

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

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### Michigan TANF/Maintenance of Effort Requirement By Constance A. Cole, Fiscal Analyst

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#### Introduction

Michigan revenue is projected to come in at a level below the fiscal year (FY) 2006-07 enacted appropriations. If this projection is accurate, the situation will necessitate either spending cuts or revenue enhancements (or some combination of both). Often, in budget crises, various programs are mentioned for places to "cut the budget". Many programs funded with State dollars, however, are counted as "maintenance of effort" (MOE) funding, required to receive the Federal Temporary Assistance for Needy Families (TANF) block grant. The State's access to TANF funding for human services requires the State to maintain expenditures of State funds at 75.0% of the historically spent funds for low-income programs. This article describes the eligible programs the State uses to meet the Federal block grant requirements. In the event that program reductions are necessary to balance the budget, an awareness of what programs make up this delicate balance will assist with important budget decisions when State leaders consider adjustments in existing programs.

#### Background

The Temporary Assistance for Needy Families Program is a Federal block grant to states established as part of welfare reform in the United States. The TANF Program, created by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193 of 1996 (PRWORA), was extended 12 times by Congress from October 2002 to September 2006 and reauthorized for an additional five years, through FY 2009-10, by the Deficit Reduction Act of 2005 (DRA). The statutory changes did not modify the four purposes of the TANF Program. Under the Federal law, states are given flexibility in their effort to help families move from welfare to work. States are allowed to craft programs that fit under the four Federal purposes, funded with Federal, state, and other sources, which best aid their citizens to become independent of government assistance.<sup>1</sup>

The required spending of state funds, the maintenance of effort, must meet one or more of the four purposes outlined in the PRWORA. The expenditures must be maintained at 80.0% of a state's FY 1994-95 expenditures (the spending baseline) for low-income programs for families or at 75.0% if a state meets the Federal work participation rate requirements for single- and two-parent families.<sup>2</sup> States are required annually to report MOE expenditures related to family data (for example, caseload information such as the number of family members, Social Security numbers, and receipt of other benefits) and costs of state programs providing assistance (just as states are required to report for TANF-funded programs) in order to qualify for a caseload reduction credit or receive high performance bonus funds. The Federal rules allow states to assist eligible families through the use of state-funded programs (not supported with TANF funds) that are not subject to TANF requirements, such as work participation and time limits on the receipt of Federal assistance.

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<sup>1</sup> See [Program Purposes](#), in Senate Fiscal Agency Issue Paper "Temporary Assistance for Needy Families (TANF): An Overview of the Michigan Program and the Expenditures of Federal and State Resources", January 2002, Page 5.

<sup>2</sup> See [Program Eligibility](#) in Senate Fiscal Agency Issue Paper "Temporary Assistance for Needy Families (TANF): An Overview of the Michigan Program and the Expenditures of Federal and State Resources", January 2002, Page 6.



The use of these programs, referred to as Separate State Programs (SSPs), is attractive to states because they are not subject to TANF rules. In Michigan, currently all SSPs claimed for MOE are considered nonassistance because they do not provide cash assistance to families under the SSPs.

There are four penalties assessed for failure to meet the MOE requirement. The first penalty is a reduction in the TANF grant equal to the amount by which the state fails to meet the requirement. The second penalty is an adjustment in the MOE requirement. For example, if in a given year, a state were short in its MOE spending, the following year the state would have to make up that shortfall, and, if the state had been eligible for the 75.0% of 1994-95 expenditures funding level, it would face the higher 80.0% level. Third, a penalty is assessed equal to Federal contingency funds received but not remitted by the state for a fiscal year. The level and provision of contingency funds has fluctuated over the years depending on Congressional approval. A fourth penalty is equal to the state's Welfare-to-Work formula grant during a year in which the state receives the grant payment.<sup>3</sup>

In meeting the MOE, if Michigan were to begin claiming SSPs that do provide cash assistance benefits, then the State could face a further penalty if it failed to meet additional reporting requirements. Under the DRA, each state that claims MOE expenditures for SSPs that provide cash assistance benefits must collect data on a monthly basis and file on a quarterly basis; failing to do so would result in a reduction in the TANF block grant of 4.0%, which would be approximately \$31.0 million in Michigan's case, unless the State were to submit a compliance plan and complete the prescribed corrective action plan.

Michigan has met an adjusted level of the work standard for the past 10 years and therefore, since the inception of the Federal block grant, the State's required MOE spending has been at the 75.0% level, which is \$468,518,400. A portion of the State expenditures has been counted from the Departments of Human Services (DHS), Labor and Economic Growth (DLEG), Community Health (DCH), Education (DOE), and Transportation.

### **Description of Eligible Programs**

The State of Michigan has used a number of programs' expenditures since FY 1996-97 to meet the required MOE spending. Some State program expenditures have been counted each year, while others may have been counted only one or more years. Following are descriptions of programs included in the Michigan FY 2004-05 Annual Report on State Maintenance-of-Effort Programs, the most recent available report, that comprise State spending counted toward the MOE requirement.

1. All Students Achieve Program - Parent Involvement in Education. This program, commonly known as the "School Readiness Program", with funds appropriated in the DOE, provides support for families from birth to enrollment in kindergarten through a community-school-home partnership, which is designed to improve school readiness, reduce the need

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<sup>3</sup> The last year Michigan received a Welfare-to-Work formula grant payment was in FY 1998-99. The Federal Welfare-to-Work Grant was a five-year program that expired in FY 2002-03. Therefore, there is some question regarding how this penalty would be calculated.



for special education services, and foster the maintenance of stable families. Program participants receive encouragement through positive parenting skills training, enhancement of parent-child interaction, and access to needed community services; the program also provides parents with information on child development. The FY 2004-05 Report included \$4.1 million in All Students Achieve Program – Parent Involvement State expenditures. This is a nonassistance separate State program.

2. At-Risk – Section 31a. This program, appropriated in the DOE, provides direct noninstructional services including, but not limited to, medical and counseling services for at-risk students, behavioral management training, home/school liaison programs, and teen parenting programs. The FY 2004-05 Report included \$41.7 million in At-Risk – Section 31a State expenditures. This is a nonassistance separate State program.

3. Child Care. The Child Care and Development Fund supports services and payments necessary to promote self sufficiency. The FY 2004-05 Report included \$188.1 million in Child Care State expenditures. This program is subject to TANF requirements.

4. Child Support Participation. This program encourages cooperation in the collection of child support by giving parents an additional payment in an amount up to the first \$50 of current-month child support collected on behalf of recipients of State cash assistance. The FY 2004-05 Report included \$4.9 million in Child Support Participation State expenditures. This program is subject to TANF requirements.

5. Employment and Training Support Services. The support services for employment and employment-related activities include but are not limited to the following: transportation, mentoring, auto repair, and money management. The program also provides employment services to noncustodial parents who are unemployed or underemployed to enable them to meet their responsibilities in the support of their children. The FY 2004-05 Report included \$699,300 in Employment and Training Support Services State expenditures. This program is subject to TANF requirements.

6. Family Independence Program (FIP). The State cash assistance program is administered by the DHS through its local (county) offices to help maintain and strengthen family life for children and the parents or other caretakers with whom they are living, and to help the family achieve the maximum possible self support and personal independence. The funds for case management services provided to eligible clients and the administration, including systems used to administer the program statewide, also are counted. The FY 2004-05 Report included \$236.4 million in FIP (including administration, systems, and case management) State expenditures. These programs and services are subject to TANF requirements.

7. Great Parents Great Start Program. The program's purpose is to improve school readiness and foster the maintenance of stable families by encouraging positive parenting skills. This is a separate State program, which is funded with Federal Child Care and Development Fund and State dollars in the DHS. The FY 2004-05 Report included \$1.9 million in Great Parents Great Start State expenditures. This is a nonassistance separate State program.



8. Low Income and Energy Efficiency Fund (LIEEF). The LIEEF is a State fund that includes payments from the Detroit Edison and Consumers Energy utility companies set by the Public Service Commission pursuant to 2004 and 2005 court decisions in a rate case. The funds are appropriated in DLEG. As part of an interagency agreement between DLEG and the DHS, a portion of the funds is used to supplement existing energy assistance, allowing an increase in assistance to low-income clients. Services provided include shut-off and other protection for low-income customers and the promotion of energy efficiency. The FY 2004-05 Report included \$25.0 million in LIEEF State expenditures. This program is subject to TANF requirements.

9. State Emergency Services. These programs provide emergency assistance to families to help them obtain safe and affordable shelter and other essentials when they face an emergency due to factors beyond their control. The FY 2004-05 Report included \$1.2 million in State Emergency Services expenditures. These programs are subject to TANF requirements.

**Figure 1** illustrates the State's MOE claims by the department. In addition to the FY 2004-05 Report programs, there are other programs whose expenditures counted toward the MOE requirement in previous years. Below are examples of programs previously counted toward MOE but not needed in FY 2004-05.

Adoption Support Subsidy. The program funds, appropriated in the DCH, provide support payments to families of adoptive children with special needs. The payments are to facilitate the adoption of special-needs children by removing financial barriers for the families and allowing the children to be cared for in an adoptive family home.

Homestead Property Tax Rebate. A family receives this refundable tax credit even if it exceeds what the family owes in taxes. The credit benefits low-income citizens who must pay large portions of their income on property taxes or rent. The State funds appropriated for the credit in the Michigan Department of Treasury, which were paid to low-income families with children, were claimed toward the MOE requirement in FY 1998-99.<sup>4</sup>

Transitional Medical Assistance. The funds, appropriated in the DCH, provide a subsidy for the cost of premiums that are shared by families and the State and were countable under TANF purpose #2, which is to end the dependence of needy parents on government benefits through the promotion of job preparation, work, and marriage.

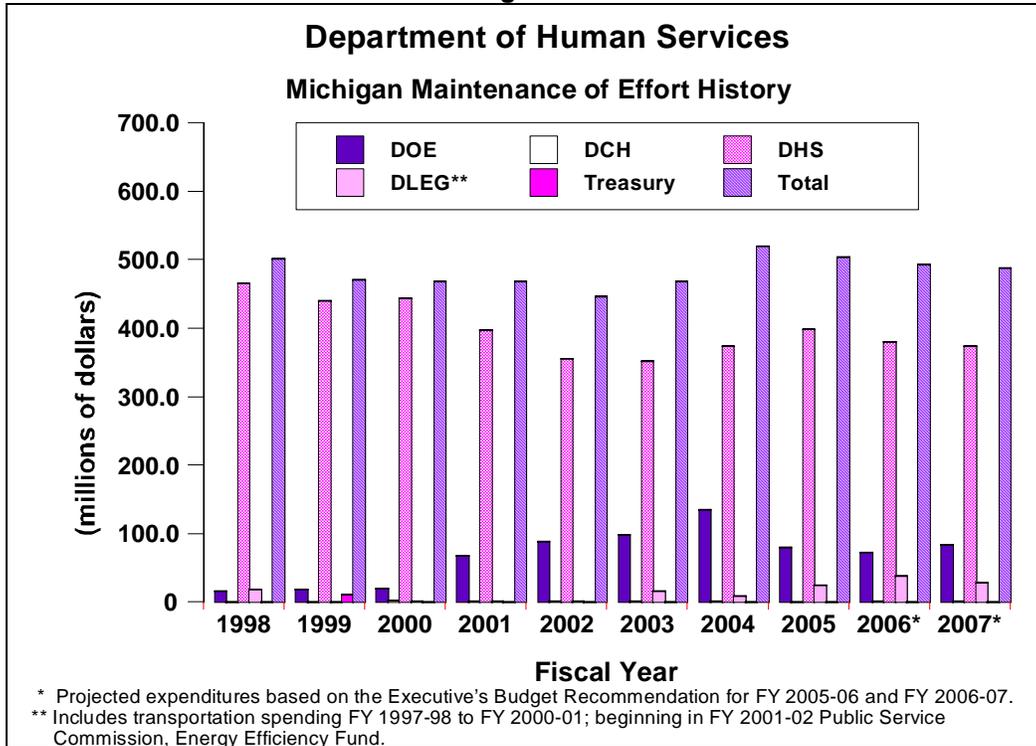
Zero to Three: Secondary Prevention. The program funds, appropriated in the DCH and the DOE, are spent for public and mental health consultation services to eligible child care providers who serve children 0 to 5 years of age, with a special emphasis on children ages 0 to 3. The service provision must have a positive impact on the emotional development of the State's children.

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<sup>4</sup> See Other Issues in Senate Fiscal Agency Issue Paper "Temporary Assistance for Needy Families (TANF): An Overview of the Michigan Program and the Expenditures of Federal and State Resources", January 2002, Page 9.



**Figure 1**



**New Federal Rules' Impact on MOE**

The DRA made some changes to the TANF and MOE programs' rules. The MOE reporting requirements for cash assistance SSPs – MOE claims, as mentioned earlier, have been modified from quarterly reports to qualify for the caseload reduction credit or receive high-performance bonus funds, to mandatory quarterly reports for all states that make cash assistance SSPs - MOE claims. Another change made in the rules is a revision to the definition of work-eligible individual. This change clarifies program eligibility identification for all TANF- and MOE-related programs; therefore, there is no impact on state procedures. Finally, the DRA includes a new provision that allows states to make MOE claims for all qualified pro-family expenditures for nonassistance benefits and services provided to or on behalf of an individual or family if expenditures accomplish TANF purpose #3 (to prevent and reduce out-of-wedlock births) or purpose #4 (to encourage the formation and maintenance of healthy two-parent married families).

**Conclusion**

The states' flexibility in MOE-required state spending is important to Michigan for it allows the State to make claims for program spending that meets the State's TANF program implementation needs. Michigan has been able to use a variety of different programs, both TANF and separate-state, that will continue to assist citizens to become self-sufficient and independent from State assistance.