Department of Workforce Services

TANF FUNDING IN ARKANSAS

AN ANALYSIS OF THE USE OF TEMPORARY ASSISTANCE FOR NEEDY FAMILIES BLOCK GRANT AND THE IMPACT OF FUNDING REDUCTIONS TO TANF PROGRAMS

July 22, 2012

TANF PROGRAM OVERVIEW

This is the second of several Budget Briefings that will continue to frame the discussion around the funding crisis related to the Temporary Assistance for Needy Families (TANF) federal block grant. For nearly twelve years, TANF has provided states with the flexibility to tailor programs aimed at moving low-income individuals from government dependence to self-sufficiency. **Arkansas has used its annual block grant of $56.7 million to provide cash assistance, job training, child care, and other social supports to low-income citizens.** The TANF program provides time-limited assistance to needy families with children to promote work, responsibility and self-sufficiency. States receive a block grant to design and operate their TANF programs to accomplish the purposes of TANF.

In 1996, Congress created the Temporary Assistance for Needy Families (TANF) program. This $16.5 billion a year block grant was enacted under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which replaced Aid to Families with Dependent Children (AFDC) and other related welfare programs. States must use objective criteria for determining eligibility and benefits. Funds must be used for eligible, needy families with a child and for one of the four purposes of the TANF program:

1. To provide assistance to needy families;
2. To end dependence of needy parents by promoting job preparation, work and marriage;
3. To prevent and reduce out-of-wedlock pregnancies; and
4. To encourage the formation and maintenance of two-parent families.

Transitional Employment Assistance (TEA)

The Transitional Employment Assistance (TEA) Program was implemented on July 1, 1997, in accordance with Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, and Arkansas Act 1058, the Arkansas Personal Responsibility and Public Assistance Reform Act of 1997. The TEA Program replaced the Aid to Families with Dependent Children (AFDC) Program as the focal point of the State's welfare reform effort and plays a critical role in the State's mission to strengthen the well-being of children, families and adults.

Acts 1567 of 1999, 1264 of 2001, and 1306 of 2003 enacted other provisions to strengthen the Arkansas TEA Program. Arkansas Act 1705 of 2005 transferred responsibility for the program from the Department of Human Services (DHS) to the Department of Workforce Services (DWS). Under this Act, responsibility for determining eligibility for the program and delivering cash assistance benefits remains with the DHS - Division of County

Operations (DCO), while DWS is responsible for the provision of case management services and overall administration of the program.

TEA provides time limited cash assistance to needy families with (or expecting) children and furnishes parents with work training and other supportive services they need in order to attain permanent self-sufficiency. Under TANF program instructions, the most common form of "assistance" is the monthly cash benefit, but other things can count as "assistance." Under the regulations at 45 CFR §260.31, assistance is defined as including "cash, payments, vouchers and other forms of benefits designed to meet a family's ongoing basic needs."

The following are TANF Federal program requirements:

TANF Federal Requirements

- Cash assistance time limit of 60 months
    - ***Arkansas uses a time limit of 24 months***
- Work requirements of most cash recipients
- Recipients face payment sanctions and termination of benefits for not meeting work requirement
- Individual Responsibility Plans required for all cash recipients
- Teen parent live-at-home and stay-in-school requirement
- Annual state plan
- 15% cap on administrative costs
- State Maintenance of Effort (MOE) requirement
    - 5% of 1995 spending when meeting work participation rates
    - 80% of 1995 spending when not meeting work participation rates
    - Funding penalties if fail to meet federal requirements
    - New Work Verification Plan requirements

RECENT TANF EXTENSION

On February 22, 2012, President Obama signed the Payroll Tax Extension into law. The measure (H.R. 3630) extends the payroll tax holiday and unemployment insurance benefits and includes an extension of the TANF program through September 30, 2012.

On the surface, this appeared to be good news for States' TANF Program. However, this extension did not provide funding for the TANF Supplemental grant program. Arkansas is one of seventeen states that have received TANF Supplemental Grants every year since TANF was created (most of them relatively poor states). Consequently, Arkansas has lost \$6.2 million (approximately 10%) of its federal TANF funding.

States Now Spend More than the Annual TANF Block Grant

In the first years of TANF implementation cash assistance caseloads fell more quickly than states had anticipated and states accumulated reserves of unspent federal funds. As states adjusted to the caseload trends and the new spending flexibility afforded under the TANF block grant, they recognized that they had an opportunity to further the goals of welfare reform by providing more intensive services to families with barriers to employment that were still receiving cash assistance and by helping a broader group of low-income employed families with fragile attachment to the workforce. States were able to expand critical supports for low-income working families — like child care and transportation subsidies — to help these families remain employed and make ends meet. Some states also began to bolster earnings through wage subsidies, earned income tax credits, matching contributions for individual savings accounts, or education and training to help families attain stable, higher-paying jobs. As a result of expanding their programs beyond traditional cash assistance payments and funding critical supports for low-income working families, states now spend in excess of their annual block grant allocation. In fiscal year 2009, the states collectively spent nearly $2 billion more in federal funds than they received. Twenty-seven states and the District of Columbia drew on unspent federal funds from prior years to augment their annual TANF block grant allocation.

States will not be able to maintain these program levels without additional funds, however, because reserves of federal TANF funds are dwindling or have been exhausted in many states. This means that without additional funds, by fiscal year 2013 nearly half the states would need to scale back TANF-funded programs.

HOW ARKANSAS SPENDS TANF FUNDS

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 due to the fact that no increase in their TANF block grant would occur. For this reason, some states have deliberately created reserves in case of an economic downturn.

States have enjoyed considerable flexibility in how they spend their TANF Block Grant funds. In addition to spending on cash benefits—that is, monthly cash assistance payments to families to meet their ongoing basic needs—states were able to spend TANF funds on services for cash assistance recipients or other low-income families.

In the first years of TANF, Arkansas's welfare caseloads substantially decreased, allowing the state to spend less than its annual block grant and accumulate a significant reserve of the unspent funds. By 2007/08, more than $100 million had accumulated in unspent TANF funds. When faced with pressure from advocates to spend TANF surpluses, program administration chose to use TANF funds to sustain programs other than core TANF programs of cash assistance, job training, and child care.

In 2003/04, Arkansas began spending more than its annual TANF block grant amount, investing TANF surpluses in child welfare to save General Revenue, supplementing the declining Social Services Block Grant (SSBG), and committing funds to other social programs such as Family Savings Accounts. Initially, the increased spending of TANF funds was absorbed by the large reserve of unspent funds from previous years. However, TANF spending continues to exceed the annual block grant amount and the TANF reserves are no longer available to sustain current expenditures. In 2009/10, the state spent close to $53 million over the annual block grant.

Arkansas has used its annual block grant of $56.7 million per year to provide cash assistance, job training, child care and other social supports to low-income citizens.

ARKANSAS'S TANF FISCAL SITUATION

In calendar 2011, states began implementing some of the harshest cuts in recent history for many of the nation's most vulnerable families with children who are receiving assistance through the federal TANF block grant. The current fiscal year (fiscal year 2012) is shaping up as one of states' most difficult budget years on record. For the first time since its creation in 1996, Congress has reduced funding for TANF. These cuts come at a time when, according to the Center of Budget and Policy Priorities, some 44 states and the District of Columbia projected budget shortfalls totaling $112 million for 2012.

The losses of the TANF Supplemental grant and Emergency Contingency Fund, coupled with the severely diminished TANF Contingency fund (exhausted as of March 31, 2012), has severely diminished Arkansas' TANF Program.

Arkansas' expected funding differences are:

Year	TANF Block Grant	Contingency Fund	Emergency Contingency Fund	Supplemental Funding	Total TANF Funding
2012	$56.7	$4.9	$0	$0	$61.6
2011	$56.7	$2.8	$ 0	$4.1	$63.6
2010	$56.7	$6.1	$6.5	$6.2	$75.5
2009	$56.7	$11.3	$ 0	$6.2	$74.2

To be sure, hard trade-offs are necessary when funding is tight and need is high. However, we believe that cuts in various TANF-funded programs may be less harmful than deep cuts in basic assistance that shrink already-low benefits or end eligibility entirely for especially vulnerable families with children. To this end, we propose cuts in these categories, rather than cuts in the core welfare reform areas-basic assistance, child care, and work supports.

Facts:

- Currently, we spend $40 million on federally required activities. We plan to spend $36 million a year going forward. We now receive $56.7 million a year in federal funds. This leaves $20 million a year for state authorized activities to be decided upon by everyone involved, i.e. DWS, Governor and Legislature. Currently, we spend about $49 million on state authorized activities.
- The state legislature has authorized several activities over the years, such as: Work Pays, Emergency Assessments, Individual Development Accounts, Community

Initiatives, Child Care and Career Pathways with the understanding that the funding would have to be eventually diminished, funded by other funding source(s) or eliminated. Hence, many of these items were included as Special Language in DWS' appropriation acts.

TANF Carry Forward Projections

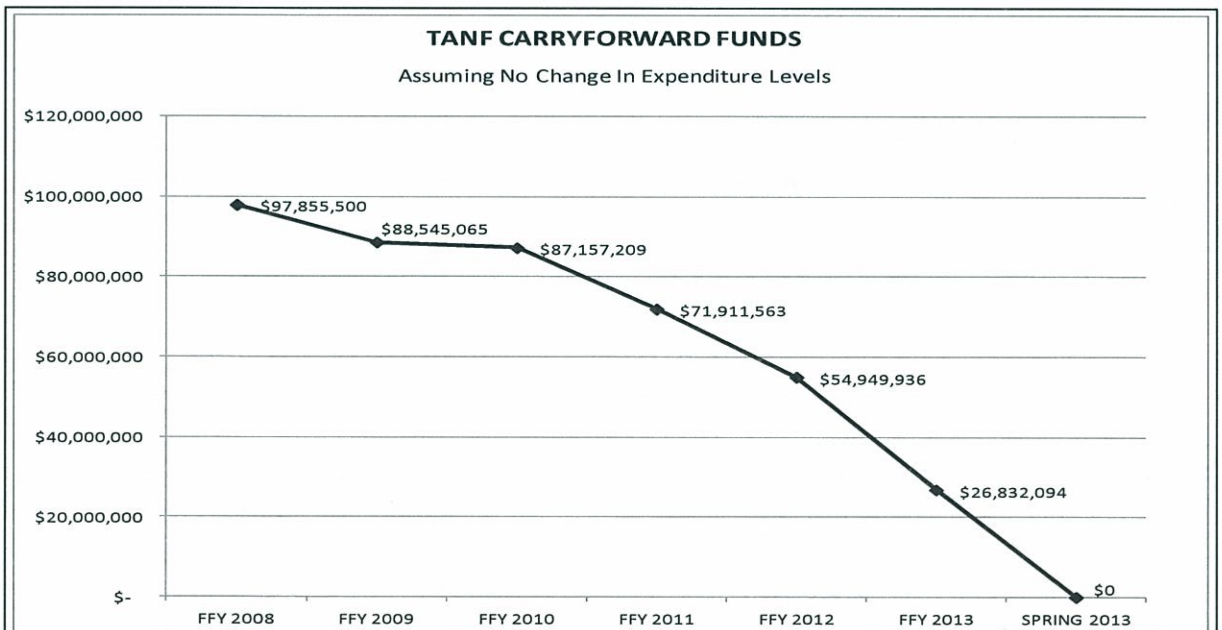
Since the advent of welfare reform, states have carried forward TANF funds not expended during the current fiscal year for possible expenditure in succeeding years. States typically save, or "reserve", this portion of their grant award as a precautionary measure to protect against recessions and emergencies that may result in an unexpected rise in need for assistance to needy families. These "reserve" funds are often referred to as unobligated balances. A state must expend unobligated balances only on benefits that specifically meet the definition of assistance or the administrative costs directly associated with providing the assistance.

Like many other states, Arkansas has enjoyed a healthy TANF carry forward balance under PRWORA. This balance, brought forth mainly due to substantial decreases in welfare caseloads since PRWORA's inception. However, Arkansas projects to have this carry forward amount drastically reduced by 2013.

DWS and DHS has used the restricted carryforward funds in the past to fund Federally mandated activities to free up current year funds for state authorized activities, including items requested by the Legislature. Total elimination of the carryforward funds would mean that all federally mandated and state authorized activities would have to come from current year funds. If we eliminated all but the four large state authorized activities, we would be unable to reduce spending to current funding levels.

DHS utilized TANF carryforward funds to make cash assistance payments to TANF clients until the fall of 2011 (approximately $13 million per year). DWS has since assumed responsibility for this annual expenditure.

The TANF Program currently has a "carry forward" balance of $40,000,000 as of 5/1/2012.



Note:

- DWS and DHHS has used the restricted Carryforward funds in the past to fund Federally mandated activities to free up current year funds for state authorized activities, including items requested by the Legislature.
- Federal Stimulus funds were used in accordance with Federal law. This also served to delay the time that the Carryforward funds would have exhausted; providing for continuation of programs at historic funding levels past the time the programs would otherwise have been cut.
- Total elimination of the Carryforward funds would mean that all federally mandated and state authorized activities would have to come from current year funds. If we eliminated all but the four large state authorized activities, we would be unable to reduce spending to current funding levels. Thus, we are forced to make some level of cuts to one or more of the four largest state authorized programs of: Work Pays, Career Pathways, Emergency Assessments and Pre-K Child Care. These four programs comprise about 79% of the budget for all state authorized programs. For the Federal Fiscal year 2013, which starts on October 1, 2012, we have proposed to make cuts in three of the four large state authorized programs and not cutting Pre-K Child Care.

Impacts of Budget Reductions to TANF Programs

The following is a list of programs that have been impacted by the loss of funds and the dollar amount of the impact.

For the Federal Fiscal year 2013, which starts on October 1, 2012, we have proposed funding reductions in three of the large state authorized programs. **We did not propose cuts in the ABC Pre-K Child Care program.**

The reductions are as follows:

Program/Initiative	FFY 2011-12 Funding	Funding Reduction	FFY 2012-13 Funding
DHS Emergency Assessments	**$11,247,469**	**$2.2 million**	**$8,997,975**
Career Pathways Initiative	**$13,000,000**	**$2.0 million**	**$11,000,000**
Arkansas Work Initiative	**$5,438,266**	**$2.0 million**	**$2,700,000**
Footnote (Arkansas Works)			
1. No additional funding available for the 2012-2013 FFY above the $2.7 million.			
2. No funding for the 2013-2014 FFY for this program.			

Projected Funding
Federal Fiscal Year 2013-2014

Program/Initiative	FFY 2012-13 Funding	Funding Reduction	FFY 2013-14 Funding
DHS Emergency Assessments	$$8,997,975	$2,811,867	$6,186,108
Career Pathways Initiative	$11,000,000	$3,850,000	$7,150,000
Arkansas Work Initiative	$2,700,000	$2.7 million	-0-
Arkansas Work Pays	$4,266,250	$2,131,600	$2,134,650

Footnote:

DWS-TANF previously set aside $4 million for the acquisition of an Eligibility Determination and Case Management system. A request for proposal is in the process of being released that allows DWS to participate with the Department of Human Services in the acquisition of a COTS (Customizable off the Shelf) Enterprise System for the State of Arkansas. As this process is currently in its initial stages, we have only approximations with regard to the eventual costs. However, similar TANF systems around the country have been built in the $8 million to $15 million dollar range. Obviously, actual costs will depend on the calculation of exact hours spent on the successful integration and configuration of software by the DWS implementation team, training of individual users, and ongoing support needed to maintain the system. Also, we will need to identify specific hardware needs, costs for data import from the legacy system and any project team consulting fees.

DWS is currently in the process of replacing its FARS accounting system with a Dynamics Great Plains (DGP) product. Ideally, this system would be able to accommodate TANF's financial operations as well. However, at this point it seems clear that substantial modifications will need to be made to DGP; but, the project team is not currently able to provide a reliable estimate of these costs. Currently, TANF is allocated 30% of the ongoing cost of deploying Dynamics GP. Any modifications would be an additional cost to the TANF Program.

Conclusion

During the first four years of the TANF block grant, Arkansas's annual TANF expenditures were substantially less than the annual TANF grant amount. These unspent TANF funds resulted in a significant reserve balance that reached $100 million in 2007/08. Nationally, pressure from advocates and the federal government lead program administration to use TANF funds at a much higher rate beginning in 2001/02. Annual TANF expenditures exceeded the annual grant amount, causing Arkansas to spend its annual TANF grant and a portion of the reserves. Consequently, the reserve balance created in earlier years has been drastically reduced and will be eliminated by February 2013.

Like many other states, Arkansas has paid for several programs with funds that all agreed could not be sustained over the longer term. TANF block grant spending must be cut or alternate funding sources found in the upcoming fiscal years. Given the tight fiscal condition of our General Fund, alternate funding sources are unlikely. With this in mind, DWS will likely propose funding reductions to the TANF program going forward, consistent with an anticipated $56 million dollar TANF budget for FFY 2013-2014 and beyond. **We will notify the Governor, legislature, and affected programs as early as possible before the start of the 2013-2014 fiscal year.**

The Department of Workforce Services has made a concerted effort to inform its partner agencies and contractors that a) ongoing TANF funds availability is contingent upon appropriation for the federal government, and b) efforts should be taken by them to identify and acquire additional non-TANF funding for their projects, as appropriate.