

GAO

Report to the Chairman, Subcommittee
on Human Resources, Committee on
Ways and Means, House of
Representatives

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WELFARE REFORM

Early Fiscal Effects of the TANF Block Grant



**Accounting and Information
Management Division**

B-277800

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The Honorable E. Clay Shaw, Jr.
Chairman, Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

In 1996 the Congress made sweeping changes to national welfare policy in passing Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). This act creates the Temporary Assistance for Needy Families (TANF) block grant,¹ a fixed federal funding stream that replaces the Aid to Families with Dependent Children (AFDC) program and a number of welfare programs in which federal funding matched state spending and increased automatically with caseloads.

This report is part of a series of GAO work reviewing the implementation of federal welfare reform. In this report, we focus on the fiscal aspects of welfare reform. You asked us to review states' fiscal decisions for the TANF block grant and to address whether states are taking steps now to prepare for the effects of future economic downturns on their welfare programs. Specifically, you asked us to report on (1) how state budgetary resources, including federal aid, have been allocated since states have had access to TANF funds, (2) what plans states are making to assure programmatic stability in times of fiscal and economic stress, and (3) the extent to which states have used, or plan to use, the program's federal Contingency Fund and the Loan Fund which are available for downturns or other emergencies affecting states.

In a related report, we responded to a request from you and the Chairman of the Senate Committee on Finance to monitor states' efforts to implement programs to meet the stated objectives of Title I (TANF) of PRWORA. In that report, we described states' efforts to require and encourage welfare recipients and potential recipients to assume greater personal responsibility, examined how states are providing services to

¹Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills (JOBS), and Emergency Assistance (EA) programs and the associated administrative expenses were consolidated in the TANF block grant whereas the AFDC-related child care program and other child care programs were combined in the Child Care and Development Block Grant (CCDBG). In this report, we focus on those programs consolidated in the TANF block grant.

support the objectives of TANF, and reviewed early reported data to assess states' progress.²

Background

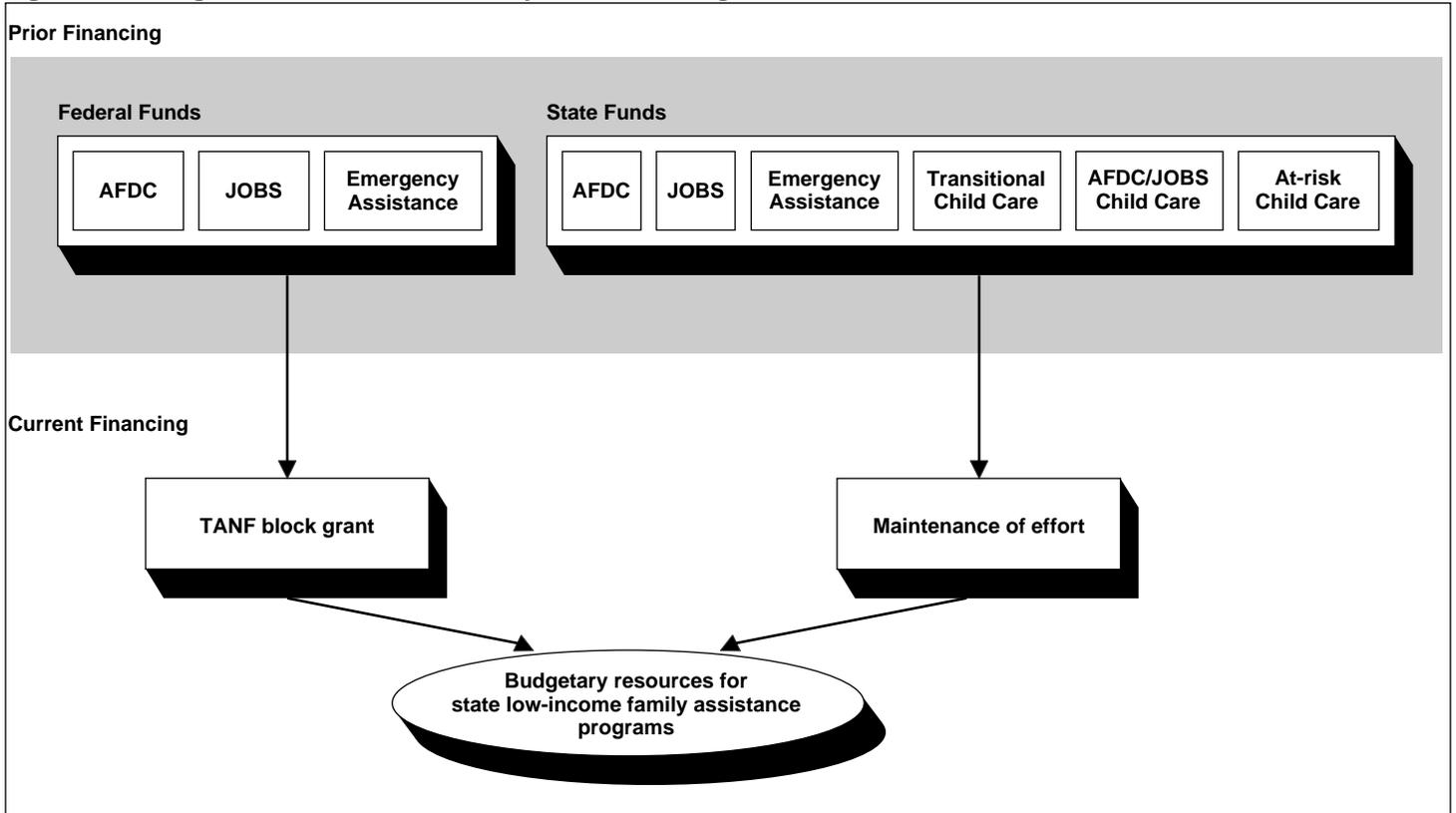
Currently authorized through federal fiscal year 2002, the TANF block grant represents an entitlement to states of \$16.5 billion annually.³ Federal funding under the TANF grant is fixed, and states are required to maintain a significant portion of their own historic financial commitment to their welfare programs as a condition of receiving their full TANF grant—referred to as their maintenance of effort requirement (MOE).⁴ These two funding streams—federal TANF and state general funds for MOE—represent the bulk of the resources available to states as they design, finance, and implement their new low-income family assistance programs. (See figure 1.) Under TANF, states have the flexibility to design their own programs and strategies for promoting work over welfare and self-sufficiency over dependency. At the same time, states must meet federal requirements that emphasize the importance of work for those receiving assistance. To avoid federal financial penalties, in fiscal year 1997 states must ensure that 25 percent of their TANF families, rising to 50 percent in 2002, are engaged in work activities. In addition, the law prohibits the use of TANF funds to provide assistance for families with adults who have received assistance for more than 5 years.

²Welfare Reform: States Are Restructuring Programs to Reduce Welfare Dependence (GAO/HEHS-98-109, June 18, 1998).

³In this report we refer to the fixed entitlement to states (State Family Assistance Grant) as the TANF grant.

⁴States' MOE requirements are based on their own spending in federal fiscal year 1994 on AFDC, JOBS, Emergency Assistance (EA), related administrative costs, and AFDC-related child care programs: AFDC/JOBS child care program, Transitional Child Care, and At-Risk Child Care programs. A state that does not meet PRWORA's work participation rates must maintain at least 80 percent of its MOE. A state that meets its work participation rate must maintain at least 75 percent of its MOE. Preliminary data show that 34 states spent at least 80 percent of their MOE in fiscal year 1997, with 21 states spending above 80 percent. A recent National Conference of State Legislatures' report on states' enacted appropriations for state fiscal year 1998 shows that 37 plan to spend at least 80 percent of MOE, with 30 states planning to spend more than 80 percent.

Figure 1: Funding for State Low-Income Family Assistance Programs



In addition to giving states more responsibility and flexibility in the design of welfare programs, TANF shifts the fiscal risk to states, thus highlighting the importance of fiscal planning, especially contingency budgeting. In the past, any increased costs were shared by the federal government and the states. Under TANF, however, if costs rise, states face most of the burden of financing the unexpected costs.⁵ States must also handle this responsibility in the context of any limitations—including legislative restrictions, constitutional balanced budget mandates, or conditions imposed by the bond market—on their ability to increase spending, especially in times of fiscal stress.

States have various options and resources to help them handle this new fiscal responsibility. PRWORA provides states with the ability to save an

⁵The Congress, however, could approve supplemental appropriations to help states address unanticipated funding deficiencies. The federal government, therefore, has an interest in the extent of contingency budgeting for recessions and other emergencies.

unlimited amount of their TANF block grant funds for use in later years. These resources must be left in the U.S. Treasury until they are needed. States may also respond to the fiscal risks implicit in the new block grant environment by increasing the levels of their state “rainy day funds,”⁶ or by establishing dedicated reserves, consisting of state funds, for their welfare programs. PRWORA also creates two safety-net mechanisms for states to access additional federal resources in the event of a recession or other emergency—the \$2 billion Contingency Fund for State Welfare Programs (Contingency Fund)⁷ and a \$1.7 billion Federal Loan Fund for State Welfare Programs (Loan Fund).⁸

Scope and Methodology

To address the objectives for this report, we collected fiscal information on all 50 states from the U.S. Department of Health and Human Services (HHS). In addition, we interviewed officials from state budget offices and reviewed state general fund budgets and low-income family assistance budgets. We selected the seven states examined in GAO’s parallel report, Welfare Reform: States are Restructuring Programs to Reduce Welfare Dependence (GAO/HEHS-98-109)—California, Connecticut, Louisiana, Maryland, Oregon, Texas, and Wisconsin. For this report, we added Colorado, Michigan, and New York to enrich the discussion of states’ efforts to budget for contingencies. These 10 states represent 53 percent of total program dollars and administer about half the nation’s caseload. We did not independently verify the reported levels of state spending nor whether reported federal or state spending met the qualifications set forth in the act. We conducted our fieldwork from April 1997 through February 1998 in accordance with generally accepted government auditing standards. (For more detail on our scope and methodology, see appendix I.)

Results in Brief

More federal and state resources are currently available for states’ low-income family assistance programs since welfare reform passed in 1996 than would have been available under the previous system of

⁶Forty-five states report having some type of rainy day fund. State budgetary distress associated with economic downturns is often addressed through the use of these funds. These reserves are often used to correct short-term imbalances between revenue and expenditures. According to the National Association of State Budget Officers (NASBO), general fund “ending balances” and rainy day fund balances were estimated to exceed \$24 billion or 6 percent of total state expenditures in 1998.

⁷The Adoption and Safe Families Act of 1997 reduces the Contingency Fund for State Welfare Programs by \$40 million over the remaining 4 years the fund is authorized. (P.L. 105-89, §404, 111 Stat. 2134.)

⁸Loans from this fund are to have a maturity of no more than 3 years at an interest rate comparable to the average market yield on outstanding marketable federal obligations with comparable periods to maturity.

financing welfare programs consolidated in the TANF block grant. Our estimates showed that, taking caseload declines into account, 46 states would⁹ have more total resources—both state and federal—for their low-income family assistance programs than they would have had under the previous welfare programs. These additional resources result from a combination of significant declines in caseloads, the new fixed-level financing mechanism created by the TANF block grant, and the maintenance-of-effort requirement on the state share. Both the level of the TANF block grant and the state MOE are fixed and were set based on time periods when caseloads were high.¹⁰

States are transforming the nation's welfare system into a work-focused, temporary assistance program for needy families and generally chose to spend these resources to expand programs and benefits by shifting the emphasis from entitlement to self-sufficiency, enhancing support services, and increasing work participation rates. States have taken advantage of the flexibility allowed under PRWORA to use federal and state funds to help recipients, those who are moving off public assistance, and those at risk of coming on the rolls to obtain child care, transportation subsidies, and training to promote job placement. States also achieved budgetary savings by reducing state funds to the statutory MOE level of 75 or 80 percent of previous state spending levels. This, however, constituted a higher level of spending per recipient in 21 states because of declining caseloads. In addition, four of the states we visited have set aside a portion of the federal and state resources in reserve for future contingencies. States generally have leveraged the higher federal grant levels and employed a combination of these options; the result was a greater proportion of federal resources in their programs.

While states have gained greater resources under the block grant, they also take greater responsibilities for fiscal risks should program costs increase in the future. In their budget choices, states struck a balance between investing in today's caseload and saving for tomorrow's. At the outset, 5 of the 10 states we visited planned to use all available federal TANF funds to invest in programs to promote self-sufficiency with expectations that this would reduce future caseload growth. In four of the other states, however,

⁹Because states made the transition to TANF at different points during federal fiscal year 1997, our calculations reflect the amount states would have been eligible to receive for the full fiscal year rather than the amount they actually received. (See appendix II for a more detailed discussion of this topic.)

¹⁰As stated in footnote 4, states' MOE requirements are based on their own spending in federal fiscal year 1994 for the programs replaced by the TANF grant and combined in the CCDBG. The level of the TANF grant is set based on the higher of federal spending on the programs consolidated in TANF for federal fiscal year 1994, fiscal year 1995, or the average for the years 1992 through 1994 periods during which caseloads and federal spending were at historically high levels.

a portion of their federal and state resources were set aside to cover potential future caseload increases and costs.¹¹ Officials in these states were concerned that additional resources would be difficult to obtain in the future if the economy were to worsen and if costs were to rise unexpectedly. Most states, including 7 of the 10 we visited, also have general fund budget stabilization or “rainy day” funds that could be used to augment program spending during an economic downturn, but welfare programs would have to compete for these resources with other state funding priorities.

The act includes features that could provide federal funding to cover future increases in program needs. States can carry forward unused TANF funds without fiscal year limitation. As of September 30, 1997, states had left about \$1.2 billion in unspent balances in their accounts with the U.S. Treasury, or about 9 percent of the total grant.¹² However, this may be less an indicator of state contingency planning and more a reflection of the transitional nature of the states’ first year with welfare reform. It is unclear whether these balances will remain, shrink, or increase as states gain experience with the program.

The act also creates two federal safety-net mechanisms—the Contingency Fund and the Loan Fund—that were designed to provide states with access to additional funds during times of economic downturn or fiscal stress. Officials in states we visited said they did not view the Contingency Fund as a viable source of additional resources. This is largely because a more narrowly defined range of state funding is used to permit a state to access the Contingency Fund than is required under the TANF MOE¹³ and

¹¹Louisiana did not establish a specific reserve fund for its welfare programs; however, the state did not plan to spend \$31 million—or about 20 percent—of its TANF block grant in its 1998 state fiscal year (July 1, 1997, to June 30, 1998).

¹²As of September 30, 1997, states had expended \$9.9 billion, or about 74 percent of the \$13.3 billion in TANF funds awarded to them for federal fiscal year 1997; made obligations but not yet outlayed about \$1.7 billion, or 13 percent, of the remaining funds; and transferred almost \$0.5 billion, or about 4 percent, to the Social Services Block Grant (SSBG) and CCDBG, as permitted by PRWORA. The remainder, \$1.2 billion, represents levels of TANF funds that states had neither drawn down nor obligated. As part of their financial reporting to HHS, states report their balances of unobligated TANF funds remaining at the U.S. Treasury to HHS; however, these balances reflect obligations from the states’ perspective. From the federal perspective when the TANF grants are awarded to the states they become obligated whether the state has spent these funds or not. To avoid confusion we will refer to these balances throughout the report as “unspent” TANF funds.

¹³To be eligible for the Contingency Fund, a state must certify that its current year TANF program expenditures for the full year in which it draws from the fund are at least 100 percent of what the state spent in fiscal year 1994 on its low-income family assistance programs excluding child care-related programs. In addition, state spending on certain state-only funded programs and child care-related programs that count towards meeting the basic TANF MOE does not count towards meeting the Contingency Fund MOE.

because the Fund provides only limited federal matching funds for every additional dollar spent by the state. Similarly, officials in many states we visited indicated they did not believe their states would borrow from the Loan Fund during an economic downturn.

TANF Shifts Fiscal Responsibility to the States

The act made sweeping changes to the nation's cash assistance program for needy families with children and eliminated a family's entitlement to federal assistance. These reforms gave states flexibility to design their own programs and strategies for achieving program goals, including how welfare recipients would move into the workforce. The act changed the way in which federal funds flow to states for welfare programs. Under the old system of financing, matching grants provided states with resources to implement federal welfare programs.¹⁴ The federal match was largely open-ended so that if a state experienced caseload and related cost increases, federal funds would increase with state funds to cover expenditures for the entire caseload. This open-ended federal commitment provided that financing for every dollar spent on these programs was shared between the federal government and the states, thereby limiting the states' exposure to escalating costs.¹⁵

In contrast, under the TANF block grant, the federal government provides a fixed amount of funds regardless of any changes in state spending or the number of people the programs serve. During periods when caseloads are decreasing, federal funds per recipient will be higher under TANF than under the old program. Conversely if caseloads and costs increase, federal funds per recipient would be lower. A state would then be presented with several options, including using resources previously saved for contingencies, reallocating budgetary resources to maintain program stability, reducing program benefits and/or services to ensure that previously allocated resources go further, or raising additional revenues through taxes or fees.

PRWORA allows states more choices concerning the mix of services they can offer and the people they can serve, and these choices are likely to be affected by differences in the rules regarding the use of TANF and MOE

¹⁴Under the AFDC program, the federal contribution to program costs ranged from 50 percent to 79 percent—based on a state's per capita income—while administrative costs were shared at a uniform rate of 50 percent. Activities funded under the JOBS program were matched at higher rates, but the federal contribution was capped and allocated based on the number of AFDC recipients in each state.

¹⁵In some states, including three of those we visited, local governments also provide funding for low-income family assistance programs.

funds. For example, state MOE funds may be used with more flexibility than TANF funds. TANF grant funds may be used for cash assistance, child care assistance, work placement programs, subsidized work programs and other efforts not specifically prohibited by PRWORA. MOE funds can be used not only for these purposes but also to provide benefits to some recipients excluded from TANF assistance.¹⁶ States make these budgetary decisions as part of their regular appropriations process. Since any unspent TANF funds remain available to states without fiscal year limitation, a decision to dedicate a portion of these funds for a future contingency represents one aspect of a state's program budgeting under welfare reform.

States have modified their policies to require and encourage welfare recipients and potential recipients to adopt behaviors that facilitate becoming more self-sufficient. For example, in our recently issued report on state program restructuring,¹⁷ we found that the proportion of recipients assigned to job placement activities—as opposed to education or training activities—was substantially higher in 1997 than in 1994. Furthermore, as states seek to expand the number of adults participating in work activities, they have generally expanded the roles of welfare workers to better support the work focus of their programs. These workers' new responsibilities vary but include such tasks as motivating clients to seek work, exploring the potential for welfare diversions, and collecting more information about applicants and recipients to determine what they need to facilitate self-sufficiency. States are also expanding their programs to help families address barriers to employment. For example, these states are using a range of approaches to help recipients obtain reliable transportation, such as providing funding for rural transportation systems, enlisting volunteers to provide transportation for recipients, and providing funds for vehicle repairs.

Substantial declines in welfare caseloads and increases in the number of welfare recipients finding jobs provide signs of early progress. For example, caseloads have dropped on average about 20 percent since 1996, when PRWORA was enacted, and by one-third since 1994. However, questions remain about what will happen over the long term to families that no longer rely on cash assistance but continue to need other kinds of

¹⁶Among other restrictions, TANF funds may not be used to provide benefits or services to any family with an adult who received TANF assistance for more than 60 months (cumulative lifetime total) nor to women under the age of 18 who have not received their high school diploma or equivalent unless they are attending school. States can use their own funds to provide services to these and certain other types of recipients who do not meet all requirements for TANF assistance; states may count these expenditures towards their MOE requirements.

¹⁷Welfare Reform: States Are Restructuring Programs to Reduce Welfare Dependence (GAO/HEHS-98-109, June 18, 1998).

assistance to maintain their employment and about how much these services will cost. Furthermore, as more families leave welfare programs, states may face increasing challenges in serving increasing proportions of long-term recipients with multiple barriers to employment. This adds to the uncertainty surrounding the resource needs of low-income family assistance programs in the future.

Even if TANF caseloads continue to decrease over time, they may become more volatile. Such caseload volatility may put the states at greater risk for budgetary stress than did previous matching grant programs. We noted in our recent report on states' efforts to restructure their welfare programs that although states have had a great deal of success implementing welfare reform programs in a strong economy, little is known about how a poor economy will affect their programs. It is possible that caseloads may prove more volatile under the new system than under the old. This is because the greater emphasis on work implies a tighter link to the state of the job market and hence to the economy. Although research on pre-reform caseloads found varying degrees of correlation between the economy (as measured by unemployment rates) and the AFDC single-parent family caseload, it generally found strong correlation between the economy and changes in the smaller AFDC-unemployed parent (AFDC-UP) family caseload.¹⁸ This difference has been attributed to the AFDC-UP caseload's stronger connection to the labor market. Since the new TANF grant emphasizes work-related activities, TANF caseloads may act more like the AFDC-UP caseload rather than the single-parent AFDC caseload and hence be more closely aligned to the economy. Alternatively, some analysts suggest that future caseloads under TANF may not be as susceptible to economic downturns because states are beginning to place much greater emphasis on strengthening labor force ties. For example, many states have substantially increased the levels of resources allocated to job training, child care, and transitional medical care. These efforts may make the former welfare population less susceptible to being the first to be laid off in the event of an economic downturn than the AFDC-UP population was. Those who remain on the rolls may be a smaller as well as more stable population. These differing perspectives highlight the uncertainties that states will face as they implement and finance their new welfare programs and thus highlight the importance of budgeting for contingencies.

Budgetary stress caused by caseload volatility may be compounded by the limitations placed on most states by constitutional or statutory

¹⁸Eligibility for AFDC-UP was limited to those families in which the principal wage earner (a) was unemployed but had a history of work or (b) worked fewer than 100 hours per month. AFDC-UP caseloads comprised 7 percent of the total AFDC caseload in 1995.

requirements to balance their general fund budgets.¹⁹ For example, if revenues fall during an economic downturn, a state's enacted budget can fall into deficit. State balanced budget requirements often motivate states both to reallocate resources within their budgets and cut program spending during recessions. The need to cut spending can be alleviated if a state has accumulated surplus balances in "rainy day" funds. These surpluses may be used to cover a given year's deficit. However, unless there are reserves specifically earmarked for low-income family assistance programs, these programs will have to compete for "rainy day" fund resources with all other programs in a state's general fund in times of budgetary stress. These factors together—the likelihood of increased volatility and the limited budgetary flexibility available during an economic downturn—point to the importance of state contingency budgeting.

States Have Additional Budgetary Resources to Finance Their Low-Income Family Assistance Programs

A combination of the decline in caseload levels, the higher federal grant levels, and the MOE requirement for states' contributions to their programs means that most states have more budgetary resources available for their low-income family assistance programs since enactment of welfare reform than under prior law. In many states, caseloads began to decline even before the enactment of PRWORA. Since enactment, this trend has continued in all states except Hawaii and in many cases the trend has accelerated. (See appendix II for a more detailed discussion and caseload data.)

The amount of each state's block grant was based on amounts received by the state in 1994 and 1995, years when caseloads and spending were at historic highs. As a result, we calculated that 45 states were eligible to receive more in federal fiscal year 1997 for the TANF block grant than they received in 1996 under the previous welfare programs. (See appendix II for a more detailed discussion of the assumptions used in our estimates and our analytical techniques.) We estimated that if all states had drawn their entire 1997 TANF grant, the states would have received about \$1.4 billion more under TANF than they received under previous welfare programs in 1996, when caseloads were much higher.²⁰ It is important to note,

¹⁹General funds are those state funds into which general revenue receipts are credited and from which discretionary programs are funded. In addition, states operate other funds such as capital funds, enterprise funds, and trust funds. Although states may be required to balance these funds as well, they do not necessarily follow the federal approach to measuring deficit or surplus (that is, matching current year receipts to current year expenditures). For more information, see *Balanced Budget Requirements: State Experiences and Implications for the Federal Government* (GAO/AFMD-93-58BR, March 26, 1993).

²⁰We calculated that 49 states would have received higher federal funding levels per recipient under TANF than they received per recipient under the previous welfare programs in 1996.

however, that there is a great deal of disparity among the states in the levels of additional resources. These differences ranged from 70 percent more federal resources for Indiana to 7 percent less for Pennsylvania—with the median increase about 9 percent for all 50 states.

Furthermore, states are required to maintain a significant portion of their own historic financial commitment to these programs. Like the TANF grant, this minimum MOE is fixed and does not depend on the number of people served or the types of services a state chooses to provide. The MOE requirement establishes a minimum, or floor, for state spending, but there is no federal ceiling on how much a state can spend. States face severe fiscal penalties if they do not meet their MOE requirement.²¹ The interaction between the MOE and the lower caseloads means that in 21 states, although total state spending went down, spending per recipient increased. For example, in Idaho the MOE requirement is about 28 percent lower than what the state spent in 1996; however, state spending per recipient will more than double from \$870 to \$1,849 per year.

Aside from the nominal changes in funding, another way of viewing resources available for welfare is to compare total federal and state resources available under the block grant with what comparable federal-state spending would have been for 1997 caseloads under prior law. Overall, we calculated that under the block grant, 46 states would²² have more total resources—state and federal—for their new welfare programs than they would have had under the old welfare programs—with a median increase of 22 percent—or about \$4.7 billion more nationwide. This calculation represents the difference between states' post-reform total budgetary resources—TANF plus MOE—and what they would have budgeted for their 1997 caseloads if they were still using the pre-reform cost structure. These differences are largely attributable to the change in financing mechanisms: total funding under the previous program was based on caseload, whereas under TANF, funding is based on federal and state spending levels in a prior period when caseloads were higher. (See appendix II for further discussion of the assumptions and analytical techniques used in our estimates.) Again, there was great variation among

²¹If a state fails to meet its MOE in a given year, the following year's TANF grant will be reduced by the shortfall (P.L. 104-193, §409, 110 Stat. 2144). Furthermore, the state will be required to bring its spending up in the following year to its required MOE and replace the shortfall from the previous year. (110 Stat. 2146).

²²Because states made the transition to TANF at different points during federal fiscal year 1997, our calculations reflect the amount states would have been eligible to receive for the full fiscal year rather than the amount they actually received. (See appendix II for a more detailed discussion.)

the 46 states with the estimated increase ranging from 1 percent in Alaska and Connecticut to 102 percent in Wyoming.

States' Use of Additional Resources

Additional budgetary resources for state welfare programs present states with a unique opportunity to invest more in programs that can help people find and keep their jobs and prevent them from returning to welfare while still saving some resources for a "rainy day." All 10 states we visited planned to use some of their additional resources to expand their programs. Most states recognize that achieving self-sufficiency and job placement calls for significant investment in social services and incentives. These states have generally not increased cash benefit levels; rather, they plan to spend additional resources for job placement services, child care, and other supportive services that can help welfare recipients make the transition to work.²³ For example, Texas increased the budget for its job placement and training programs by about \$100 million (or about 200 percent) in order to expand access to job placement services and enhance its "Invest in Long Term Success" initiative. This initiative (1) seeks to match employers with welfare recipients and provides recipients with targeted training opportunities to meet the needs of those employers, (2) enhances job retention services to help former welfare recipients keep their jobs, and (3) creates "local innovation grants" to support innovative welfare-to-work programs, such as micro-enterprise development funds. (See text box 1 for examples of how states are using federal and state funds to enhance their welfare programs.)

²³Since implementing TANF, Maryland has increased cash assistance payments. Under the state's welfare reform legislation, cash benefit levels are in effect indexed to inflation.

Text Box 1: Examples of Expansion and Enhancements of State Welfare Programs

Many states have used the additional resources available to expand and enhance their welfare programs by offering new services; to expand earned income disregards and transitional services to people who are working and are no longer eligible for cash assistance but still need help with child care, transportation, or continued case management; and to invest in new information technologies to prevent fraud, track cases, and improve services to clients.

- Texas increased spending on employment services to ensure sufficient funding to meet its federal work participation requirements and created new programs to train recipients for targeted jobs, provide innovation grants to local employment centers, and develop job retention and re-employment services.
- Louisiana approved a 24 percent increase in funding on services for vocational education, on-the-job-training, job search assistance and transportation subsidies used to enable clients to move from welfare to work.
- New York passed more than \$230 million in new programs for employment training and job readiness skills, teen pregnancy prevention programs and new computer systems. In addition, New York enhanced funding for child care services by about \$100 million.
- California increased funding for employment related services by \$288 million--or 122 percent, and for Child Care services by \$147 million--or 103 percent.
- Michigan increased funding for day care services by 9 percent and employment services by 24 percent. The additional funding for employment services is used primarily for transportation and other support services as a means of increasing the work participation rate among the two-parent family caseloads.
- Connecticut used its additional resources to increase child care funding, create a new early childhood development program, and establish a system of safety net services for families moving off welfare.
- Maryland increased spending on job training by 39 percent. Other program enhancements include one-time emergency assistance grants to welfare applicants and demonstration projects aimed at assisting welfare recipients to achieve economic independence.
- Wisconsin's total program budget will increase by 42 percent. The state plans to invest over \$89 million more in child care services in state fiscal year 1998 and an additional \$22 million in state fiscal year 1999.

In addition, as part of an effort to “make work pay,” many states have changed their policies relating to the treatment of earned income from those previously in effect under AFDC to permit recipients to keep more of their monthly cash assistance payments or retain them for longer periods once they begin working. More than two-thirds of the states have increased the amount of assets and the value of a vehicle that recipients can own and still remain eligible for cash assistance. The asset and vehicle limits in the prior AFDC program were widely considered to be too low, creating barriers to families’ efforts to become more self-sufficient. As these changes allow more people to remain eligible for program benefits and to remain eligible for transitional benefits, total state program budgets have generally increased relative to caseload.

In addition, the higher level of federal funds and lower caseloads enabled states to reduce their own funding for the program down to the required MOE level and still maintain higher total program budgets. TANF permits states to achieve some budgetary savings but the MOE requirement constitutes a higher level of spending per recipient in many states due to declining caseloads—limiting the level of savings the state can achieve during a period of declining caseloads.²⁴ (See text box 2 for additional examples of how states have achieved budgetary savings in this manner.) In California, budget officials said that they were frustrated by the MOE requirement because it limited their budgetary flexibility. Given the fixed nature of the MOE levels, these officials noted that the state will no longer realize any budgetary savings from a declining caseload because they must spend the same amount of state funds on their welfare program as they did in the previous year even if their caseloads are lower.

²⁴We did not independently verify the reported levels of state spending nor whether reported federal or state spending met the qualifications set forth in the act. States reported their fiscal year 1997 federal TANF and state MOE expenditures in November 1997. Federal regulations specifying which state expenditures qualify as MOE were still in draft. Although no comprehensive verification of state expenditures has been undertaken at this point, annual audits performed under the Single Audit Act of 1984 should provide a useful tool for ensuring that states are promoting financial accountability for block grant programs such as TANF.

Text Box 2: Examples of States' Use of Federal TANF Funds to Achieve Budgetary Savings

The combination of additional budgetary resources and lower caseloads has permitted states to achieve state budgetary savings which were reallocated to other state fiscal priorities. These states were still able to meet their MOE requirement under TANF and many were also able to provide a higher level of state funds per case. A number of states show this substitution in their budget documents. Even though many state officials indicated that state funds withdrawn from their welfare programs were used in other health and human services programs, any state funds that were reallocated became part of the larger general fund and become available for any state funding priority.

- Oregon reduced the state's share of its total welfare program budget by nearly \$55.2 million. These state funds, no longer needed to meet the MOE requirement, were reallocated to help finance other state priorities. However, our analysis shows that Oregon must spend about 27 percent more per recipient than it spent per recipient under prior law in order to meet its MOE .
- Michigan reduced its contribution to its welfare program by about \$42 million but must increase the level of spending per recipient, as required under the MOE, by about 22 percent.
- Texas freed up \$114.9 million in state funds in its welfare program to maximize the use of federal funds. Nevertheless, the MOE requirement serves to increase, by about 6 percent, the amount of state funds expended per recipient.
- New York took advantage of TANF's financing changes to provide over \$344 million in fiscal relief to the state and localities by reducing the total state and local contributions to the program's financing by 16 percent.
- California reduced its own contribution to its welfare program by about \$357 million, compared to past AFDC cost sharing ratios, but still met its minimum MOE requirement, which is about 7 percent lower than what it spent per recipient under AFDC.
- Colorado reduced general fund contributions to its welfare program by \$8.3 million and the counties' contributions by \$3.6 million for state fiscal year 1998. The state used the displaced general funds to increase funding for other state programs and required the counties to deposit their portion of the savings in local social services reserves.
- As allowed under PRWORA, 11 states reported that they transferred funds from TANF to either the CCDBG or the title XX Social Services Block Grant (SSBG). For example, both Connecticut and Wisconsin shifted TANF funds to their SSBG programs--\$24 million and \$32 million respectively. These states reduced, by an equal share, the level of state funding formerly dedicated to SSBG.

Note: PRWORA allows states to transfer up to 30 percent of their TANF block grant into the CCDBG and the title XX Social Services Block Grant (SSBG). Of this percentage, only 10 percent can be transferred to SSBG and must be used only for programs and services for children and families with incomes below 200 percent of the poverty line. The Transportation Efficiency Act for the 21st Century (TEA-21) reduces the amount a state can transfer from TANF to SSBG to 4.5 percent for fiscal year 2001 and after. Pub. L. No. 105-178 §8401(b), 112 Stat. 107, 499 (1998).

Oregon provides an example of a state that used TANF funds to free up a portion of state funds for other state priorities. State officials told us that during budget deliberations for the 1998-1999 biennium,²⁵ one of the Governor's proposals was a major overhaul of the state's school financing

²⁵Oregon's current biennium began on July 1, 1997, and ends on June 30, 1999.

system. Although the state's economy was sound and state revenues exceeded the forecast, the Governor informed state agencies responsible for program budgets that some state resources would have to be reallocated to the school financing initiative. According to agency officials responsible for Oregon's welfare programs, many state programs were affected by this reallocation. Since their TANF grant was higher than what they had received in the previous biennium, their MOE requirement lower than what had been budgeted in the previous biennium, and their caseloads had declined by over 50 percent since 1994, they were able to reallocate nearly \$55.2 million in state funds from their welfare program and still meet their MOE requirement. Those state general funds shifted out of their welfare program were reallocated to other programs within the Human Services department to cover budgetary needs for planned program expansions in, for example, the Oregon Health Plan and for other state general fund shortfalls resulting from the Governor's overall budget priorities. As a result, the federal share of the state's TANF program expenses now totals 68 percent, compared to the previous federal share of about 56 percent.²⁶

In contrast, Maryland took a different approach by permitting the state's Department of Human Resources to reinvest the state's budgetary savings that result from caseload reductions. Ten percent of the total savings achieved in the state each year may be allocated to demonstration projects to test innovative approaches to reduce welfare dependency. Any remaining savings may be distributed by the state, with about half returning to the local social service departments that achieved the caseload reductions as a performance bonus. These "reallocated savings" may be used for, among other things, child care, welfare avoidance grants, drug treatment for targeted recipients, transportation emergency funds, or any other direct service to applicants or recipients that are considered appropriate to accomplish the program's goals.

There are several differing perspectives for assessing states' fiscal commitment to these programs. Although states have been able to reduce their commitments of state funds below previous levels, they nevertheless must still maintain spending at higher levels than they would have spent

²⁶According to state officials, Oregon has historically invested more state funds in its JOBS program than were required in order to obtain the maximum federal matching grant. For example, during the 1996-1997 biennium the state fiscal commitment to the JOBS program represented 68 percent of the program budget, with federal matching funds representing 32 percent. With the passage of PRWORA, the state was able to maximize all available resources by using federal TANF funds where state funds had been previously used. In addition, the 1998-1999 biennial program budget includes a 37 percent expansion to the state's welfare program that was made possible by the availability of additional federal TANF funds.

under the matching grant programs. In fact, given the caseload decline, these lower levels of state spending are providing more per recipient in many states. Some states have correspondingly argued that the MOE requirement prevents them from achieving even greater savings and from reaping the budgetary rewards traditionally associated with a declining caseload. On the other hand, some have raised concerns that reductions in overall state spending could limit welfare reform's potential to provide the resources necessary to move people from welfare to work.

State Contingency Budgeting for Economic Downturns

In most of the states we visited, decisions on how to allocate the additional budgetary resources available for low-income family assistance programs were made in a context of strong state economies, and most forecasts expected these trends to continue in the short term. Given the strength of their economies, most states we visited did not see an immediate need to prepare for a recession for their welfare programs. Based on past experience, some state officials said that if the economy worsened and states' revenues fell, the budgetary impact would be felt in all state programs—including welfare. Nine of the 10 states we visited have established general fund “rainy day” funds to be used for downturns in state economies and budget shortfalls, but only four of the nine have significant balances.²⁷

Some state officials believe that sound fiscal planning should include some type of dedicated reserve for contingencies and other future welfare program needs. These officials said that a future downturn could reduce funds available for benefits at a time when they are most needed. This could undermine welfare reform by reducing supportive services crucial to the success of a welfare to work strategy. Four of the states we visited had enacted budgets that established dedicated reserve funds although the amounts saved were small relative to total program budgets. Three of the four states budgeted some federal TANF funds to a special program-specific reserve account,²⁸ and one state, Maryland, set aside state general funds for contingencies. (See table 1.)

²⁷Bond rating agencies recommend that states maintain rainy day funds equal to a minimum of 3 percent of their general fund budgets. The four states we visited that projected a rainy day fund balance above this threshold for state fiscal year 1998 are Colorado (3.9 percent), Connecticut (3.6 percent), Maryland (7.2 percent), and Michigan (15.0 percent).

²⁸Although the states appropriated these reserves, the funds are held in the U.S. Treasury until needed.

Table 1: Earmarked Welfare Program Reserve Balances

State	Earmarked reserves for state welfare programs		Comments
	Millions of dollars	Percent of program budget	
Colorado	8.9 ^a	3.7	Two reserves were established: (1) Department of Human Services was given a \$3 million reserve that can be used if needed without legislative approval and (2) The other reserve consists of a \$5.9 million long-term contingency fund that requires legislative approval for disbursement. This second reserve is intended for use during an economic downturn.
Maryland	15.7	3.3	Within its budget stabilization fund, Maryland earmarked \$15.7 million in state funds for its Family Independence Program.
Texas	25.3	2.3 ^c	The balance of all remaining TANF funds available to the state was appropriated to a Contingency Appropriations and made available for all expenditures relating to caseload growth and other program needs.
Wisconsin	50 ^b	4.0 ^c	Reserves consist of (1) a Wisconsin Works agency contingency fund, (2) a reserve for additional benefit payments in Milwaukee, and (3) a reserve for benefits to children of Supplemental Security Income recipients.

^aColorado subsequently deposited an additional \$16 million in the reserve for long-term contingencies. This reflected the balance of its federal fiscal year 1997 TANF grant that remains unspent at the U.S. Treasury.

^bWisconsin has subsequently drawn down the entire balance of its reserve for benefits to children of Supplemental Security Income recipients and all but \$2.8 million of its reserve for additional benefits payments in Milwaukee, leaving a reserve of \$27.8 million or 2.25% of its biennial program budget.

^cAs a percent of 1998-1999 biennial program budget.

States that established reserves cited the possibility of future economic downturns and other factors in their decision-making. Officials in Maryland expected that at some point in the future—as has happened in the past—an economic downturn will bring higher caseloads and higher program costs. Using state general funds, Maryland established a \$15.7 million reserve fund dedicated to low-income family assistance programs in part to address concerns about assuring programmatic stability during such a period of fiscal stress. In another example,

Colorado allocated \$5.9 million of its federal TANF grant to a long-term contingency reserve in the event it experiences recession-driven caseload increases in the future.

In contrast, officials in other states felt that sound fiscal planning should focus on investing maximum resources now in a welfare-to-work strategy. For example, officials in Oregon said that caseload levels have not fluctuated with the health of Oregon's economy (as measured by the unemployment rate), and they do not expect this to change. They believe caseloads will continue to decline if sufficient funds are invested now in appropriate services to achieve recipients' long-term self-sufficiency. These officials attributed the state's sizeable caseload declines, from a reported 117,656 recipients in 1993 to 56,299 in 1997, to full investment in the program and the new emphasis on work. Similarly, Michigan officials stated that past experience with caseload changes during recessions may not be relevant in a post-reform environment. These officials expect that while caseload levels have not become completely independent of the economy, they will eventually stabilize and then fluctuate with the economy around some new, lower core-caseload level which they believe will be so far below their historic high that they do not expect to have difficulties financing the costs of any future caseload fluctuations.

The National Association of State Budget Officers (NASBO), the National Governors' Association (NGA), and some state officials have suggested that proposed federal rules may actually discourage states from establishing dedicated state reserves composed of general funds.²⁹ For example, in Michigan, state budget officials considered establishing a reserve with state general funds until the state learned that reserved funds would not count toward meeting the states' TANF MOE requirement for the year in which they were reserved. Although Maryland did establish a state reserve, state officials there raised similar concerns and there are currently no plans to add more state funds to this fund.³⁰

²⁹According to HHS' draft regulations, dedicated state reserves for welfare programs do not count toward a state's maintenance-of-effort requirement until they are expended.

³⁰As previously noted, in order for a state to gain access to the Contingency Fund a state must raise its own spending to meet the Contingency Fund's higher and more stringent MOE requirement. These funds may be hard to come by if the state is in the midst of a recession. A state official said, however, that if a state has saved its own funds during robust economic times, it could more easily raise its spending during downturns.

The Federal Role in Encouraging States' Efforts to Plan for Future Contingencies

The 1996 reforms of national welfare policy focused considerable attention on the federal government's role in welfare. While the resulting legislation devolves much programmatic and financial responsibility to the states, a significant federal role remains in providing a substantial share of the funding for these programs, setting national program objectives, establishing reporting and accountability criteria, and ensuring a safety net. Fiscal planning responsibilities were devolved to the states. The states were granted the ability to save federal funds without fiscal year limitation—in other words to plan for future contingencies. The act also provides two additional sources of federal funds—the Contingency Fund and Loan Fund—to be available if economic conditions affect caseloads and increase the fiscal burden on states. The Contingency Fund provides states with a limited amount of matching funds, much like under AFDC, and requires states to increase their own spending in order to receive federal matching funds. The Loan Fund allows states to borrow a limited amount as well, but they must repay this loan within 3 years at a rate equal to the yield on a similar Treasury security. However, states have registered concerns about the design of these federal contingency mechanisms.

Levels of Future Unspent TANF Balances Held in Reserve Are Uncertain

According to financial data reported by the states to HHS, many states had not spent all of their fiscal year 1997 TANF block grants by the end of the federal fiscal year, and some left considerable balances at the Treasury. Thirty-one states carried over a total of more than \$1.2 billion. While these resources can certainly be used in the event of an economic downturn, the presence of this apparent fiscal cushion may reflect the transitional nature of the first year of the grant rather than explicit state savings decisions.

While we found that some states left a portion of their TANF grants in reserve at the Treasury, we generally did not find a clear relationship between the unspent TANF balances and states' contingency plans. During this transitional period, states generally have been unable to forecast caseload levels with any degree of accuracy. In all states but one, caseloads continued to decline, often at rates far faster than expected. (See appendix II.) State program budgets are prepared based on the projected caseload levels. Declines that are greater than expected have resulted in large unspent balances. Furthermore, the timing of the states' draws on the TANF funds, and thus the levels of unspent resources, depend on when the states submitted their state plans, enacted their laws, and implemented their reforms.

In addition, a Treasury policy statement issued in June 1997 affected the timing of states' TANF draws. It requires that for each allocation of federal funds a state draws down, it must spend a proportional share of its own MOE funds. In this policy statement, Treasury applies principles set forth in the Cash Management Improvement Act of 1990 (CMIA) to the TANF block grant. CMIA settled a long-standing dispute between the federal government and the states over the disbursement of funds for federal programs administered by the states. CMIA helps to ensure that neither party incurs unnecessary interest costs in the course of federal grant disbursements.³¹ HHS recognized that this policy might, in some cases, limit a state's financial flexibility. It noted that because PRWORA does not specifically exempt the TANF program, CMIA principles apply whenever state MOE and federal TANF funds can be used interchangeably. HHS indicated that if a state were able to demonstrate a bona fide need to draw its TANF funds under a different schedule than it spends its state MOE funds, the Office of Management and Budget (OMB) would consider granting an exemption to the proportionate draw down requirement.

Given these various transitional issues, current levels of unused TANF may not be a reflection of state decisions to save for the future and therefore may not be a reliable indicator of future balances. Also, a great deal of uncertainty exists surrounding future welfare costs. PRWORA requires states to place a growing percentage of their caseload in work related activities over the next 5 years.³² As we noted in our related report on states' efforts to restructure their welfare programs, data from states that have implemented early reforms and experienced large caseload reductions indicate that many of the remaining recipients have multiple barriers to participation in work activities, such as mental health and substance abuse problems, and domestic violence. Even if the economy remains favorable, per recipient costs may need to grow as states will have to place more of their caseloads in work-related activities and a greater percentage of their caseloads will need services that address the barriers to participation.

The way federal policies are implemented may play a role in influencing states' plans for future contingencies. Organizations representing states

³¹For additional information see Financial Management: Implementation of the Cash Management Improvement Act (GAO/AIMD-96-4, January 8, 1996).

³²Each state must meet two separate work participation rates, that is, the adult recipient must be engaged in work or job search activities for a minimum of 20 hours per week. The overall minimum participation rate was 25 percent in federal fiscal year 1997, rising to 50 percent in fiscal year 2002 and thereafter. The minimum participation rate for adults in two-parent families is 75 percent in fiscal years 1997 and 1998 rising to 90 percent in fiscal year 1999 and thereafter. A state that fails to meet its participation rates is subject to a reduction in its TANF grant.

and officials in some states we visited suggested that cash management rules may reduce states' incentives to save federal TANF funds for the future. Although states may carry forward any unspent federal TANF funds without fiscal year limitations, these unspent TANF reserves must be kept at Treasury—not drawn down and kept in a state reserve.³³ NASBO, NGA, and the National Conference on State Legislatures (NCSL) have observed that balances left at the U.S. Treasury may suggest to the Congress that grant levels are too high and these funds remaining at Treasury are not needed by the states. Citing past experience with other federal grant programs, such as the State Legalization Impact Assistance Grants (SLIAG)³⁴ program, where initial levels were reduced over time and federal requirements increased, officials at NCSL expressed a concern that unused TANF funds perceived as “excess” would become vulnerable to reallocation by the Congress to other areas of national need. These same concerns were also expressed in some of the states we visited. Consequently, some state officials suggested that these concerns might prompt states to spend rather than save a greater proportion of their TANF funds.

In contrast, the Urban Institute argues that the federal application of CMIA to TANF is important in ensuring that states have some reserves for a future contingency. Since CMIA prohibits states from spending federal TANF funds until they are needed and requires that each draw of federal funds be matched by state funds, the Institute believes that the application of CMIA to TANF has helped to ensure that some federal funds were held in reserve. This is especially important, the Institute notes, because the draft HHS regulations prohibit state funds held in reserve to be counted as MOE, effectively creating a disincentive for states to create reserves with their own funds.

Under HHS' draft regulations, a state must report how much TANF and MOE funds it spent on a variety of activities, such as cash assistance, child care

³³According to HHS, placing TANF funds in a state reserve is prohibited by CMIA's requirement that states must minimize the time between federal funds transfer and expenditure.

³⁴The Immigration Reform and Control Act of 1986 (IRCA) (P.L. 99-603) provided appropriations to help states meet the costs, over a 7-year period, of services provided to aliens granted legal status by IRCA and to cover federal program and administrative costs. The act provided for appropriations of \$1 billion for each of the four fiscal years, 1988-91. Unused funds from these years were authorized to be used by states through fiscal year 1994. In 1989 and again in 1990, the Congress reduced by about \$1.1 billion the annual appropriations for fiscal years 1990 and 1991, promising to make these funds available in fiscal year 1992. These actions were taken because the states were not expected to draw down all appropriated funds through the end of fiscal year 1991. However, in 1992 the President's budget request proposed to rescind the \$1.1 billion. We reported in May 1991 that the estimates of future costs in the SLIAG program indicated that all of these remaining funds might be needed. Ultimately, these grants to the states were reduced by \$456 million, or 11 percent, of what had been originally authorized. For more information, see *Health and Human Services: Funding for State Legalization Impact Assistance Grants Program* (GAO/HRD-91-109, May 23, 1991).

services, and work activities, but no mechanism currently exists for states to inform the Congress about their future plans for spending or saving TANF balances left at Treasury. Moreover, available data on TANF balances are generally midyear data from the perspective of states' budgets and appropriations decisions—not data used in state decision-making.

In commenting on HHS' draft TANF regulations, the Center on Budget and Policy Priorities suggested that more information about state plans for saving TANF could aid congressional oversight of welfare reform. The Center suggested that as part of state financial reporting, HHS could give states the option to record the amount of TANF funds they plan to set aside for future contingencies, similar to accounts established in three of the states we visited. Allowing for more transparency and information regarding states' contingency budgets and the nature of the balances left in reserve in the U.S. Treasury could provide states with an opportunity to clarify their longer term fiscal plans for the program. Consequently, this would help the Congress gain a better picture of the nature of the unspent TANF balances.

States Are Unlikely to Make Extensive Use of PRWORA's Contingency Fund or Loan Fund

Officials in most of the states we visited indicated that they would not use the Contingency Fund for State Welfare Programs (Contingency Fund) nor the Federal Loan Fund for State Welfare Programs (Loan Fund) even if they became eligible to do so. These state officials told us that neither the Contingency Fund nor the Loan Fund presented states with a viable option for future contingencies.

Complex federal reconciliation provisions and a more stringent federal definition of qualified expenditures have led some state officials to conclude that the costs of gaining access to the Contingency Fund outweigh any benefits to the states. To be eligible to receive federal matching funds through the Contingency Fund, a state must meet certain conditions. First, a state must qualify as "needy" under one of two triggers: (1) in the most recent 3-month period, its average unemployment rate (seasonally adjusted) must have been at least 6.5 percent and must have increased at least 10 percent from the corresponding rate in at least one of the 2 preceding years or (2) its average monthly food stamp caseload for the most recent 3-month period must have increased at least 10 percent compared to what enrollment would have been in the corresponding 3-month period of fiscal year 1994 or 1995.

Second, a state must meet a higher and more stringent level of MOE spending. None of the states included in our study had budgeted 100 percent for MOE. Most states we visited planned to meet only the minimum MOE required by PRWORA (between 75 and 80 percent of their 1994 expenditure levels), thereby requiring a substantial increase in spending to qualify for the Contingency Fund. In addition to the requirement that states raise their spending levels to 100 percent of historical expenditures to gain access to the Contingency Fund, a more limited range of a state's spending can be counted toward the Contingency Fund MOE than for the general MOE. Although states may count expenditures on separate state programs that can serve TANF-ineligible clients as part of their general MOE requirement, these same expenditures cannot be counted toward the 100 percent Contingency Fund MOE. HHS agrees that the operation of the Contingency Fund would be simplified by allowing states to count the same expenditures toward both the TANF MOE and Contingency Fund MOE. However, both HHS and the Congressional Budget Office (CBO) note that changes that would ease access to the Contingency Fund would increase the costs of the Contingency Fund in budgetary scoring terms and could be subject to challenge under budget rules unless offsets were found.

Once a state meets these conditions, it is eligible to draw from the Contingency Fund. The state's annual draw is limited to 20 percent of its annual TANF grant. However, the state must match all draws from the Contingency Fund with additional state money as determined by its matching rate under the Medicaid program, or federal medical assistance percentage (FMAP).³⁵ Moreover, there is a year-end reconciliation process which can reduce state allotments depending on the number of months during the year the state was eligible. (See text box 3 for more detailed discussion of this point.) Lags in data availability mean states qualifying on the basis of food stamp caseload increases would not even be aware of their eligibility until some time after the need arose.

³⁵Under AFDC, state spending was matched at a rate based on each state's per capita income. This rate, FMAP, is also used in other federal-state matching grant programs such as Medicaid. It ranges from 50 percent for wealthy states to 79 percent for poorer states.

Text Box 3: The Contingency Fund's Annual Reconciliation Process

As currently structured, the reconciliation process favors states that are "needy" within a single federal fiscal year compared with those that are "needy" in months that overlap consecutive federal fiscal years. A state that is "needy" for all 12 months during a federal fiscal year would have to match all funds drawn at its applicable fiscal year FMAP rate with no adjustments for the number of months it was eligible because it was needy throughout the year. However, a state that is "needy" for 12 consecutive months that span 2 federal fiscal years (e.g., 6 months in each year) with an identical FMAP rate will see its federal match rate reduced by half because of the adjustment made for the number of months the state was needy in each year.

To illustrate, the state that was needy for an entire federal fiscal year and was eligible for and had drawn \$20 million of Contingency Funds would be able to retain these funds, provided the state had spent the necessary matching funds. In contrast, the state that qualified as needy for the same number of months and was eligible for the same amount from the Contingency Fund but overlapping 2 fiscal years would initially obtain \$10 million for each year, reflecting its 6 months of eligibility in each year, but then the state would have to remit half of these federal funds after each year's reconciliation. This latter reduction is the result of prorating the state's grant by the number of months it was eligible for contingency funds, even though the state's initial claim for each year was already based on the number of months of eligibility. As a result, the second state would be allowed to retain a total of \$5 million of federal funds in that fiscal year, \$5 million of federal funds in the next fiscal year--a total of \$10 million even though its eligibility over these 2 years was the same as the state receiving \$20 million. In addition, the second state would have to meet the Contingency Fund MOE in both years.

Furthermore, the Adoption and Safe Families Act of 1997 (Public Law 105-89), §404 reduces the cap on Contingency Fund spending by \$40 million over 4 years. If a state drew funds in a year affected by the reduction, the amount it could retain would be reduced by its share of the annual reduction. For example, the total reduction in fiscal year 1999 is \$9 million. If two states drew funds in fiscal year 1999, at the end of the year, these two states' allocation would be reduced by \$4.5 million each. If the states had already received their allocation they would have to remit \$4.5 million each.

Although eight states³⁶ qualified as needy and could have gained access to the Contingency Fund in fiscal year 1997, according to HHS, only New Mexico and North Carolina requested and were awarded funds.³⁷ Although Hawaii would have been eligible for resources from the Fund for all of federal fiscal year 1997, the state determined that it did not have enough qualifying state expenditures to meet the Fund's 100 percent MOE requirement. California was also eligible for Contingency Funds for the first 4 months of federal fiscal year 1997 (October 1, 1996, through January 31, 1997). Upon completing the reconciliation process, the state calculated that it would have to increase its own spending by almost

³⁶Alaska, California, Hawaii, New Mexico, New York, North Carolina, Washington, and the District of Columbia.

³⁷North Carolina was awarded \$15,111,980 and New Mexico was awarded \$ 21,017,193.

\$1.9 billion in order to receive \$249 million from the Contingency Fund and declined to do so. According to HHS officials, North Carolina and New Mexico had been awarded funds on May 29, 1998. As of July 24, 1998, neither state had completed the reconciliation process and HHS officials expect that both states will be required to remit a large share of these funds.

State officials also indicated that they are unlikely to borrow from the Loan Fund established in PRWORA.³⁸ Officials in some states indicated that borrowing specifically for social welfare spending in times of fiscal stress would not receive popular support. We have previously reported on states' reluctance to participate in a similar loan program in the Unemployment Insurance (UI) Trust Fund.³⁹ The UI program originally operated as a forward-funded system with benefit levels and tax rates set so that the program could "save for a rainy day" by building reserves during periods of economic expansion and to be able to pay UI benefits during economic downturns. This federal-state partnership is financed through payroll taxes that are used to pay benefits, finance administrative costs, and maintain a loan account from which financially troubled states can borrow funds to pay UI benefits. By the early 1980s, as a result of severe back-to-back recessions, many states had depleted their reserves and began to rely on federal loans to sustain UI benefits. The Congress enacted several laws designed to move the system toward healthier reserve balances. These changes made it more expensive for states to borrow from the federal government. State loan repayments increased, and states took other actions including cutting program benefits, limiting the length of time recipients could receive benefits and, in some cases, increasing payroll taxes—jeopardizing the program's objective of helping to stabilize the economy during recessions. Although the UI program is designed to allow states to build reserves during good economic times in order to pay benefits during downturns—and allows states to borrow from the federal government—these provisions have not always provided sufficient protection against a need for additional federal resources. For example, in 1993 the Congress passed a \$4 billion supplemental appropriations bill to finance emergency unemployment benefits with federal funds due to shortfalls in state unemployment compensation trust funds and the

³⁸States that have not incurred penalties for improper use of TANF funds are eligible for loans from the Loan Fund. Such loans are to have a maturity of no more than 3 years at an interest rate comparable to the average market yield on outstanding federal obligations with comparable periods to maturity. The cumulative total of loans made to a state from fiscal year 1997 through fiscal year 2002 is not to exceed 10 percent of a state's TANF grant.

³⁹Unemployment Insurance: Program's Ability to Meet Objectives Jeopardized (GAO/HRD-93-107, September 28, 1993).

unwillingness of states to borrow federal funds or expend state general funds on UI.⁴⁰

Conclusions

With the passage of PRWORA, the nature of the partnership between states and the federal government for designing and financing welfare programs changed. Much of the downside fiscal risk has been shifted to the states by virtue of the fixed nature of the TANF block grant. States have gained important new flexibility in making decisions, and their provisions for financing their programs in the near and long term will have an important bearing on the future success of welfare reform.

States currently have more resources available for these programs under TANF than would have been available under the old financing system, but future fiscal demands are uncertain. The fixed nature of the TANF block grant, the potential volatility of welfare caseloads and program spending along with the “pro-cyclical” budgetary pressures states face under their balanced budget requirements highlight the importance of both the states’ own funding for contingencies as well as PRWORA’s provisions for contingencies—allowing states to save unused TANF funds for future years’ use and the two safety net mechanisms, the Contingency Fund and the Loan Fund.

As these provisions attest, the federal government retains a stake in states’ fiscal decisions affecting the sustainability of the program during downturns. As we noted, states see limited incentives to use the Contingency and Loan Funds, in part because the costs associated with gaining access outweigh many of the benefits that these mechanisms may offer. Although improving access might help states cope with the effects of economic slowdowns, easing these funds’ requirements could prove costly and may lessen the incentives for states to fulfill their own responsibilities for fiscal planning and program financing. While the Congress may very well revisit the design of these funds as the implementation of TANF unfolds, for now the TANF balances left at Treasury constitute the principal source of federal contingency funds for the states.

While many states had TANF balances at Treasury at the end of fiscal year 1997, current reporting requirements do not clearly identify states’ plans for these balances. We identified a number of transitional issues that may have affected the levels of balances. A number of factors unrelated to states’ savings decisions have influenced the levels of these funds,

⁴⁰P.L. 103-24, 107 Stat. 67.

including cash management practices, slow-starting programmatic spending, and caseload declines. States we visited took different approaches to contingency budgeting for TANF, and states' practices may change as they gain experience in implementing their reformed programs under the grant. Better information on states' plans for future contingencies, including on states' unused TANF balances, could play a role in the continuing dialogue between states and the Congress as welfare reform continues to unfold.

In the new block grant environment, the federal government has an interest in encouraging state savings, but what constitutes "adequate" saving will remain a state judgment made under conditions of considerable uncertainty. Finding the right balance between saving budgetary resources for future contingencies and investing them in programs that help people make the transition from welfare to work will be one of the main challenges for states as they develop strategies to address the needs of low-income families.

Recommendation

We recommend that the Secretary of Health and Human Services consult with the states and explore various options to enhance information regarding states' plans for their unused TANF balances. Such information might include explicit state plans for setting aside TANF-funded reserves for the future. Allowing for more transparency regarding states' fiscal plans for TANF funds could enhance congressional oversight over the multi-year time frame of the grant and provide states with an opportunity to more explicitly consider their long-term fiscal plans for the program.

Agency Comments

We received comments from HHS, which are reprinted in full in appendix III. In addition, portions of the report were reviewed for technical accuracy by officials in the states we visited, and their comments were incorporated as appropriate. We also asked the National Governor's Association (NGA), the National Conference of State Legislatures (NCSL), and the American Public Welfare Association (APWA) to review the report. We incorporated comments from these organizations as appropriate.

HHS, NGA, NCSL, and APWA generally agreed that this report is an accurate and comprehensive portrayal of the current fiscal issues facing states as they make progress toward implementing welfare reform. HHS, however, expressed concern that our analysis of states' additional budgetary resources did not take into account that states must now engage a

significantly higher percentage of their caseload in work activities and that the costs of operating a welfare program before reforms could not be compared to the costs of operating a welfare program under TANF. Indeed, HHS, NGA, and NCSL all emphasized that under TANF, states are expected to do much more than under AFDC. Our analysis was not meant to compare the real costs of operating the AFDC program to the real costs of operating a welfare program under TANF, nor was it meant to minimize the additional responsibilities incumbent on states as they make progress implementing welfare reforms. Instead, we sought to illustrate the levels of resources that are available to finance the dramatic changes in states' welfare programs. In our recent report on state program restructuring, we described how states are moving away from a welfare system that focused on entitlement to assistance to one that emphasizes finding employment as quickly as possible and becoming more self-sufficient. For example, we found that states were using some of their additional budgetary resources to enhance support services, such as transportation and child care, for recipients participating in work activities and poor families who have found jobs and left the welfare rolls. We concluded that the confluence of a strong national economy that fosters employment opportunities and the availability of additional budgetary resources has created an optimal time for states to reform their welfare programs.

HHS concurred with our recommendation, but NGA and NCSL expressed concerns that it would lead to an increase in the reporting requirements already imposed on the states. It is because we agree that costs associated with collecting information should not outweigh its usefulness that we suggested HHS and the states work together on developing a reporting option. We recognize that estimates of future caseloads would affect estimates of future unspent TANF balances and that developing accurate caseload estimates at this early stage in TANF implementation poses problems for states. However, as NCSL and NGA agreed, information on states' plans for unspent TANF balances could prove useful as the Congress executes its oversight responsibilities of the TANF program and the program's funding levels. We continue to believe that the Congress would benefit from more complete information on states' plans for future contingencies, including unspent TANF balances. As states, HHS, and other cognizant parties meet to discuss final reporting requirements under TANF, we urge them to work together to explore reporting options. This discussion can form part of the ongoing dialogue on how best to restructure governmental roles and responsibilities to achieve the goals of welfare reform.

NGA, NCSL, and APWA also underscored states' concerns about applying CMIA to TANF. In their view, CMIA limits state flexibility by restricting TANF funds from being held in state reserve accounts and by requiring that all draws of federal TANF funds be matched with state MOE funds. According to APWA, because caseloads have declined in many states and because states must still meet their MOE requirements, many states are not even drawing federal funds until the fourth quarter of the federal fiscal year. These comments reinforce the point made in our report that cash management practices may have had an impact on the level of TANF resources remaining at Treasury at the end of the federal fiscal year.⁴¹ On a related issue, APWA cited the Congress' recent decision to reduce the proportion of TANF a state can transfer to its SSBG program as effectively limiting states' flexibility in TANF draw downs, which in APWA's view, penalized states for leaving TANF funds in the Treasury.

NGA and NCSL urged that the federal Contingency Fund be redesigned to be a more attractive option for states. Specifically, NGA recommended changing the Contingency Fund's MOE provision to conform to the TANF MOE requirement and to change the reconciliation requirement to eliminate the reduction in the state's match rate that is based on the number of months the state was eligible to access the Contingency Fund. We noted in our report that very few state budget officials perceive that the Contingency Fund will serve to help states maintain stable program financing if caseloads rise during a recession. However, HHS noted that redesigning the Contingency Fund could result in significant increases in federal costs. The Contingency Fund was designed to balance competing objectives. On the one hand it could not be so generous as to encourage routine or casual use which would have led to significantly higher federal costs. On the other hand, if the Contingency Fund is overly restrictive many states would be disinclined to use it and it would not serve as the fiscal stabilizer it was intended to be. Balancing these competing objectives will likely challenge the Congress as well as the states as they continue to make progress in implementing their welfare programs under a variety of economic and demographic conditions.

As agreed with your office, unless you release this report earlier, we will not distribute it until 30 days from the date of this letter. At that time, we will send copies to the Chairmen and Ranking Minority Members of the Senate Committee on Finance and the Senate Subcommittee on Social

⁴¹As noted earlier in our report, HHS has stated that because PRWORA does not specifically exempt the TANF program, CMIA principles apply whenever state MOE and federal TANF funds can be used interchangeably.

Security and Family Policy, Committee on Finance, and other interested parties. We will also make copies available to others upon request.

If you have any questions, please call me at (202) 512-9573.

Sincerely yours,

A handwritten signature in cursive script that reads "Paul L. Posner". The signature is written in black ink and is positioned above the typed name and title.

Paul L. Posner
Director, Budget Issues

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Abbreviations

AFDC	Aid to Families With Dependent Children
AFDC-UP	Aid to Families With Dependent Children Unemployed Parent program
APWA	American Public Welfare Association
CBO	Congressional Budget Office
CCDBG	Child Care and Development Block Grant
CMIA	Cash Management Improvement Act of 1990
EA	Emergency Assistance
FMAP	Federal Medical Assistance Percentage
HHS	Department of Health and Human Services
IRCA	Immigration Reform and Control Act of 1986
JOBS	Job Opportunities and Basic Skills
MOE	Maintenance of Effort
NASBO	National Association of State Budget Officers
NCSL	National Conference of State Legislatures
NGA	National Governors' Association
OMB	Office of Management and Budget
PRWORA	Personal Responsibility and Work Opportunities Act of 1996
SLIAG	State Legalization Impact Assistance Grants program
SSBG	Social Services Block Grant
TANF	Temporary Assistance to Needy Families
TEA-21	The Transportation Efficiency Act for the 21st Century
UI	Unemployment Insurance program

Scope and Methodology

This review was conducted in conjunction with a review conducted by GAO's Health, Education and Human Services (HEHS) Division. The HEHS review studied welfare reform implementation in seven states: California, Connecticut, Louisiana, Maryland, Oregon, Texas, and Wisconsin. These states were selected because they represent a diverse range of socioeconomic characteristics, geographic locations, and experiences with state welfare initiatives. According to the U.S. Bureau of the Census and HHS estimates, the states ranged in population from about 3.2 million (Oregon) to about 31.0 million (California) in 1996; in median income for three-person families, from about \$33,337 (Louisiana) to about \$52,170 (Connecticut) in federal fiscal year 1997; and in overall poverty rates, from 8.5 percent (Wisconsin) to about 19.7 percent (Louisiana) in 1995. Some states like Wisconsin and Oregon have had reform initiatives in place for several years that include elements similar to those in PRWORA, such as time limits for welfare benefits (Wisconsin) and increased work participation requirements (Oregon and Wisconsin); others, such as Louisiana, have been operating more traditional cash assistance programs with welfare-to-work components and were only beginning more extensive reforms in fiscal year 1997.

In addition, in order to capture a broader picture of the fiscal and budgetary implications of welfare reform, we added three additional states to our review: Michigan, New York, and Colorado. Historically, Michigan's economy and budget have been highly sensitive to economic change, and in 1977 Michigan created a Budget Stabilization Fund to help stabilize the state's fiscal policy. Like California, New York and Colorado have county administered welfare programs that share in the costs of the welfare programs. We added these states to obtain the views of local officials on the fiscal implications of welfare reform in their states. By including New York, Michigan, and Colorado, we also increased the geographic diversity of our study states and included states that when combined with the other seven states administer the welfare programs of about half the nation's total caseload.

To meet our objectives, we interviewed state and local officials in the local low-income family assistance programs and in program and state-wide budget offices. Specifically, we met with officials from the following organizations during our state visits: executive branch budget offices; legislative budget/finance committees; social service agencies; selected county program and budget offices; and advocacy groups. We also reviewed state program and budget documents, the PRWORA legislation, HHS

regulations and policy guidance, prior GAO reports, and welfare experts' studies.

We also analyzed fiscal data related to all 50 states' low-income family assistance programs obtained from HHS to determine the level of additional budgetary resources states' received as a result of welfare reform. (See appendix II for a more detailed explanation of the methodology used in this calculation.) We did not verify the accuracy of these data.

We requested written comments on a draft of this report from HHS, NGA, NCSL, and the American Public Welfare Association (APWA). These comments are discussed in the letter, and HHS' comments are reprinted in appendix III.

Estimating Additional Budgetary Resources Available for States' Welfare Programs

States currently have more budgetary resources available for their welfare programs than they would have had under prior law. This is primarily the result of a combination of three interrelated factors: (1) the unprecedented declines in caseloads, (2) the new federal financing mechanism, or block grant, that provides resources to the states without regard to the numbers of people states' welfare programs serve, and (3) the maintenance of effort requirement on states that establishes a minimum, or floor, funding level for their state welfare programs. This appendix describes the influence each of these factors has on total resources available, and then presents our estimates of the combined effect they have on total available resources.

Impact of Declining Caseloads on Available Resources

Given the fixed nature of the federal funding stream and states' minimum MOE contributions, caseload volatility will dramatically affect the resources available per recipient for state welfare programs. As caseloads drop, there will be more resources available to the states to finance their welfare programs since programs' finance needs are largely driven by caseload assumptions. In contrast, if caseloads rise, there will be fewer federal dollars per recipient when compared to the previous budget period, and states will need to raise additional resources on their own or adjust their programs to make their resources go further. In many states, caseloads began to decline even before the enactment of PRWORA and continued to do so after passage of the law as shown in Table II.1. While there remains controversy over some of the reasons for the caseload declines, research indicates that important factors include the strong economy and changes in federal and state welfare policies.

Table II.1: Changes in Welfare Caseloads 1994-97

State	Total AFDC/TANF recipients by state			Percent change 1994-97	Percent change 1996-97
	January 1994	August 1996	July 1997		
Alabama	135,096	100,510	74,097	-45	-26
Alaska	37,505	35,540	33,663	-10	-5
Arizona	202,350	169,440	137,899	-32	-19
Arkansas	70,563	56,230	51,506	-27	-8
California	2,621,383	2,578,450	2,282,389	-13	-11
Colorado	118,081	95,790	59,171	-50	-38
Connecticut	164,265	159,060	151,321	-8	-5
Delaware	29,286	23,650	21,841	-25	-8
Florida	689,135	533,800	407,598	-41	-24
Georgia	396,736	329,160	243,541	-39	-26

(continued)

**Appendix II
Estimating Additional Budgetary Resources
Available for States' Welfare Programs**

State	Total AFDC/TANF recipients by state			Percent change 1994-97	Percent change 1996-97
	January 1994	August 1996	July 1997		
Hawaii	60,975	66,480	74,297	22	12
Idaho	23,342	21,800	7,890	-66	-64
Illinois	709,969	640,870	547,958	-23	-14
Indiana	218,061	141,850	107,355	-51	-24
Iowa	110,639	85,940	73,837	-33	-14
Kansas	87,433	63,780	47,434	-46	-26
Kentucky	208,710	170,890	151,190	-28	-12
Louisiana	252,860	228,120	178,335	-29	-22
Maine	65,006	53,790	44,972	-31	-16
Maryland	219,863	194,130	154,166	-30	-21
Massachusetts	311,732	219,580	196,630	-37	-10
Michigan	672,760	501,440	424,612	-37	-15
Minnesota	189,615	169,740	151,201	-20	-11
Mississippi	161,724	122,750	87,118	-46	-29
Missouri	262,073	222,820	182,022	-31	-18
Montana	35,415	28,240	25,258	-29	-11
Nebraska	46,034	38,510	37,455	-19	-3
Nevada	37,908	33,920	27,896	-26	-18
New Hampshire	30,386	22,940	17,493	-42	-24
New Jersey	334,780	275,700	240,338	-28	-13
New Mexico	101,676	99,660	69,605	-32	-30
New York	1,241,639	1,143,960	1,002,936	-19	-12
North Carolina	334,451	266,470	231,506	-31	-13
North Dakota	16,785	13,130	10,508	-37	-20
Ohio	691,099	549,310	449,123	-35	-18
Oklahoma	133,152	96,010	74,567	-44	-22
Oregon	116,390	78,420	56,299	-52	-28
Pennsylvania	615,581	530,520	432,907	-30	-18
Rhode Island	62,737	56,460	54,498	-13	-3
South Carolina	143,883	113,430	79,820	-45	-30
South Dakota	19,413	15,840	12,497	-36	-21
Tennessee	302,608	238,890	163,236	-46	-32
Texas	796,348	647,790	479,933	-40	-26
Utah	50,657	39,060	31,975	-37	-18
Vermont	28,095	24,270	22,403	-20	-8
Virginia	194,959	152,680	119,430	-39	-22
Washington	292,608	268,930	238,920	-18	-11
West Virginia	115,376	89,039	80,359	-30	-10

(continued)

Appendix II
Estimating Additional Budgetary Resources
Available for States' Welfare Programs

State	Total AFDC/TANF recipients by state			Percent change 1994-97	Percent change 1996-97
	January 1994	August 1996	July 1997		
Wisconsin	230,621	148,890	100,387	-56	-33
Wyoming	16,740	11,400	4,957	-70	-57
Total	14,008,503	11,969,079	9,956,349	-29	-17
Average	280,170	239,382	199,127	-33	-19
Median	152,804	118,090	83,739	-32	-18

Source: HHS, Administration for Children and Families. These data are reported by the states to HHS and have not been independently verified by GAO.

Note: The "total percent change" presented in this table represents the percent difference in the nationwide totals. The "average percent change" is a simple average of the percentage differences across states, with each state having equal weight.

Overall, states' caseloads have declined by about a third since 1994. However, this national average masks the differences among the states in the magnitude and timing of their caseload declines. For example, in North Carolina, the caseload dropped by about a third since 1994, with a decline of 20 percent before federal reforms had been enacted and an additional 13 percent decline in the last year. In contrast, in New Mexico, the overall decline is also near the national average; however, virtually all of the change occurred in the last year—after PRWORA passed. There is also a large disparity among the states in total caseload change since 1994, ranging from an decrease of 70 percent in Wyoming to an increase of 22 percent in Hawaii.

Impact of Block Grant on Available Resources

Tables II.2 and II.3 present estimates of the change in federal resources available to implement welfare reform. Table II.2 presents our estimates of the differences between available nominal federal resources for family assistance programs under AFDC and under TANF. Our analysis shows that 45 states will receive more federal resources under TANF than they received in the last year before reform.¹ TANF provides about \$1.4 billion more federal dollars to the states than they received under the consolidated programs in 1996, when caseloads were on average much higher. These differences ranged from 70 percent more for Indiana to 7 percent less for Pennsylvania; the median increase was about 9 percent.

¹This analysis compared actual 1996 federal expenditures for the programs TANF replaced with states' full year TANF allotments. These allotments may not represent resources states actually received in 1997 because states became eligible to receive TANF at different points during the year depending on when they filed their state programs plans with HHS. Sixteen states were eligible for their full annual TANF grant award for all of federal fiscal year 1997 and 28 states for at least 9 months.

Appendix II
Estimating Additional Budgetary Resources
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Table II.2: Additional Federal Resources Under TANF

State	Total federal TANF-related program spending in 1996	TANF block grant	Percent difference
Alabama	\$78,773,572	\$93,315,207	18
Alaska	60,674,212	63,609,072	5
Arizona	199,721,493	222,419,988	11
Arkansas	53,694,984	56,732,858	6
California	3,527,307,569	3,733,817,784	6
Colorado	138,940,350	136,056,690	-2
Connecticut	244,355,429	266,788,107	9
Delaware	30,174,601	32,290,981	7
Florida	527,068,864	562,340,120	7
Georgia	300,803,817	330,741,739	10
Hawaii	98,386,892	98,904,788	1
Idaho	31,299,902	31,938,052	2
Illinois	593,427,626	585,056,960	-1
Indiana	121,379,747	206,799,109	70
Iowa	123,547,672	131,524,959	6
Kansas	86,790,703	101,931,061	17
Kentucky	170,664,524	181,287,669	6
Louisiana	122,357,457	163,971,985	34
Maine	73,231,234	78,120,889	7
Maryland	209,499,543	229,098,032	9
Massachusetts	372,009,461	459,371,116	23
Michigan	581,487,845	775,352,858	33
Minnesota	238,786,264	267,984,886	12
Mississippi	69,324,485	86,767,578	25
Missouri	207,861,860	217,051,740	4
Montana	39,332,524	45,534,006	16
Nebraska	56,093,250	58,028,579	3
Nevada	41,241,248	43,976,750	7
New Hampshire	36,045,607	38,521,261	7
New Jersey	362,624,796	404,034,823	11
New Mexico	129,909,486	126,103,156	-3
New York	2,331,710,268	2,442,930,602	5
North Carolina	313,314,815	302,239,599	-4
North Dakota	24,270,062	26,399,809	9
Ohio	558,275,390	727,968,260	30
Oklahoma	122,960,328	148,013,558	20

(continued)

Appendix II
Estimating Additional Budgetary Resources
Available for States' Welfare Programs

State	Total federal TANF-related program spending in 1996	TANF block grant	Percent difference
Oregon	146,431,168	167,924,513	15
Pennsylvania	769,802,235	719,499,305	-7
Rhode Island	82,015,807	95,021,587	16
South Carolina	98,792,638	99,967,824	1
South Dakota	19,791,424	21,893,519	11
Tennessee	182,575,643	191,523,797	5
Texas	435,279,035	486,256,752	12
Utah	67,756,472	76,829,219	13
Vermont	42,215,710	47,353,181	12
Virginia	134,649,524	158,285,172	18
Washington	390,759,361	404,331,754	3
West Virginia	91,328,347	110,176,310	21
Wisconsin	239,847,605	318,188,410	33
Wyoming	13,628,240	21,781,446	60
Total	\$14,992,221,089	\$16,396,057,420	9
Average	\$299,844,422	\$327,921,148	13
Median	\$126,728,579	\$153,149,365	9

Source: GAO analysis based on data reported by states to HHS, Administration for Children and Families. These data are reported by the states to HHS and have not been independently verified by GAO.

Note: The "total percent difference" presented in this table represents the percent difference in the nationwide totals. The "average percent difference" is a simple average of the percentage differences across states, with each state having equal weight.

Table II.3 presents these additional federal resources on a per recipient basis to take into account the significant declines in caseload that have occurred since passage of PRWORA. These estimates of states' additional federal resources considered on a per recipient basis present a different picture not only because the estimates take post-PRWORA declines in caseloads² into account but also because of differences among the states

²Under AFDC, caseloads were defined as the number of families receiving monthly cash assistance. Although many states had implemented TANF provisions before or by July 1997, the caseload data for that month most likely is still based on this pre-PRWORA definition of cash assistance. Under HHS-proposed regulations for TANF, issued in November 1997, the definition of assistance has been broadened to include ongoing financial support, including work subsidies and assistance with child care, in addition to ongoing cash assistance. As a result, future caseload data will include those receiving these types of assistance. While the proposed regulations note that states may also assist individuals in other ways, such as with counseling, case management, and employment services and one-time, short-term financial aid, such as automobile repair, states will not be required to report on the numbers receiving these forms of assistance. As such, these recipients will not count as part of the TANF caseload even though they are receiving benefits funded with TANF or state MOE resources.

Appendix II
Estimating Additional Budgetary Resources
Available for States' Welfare Programs

in their expenditures for emergency assistance and administration, which TANF also replaced.³ Adjusting for smaller caseloads, on average, the new financing mechanisms in TANF provide states with about \$614 more federal dollars per recipient than the consolidated programs provided in 1996. This table shows an increase in federal resources for all states but one, with a median increase of 47 percent more than before reform. The change in federal resources per recipient ranged from an increase of 334 percent (Wyoming) to a decrease of 10 percent (Hawaii). Our analysis shows that 38 states received an increase of 25 percent or more.

Table II.3: Additional Federal Resources Per Recipient Under TANF

State	Federal resources per recipient		
	1996	1997	Percent difference
Alabama	\$733	\$1,259	72
Alaska	1,717	1,890	10
Arizona	1,169	1,613	38
Arkansas	912	1,101	21
California	1,336	1,636	22
Colorado	1,408	2,299	63
Connecticut	1,522	1,763	16
Delaware	1,315	1,478	12
Florida	921	1,380	50
Georgia	822	1,358	65
Hawaii	1,479	1,331	-10
Idaho	1,339	4,048	202
Illinois	900	1,068	19
Indiana	829	1,926	132
Iowa	1,356	1,781	31
Kansas	1,235	2,149	74
Kentucky	971	1,199	24
Louisiana	514	919	79
Maine	1,304	1,737	33
Maryland	1,015	1,486	46
Massachusetts	1,542	2,336	52

(continued)

³A recent study from the Urban Institute found that the relationship between the caseload decline and the change in federal funding is not perfectly correlated. They noted that many of the states that received less funding actually experienced declines in AFDC caseloads from their TANF grant base years to 1996 but still received less total welfare funding in 1997 (relative to 1996) because they spent more on emergency assistance and/or administrative costs in 1996 than in their TANF grant base years. See Gordon Mermin and C. Eugene Steuerle, "The Impact of TANF on State Budgets," Urban Institute Number A-18 in the Series, New Federalism: Issues and Options for States (November 1997).

Appendix II
Estimating Additional Budgetary Resources
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State	Federal resources per recipient		Percent difference
	1996	1997	
Michigan	1,091	1,826	67
Minnesota	1,396	1,772	27
Mississippi	524	996	90
Missouri	878	1,192	36
Montana	1,213	1,803	49
Nebraska	1,464	1,549	6
Nevada	1,027	1,576	53
New Hampshire	1,480	2,202	49
New Jersey	1,243	1,681	35
New Mexico	1,269	1,812	43
New York	1,957	2,436	24
North Carolina	1,120	1,306	17
North Dakota	1,793	2,512	40
Ohio	1,015	1,621	60
Oklahoma	1,120	1,985	77
Oregon	1,600	2,983	86
Pennsylvania	1,404	1,662	18
Rhode Island	1,357	1,744	28
South Carolina	816	1,252	53
South Dakota	1,183	1,752	48
Tennessee	693	1,173	69
Texas	613	1,013	65
Utah	1,657	2,403	45
Vermont	1,639	2,114	29
Virginia	815	1,325	63
Washington	1,423	1,692	19
West Virginia	931	1,371	47
Wisconsin	1,310	3,170	142
Wyoming	1,013	4,394	334
Total	\$1,193	\$1,647	38
Average	\$1,188	\$1,802	55
Median	\$1,224	\$1,687	47

Source: GAO analysis based on data reported by states to HHS, Administration for Children and Families. These data are reported by the states to HHS and have not been independently verified by GAO.

Note: The "total percent difference" presented in this table represents the percent difference in the nationwide totals. The "average percent difference" is a simple average of the percentage differences across states, with each state having equal weight.

Impact of MOE on State Spending

Given a declining national caseload, the state MOE requirement further augments the budgetary resources available on a per recipient basis to finance states' low-income family assistance programs.⁴ The state MOE is based on spending for a larger set of programs than the TANF block grant and was pegged to state spending in those programs during a period of high caseloads and high spending.⁵ In the absence of a MOE requirement, states could draw down all of their federal TANF grants, and then reduce their own financial commitment to the program to whatever level would maintain a current service budget baseline.⁶ In all states but one—Indiana—the 80 percent TANF-MOE requirement is less than what the state spent on those programs in 1996 (see table II.4) and would allow them to reduce their own financial commitment to the program.

⁴If a state meets certain work participation rates, its MOE requirement drops to 75 percent. However, we assumed that states would budget conservatively at the higher rate since they could not know at the start of a fiscal year whether they would meet the work participation rates. This assumption produces a conservative estimate of the additional state resources since states can spend more than minimally required. In federal fiscal year 1997, 21 states reported spending more than 80 percent, 13 reported spending 80 percent, and 16 states met their work participation rates and were able to take advantage of the lower MOE requirement.

⁵As noted in the letter, the MOE is based on spending in those programs consolidated in the TANF block grant as well as spending on programs that were combined in the Child Care and Development Block Grant (CCDBG)—AFDC-related Child Care, Transitional Child Care, and At-Risk Child Care.

⁶A current-service baseline assumes the continuation of current policies and reflects anticipated costs of ongoing programs and activities without policy changes. It generally includes allowances for inflation and changes in caseload. Proposed policy changes that would affect the costs of programs are compared to the current-services baseline to estimate the budgetary impact.

Appendix II
Estimating Additional Budgetary Resources
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Table II.4: State Resource Levels—Pre-Reform Versus Post-Reform

State	Differences in State Resources Under AFDC in 1996 and Under the TANF Block Grants		Percent difference
	MOE related state spending in 1996	80 percent MOE	
Alabama	\$53,483,367	\$41,828,393	-22
Alaska	63,412,721	52,205,229	-18
Arizona	128,934,235	101,362,854	-21
Arkansas	28,946,483	22,228,215	-23
California	3,624,777,252	2,914,566,324	-20
Colorado	138,102,387	88,395,622	-36
Connecticut	265,717,429	195,649,127	-26
Delaware	34,293,367	23,222,474	-32
Florida	481,292,387	395,646,987	-18
Georgia	237,020,582	184,926,429	-22
Hawaii	101,127,338	77,846,912	-23
Idaho	20,255,271	14,590,646	-28
Illinois	657,265,076	457,621,890	-30
Indiana	99,927,497	121,093,310	21
Iowa	87,418,746	66,094,156	-24
Kansas	74,964,352	65,866,201	-12
Kentucky	96,465,302	71,913,050	-25
Louisiana	64,490,198	59,109,470	-8
Maine	49,856,343	40,296,038	-19
Maryland	230,500,750	188,763,140	-18
Massachusetts	414,599,899	382,877,358	-8
Michigan	512,964,169	499,752,934	-3
Minnesota	230,083,835	191,728,278	-17
Mississippi	28,619,923	23,172,595	-19
Missouri	170,397,434	128,128,826	-25
Montana	21,968,011	16,735,379	-24
Nebraska	51,366,287	30,902,916	-40
Nevada	43,879,854	27,188,122	-38
New Hampshire	40,747,726	34,256,105	-16
New Jersey	416,194,085	324,219,206	-22
New Mexico	58,529,496	39,947,126	-32
New York	2,377,231,367	1,824,848,309	-23
North Carolina	255,019,427	164,454,147	-36
North Dakota	16,429,294	9,673,984	-41
Ohio	440,169,491	416,587,574	-5

(continued)

Appendix II
Estimating Additional Budgetary Resources
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Differences in State Resources Under AFDC in 1996 and Under the TANF Block Grants			
State	MOE related state spending in 1996	80 percent MOE	Percent difference
Oklahoma	83,846,543	65,333,660	-22
Oregon	125,393,961	98,405,163	-22
Pennsylvania	758,034,488	434,267,306	-43
Rhode Island	76,887,061	64,391,515	-16
South Carolina	61,055,562	38,228,678	-37
South Dakota	13,496,812	9,359,245	-31
Tennessee	140,545,724	88,330,537	-37
Texas	348,217,343	251,439,646	-28
Utah	41,359,316	26,976,586	-35
Vermont	31,431,632	27,363,633	-13
Virginia	143,919,823	136,718,048	-5
Washington	422,477,682	290,198,320	-31
West Virginia	43,458,106	34,881,108	-20
Wisconsin	196,055,505	180,510,647	-8
Wyoming	11,749,234	11,376,348	-3
Total	\$14,114,380,173	\$11,055,479,766	-22
Average	\$282,287,603	\$221,109,595	-22
Median	\$98,196,400	\$74,879,981	-22

Source: GAO analysis based on data reported by states to HHS, Administration for Families and Children. These data are reported by the states to HHS and have not been independently verified by GAO.

Note: The "total percent difference" presented in this table represents the percent difference in the nationwide totals. The "average percent difference" is a simple average of the percentage differences across states, with each state having equal weight.

However, the minimum MOE requirements, taken together with the further decrease in caseloads had the effect of increasing the level of state resources spent on a per recipient basis for a number of states.⁷ In table II.5, we estimated that 22 states must spend more per recipient than they

⁷In this analysis, we used AFDC cash-benefits caseload data. Since the programs combined in the CCDBG included populations in addition to those receiving AFDC cash benefits, the data for actual spending per recipient will appear inflated. However, the comparison between spending required under PRWORA and spending under the consolidated and combined programs is more meaningful if the same caseload data are used in the denominator. Furthermore, state TANF-MOE spending on child care also can be counted toward receiving CCDBG matching funds. In effect, these state funds are double counted; once to qualify for the federal TANF grant and once to obtain federal CCDBG matching funds. For more information, see *Welfare Reform: States' Efforts to Expand Child Care Programs* (GAO/HEHS-98-27, January 13, 1998).

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Estimating Additional Budgetary Resources
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spent per recipient under AFDC in 1996, assuming state spending at 80 percent MOE.

Table II.5: State Resource Levels Per Recipient—Pre-Reform Versus Post-Reform

State	State resources per recipient		
	1996	1997	Percent difference
Alabama	\$500	\$565	13
Alaska	1,795	1,551	-14
Arizona	758	735	-3
Arkansas	494	432	-13
California	1,374	1,277	-7
Colorado	1,401	1,494	7
Connecticut	1,656	1,293	-22
Delaware	1,497	1,063	-29
Florida	843	971	15
Georgia	650	759	17
Hawaii	1,521	1,048	-31
Idaho	870	1,849	113
Illinois	999	835	-16
Indiana	685	1,128	65
Iowa	962	895	-7
Kansas	1,070	1,389	30
Kentucky	551	476	-14
Louisiana	272	331	22
Maine	890	896	1
Maryland	1,118	1,224	10
Massachusetts	1,721	1,947	13
Michigan	964	1,177	22
Minnesota	1,348	1,268	-6
Mississippi	217	266	22
Missouri	722	704	-2
Montana	680	663	-3
Nebraska	1,345	825	-39
Nevada	1,094	975	-11
New Hampshire	1,675	1,958	17
New Jersey	1,430	1,349	-6
New Mexico	574	574	0
New York	1,996	1,820	-9
North Carolina	915	710	-22
North Dakota	1,219	921	-24

(continued)

Appendix II
Estimating Additional Budgetary Resources
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State	State resources per recipient		
	1996	1997	Percent difference
Ohio	802	928	16
Oklahoma	768	876	14
Oregon	1,375	1,748	27
Pennsylvania	1,385	1,003	-28
Rhode Island	1,274	1,182	-7
South Carolina	507	479	-6
South Dakota	810	749	-8
Tennessee	536	541	1
Texas	492	524	6
Utah	1,018	844	-17
Vermont	1,223	1,221	0
Virginia	873	1,145	31
Washington	1,541	1,215	-21
West Virginia	445	434	-2
Wisconsin	1,073	1,798	68
Wyoming	876	2,295	162
Total	\$1,125	\$1,110	-1
Average	\$1,016	\$1,047	6
Median	\$963	\$973	-2

Source: GAO analysis based on data reported by states to HHS, Administration for Families and Children. These data are reported by the states to HHS and have not been independently verified by GAO.

Note: The "total percent difference" presented in this table represents the percent difference in the nationwide totals. The "average percent difference" is a simple average of the percentage differences across states, with each state having equal weight.

Combined Impact of Caseloads, TANF Grants, and MOE on Total Budgetary Resources

Another way to estimate the total resources available for welfare programs is to compare total federal and state resources available under the block grant with what comparable federal-state spending would have been for 1997 caseloads under AFDC. To estimate changes in total available budgetary resources, we began by constructing a current-services baseline for pre-reform spending. We constructed our baseline by adding actual state and federal expenditures in federal fiscal year 1996 for the programs

Appendix II
Estimating Additional Budgetary Resources
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TANF replaced.⁸ We calculated total spending per recipient and then adjusted all baseline components for inflation except cash assistance.⁹ Finally, to take recent caseload declines into account, we applied these per recipient costs to 1997 caseloads.

Using a states' total annual TANF grant, we calculated the federal contribution to the total resources available.¹⁰ Since the federal contribution is now a block grant, these funds are available, irrespective of the needs in a state. Once again, we assumed that states would budget at 80 percent MOE. Since the MOE requirement establishes a minimum, or floor, on state spending, a state can spend more than minimally required if it chooses—raising the total levels of budgetary resources available.

Table II.6 presents our estimates of the total additional budgetary resources available to states to design, finance, and implement their family assistance programs due to TANF. These estimates represent the difference between states' post-reform total budgetary resources (TANF plus MOE) and what they would have budgeted for their 1997 caseloads if they were still using the pre-reform 1996 cost structure. That is, table II.6 shows “additional resources” as the difference between states' new total budgetary resources and our construction of the current services baseline. The analysis, which takes caseload declines into account, suggests an even greater change in resources than merely looking at nominal changes in federal and state resources. Combining the effects of the increased federal resources and the act's mandated floor on state spending, our analysis indicates that 46 states will have more total—federal TANF and state MOE—resources available than they would have had without reform. Our estimates of these additional budgetary resources totaled about \$4.7 billion—or, on average, states will have 25 percent more in total budgetary resources available for their welfare reform programs. As with the other analyses, there is wide variation among states—ranging from 102 percent in additional resources for Wyoming to total fewer resources in Delaware, Hawaii, Nebraska, and Pennsylvania.

⁸We used federal fiscal year 1996 expenditure data because it captured spending in the last full federal fiscal year of the categorical matching grant and was comparable across states. Our construction of states' baseline does not include state or federal spending on the three child care programs combined in the CCDBG. In this analysis, we sought to compare the pre-PRWORA AFDC program with the post-PRWORA TANF program and to minimize the effect of interactions between TANF and CCDBG.

⁹We did not adjust cash assistance for inflation because nominal average cash benefits have been declining in real terms since 1970. We used an inflation adjustment of 2.1 percent, based on the increase in the GDP price index (chain weights) from federal fiscal years 1996 to 1997.

¹⁰States' TANF allotments will remain unchanged for the 6 years of the grant.

Appendix II
Estimating Additional Budgetary Resources
Available for States' Welfare Programs

Table II.6: Total Additional Budgetary Resources

State	Additional budgetary resources	Additional budgetary resources as a percent of constructed current services baseline
Alabama	\$49,625,502	40
Alaska	968,234	1
Arizona	69,179,824	22
Arkansas	7,860,157	10
California	548,805,296	8
Colorado	64,026,861	24
Connecticut	5,531,414	1
Delaware	-931,459	-2
Florida	271,005,350	28
Georgia	178,444,087	35
Hawaii	-40,945,164	-21
Idaho	29,518,102	58
Illinois	68,465,351	6
Indiana	179,169,795	88
Iowa	29,756,018	14
Kansas	64,178,595	42
Kentucky	29,900,372	11
Louisiana	87,381,046	48
Maine	21,349,748	18
Maryland	106,872,002	25
Massachusetts	243,326,902	33
Michigan	421,059,851	39
Minnesota	65,107,184	15
Mississippi	46,934,247	49
Missouri	68,048,494	19
Montana	15,712,420	26
Nebraska	-10,305,381	-10
Nevada	14,185,455	17
New Hampshire	20,780,275	29
New Jersey	127,134,572	17
New Mexico	40,342,705	22
New York	364,994,597	8
North Carolina	25,539,979	5
North Dakota	5,111,369	13
Ohio	365,562,536	38
Oklahoma	80,850,010	41

(continued)

Appendix II
Estimating Additional Budgetary Resources
Available for States' Welfare Programs

State	Additional budgetary resources	Additional budgetary resources as a percent of constructed current services baseline
Oregon	109,551,976	43
Pennsylvania	-13,898,411	-1
Rhode Island	21,404,178	14
South Carolina	36,150,049	23
South Dakota	7,012,126	21
Tennessee	94,180,795	31
Texas	239,221,315	32
Utah	23,115,769	22
Vermont	12,842,716	18
Virginia	106,414,336	41
Washington	24,360,705	3
West Virginia	37,688,797	29
Wisconsin	270,604,114	65
Wyoming	24,380,113	102
Total	\$4,657,574,920	16
Average	\$93,151,498	25
Median	\$43,638,476	22

Source: GAO analysis based on data reported by states to HHS, Administration for Children and Families. These data are reported by the states to HHS and have not been independently verified by GAO.

Notes:

1. Differences between our estimates of additional budgetary resources and those presented in state budget documents are the result of a variety of factors including: (1) differences between the state fiscal year and the federal fiscal year, (2) the difference between a state's total TANF grant and the amount it was eligible to receive in federal fiscal year 1997, and (3) assumptions made by state budget analysts about the effects of program reforms in the state's baseline that might not have been included in the expenditure data and assumptions used in our estimates.

2. The "total" presented in this table represents the percent difference in the nationwide totals. The "average" is a simple average of the percentage differences across states, with each state having equal weight.

Comments From the Department of Health and Human Services

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JUL 23 1998

Mr. Gene L. Dodaro
Assistant Comptroller General
Accounting and Information
Management Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Dodaro:

Enclosed are the Department's comments on your draft report, "Welfare Reform: Early Fiscal Effects of the TANF Block Grant." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

for Michael Mangano
June Gibbs Brown
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

**Appendix III
Comments From the Department of Health
and Human Services**

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE
U.S. GENERAL ACCOUNTING OFFICE DRAFT REPORT, WELFARE REFORM:
EARLY FISCAL EFFECTS OF THE TANF BLOCK GRANT (GAO/AIMD-98-137)

General Comments

Thank you for the opportunity to review and comment on the draft report entitled "Welfare Reform: Early Fiscal Effects of the TANF Block Grant." We found your report to be well-written and informative. Generally, your explanations of statutory provisions and of our DHHS policies and procedures were complete and accurate.

We concur with your recommendation that DHHS consult with the States and explore various options to enhance information regarding States' plans for their unused TANF balances.

In several places, this report notes that 46 States would have (assuming they received their full FY 1997 allotment) more total resources - both Federal and State for their family assistance programs than they would have had under the previous welfare programs.

This calculation is based on the fact that both the Federal TANF block grant and the state maintenance of effort spending requirements are fixed, and based on historically high caseloads, while actual caseloads have declined significantly. Specifically, GAO calculated what States "would have had under the previous welfare programs" by calculating total spending per recipient in FY 1996, with the non-cash assistance components adjusted for inflation, and applying these per recipient costs to 1997 caseloads.

However, this calculation does not take into account the fact that States must now engage a significantly higher percentage of their caseloads in work activities. The recent GAO report on implementation of welfare reform noted that, in the seven case study sites, the percentage of adult recipients required to participate in work activities increased from an average of 44.2 percent in 1994 to 64.8 percent in 1997. In addition, as caseloads decline, recipients with multiple barriers to employment will represent an increasing fraction of the caseload and the cost of services to help these families find and remain in work will be higher on a per capita basis. Therefore, the 1996 per recipient figures do not reflect the real costs of operating a welfare program under TANF.

See comment 1.

**Appendix III
Comments From the Department of Health
and Human Services**

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Technical Comments

Now on p. 3.
See comment 2.

On page 4 of the draft report you state that, "Under TANF, however, if costs rise States face the entire burden of financing the unexpected costs." Since the contingency fund does make additional funding available for States who meet the Unemployment Rate or Food Stamps triggers, it seems to us that the Federal Government does share some of the burden of financing unexpected costs. Therefore, we suggest that you revise your statement to say that States must assume most of the burden of financing the unexpected costs, rather than saying that they "face the entire burden."

See comment 3.

The report uses the term "contingency fund" to denote State rainy day funds. This is confusing. The two funds are not the same. We suggest that you clearly distinguish between the Federal contingency fund and State established rainy day funds.

Now on p. 8.
See comment 4.

Page 12, line 3 of the first paragraph should be modified as follows: "Although MOE funds may be used with more flexibility than federal TANF funds, there are some limitations, such as the limitation that MOE funds be spent on eligible families, and only for the 4 designated activities in Section 409(a)(7)(B)(i) of PRWORA. Federal TANF funds may be spent on any of the broad purposes of PRWORA.

Now on p. 24.
See comment 5.

The sentence on page 37 that says: "HHS agrees that the operation of the Contingency Fund would be simplified by allowing states to count the same expenditures toward both the TANF MOE and Contingency Fund MOE" should be modified to make it clear that, while HHS agrees that this would simplify the administration of the Contingency Fund, it could result in significant increases in Federal costs.

Now on p. 25.
See comment 6.

On page 40 of your report, you mention that as of February 1998 no State had requested contingency funds for FY 1997. Since February, two States, New Mexico and North Carolina, have requested and received contingency funds. New Mexico received funds for 10 eligible months in which they met the Unemployment Rate trigger. North Carolina received funds for three eligible months in which they met the Food Stamps trigger.

The following are GAO's comments on the Department of Health and Human Services' letter dated July 23, 1998.

GAO Comments

1. See "Agency Comments" section of the report.
2. Text (now on page 3) amended.
3. Text of Table 1 of page 18 changed to reflect that figures represent state reserves and are distinct from the Federal Contingency Fund for State Welfare Programs.
4. HHS refers to §409 (a)(7)(B)(i) to suggest that state MOE funds may only be used on 4 designated activities; (aa) cash assistance, (bb) child care assistance, (cc) educational activities designed to increase self-sufficiency, job training, and work . . . , (dd) and administrative costs in connection with the matters described in items (aa), (bb), (cc), and (ee) . . ." HHS omits (ee) from its list of qualified state expenditures. This part allows states to spend their own funds in any manner that is reasonably calculated to accomplish the purpose of TANF.

In its proposed rule (see §273.2), HHS interprets §409(a)(7)(B)(i) to mean that a state may count as MOE its expenditures under all state programs, i.e., the state's TANF program as well as any separate state program that assists "eligible families" and provides appropriate services or benefits. Thus, while MOE funds must be used on eligible families (as defined by the state) and on activities that can reasonably be calculated to accomplish the goals of TANF, they can be used to provide support to certain categories of clients that are prohibited from receiving federal TANF assistance. If states choose to operate separate state programs, they have more flexibility in the use of state funds than they have in the use of federal funds. We continue to believe that these differences will have an impact on the choices states make with regard to their programs, specifically the mix of services they can offer and the people they can serve.

5. Text (now on page 24) changed to reflect that HHS concurs with CBO that allowing states to count the same expenditures toward both the TANF MOE and the Contingency MOE would increase the costs of the Contingency Fund in budget scoring terms and could be subject to a challenge under the budget rules unless offsets were found.
6. Text (now on page 25) amended to reflect new information.

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