

# ***SENATE FISCAL AGENCY ISSUE PAPER***

**TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)  
An Overview of the Michigan Program and the Expenditure  
of Federal and State Resources**

by

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***A Series of Papers Examining Critical Issues Facing  
the Michigan Legislature***

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## INTRODUCTION

Since fiscal year (FY) 1996-97, Michigan has had access to Federal block grant funds as a result of the Federal welfare reform legislation that allows flexible state spending for family services. Over the same period, the State average welfare caseload has dropped from 151,358 to 67,468, approximately a 55% decline. The reduction in the welfare caseload has freed State revenue for spending on new and creative ways to serve Michigan low-income citizens. This new spending has ranged from employment, training, and economic support to education and family crisis prevention and treatment programs. The State has had available more than the basic Federal block grant funding level since FY 1997-98 through the carrying forward of unspent Temporary Assistance for Needy Families (TANF) funds each year. In addition to the basic Federal block grant, bonus Federal funding has allowed for State program expansion and development, freeing revenue from other sources for State program development. Michigan's "maintenance of effort" (MOE) requirement also is affected by other State agencies' and departments' spending in relation to low-income family programs' spending priorities.

### Block Grant History

Michigan, like the other states, receives block granted Federal funds as a result of the Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193 of 1996, which amended the Social Security Act. The legislation eliminated and replaced the Aid to Families with Dependent Children (AFDC) and related programs, Emergency Assistance, and the Job Opportunities and Basic Skills (JOBS) programs. Each state was required to implement the program no later than July 1, 1997, and is entitled to receive a grant equal to the state's previous Federal share of family assistance expenditures. The TANF block grant is intended to provide state flexibility in determining the type of financial and program assistance and services for the state's low-income families with children. Michigan's grant is based on its Federal share of FY 1993-94 family assistance expenditures. The Federal fund authorization will expire September 2002 and must be reauthorized by U.S. Congress for FY 2002-03 and subsequent years.

### TANF Funds

The Family Independence Agency (FIA) is the single state agency responsible for the block grant implementation in Michigan, but TANF funds are appropriated in the budgets of other State agencies, such as the Department of Community Health (DCH) and the Department of Career Development (DCD). Michigan's annual block grant allocation is \$775,353,000. For each of the past five years, FY 1996-97 through FY 2000-2001, the State has carried forward unspent grant funds. These carried-forward balances provided for increased spending authority, but these funds must be spent only for family assistance. [Table 1](#) summarizes TANF fund appropriations since FY 1996-97 for Michigan's use through its various State agencies.

Table 1

<b>MICHIGAN TANF BLOCK GRANT APPROPRIATIONS SUMMARY</b>						
(actual dollars)						
<u>FUNDS AVAILABLE</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001<sup>a)</sup></u>	<u>FY 2002<sup>b)</sup></u>
TANF Block Grant Award	775,353,000	775,353,000	775,353,000	775,353,000	775,353,000	775,353,000
Available carry-forward of TANF funds	0	62,556,400	104,019,900	146,120,200	124,831,000	37,700,000
Bonus funds <sup>1)</sup>	0	0	20,000,000	22,531,300	25,000,000	0
Total TANF available	775,353,000	837,909,400	899,372,900	944,004,500	925,184,000	813,053,000
Projected expenditures	712,796,600	733,889,500	753,252,700	819,173,500	887,484,000	814,037,500
<b>BALANCE</b> - projected surplus <sup>2)</sup>	62,556,400	104,019,900	146,120,200	124,831,000	37,700,000	(984,500)

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1) Michigan was awarded \$20 million in FY 1998-99 and in FY 1999-2000 and \$25 million in FY 2000-01 for the reduction of State out-of-wedlock births, and \$2.5 million in FY 1999-2000 for a high performance rate in the increase of welfare recipients' entry and successful maintenance in the work force.

2) Of the projected surplus funds, in FY 2000 \$98.4 million is work project authorization. The administration does not include the work project funds as available TANF funds for carry-forward.

a) Allocation assumptions.

b) Available funds do not include work project fund availability.

Source: Michigan Family Independence Agency

There are Federal supplemental bonus funds available to states for the purpose of encouraging state compliance with TANF goals. The awards are based on the achievement of states that demonstrate high performance in the following measured areas: decrease in the state illegitimacy rate; increase in family formation and stability; children's receipt of affordable quality child care services; and increase in the entry and success in the work force. The 10 states in the country with the highest performance receive a bonus award for a prior year's achievement, sharing \$1 billion over a five-year period (approximately \$200 million per year beginning in 1999). For example, \$20 million per year was divided among the top scoring states for the decrease in state out-of-wedlock births, \$140 million for work performance, and \$10 million for family formation and stability. Michigan was awarded \$2,531,289 in FY 1999-2000 for an FY 1998-99 "High Performance Bonus" as one of the top 10 performing states in each of four work measures for moving welfare recipients to work and sustaining their success in the work force. In addition, the State was awarded \$20 million in bonus funds in both FY 1998-99 and FY 1999-2000 and \$25 million in FY 2000-01 for the reduction of out-of-wedlock births. States may use these Federal supplemental bonus funds to carry out the purposes of the TANF program, under the same regulations as the basic Federal TANF block grant is spent.

Figure 1

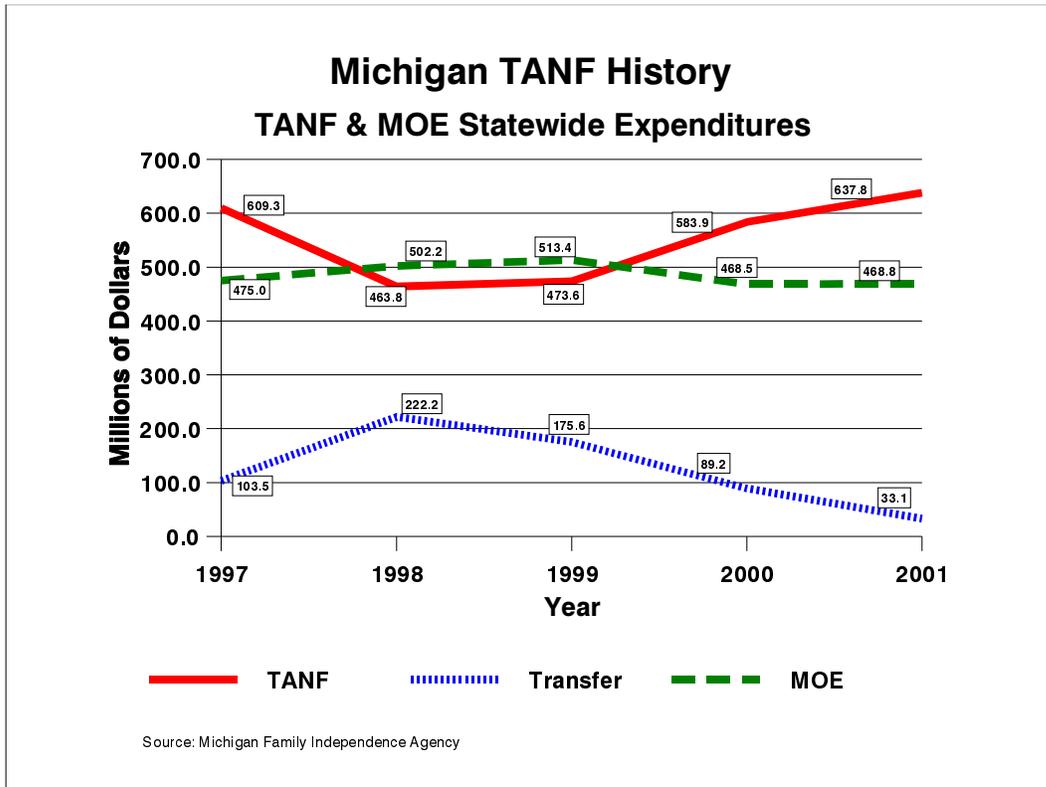
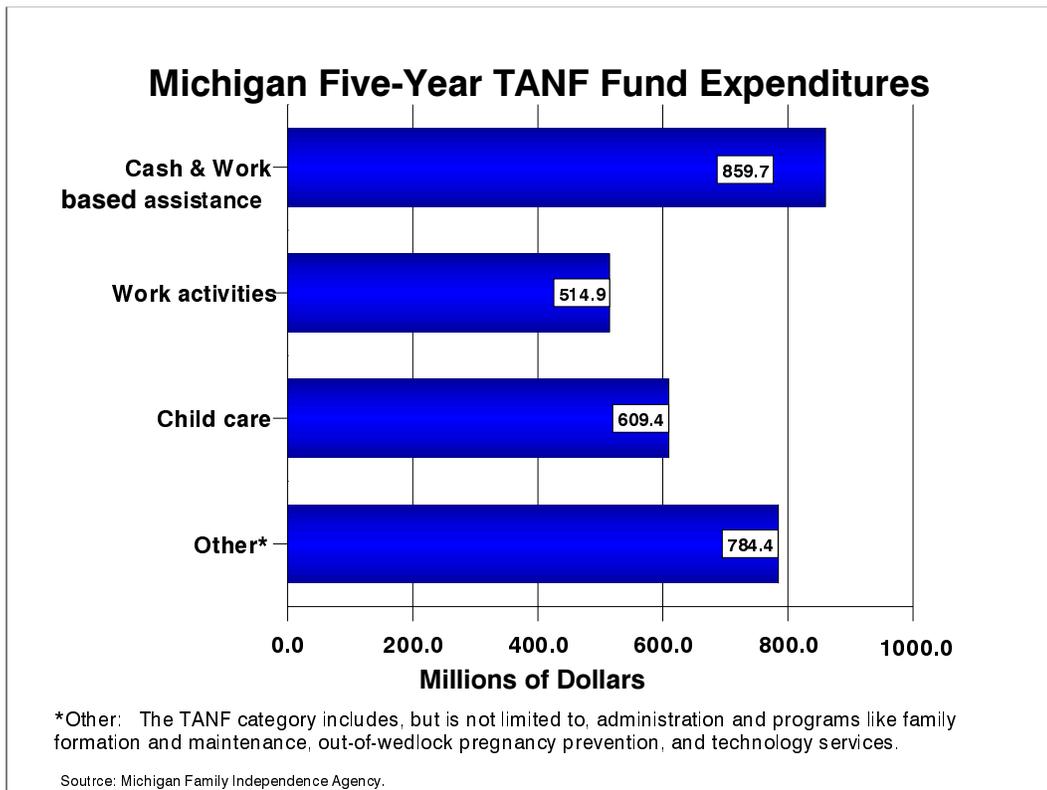


Figure 1 illustrates the TANF and related State funds spent, including transfers of TANF funds to the Social Services Block Grant (SSBG) and Child Care and Development Fund (CCDF) spending. These fund transfers have declined in Michigan since FY 1998-99. Congressional legislation passed in FY 2000-01 reduced the allowable transfer to SSBG from 10% to 4.25%. The State spent TANF funds in place of and for CCDF purposes more in FY 1997-98 than in other years. The bonuses, and the changes in allowable transfers and the amount of unspent TANF funds allowed to be carried forward to the next fiscal year, have an important impact on the total amount available in TANF funds for State spending.

The Michigan TANF block grant award for five years totals \$3.9 billion. Of this total award, on average 15.8% was obligated to SSBG and CCDF programs, 70.2% was spent for assistance and work activities and family supports, and 14% was unobligated and carried forward to the next fiscal year. The TANF block grant expenditures reported to the Federal government total \$2.77 billion: \$31.1% for cash and work-based assistance, 18.6% for work activities, 22% for child care, and 28.3% for other programs, such as technology, transportation, and out-of-wedlock pregnancy prevention (Figure 2).

Figure 2

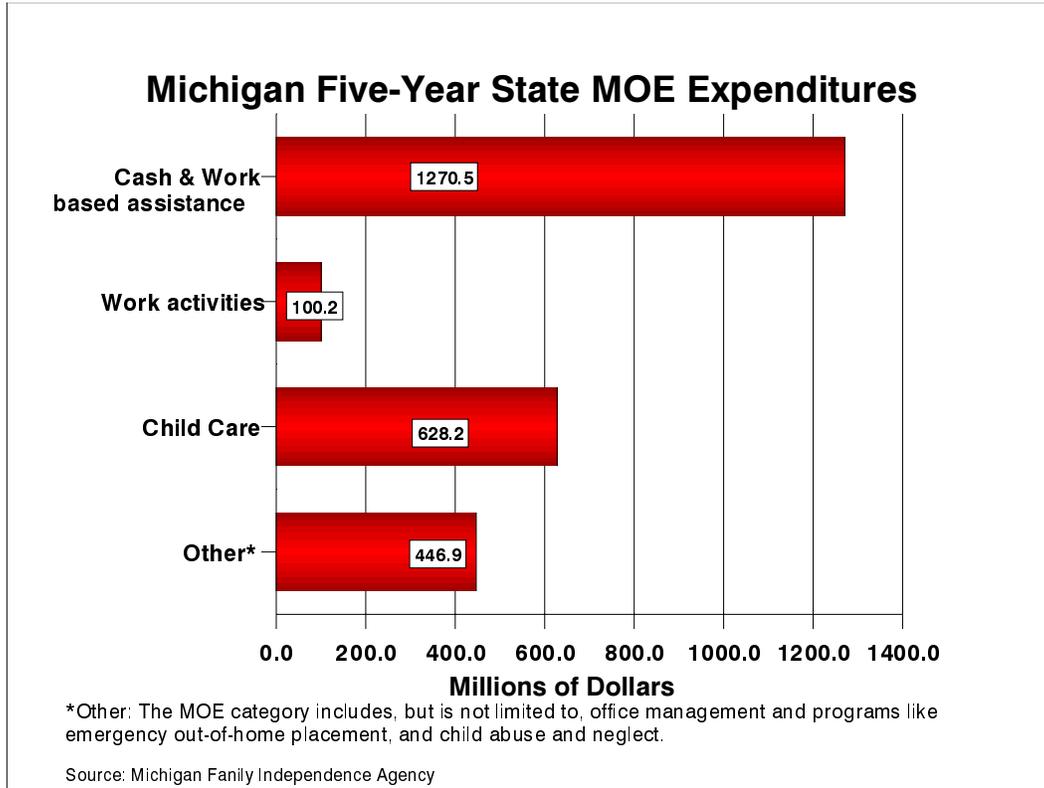


### State MOE Spending Requirements

All states are required to maintain expenditures of state funds, maintenance of effort (MOE), at 80% of the historically spent funds for low-income programs, or at 75% if a state meets the Federal work participation rate requirement for single- and two-parent families. Michigan continues to meet that requirement and must maintain State expenditures at \$468,518,400 annually. The State uses expenditures to count toward the MOE requirement from the FIA and the Departments of Community Health, Education, and Transportation. If a state fails to maintain the required level of state MOE expenditures, Federal sanctions will be assessed against the state. The sanctions include: 1) a reduction in the following year's Federal basic TANF grant equal to the MOE shortfall; and 2) an increase in the following year, in the state's required MOE level by the amount equal to the shortfall. During the five-year TANF program period, Michigan MOE expenditures have averaged \$489,183,880. The State has not been assessed with any penalties related to the maintenance of State spending.

During the five-year TANF program period, Michigan reported to the Federal government approximately 51.9% in State MOE counted expenditures for cash and work-based assistance, 4.1% in work activities, 25.7% for child care assistance, and 18.3% in other programs' expenditures such as emergency out-of-home placements and child abuse and neglect (Figure 3).

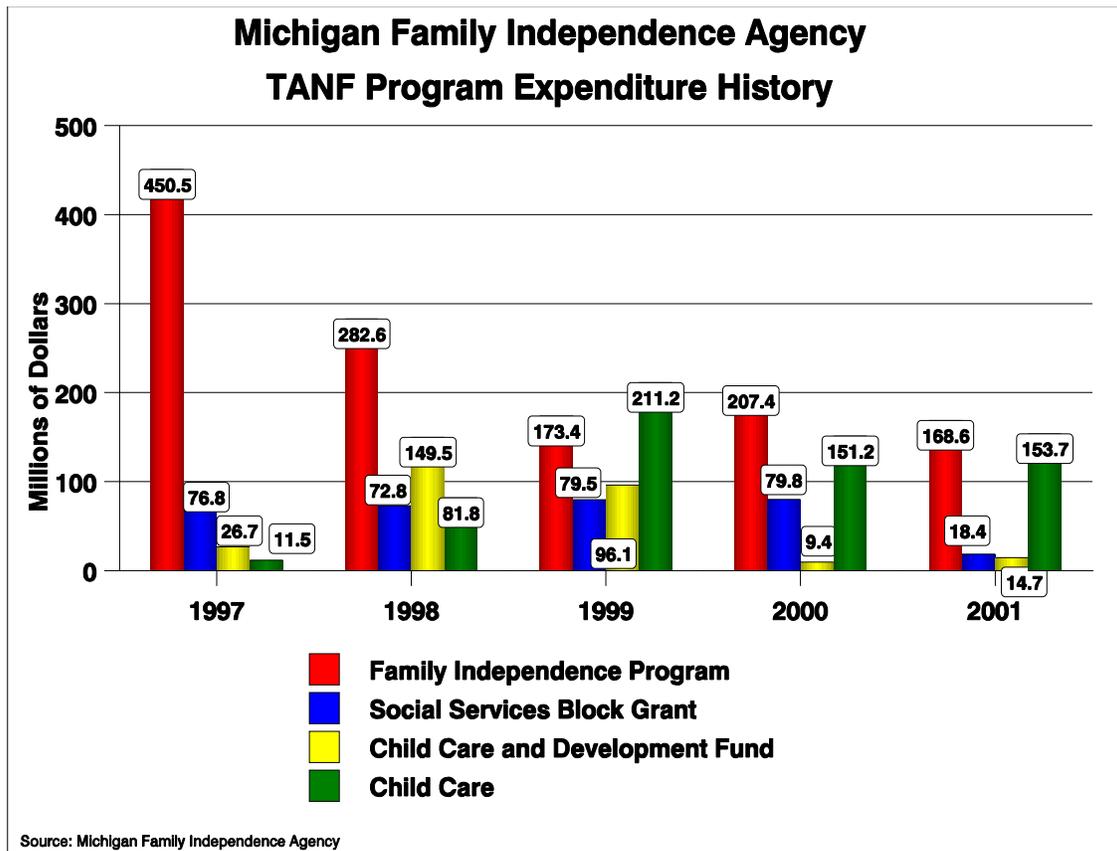
Figure 3



Program Purposes

States are required to meet four purposes under the 1996 Social Security Act amendments, which are outlined in Section 401 of the Federal welfare reform legislation. The following purposes must be met in serving “needy” families (as defined by the states according to various income criteria): 1) to allow children to be cared for in their own or in relatives’ homes; and 2) to end eligible parents’ dependency on government benefits by promoting job preparation, employment, and marriage. The next two purposes are not limited to serving low-income families: 1) to prevent and reduce the incidence of out-of-wedlock pregnancies; and 2) to encourage the formation and maintenance of two-parent families. States have the flexibility within the required purposes to determine what services and programs may be provided to the states’ eligible families and how funds will be distributed to eligible populations, regions, programs, and services. This flexibility includes the ability to transfer TANF funds to the Social Services Block Grant and the Child Care and Development Fund for service use (Figure 4).

Figure 4



### Program Eligibility

The individuals and families eligible for programs and services funded with the Federal grant funds include those who would have been eligible under the former AFDC, Emergency Assistance, and JOBS programs. The Federal law provides for a five-year limit on families' receipt of Federal TANF assistance. Michigan welfare eligibility policy, however, provides for State GF/GP financed assistance payments for families who have reached their five-year limit and continue to need assistance. The major program eligibility requirements for recipients are income and assets tests, in addition to a work requirement, currently a mandated minimum of 30 hours per week for a single parent with a child and 35 hours per week for two-parent families (or 55 hours per week if using day care Federal funds). As outlined in the Section 630 of Public Act 294 of 2000, the State FY 2000-01 FIA appropriation, a participant in Work First (the welfare reform employment placement program) may include a combination of 10 hours per week of work with training or education plus one hour of study time for each hour spent in the classroom, up to a combined 30 hours of education or training that would enable the recipient to secure employment. The training or education may last up to 12 months. In FY 2000-01, 30% of single parents and 90% of two-parent families had to meet the work requirements. Michigan currently exceeds this requirement for work participation. In fact, Public Act 280 of 2001 (effective March 22, 2002), increases the required work hours from a 20-hour minimum to a 40-hour maximum work week requirement.

## Program Services

The State determines which programs and services will be provided within Federal regulations. Generally, State programs and services covered by TANF guidelines include the following: Family Independence Program (FIP), the cash assistance program; Work First, the job training and employment placement program; child day care; family prevention, preservation and reunification; out-of-wedlock birth and fatherhood involvement programs; individual development accounts (IDAs) for attaining education, purchasing a home, or owning a business; and family self-sufficiency services, such as teen parent counseling, employment support, emergency assistance, and family support subsidies.

## TANF Appropriation Issues

The FY 2000-01 appropriation of available TANF funds was \$925,184,000. It included \$56,141,700 in TANF fund transfers to the Social Services Block Grant and the Child Care and Development Fund and \$124,831,000 in TANF funds carried forward from FY 1999-2000 that were not yet obligated in FY 2000-01 by contractual or interagency agreements. Of the FY 1999-2000 TANF funds carried forward into FY 2000-01 (Table 1), the Administration preserved \$98.4 million as work project funds for future year spending authorization and, consequently, does not show the authorization and the expenditure of the funds as available carry-forward TANF funds. The work project funding amount, for example, was reduced by approximately \$26 million during the FY 2001-02 budget development process to designate additional TANF fund authorization in the Family Independence Program. The balance of the work project funds remains "off budget" to be used to increase future TANF fund capacity.

The FY 2001-02 FIA appropriation included \$96.8 million in FY 2000-01 TANF adjustments to reduce an FY 2000-01 projected TANF overutilization. Table 2 details the Administration's assumptions.

Table 2

<b>TANF EXPENDITURE ADJUSTMENT PLAN SUMMARY</b>	
<b>FY 2000-01</b>	
(millions of dollars)	
<b><u>Replacement Revenue Source</u></b>	<b><u>TANF Adjustment</u></b>
1. Welfare-To-Work	
- Federal and State funds .....	\$(15.0)
2. Child Care and Development Fund	
- Matching funds .....	(40.9)
- Discretionary funds .....	(22.0)
<b>Subtotal .....</b>	<b>\$(77.9)</b>
<b><u>TANF Revenue Assumptions</u></b>	
3. TANF Base All Spending	
- Assume underspending <sup>1)</sup> .....	(47.1)
4. Family Independence Program	
- Increase spending based on FIP caseload trend .....	28.2
<b>Grand TOTAL .....</b>	<b>\$(96.8)</b>
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<sup>1)</sup> Reduced spending for day care: rate increase, before- and after-school programs, accessibility pool and caseload changes. Also, other anticipated base underspending is included.	

Source: Michigan Department of Management and Budget

The reduction plan for FY 2000-01 TANF authorization was intended to bring spending within funding availability for the fiscal year (Table 2) and result in an estimated TANF fund balance to provide a \$37.7 million carry forward to add to the State's basic grant, for a total of \$813.1 million in available TANF support for FY 2001-02. In addition to an agreement reached between the Legislature and the Administration on a reduced FY 2000-01 spending plan, the Legislature passed an FY 2001-02 budget bill at a level of spending that assumed the use of all of the estimated FY 2001-02 TANF funds for Michigan, but also overauthorized TANF spending by approximately \$1 million. Further, uncertainty continues in FY 2001-02 over the availability of TANF funds as a result of the FIA revised cost allocation assumptions, prepared since passage of the FY 2001-02 appropriation (Public Act 82 of 2001). According to the FIA analysis, the State may face a potential \$66.5 million TANF revenue deficit, which would mean further adjustments to the TANF authorization such as program and service reductions.

## Other Issues

The U.S. Congress must reauthorize the welfare reform legislation to continue TANF funding for states in FY 2002-03 and the years ahead. One of the issues that Congress possibly will review is "supplantation" of state funds with TANF funds. Supplantation means the use of TANF funds in place of state funds for existing programs and services funded in whole or part with state funds. An *Ann Arbor News* article, June 3, 2001, pointed out that although states are required to spend a minimum amount on welfare programs, "states that were spending more are in a position to replace some of that extra spending with federal welfare dollars." Although this is legal under the Federal statute, Congressional intent in retrospect appears to be that TANF funds should be spent for new programs and services or those not already state-funded. In a March 15, 2000, letter to The Honorable Don Siegelman, Governor of Alabama, from Nancy L. Johnson, Connecticut, Chairman of the U.S. House Subcommittee on Human Services, she advised states to "be careful to avoid...replacing state dollars with TANF dollars on activities that are legal uses of TANF funding."

An example of programs that fall under the supplantation discussion is the Michigan homestead property tax credit. Beginning in FY 1998-99 the State began using TANF funds to finance the State homestead property tax credit. Using TANF funds for this purpose enables the State to earmark approximately \$270 million of General Fund/General Purpose funds, otherwise used for FIA programs, for other State use that cannot be traced to spending for families to meet one or more of the four purposes described above. The U.S. Department of Health and Human Services has now determined that this program is no longer an eligible use of TANF funds. The State will not use TANF funds for this program after FY 2001-02.

Additional issues that may be addressed during Congressional reauthorization include Federal incentives tied to a state's performance, such as goals of poverty reduction or earmarking all or a portion of TANF funds for certain purposes. States would like more flexibility in spending TANF dollars and an increase in their basic TANF grants.

Over the five-year TANF program authorization, each year Michigan and other states, as caseloads declined, spent less in TANF funds for cash and work-based assistance. The states used the flexibility afforded by welfare reform to finance other programs serving low-income families. The declining caseloads, reduced spending on assistance, and creative financing, however, influenced some Congressional leaders to consider cutting welfare funds: they asserted that fewer cases translates into a reduced need for funds. This issue is probably one of the biggest to be addressed during the reauthorization debate. Some researchers insist that an opportunity exists to refocus policy from caseload reduction to poverty reduction. In the article, "From Caseload Reduction to Poverty Reduction", by Mark Greenberg of the Center for Law and Social Policy in Washington, D.C., the author says, "This does not mean a departure from emphasizing employment; rather, it means that employment should translate to improved economic well-being; that working with the hardest to employ is preferable to cutting off assistance; and that TANF funds should be seen as part of an overall strategic effort to dramatically reduce child poverty."

## **SUMMARY**

Many concerns face legislatures, national and state, in the coming months regarding TANF reauthorization, availability, and spending. History, or experience, plays a role of educating governments about wise and efficient spending to maintain programs that assist recipients to become self-sufficient and stay off welfare. The many ways that states can spend TANF funds is beneficial to families, but poses a problem if states authorize spending all available funds and leave nothing to carry forward into the next fiscal year. Michigan is one of those states. In the past five years there has been a balance to carry forward, thus giving the State more than its basic grant from which to be creative in how funds are spent. There is no assurance that the State's TANF funds will be available to spend at a level above its current basic grant; therefore, it would not be advisable for the State to continue to appropriate TANF funds greater than the \$775.4 million grant. If Michigan does not develop a reduced spending plan for FY 2001-02, as it did in FY 2000-01, the State will have to live within its available basic grant funds, use more State funds, or reduce program funding authorization for future fiscal years.