Transfers**  
Total = \$26,644,302,908



Notes: (1) Categories shown for FY 2000 but not for FY1995 (such as tax credits) could have existed in FY1995 but been paid for with non-welfare dollars not included in this chart. (2) The chart does not include the \$8,625,779,575 (36%) of available TANF funding that was left unspent at the end of FY2000. (3) TANF funds transferred to the CCDF and SSBG may not have been expended in FY2000; rather, these funds may have been reserved in the CCDF and SSBG for future use.



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## Extent of Service Spending: Factors Affecting Increased Service Spending

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- Emphasis of federal welfare policy shifted from monthly cash payments to moving welfare recipients into employment.
- Unemployment rates declined substantially between 1995 and 2000.
- States expanded and intensified services to address individuals' barriers to work.
- The number of families receiving monthly cash benefit payments declined by over 50 percent, which made more funds available for non-cash services.



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## Extent of Service Spending: TANF/MOE Dollars Fund a Variety of Services

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- Child Care
  - Counseling and Referral Services from Case Managers
  - Transportation
  - Employment Retention and Advancement Services
  - Job Search Assistance
  - Education and Training
  - Provision of Work-related Supplies
  - Teen Pregnancy Prevention
  - Parenting Classes
  - Substance Abuse Treatment
  - Housing Assistance
  - Services for Domestic Violence Victims
  - Services for Children At-Risk of Neglect and Abuse
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## Extent of Service Spending: States Provide More Welfare Families with Services

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- The key expense of the AFDC program was monthly cash payments to families.
- With TANF's work focus, other expenses also become central to meeting program goals, including expanded case management, support services such as child care and transportation, and employment-related services.
- Providing services that support work, such as child care, can cost more than providing monthly cash benefit payments.
- All five states we visited have expanded their employment services so that more welfare families are receiving TANF/MOE-funded employment services now than before welfare reform.



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## Extent of Service Spending: States Also Serve Other Low-Income Families

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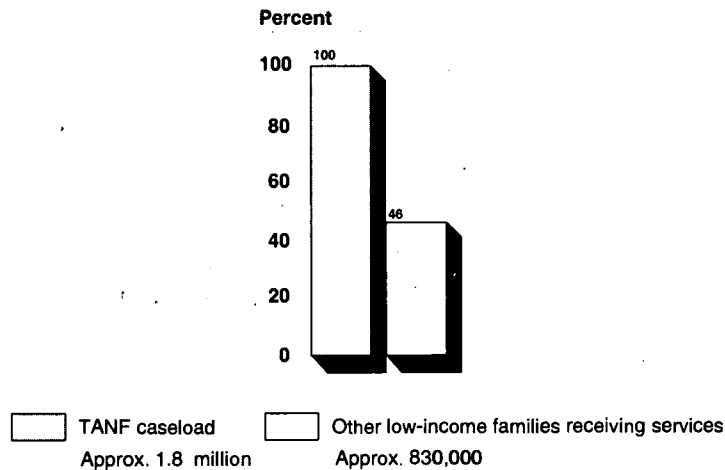
In addition to an increased percentage of welfare recipients receiving services as well as monthly cash payments, states have made some services available to other low-income families. For example:

- In Wisconsin, most TANF/MOE-funded services are equally available to welfare and other low-income families.
- In Indiana, welfare and other low-income families are equally eligible under TANF/MOE-funded child development programs that greatly increased services to young children in low-income families.
- In Pennsylvania, TANF/MOE funds have been used to help give low-income families the same access as welfare families to child care services.



# Many Families Receiving TANF/MOE-Funded Services Not Reflected in TANF Caseload Data

**At Least 46 Percent More Families Than are in the TANF Caseload Receive a Service Funded With at Least 30 Percent TANF/MOE Dollars**



Notes: (1) Chart includes the largest unduplicated count of service recipients for each state. (2) Data are the monthly average or the most recent month available for each state. (3) Data used for all states were on families, except Wisconsin, for which data on individuals were used.

Source: GAO analysis of data provided by 25 states.



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## **Families Served: Full Count of Families Served Not Available**

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A full count of the number of families served with TANF/MOE funds who were not receiving cash assistance was not readily available.

Our estimate of low-income families receiving services is based on state data that met three criteria:

- The service was funded with at least 30 percent TANF/MOE funds.
- The family served was not also receiving cash assistance (that is, the family was not included in the state's TANF caseload data).
- The family was not counted more than once if receiving more than one TANF/MOE-funded service.

States varied in their ability to provide data that met these criteria, as shown on the following pages.

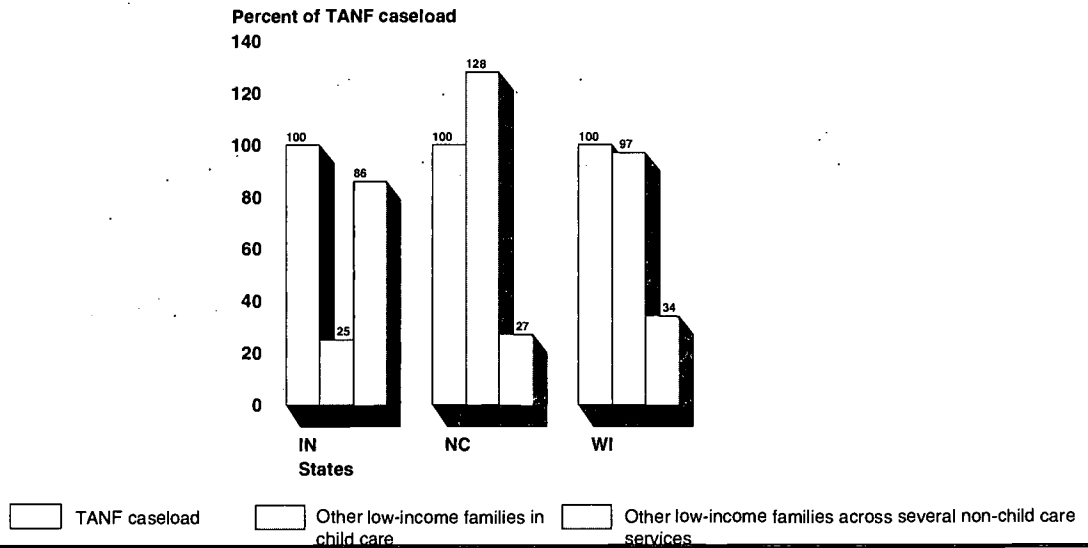
Due to data limitations, our estimate understates the number of families served.





# Families Served: Three States With the Most Complete Data Show Many Families Served

State TANF Caseload, Other Low-Income Families Receiving Child Care, and Other Low-Income Families Receiving Non-Child Care Services Funded in Part With TANF/MOE Dollars



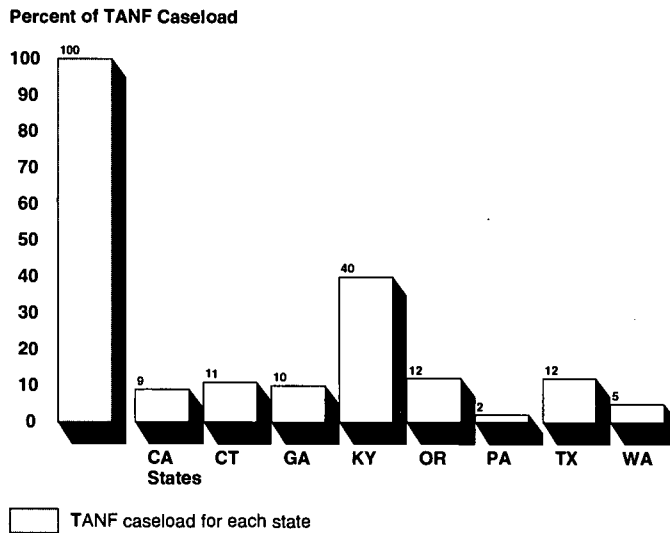
Notes: (1) Indiana's counts include most of the services funded with TANF/MOE dollars; whereas, North Carolina's and Wisconsin's counts do not include most of the services funded with TANF/MOE dollars. (2) Data for Indiana and North Carolina were on families; whereas data for Wisconsin were on individuals.

Source: GAO analysis of data provided by 3 of 25 surveyed states.



# Families Served: Data on Families Receiving Single Service Other Than Child Care

Low-Income Families (Not in TANF Caseload) Receiving a Service Other Than Child Care Funded in Part With TANF/MOE Dollars



Note: Data from these states represent only a single service for which they could provide data that did not include welfare families or count families twice.

Source: GAO analysis of data provided by 8 of 25 surveyed states.



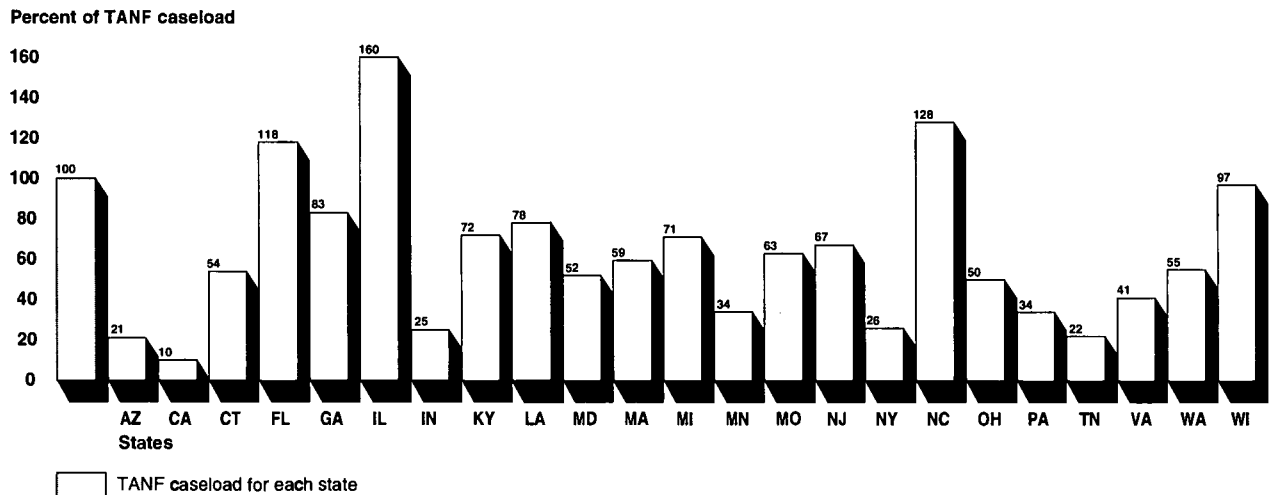
## Families Served: TANF/MOE Funds Play a Key Role in Funding Child Care

- For 21 of the 25 surveyed states, child care was the TANF/MOE-funded non-cash service on which states spent the greatest proportion of their TANF/MOE funds in FY 2000.
- The approximate monthly TANF/MOE expenditure per family for child care ranges from \$76 in Kentucky to \$535 in Wisconsin, with the average being \$266. This compares to the total monthly child care subsidy per family of \$209 in Kentucky and \$762 in Wisconsin, with the average being \$499. Data are for 22 of the surveyed states where data are available and the child care subsidy program is at least 30 percent TANF/MOE-funded.



# Families Served: TANF and CCDF Provide Child Care for Low-Income Families

Low-Income Families (Not in TANF Caseload) Receiving Child Care Funded in Part With TANF/MOE Dollars



Notes: (1) Percentages for OR and TX are not included in this chart because their child care programs are not funded with at least 30% TANF/MOE dollars. (2) Data used for all states were on families, except Wisconsin, for which data on individuals were used.

Source: GAO analysis of data provided by 23 of 25 surveyed states.



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## Limitations of Data on Services Not Easily Overcome

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- States' flexibility to use TANF/MOE funds in creative ways to help low-income families has resulted in many families being served with TANF/MOE funds who are not addressed in the TANF reporting requirements.
- The data that states collect and report on families receiving services does not readily lend itself to producing a full count of all families served with TANF/MOE funds.
- A more complete accounting of the number of families or individuals receiving services raises issues and concerns in the states we spoke with.



## Limitations: Welfare Programs Changed, but Reporting Remains Focused on Cash Aid

### Pre-TANF World

- Predominantly federally-defined programs
- Services focused on families receiving monthly cash assistance.
- Programs were funded with one funding source, made up of federal funds and state matching funds.
- **Reporting focused on families receiving monthly cash assistance.**

### Today

- Predominantly state-defined programs.
- Services focus on both families receiving monthly cash assistance and other low-income families.
- Support services are funded with various funding sources, including federal TANF funds, state TANF MOE, CCDF, SSBG, etc.
- **Reporting focuses on families receiving monthly cash assistance.**



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## Limitations: Available Data Do Not Provide Complete Picture of Families Served

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States often know how many families or individuals receive a service. However:

- Because TANF/MOE funds are often combined with other funding sources to provide a single service, in most states covered by our review, subsidized child care can be counted as a TANF/MOE-funded service and a CCDF-funded service.
- When states combine TANF/MOE with other funding sources to provide a single service, they cannot typically link particular families to just one of the funding sources. Therefore, families receiving the service may be counted as TANF/MOE-funded service recipients, as well as, recipients under other funding sources.

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## Limitations: Available Data Do Not Provide Complete Picture of Families Served

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- While states often have counts of the number of people receiving a TANF/MOE-funded service, these counts usually do not distinguish between welfare and other low-income recipients.
- Usually, the available data on recipients of one service cannot be combined with data on recipients of another service, without the likelihood of counting the same recipients more than once. For example, if Jane Doe is receiving transportation and employment services, she will be included in the counts for both of those services.
- However, states have data on low-income families receiving child care.





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## Limitations: Issue of More Complete Data on Families Served Raises State Concerns

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States expressed several concerns related to collecting data and data reporting on families receiving TANF/MOE-funded services, including:

- Data on TANF/MOE-funded services is often housed in multiple automated systems, and therefore, it is difficult for states to track participants across services.
- Requiring states to collect extensive information on service recipients may deter them from offering services.
- Collecting personal identifying information from recipients for every service may deter people from accessing services because of the stigma associated with welfare.
- States already collect a lot of data on welfare families, and adding reporting on other families served would increase their reporting burden and possibly increase administrative costs.

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## Impact of Economic Downturn is Unclear and Will Depend on Several Factors

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An economic downturn is likely to cause welfare cash caseloads to increase and could require additional resources for cash benefits.

If a state has sufficient TANF reserves, it can use its reserves to defray costs of an increased caseload. However, limited data exists on the adequacy of state TANF reserves.

If a state does not have sufficient reserves, it has several options for addressing increased caseload costs; for example it can

- shift resources from work support programs,
- use state funds to augment its TANF program,
- cut services.



## Impact of Economy--Welfare Caseloads Likely to Increase

Existing studies generally show that an increase in the unemployment rate of 1 percentage point has historically been associated with an increase in welfare caseloads ranging from about 3 percent to 5 percent over 2 to 3 years.

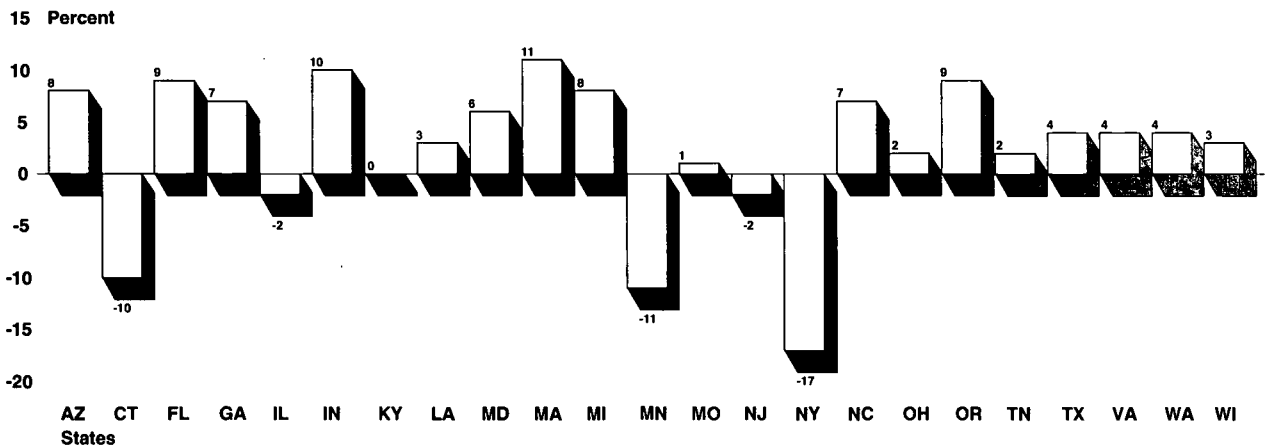
However, these studies do not allow a precise estimate of the caseload response to a downturn because

- most of the available data reflects a period when AFDC was in place, and data on the effect of unemployment on caseloads during TANF implementation is limited by the relatively short period of implementation;
- existing studies did not look at sector specific unemployment, and the impact of an economic downturn will depend on the extent of unemployment in sectors that tend to employ potential welfare recipients; and
- most experience with the TANF program has been during economic expansion.



# Caseloads Increased in Some States and Decreased in Others from July to Dec. 2001

Percentage Change in State TANF Caseloads, July - December 2001



Note: Caseload declines in CT, MN, and NY primarily resulted from program changes or families reaching time limits.

Source: GAO analysis of data provided by 23 of 25 states.



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## Impact of Economy--States Use Block Grant Flexibility to Address Increased Costs

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Six of the eight states have some TANF carry forward funds—or reserves—to address increased costs (AZ, CA, MN, PA, TX, WI).

Two of the eight states we talked to report no significant caseload growth and do not plan to make changes to their TANF spending plans (PA, TX).

In most of the other six states, budget decisions to address increasing TANF costs have not been finalized. Proposals include

- using carry forward funds to cover a portion of the projected cost increases (AZ, CA, MN, WI);
- shifting resources from work supports to cash grants (AZ, CA, IN, MN, OR, WI); and
- using state funds to augment the TANF program (OR).

In AZ, the legislature rejected a proposal to defer a scheduled increase in child care reimbursement rates to finance increased cash benefits.

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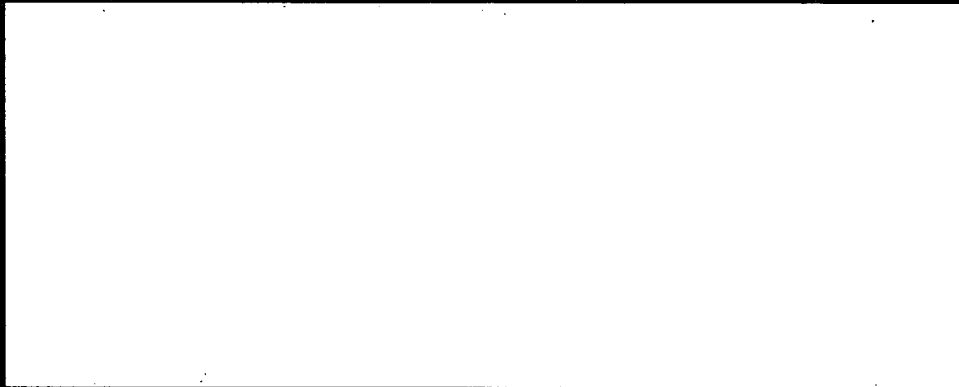
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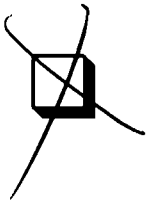


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