United States General Accounting Office

GAO

Report to the Chairman and Ranking Minority Member, Committee on Finance, U. S. Senate

July 2003

WELFARE REFORM

Information on Changing Labor Market and State Fiscal Conditions

GAO

Accountability * Integrity * Reliability

GAO-03-977

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Abbreviations

AFDC	Aid to Families with Dependent Children
HHS	Department of Health and Human Services
TANF	Temporary Assistance for Needy Families

United States General Accounting Office
Washington, DC 20548

July 15, 2003

The Honorable Charles E. Grassley
Chairman
The Honorable Max Baucus
Ranking Minority Member
Committee on Finance
United States Senate

With the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the Congress made sweeping changes to federal policy for needy families. PRWORA ended the Aid to Families with Dependent Children (AFDC) program and created the Temporary Assistance for Needy Families (TANF) block grant to states.

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 and requires states to maintain a historical level of state spending on welfare reform programs. Under TANF, states have greater flexibility and face greater uncertainty than they did under AFDC. States have greater flexibility to design, finance, and implement programs for low-income families, including determining who is to be served and what services to provide. TANF also emphasizes the transitional nature of assistance and the importance of employment for welfare recipients. Because the amount of the TANF block grant is fixed, as caseloads decline—as they did in all states through the late 1990s—states have had additional resources that they have used to expand their programs, achieve some budgetary savings, and create reserves; however, states bear most of their TANF program's fiscal risks if their programs' costs rise as a result of higher caseloads or other factors.

Welfare reform was initially implemented in a time of economic growth, when there was a strong demand for labor and the fiscal situation of the states was favorable. More recently, the economy has slowed and welfare reform is being implemented in less favorable economic conditions. To obtain information on welfare reform under changing labor market and fiscal conditions, you asked us to determine (1) how labor market conditions have changed in recent years; (2) how cash public assistance caseloads and the employment activities of current and former welfare recipients have changed in recent years; (3) how the fiscal situation of states has changed in recent years; and (4) to what extent states have made changes to their welfare programs as a result of fiscal changes.

To address your first and second questions, we obtained data on national and state unemployment rates and the national labor force participation rate, as well as qualitative information on recent economic conditions for five states, selected judgmentally to reflect variation in geographic location and welfare-to-work approaches (Arizona, Iowa, Montana, Pennsylvania, and Wisconsin). We also obtained data on cash public assistance caseload changes for the nation and the selected states, as well as qualitative information on caseload patterns and the ability of TANF recipients to enter employment from the selected states and three nongovernmental welfare-to-work organizations. To address your third and fourth questions, we obtained publicly available information on the current fiscal situation of the states from national organizations representing states and publicly available budget documents on state TANF programs and on proposals for changes to their TANF programs. In addition, we obtained information from budget officials in the selected states as well as TANF financial data submitted by states to HHS. We conducted our work from February to May 2003 in accordance with generally accepted government auditing standards. Data used in this analysis were those readily available as of April 30, 2003.

On May 13, 2003, we presented your staff with this descriptive information on changing economic conditions and welfare reform. This report formally conveys the information provided during that briefing. In summary, we reported:

The recent economic downturn is reflected in key national and state labor market statistics and in the reports of state officials. The national unemployment rate, for example, increased from 4.0 percent in January 2000 to 5.8 percent in March 2003. Although changes in unemployment rates have varied across industrial sectors and for workers of different levels of educational attainment, unemployment rates have generally increased across sectors and education levels in recent years. Unemployment rates varied across the five selected states, ranging from 4.0 percent in Iowa and Montana to 6.2 percent in Pennsylvania in February 2003. Despite these differences, officials in each state felt that their state has experienced an economic downturn. While the loss of jobs in manufacturing and the continued importance of service sector employment for TANF recipients were common features of the downturn across the five states, other important characteristics of the downturn differed.

Changes in cash public assistance caseloads and the employment activities of welfare recipients also varied across the five states. Although the national welfare caseload declined from December 2000 to December 2002, only one of the five states (Pennsylvania) experienced caseload declines in both years of this time period. Caseload patterns differed across the five states in terms of any geographic concentration of caseload changes or the length of time recipients stayed on cash assistance. Information on how the downturn has affected the employment prospects of TANF recipients also differed across the states and by the type of organization interviewed. Some reported that TANF recipients had greater difficulty finding jobs as a result of changing economic conditions, while others said that entry-level jobs—those most likely to employ TANF recipients—were still generally available. State officials in the five states reported that changes had not been made to state welfare-to-work programs in response to recent economic changes, but some states have had to curtail, or expect to curtail, services and/or cut cash benefits because of fiscal difficulties.

States are facing one of their most challenging fiscal situations in years, in part, due to the economic downturn and state fiscal responses to this downturn. Most states are required to balance their budgets and since their revenues have been much lower than forecast, state officials have struggled to bring expenditures in line with available resources. A state's need to cut spending or increase revenues during a downturn can be mitigated if it has accumulated surplus balances in reserve and states accumulated unprecedented reserves during the late 1990s. However, these reserves have dropped appreciably as states address their fiscal crises.

For the TANF program specifically, we found that each of the five states in our review planned to use their reserves of unspent federal TANF funds[1] to maintain their TANF programs and they also planned to use the program's flexibility to reallocate some resources to higher priority TANF needs. Nationwide, states reported that over $5.8 billion in federal TANF funds

[1]States are allowed to keep unspent TANF funds without fiscal year limitation. They are required to report unspent balances as either an *unobligated balance* or an *unliquidated obligation.* While the latter implies that there is an underlying commitment on these funds, we reported in 2001 that it is difficult to tell from the states' reports whether these funds have actually been committed or whether they might be available to use in the future. See U.S. General Accounting Office, *Welfare Reform: Challenges Maintaining a Federal-State Fiscal Partnership*, GAO-01-828 (Washington D.C.: Aug. 10, 2001).

remained unspent at the end of federal fiscal year 2002. However, the levels of TANF reserves vary considerably among the 50 states. For example, 3 states' reserves of unspent funds are equal to or greater than their annual grant amount whereas 3 other states have no reported reserves. Many states began to draw down some of their reserves in federal fiscal years 2001 and 2002, in part due to concerns that accumulating unspent balances might signal that these funds were not needed.[2]

In using reserve funds to augment the annual block grant, states assumed some risks. Because the amount of federal funding is fixed and does not vary based on the number of people served or changing program costs, states that used their reserves to augment their annual block grant would face challenges maintaining this level of funding if program costs rose as a result of higher caseloads or other factors. These risks are compounded by the current fiscal situations in the states that make it difficult for them to increase their own funding for these programs. Four of the 5 states we reviewed faced difficult budget challenges in their TANF programs this year. In Montana, for example, program budget officials said the state used most of its TANF reserves to fund short-term projects. When the fiscal situation worsened this year, program officials worked to terminate these programs early and reallocated the program funds to address shortfalls in other higher priority TANF-funded programs. In Pennsylvania, on the other hand, program budget officials said that the state's TANF program is relatively well protected from the state budget crisis and that based on current expenditure rates the state's TANF reserves could last through 2006.

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. This report will also be available on GAO's Web site at http://www.gao.gov. If you or your staff have any questions about this

[2] For more information, see U.S. General Accounting Office, *Welfare Reform: Challenges in Saving for a "Rainy Day,"* GAO-01-674T (Washington, D.C.: Apr. 26, 2001).

report, please contact Cynthia M. Fagnoni at (202) 512-7215 or Paul L. Posner at (202) 512-9573. Additional GAO contacts and acknowledgments are listed in appendix II.

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

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

Appendix I: Briefing Slides

GAO
Accountability * Integrity * Reliability

Welfare Reform: Changing Labor Market and Fiscal Conditions

Briefing to the Staff of the Senate Committee on Finance

May 13, 2003

1

Introduction: States Have Both Greater Flexibility and Greater Uncertainty under Welfare Reform

- States have greater programmatic flexibility to design, finance, and implement programs that serve the needs of low-income families living in their states.
- Welfare reform moved public assistance from a system that focused on income support to one that emphasizes the goal of economic independence.
  - Under Temporary Assistance to Needy Families (TANF), the emphasis on employment is greater than under Aid to Families with Dependent Children (AFDC).
- States bear most of their program's fiscal risks.
  - Before 1996, under AFDC, any increased costs were shared by the federal government and the states.
  - TANF is a fixed block grant and if costs rise states face most of the burden of financing the unexpected costs.

2

Introduction (cont.)

- Previous research has shown that the relationship between economic conditions and welfare reform outcomes is complex. The strong economy, changes in welfare policies, and other policy changes affecting low-wage workers were all found to contribute to the increase in work among low-income single mothers and the decline in welfare caseloads following welfare reform in 1996.
- Research also suggests that state program choices—such as those regarding benefit levels, earnings disregards, sanctions, and time limits—affect the work incentives embodied in welfare programs.

3

Key Questions

You asked us to determine the following:

(1) How labor market conditions have changed in recent years.

(2) How cash public assistance caseloads and the employment activities of current and former welfare recipients have changed in recent years.

(3) How the fiscal situation of states has changed in recent years.

(4) To what extent states have made changes to their welfare program as a result of fiscal changes.

4

Scope and Methodology

- To examine recent labor market changes, changes in welfare caseloads, and the employment prospects of TANF recipients, we obtained
  - data on unemployment rates and labor force participation for the nation;
  - unemployment rates and qualitative information on recent economic conditions for five states selected judgmentally to reflect variation in geographic location and welfare-to-work approaches (Arizona, Iowa, Montana, Pennsylvania, and Wisconsin), as well as unemployment rates for selected counties;
  - data on cash public assistance caseload changes for the nation and the selected states and counties; and
  - qualitative information on caseload patterns and the ability of TANF recipients to enter employment from the selected states and three nongovernmental welfare-to-work organizations.

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Scope and Methodology (cont.)

- To examine recent changes in the states' fiscal situation and the extent to which they have made changes to their welfare programs as a result of fiscal changes, we
  - reviewed publicly available information on states' current fiscal situation from national organizations representing states;
  - reviewed research papers on causes and effects of the current state fiscal crisis;
  - reviewed publicly available budget documents on state TANF programs;
  - interviewed budget officials from Arizona, Iowa, Montana, Pennsylvania, and Wisconsin;
  - reviewed TANF financial data states submitted to the Department of Health and Human Services.

6

Selected Features of the Five States' TANF Programs

State	Monthly benefit for 3-person family in Jan. 2002	Amount of earnings not taken into account when determining monthly benefits	Sanction policy	Time limits on receipt of cash assistance	Percentage of adult TANF recipients meeting the federal participation requirement (fiscal year 2001)[a]	Percentage of these adult TANF recipients meeting the participation requirement that were in unsubsidized employment (U.S. = 65 percent)
Arizona	$347	$90 and 30 percent	Partial	24 months in 60 months	33	81
Iowa	$426	20 percent and 50 percent of the rest	Full	60 months	41	94
Montana	$494	$200 and 25 percent	Partial	60 months	44[b]	17
Pennsylvania	$421	50 percent	Mixed	60 months	11	92
Wisconsin	Up to $673	None	Partial	60 months	75	11

Source: *Temporary Assistance for Needy Families Program: Fifth Annual Report to Congress*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, February 2003 and *TANF Benefits and Earnings Limits*, Vee Burke, Congressional Research Service, updated March 3, 2003.

[a]Actual "all-family" rates states achieved as reported by HHS. To avoid financial penalties, states were to meet a minimum 45 percent participation standard. However, after taking into account the caseload reduction credit allowed by law, these five states faced adjusted standards of 1 percent or less. Activities that count for federal participation requirement purposes include unsubsidized and subsidized employment, work experience programs, on-the-job training, community services, providing child care for other TANF recipients, job search, and (under certain circumstances) education and training.

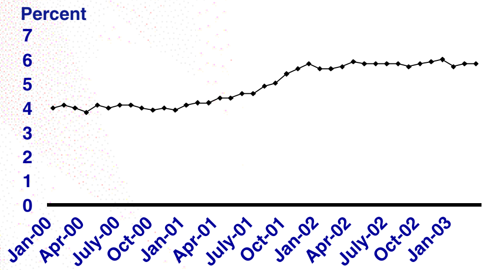
[b]This rate reflects activities that count toward the federal work participation rate under Montana's waiver of existing TANF rules. Without taking into account the waiver, Montana's actual participation rate was 27 percent.

7

Question One

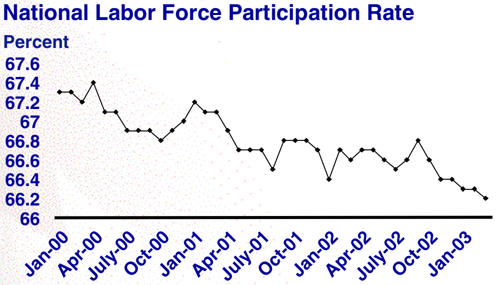
Changing National Labor Market Conditions

National Unemployment Rate



The national unemployment rate rose from 4.0 percent in January 2000 to 5.8 percent in March 2003.

National Labor Force Participation Rate



The national labor force participation rate declined from 67.3 percent in January 2000 to 66.2 percent in March 2003.

Source: Bureau of Labor Statistics.

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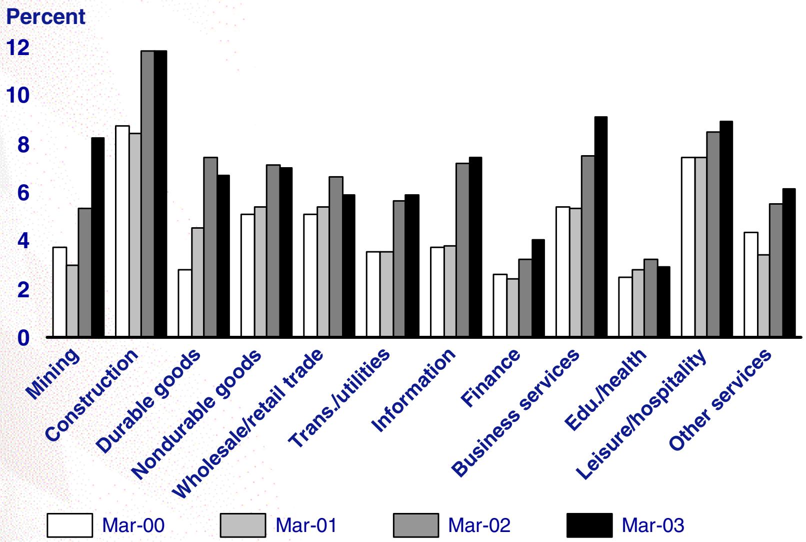
Question One

Unemployment Rates Varied across Industries

Unemployment Rates by Industry, March 2000 to March 2003



Source: Bureau of Labor Statistics.

In March 2003, unemployment rates were highest for the mining, construction, business services and leisure/hospitality industries.

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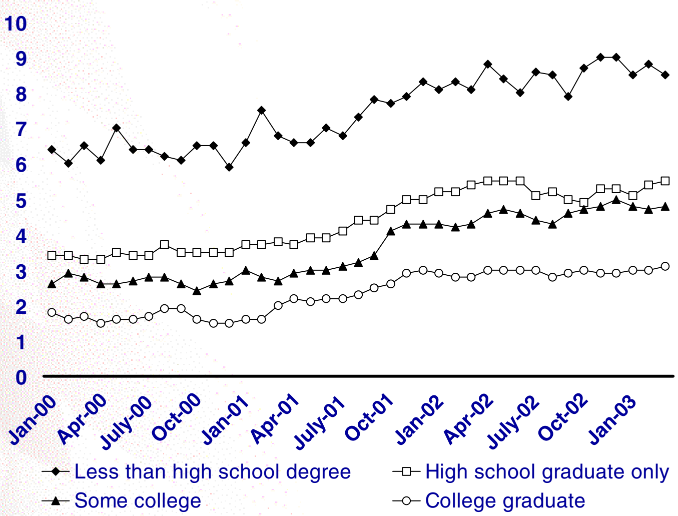
Question One

Unemployment Rates Rose for Every Educational Attainment Level

Unemployment Rates by Educational Attainment



Source: Bureau of Labor Statistics.

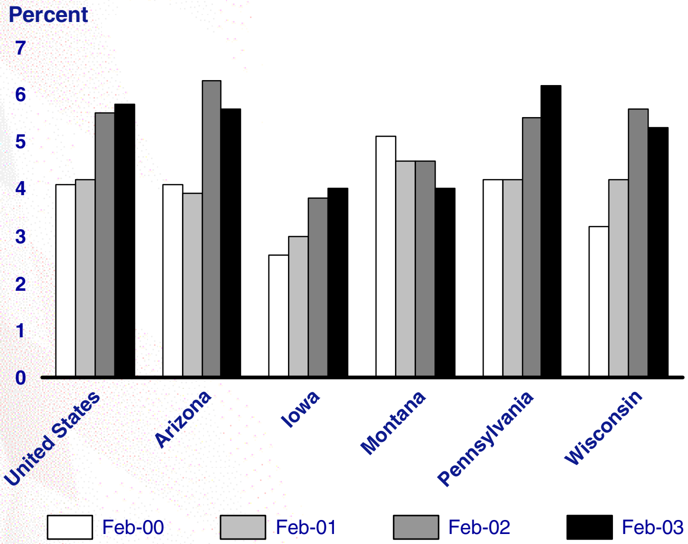
The unemployment rate for the “less than high school degree” category consistently is higher than the unemployment rates for other levels of educational attainment. The percent increase is smallest for the “less than high school degree” category.

10

Question One

Changing State Labor Market Conditions

State Unemployment Rates from February 2000 to February 2003



Source: Bureau of Labor Statistics.

The unemployment rates vary across states.

- States begin and end this time period with unemployment rates at different levels.
- While unemployment rates increased in four of the five states, the pattern of change differs across states.

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Question One

States and the Economic Downturn

- Despite differences in unemployment rates and changes in unemployment rates across the five states, officials in each state felt that their state has experienced an economic downturn.
  - State officials and documents provided in each of the five states indicated that job losses in manufacturing industries are one of the common features of the downturn. Other features of the downturn—such as other industries or regions particularly affected—differ somewhat across states.
  - The service sector is a major employer of TANF recipients across the five states.

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Question One

States and the Economic Downturn (cont.)

- Other characteristics of the economic downturn emphasized by state officials:
  - **Pennsylvania**—The state's unemployment rate in February was the highest since 1994.
  - **Wisconsin**—The manufacturing industry, located primarily in the southeast quadrant of the state, has been hit the hardest.
  - **Arizona**—The decrease in tourism and job losses in urban areas have negatively impacted the economy.
  - **Iowa**—The state is experiencing an economic downturn, but the unemployment rate is still low relative to the rest of the nation.
  - **Montana**—The state has a decreasing unemployment rate, but is still experiencing economic difficulties, in part because the state did not experience as great an economic boom as other states in the mid-1990s.

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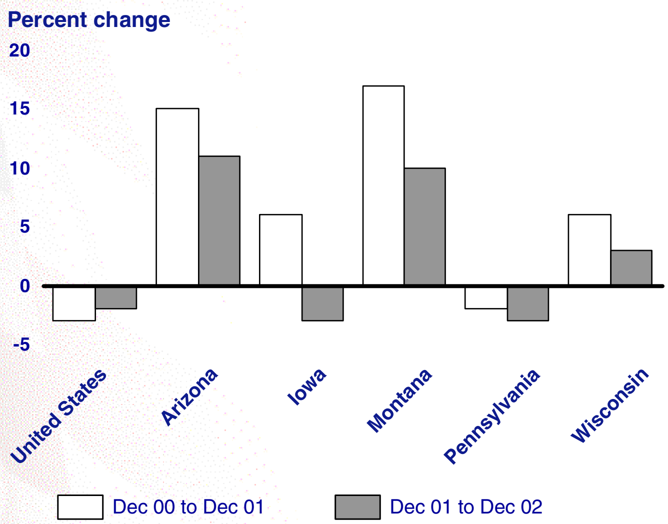
Question Two

Changing TANF Caseloads

Percent change in TANF caseloads
December 2000 to December 2002



Source: Center for Law and Social Policy (CLASP).
Note: Data available from HHS were not as current as data available from CLASP.

The national caseload continued to decline over the December 2000 to December 2002 time period.

The state caseload increased over both time periods in three of the five states and declined over both time periods in only one state.

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Question Two

TANF Caseload Patterns

- In Arizona, Montana, and Wisconsin, state program officials report that recipients are staying on cash assistance programs longer.
  - Caseloads are becoming more concentrated in urban areas in Arizona. In Montana, caseloads are increasing across the state, and in Wisconsin, changes in caseloads vary across the state.
- In Iowa, state program officials report that recipients are leaving the program more quickly.
- In Pennsylvania, state program officials report that an increasing share of recipients live in urban areas. The program also is serving more recipients with multiple barriers to employment.

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Question Two

TANF Recipients' Employment

- In each of the five states, state officials and local program administrators for Goodwill, a nonprofit organization that provides employment and training services, told us TANF recipients typically find work in the service sector.
  - **Wisconsin**—Recipients mostly find work in the service (particularly health care) and retail industries.
  - **Arizona**—Recipients largely find work in the service sector (particularly tourism).
  - **Montana**—Recipients tend to work in the service or health-related industries.
  - **Iowa**—Many recipients work in labor intensive jobs and in the service industry.
  - **Pennsylvania**—A majority of recipients find work in service industries (particularly retail, telemarketing, restaurant, and personal care).

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Question Two

TANF Recipients' Ability to Get Jobs

- State officials and Goodwill program administrators in each of the five states told us the impacts of the downturn on the employment prospects of TANF recipients vary across the five states.
  - Wisconsin—The impact of the recession has been to make it more difficult to find employment as service sector growth has slowed.
  - Arizona—The economic downturn has made it more difficult for recipients to find jobs, particularly in urban areas. Low wage jobs continue to be scarce in rural areas.

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Question Two

TANF Recipients' Ability to Get Jobs (cont.)

- Montana—Recipients are having a particularly difficult time finding or keeping employment because of child care constraints. TANF recipients also face more competition for low wage jobs as more skilled workers lose jobs.
- Iowa—While the economic downturn has had some impact, entry-level jobs still are available. TANF recipients do not yet face more competition for jobs from more skilled workers.
- Pennsylvania—In general, entry-level jobs still are available for work-ready recipients.

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Question Two

TANF Recipients' Ability to Get Jobs (cont.)

- **Goodwill** program administrators in six other states (Colorado, Indiana, Massachusetts, Nebraska, Ohio, and Virginia) told us recent economic conditions have made it more difficult for recipients to get jobs, in part, because it has been taking more time for recipients to find jobs.
- According to a recent survey of 150 business leaders conducted by the **Welfare-to-Work Partnership**, an employer group, over three-quarters of those who hire disadvantaged workers say they will continue to hire them in the coming year.
- **America Works** (Baltimore), a for-profit placement agency that works with job-ready recipients, does not report increased difficulty in recipients getting jobs.

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Question Two

Program Changes and Challenges

- State officials reported that changes had not been made to state welfare-to-work programs in response to the economic downturn. However, some states have had to curtail—or expect to curtail—services (such as non-TANF, low-income child care) and/or cut cash benefits.[1]
- State officials in Montana and Iowa emphasized that, as rural states, both child care and transportation posed particular challenges for their TANF programs. Officials in Arizona also emphasized transportation problems.
- State officials in Pennsylvania emphasized that, while not caused by changing economic conditions, they have made program changes to better serve people that have greater barriers to employment, such as domestic violence and drug-related issues, than those considered more job ready.

[1]U.S. General Accounting Office, *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*, GAO-03-588 (Washington, D.C.: May 5, 2003).

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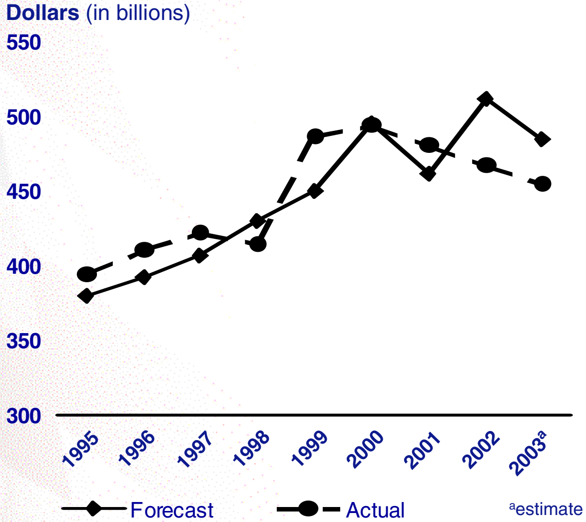
Question Three

States Face Challenging Fiscal Situation

State Revenues for 50 States: Budgeted vs. Actual
(in 2002 dollars)



Source: National Association of State Budget Officers (NASBO).

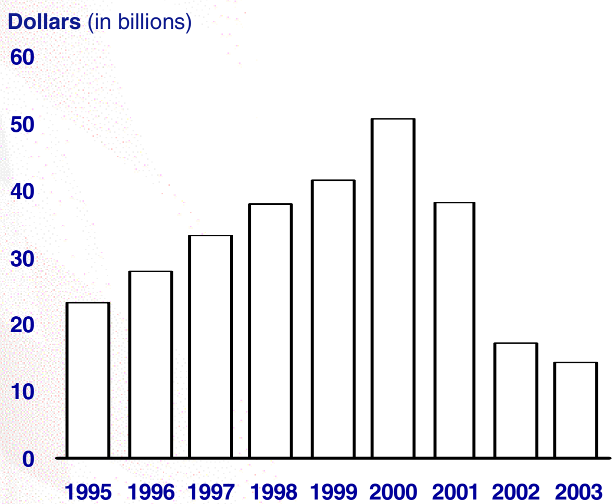
- State budgets are cyclical, with revenues rising during prosperous times and falling when the economy slows.
- Unlike the federal government most states cannot run deficits.
- A deficit—or budget gap—arises when there is a mismatch between the level of revenues expected (budgeted) and the level of revenues received (actuals).
- The current budget crisis may also be the result of other longer-term pressures that are more structural in nature:
  - Medicaid,
  - eroding tax bases; and
  - new fiscal pressures, such as Homeland Security.

21

Question Three

States Face Tough Choices Addressing the Crisis

State Reserve Fund Balances
(in 2002 dollars)



Source: NASBO.

- States' choices in how they address the fiscal crisis are limited by constitutional or statutory balanced budget requirements, pressures from the bond markets, and other limitations.
- States do, however, have the ability to save revenues during prosperous times in a "rainy day" account that they can use to help address some of the shortfalls that can occur during an economic downturn.
- During any sort of fiscal crisis, a state's need to cut spending or increase revenues can be alleviated if it has accumulated surplus balances in reserve funds.
- During the 1990s states accumulated significant reserves.
- However, reserve balances are being depleted and the fiscal crisis does not appear to be abating.

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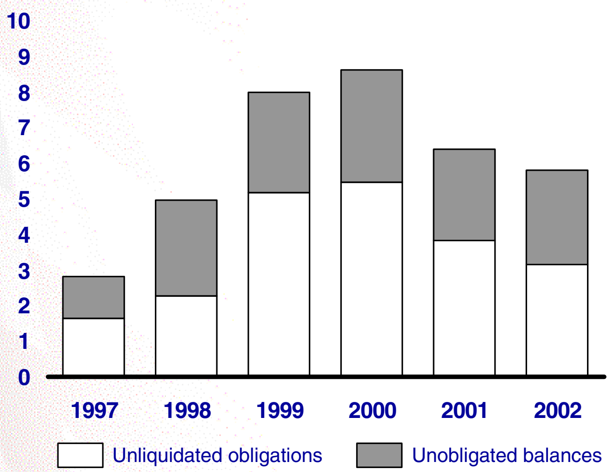
Question Four

TANF Reserves

Unspent TANF Funds

Dollars (in billions)



Source: HHS's 2002 ACF-196 data as reported by states
[a]U.S. General Accounting Office, *Welfare Reform: Challenges in Saving for a "Rainy Day",* GAO-01-674T (Washington, D.C.: Apr. 26, 2001)..

- TANF funds are provided to states without fiscal year limitation; this provides states with opportunities to save some federal funds for contingencies like fiscal crises.
  - States accumulated large reserves of TANF funds through fiscal year 2000, but by 2001 had begun to draw more heavily on these balances to fund various programs for low-income families.
  - In 2001, we reported[a] that state officials told us that they had concerns that accumulating unspent TANF balances might signal that these funds were not needed and as a result they were under considerable pressure to spend their funds more quickly.
- Reliable data on the adequacy of state TANF reserves are not available
  - States do not report data on unspent balances in a consistent manner
  - Therefore, no information is available on how much of these reserves are truly uncommitted and available for future contingencies.

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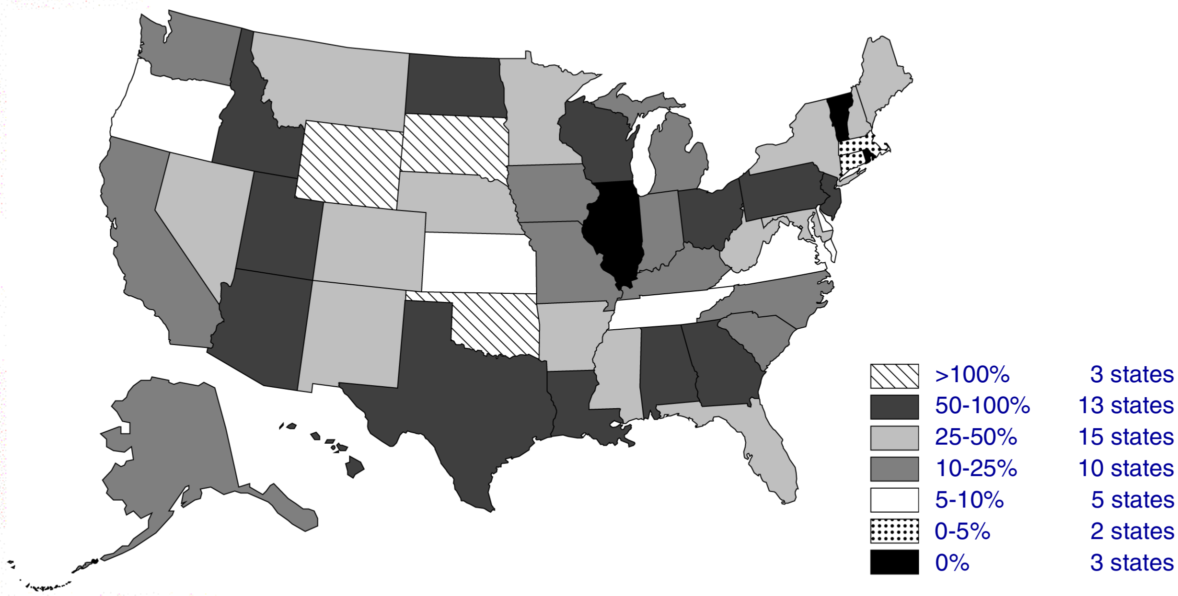
Question Four

TANF Reserves* as of September 30, 2002, as a Percent of a State's Annual Block Grant



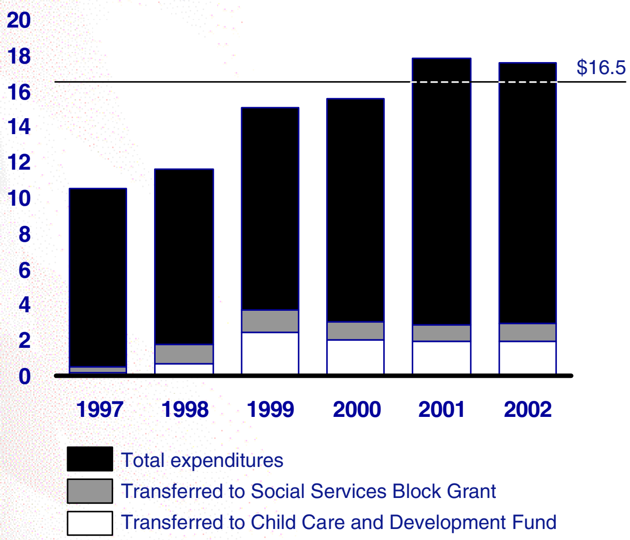
Source: HHS's 2002 ACF-196 data as reported by states.
Note: TANF Reserves include both unobligated balances and unliquidated obligations. Includes states' Supplemental Grant for Population Increases.

24

Question Four

Effect of State Fiscal Crisis on Welfare Programs

TANF Expenditures (FY 1997-2002)



Source: HHS's 2002 ACF-196 data as reported by states.

- Many states used their TANF reserves to augment some programs and services; those states will face challenges maintaining this level of funding as the surpluses are being depleted.
- However, due to the fixed nature of the TANF funding streams funding for basic TANF programs is more stable than it is for program that relied on TANF reserves.
  - TANF is a dedicated federal funding stream and, to the extent it cannot be used to supplant state funds; that is, diverted for other purposes, a state cannot achieve “savings” from reductions in the level of federal funds it expends.
  - States’ maintenance of effort (MOE) is fixed. If states were to reduce their own required level of effort, they would face severe fiscal penalties. This also serves to protect some state spending from budget cuts.

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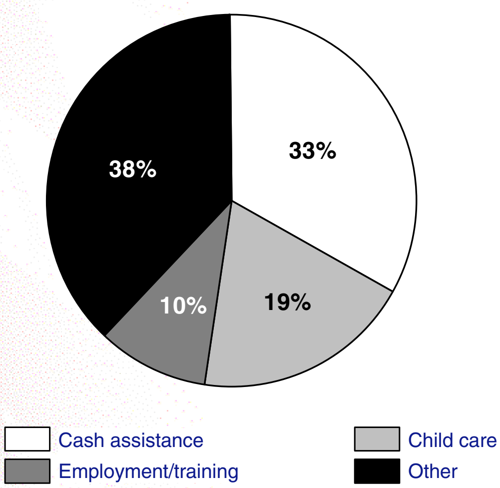
Question Four

States Have Flexibility to Address TANF-Related Budget Issues

Fiscal Year 2002 Combined State and Federal TANF Expenditures in All States



Source: HHS's 2002 ACF-196 data as reported by states.

- As states have reformed their welfare programs, they have used the flexibility provided under TANF to
  - provide more services to recipients and
  - provide some benefits and services to low-income families even if they do not qualify for traditional cash assistance payments.
- In 2002, about a third of total TANF/MOE expenditures were for cash assistance payments while the rest were spent on child care, training, and other services
  - Other services include transportation subsidies, 2-parent family formation and maintenance programs, pregnancy prevention, and refundable tax credits.
- We found, in our review of these five states, that each used this flexibility to address current needs in their states by drawing on their reserves and by reallocating resources within their TANF budgets.

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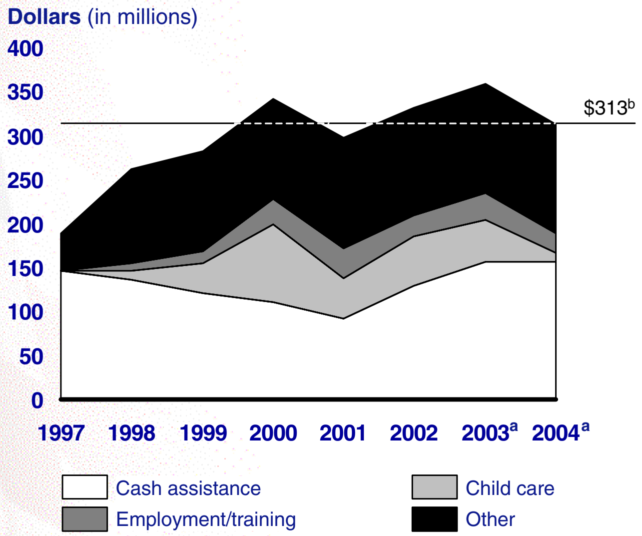
Question Four

Arizona

State TANF/MOE Expenditures



Source: GAO analysis of 1997-2002 ACF-196 reports.
[a]GAO analysis of state's estimated expenditures for 2003 and 2004 executive budget proposals.
[b]Total block grant, supplemental grants, and 75% MOE levels.

- TANF budget faces shortfalls between current spending and valuable resources. The executive branch and the legislature differ in how to address the shortfall.
  - Current program expenditures exceed TANF *revenues* (i.e., block grant and maintenance of effort (MOE) funds).
- Funding child care programs presents significant challenges to maintain current spending levels.

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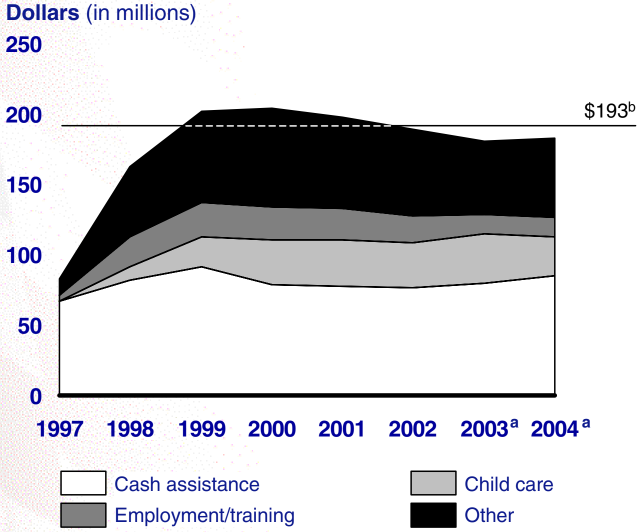
Question Four

Iowa

State TANF/MOE Expenditures



Source: GAO analysis of 1997-2002 ACF-196 reports.
[a]GAO analysis of state's estimated expenditures for 2003 and 2004 executive budget proposals.
[b]Total block grant, supplemental grants, and 75% MOE levels.

- Unspent TANF funds will be used to offset increases in the cash assistance portion of the TANF budget.
  - These increases reflect both a recent rise in caseloads and in cost per case.
- Other offsets were found by reducing or eliminating funding for other programs.
- Funding for an increase in child care subsidies was not approved.
  - State could not support using surplus TANF funds to raise eligibility levels or increase subsidy rates because officials said these levels were unsustainable.

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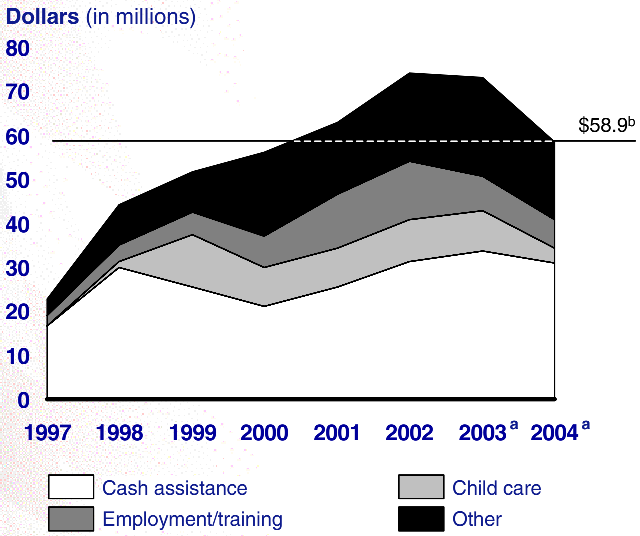
Question Four

Montana

State TANF/MOE Expenditures



Source: GAO analysis of 1997-2002 ACF-196 reports.
[a]GAO analysis of state's estimated expenditures for 2003 and 2004 executive budget proposals.
[b]Total block grant, supplemental grants, and 75% MOE levels.

- Unspent TANF funds were used to provide a variety of other TANF-related services in 2002-03 budget.
  - Decision makers feared that unspent funds would be taken back if not spent quickly.
  - These services were terminated early and unspent funds shifted to finance basic TANF programs and child care.
- State legislature approved a reduction in the monthly TANF grant in order to finance the additional child care subsidies.

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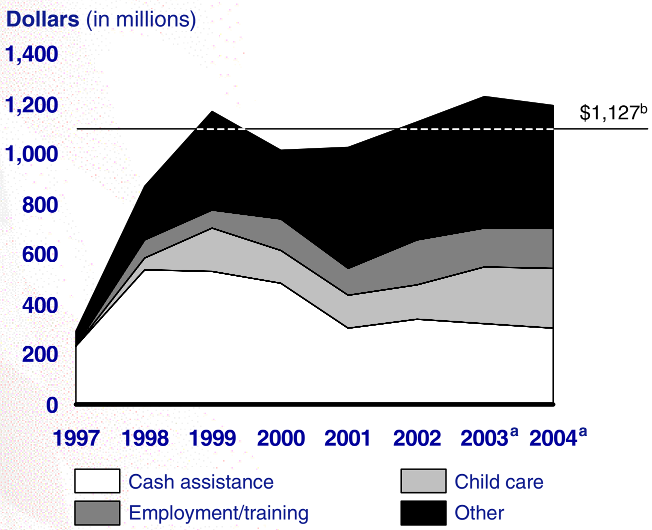
Question Four

Pennsylvania

State TANF/MOE Expenditures



Source: GAO analysis of 1997-2002 ACF-196 reports.
[a]GAO analysis of state's estimated expenditures for 2003 and 2004 executive budget proposals.
[b]Total block grant, supplemental grants, and 75% MOE levels.

- Budget is relatively well protected from state budget crisis, state maintains significant reserves.
- Budget officials see few changes in this year's TANF/MOE budget.
- However, TANF reserves will be depleted more rapidly than previously assumed due to greater than expected use of *supportive services*—such as transportation subsidies and child care.

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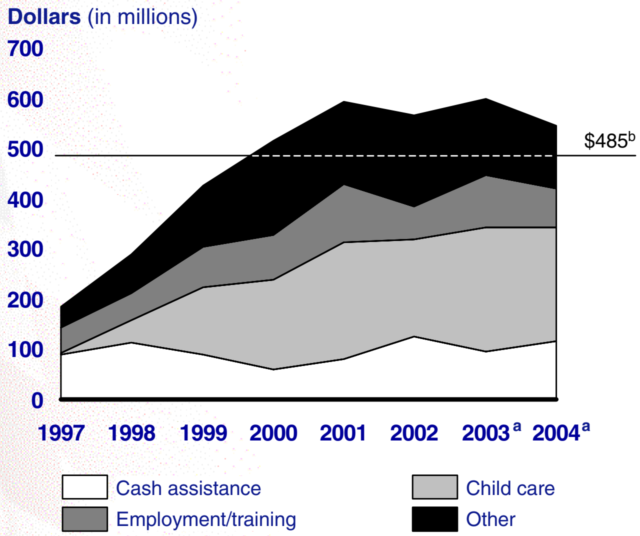
Question Four

Wisconsin

State TANF/MOE Expenditures



Source: GAO analysis of 1997-2002 ACF-196 reports.
[a]GAO analysis of state's estimated expenditures for 2003 and 2004 executive budget proposals.
[b]Total block grant, supplemental grants, and 75% MOE levels.

- State TANF budget shortfall is about $100 million per year; the governor's proposal seeks to reduce program deficit by about $50 million per year.
  - It will fill this 2004-05 gap with unspent TANF funds.
  - However, proposal leaves the program facing continued deficits in 2006-07 and no reserve funds.
- Policy changes
  - New mothers can stay home longer and a new subsidized wage program will be implemented by the state.
  - Direct services—that is, cash assistance payments, child care subsidies, and the Earned Income Tax Credit were not cut in governor's budget proposal.
  - Many other services and activities—training programs, pregnancy prevention programs, etcetera—were cut or eliminated.

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Appendix II: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to those named above, Elspeth Grindstaff, Bill Keller, Leah Nash, and Janice Peterson made key contributions to this report.

Related GAO Products

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