

FISCAL FOCUS

Temporary Assistance for Needy Families (TANF)

**Prepared by
Kevin Koorstra, Senior Fiscal Analyst**

November 2012



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November 2012

TO: Members of the House of Representatives

In 1996, the federal government created the Temporary Assistance for Needy Families (TANF) block grant in an effort to reform the nation's welfare system. TANF provided states with greater flexibility on program administration and the types of programs TANF could support. In addition to the state's \$775.4 million annual TANF block grant, the state was eligible for and federal government allocated \$649.0 million in supplemental TANF contingency funds from FY 2008 to FY 2012. These federal TANF contingency funds have allowed the state to spend more federal TANF for ongoing services that are allocated through the annual TANF block grant.

This report includes an overview of statewide TANF spending, TANF spending by program area, and potential alternatives for future TANF spending.

Kevin Koorstra, Senior Fiscal Analyst, is the author of this report. Kathryn Bateson, Administrative Assistant, prepared the material for publication.

Please do not hesitate to call if you have questions about the information in this report.

A handwritten signature in black ink that reads "Mary Ann Cleary".

Mary Ann Cleary, Director

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INTRODUCTION

In 1996, Congress and President Clinton enacted the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in an effort to reform the nation's welfare system. PRWORA replaced the Aid to Families with Dependent Children, Job Opportunities and Basic Skills, and Emergency Assistance programs, which reimbursed the state for actual expenditures based on the state's match rate, with the new Temporary Assistance for Needy Families (TANF) block grant. TANF provided the state with greater flexibility on program development and the types of programs TANF would support. At the same time, TANF also imposed work requirements and established time limits on assistance. In order to ensure each state maintains its historic support of assistance programs for low-income families, the TANF block grant created a state maintenance of effort (MOE) requirement of 75% to 80% of the amount the state spent on low-income family assistance programs during FY 1994.

The added flexibility of the TANF block grant included the ability for states to carry forward any unused federal TANF block grant funding. Michigan, like other states, has accrued a TANF fund balance during years where federal TANF spending fell below revenue from the annual block grant (or as shown later in this report, when the federal government has provided additional TANF funds) and then used that fund balance to finance additional spending when needs increased.

Since FY 2009, the state has expended more federal TANF than allocated through the annual block grant and has relied on \$649.0 million in one-time federal TANF funds to cover those expenditures. Going forward, the federal government will most likely not continue to appropriate these one-time federal TANF funds. As a result, the federal TANF year-end balance is shrinking and recent budgeting practices cannot be continued into future fiscal years.

The FY 2013 budget appropriates \$38.9 million more federal TANF for ongoing services than revenue available from the annual block grant, and current FY 2014 budget projections assume utilization (i.e., spending) of \$45.1 million more federal TANF for ongoing services than revenue from the annual block grant. If actual spending follows current projections, the federal TANF year-end fund balance will be depleted by the end of FY 2014.

This report will first review federal TANF and state TANF MOE spending since FY 2005 at a statewide level and will then review each category of TANF spending in greater detail to show how federal TANF and state TANF MOE spending patterns have changed. The conclusion of this report will provide some potential alternatives to remedy future federal TANF utilization shortfalls.

STATEWIDE TANF SPENDING

The sections that follow review historic federal TANF spending and state TANF MOE – as well as Gross TANF spending, which is the combination of both federal TANF spending and state TANF MOE. Unless otherwise noted, the calculations in this report represent the increase or decrease in TANF utilization from FY 2005 expenditures to projected FY 2015 utilization (i.e., spending).

Since FY 1997, the federal government has allocated \$775.4 million annually to Michigan through the TANF block grant so long as the state meets its TANF MOE of \$468.5 to \$499.8 million in state spending on TANF eligible activities. The four TANF purposes guiding both federal TANF and state TANF MOE usage are to:

- Purpose 1: Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives.
- Purpose 2: End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage.
- Purpose 3: Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies.
- Purpose 4: Encourage the formation and maintenance of two-parent families. (42 U.S.C. 601)

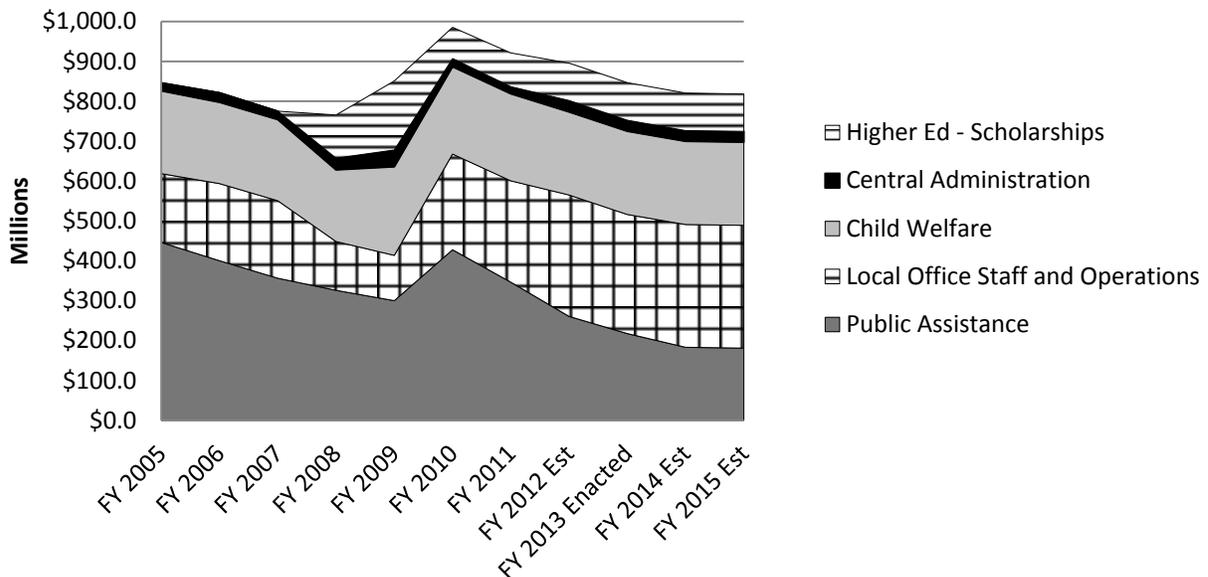
In addition to these ongoing federal TANF and state TANF MOE funds, through Michigan's designation as a "needy state" and its efforts to successfully identify additional, eligible state TANF MOE expenditures, the state was able to draw down \$416.4 million in federal TANF Contingency Funds from FY 2008 through FY 2012. The federal government "created a Contingency Fund to assist states in meeting the need for welfare assistance during periods of economic downturn."¹ Thus, the TANF Contingency Fund was intended to supplement the regular TANF block grant and state TANF MOE which could not support higher costs from caseload increases during economic downturns. Michigan's primary TANF-funded public assistance program is the Family Independence Program (FIP), a cash assistance program for low-income families with children or pregnant women. FIP caseloads did not experience an increase that was great enough to utilize all of these Contingency Funds. In fact, the average regular FIP caseload declined from an average of 81,350 from FY 2005 to FY 2007 (i.e., prior to the receipt of TANF Contingency Funds) to an average of 75,500 from FY 2008 to FY 2011.²

¹ <http://www.acf.hhs.gov/programs/ofa/resource/policy/im-ofa/2011/im201104/im201104>

² For more information on FIP caseload changes in FY 2008 and prior:
<http://www.senate.michigan.gov/sfa/Publications/Notes/2008Notes/NotesNovDec08df.pdf>.

Also during this time, Michigan drew down \$232.6 million in Emergency TANF Contingency Funds (ETCF) appropriated through the federal American Recovery and Reinvestment Act of 2009 (ARRA). Like the regular TANF Contingency Fund, receipt of ETCF required greater state TANF MOE spending. However, unlike the regular TANF Contingency Fund, ETCF explicitly limited which types of spending increases would allow states to draw down ETCF funds. To draw down ETCF, states had to show spending increases in basic assistance, non-recurrent short-term benefits, or subsidized employment compared to the corresponding quarter in either FY 2007 or FY 2008.³ Again, Michigan did not experience an increase to FIP expenditures that was large enough to draw down all of the additional funds, but the state was able to draw down ETCF with the new state Earned Income Tax Credit (EITC) which began during FY 2009. The state categorized the EITC as a non-recurring short-term benefit, which therefore met the eligibility criteria to draw down ETCF.

**Figure 1
Federal TANF Spending by Unit**



Prior to FY 2005, the state maintained a federal TANF fund balance of close to \$100.0 million. During FY 2005 and FY 2006 the state spent that fund balance. With no federal TANF fund balance available in FY 2007, the state replaced the appropriated federal TANF fund balance with \$78.0 million in additional GF/GP in order to maintain current services. Once the state began to draw down one-time TANF funds at the end of FY 2008, the federal TANF fund balance increased from essentially \$0 to \$165.2 million at the end of FY 2008 and to \$244.9 million at the end of FY 2009.

With these one-time TANF funds and a large federal TANF fund balance now available, in FY 2009 the state began to appropriate and expend more federal TANF than allocated through the annual block grant. This trend peaked in FY 2010 when the state expended \$210.1 million more federal TANF than its annual allocation. Following FY 2010, federal TANF utilization has gradually decreased each fiscal year. The FY 2012 budget appropriates \$90.1 million more federal TANF for ongoing services than allocated through the annual block grant.⁴

³ <http://www.house.mi.gov/hfa/pdfs/federal%20recovery%20reinvestment%20act%202009.pdf>

⁴ The FY 2012 budget also includes \$30.0 million in federal TANF designated as one-time funding for litigation payments to FIP recipients. For more information on the litigation see: <http://www.ccj-mi.org/pages/60month>.

The FY 2013 budget continues this practice and appropriates \$38.9 million more federal TANF for ongoing services than the annual block grant.⁵ Current FY 2014 budget projections assume that federal TANF spending for ongoing services will exceed the annual block grant by \$45.1 million. If actual spending follows current projections, the federal TANF year-end fund balance will be depleted by the end of FY 2014.

Figure 2
Federal TANF Revenues and Expenditures

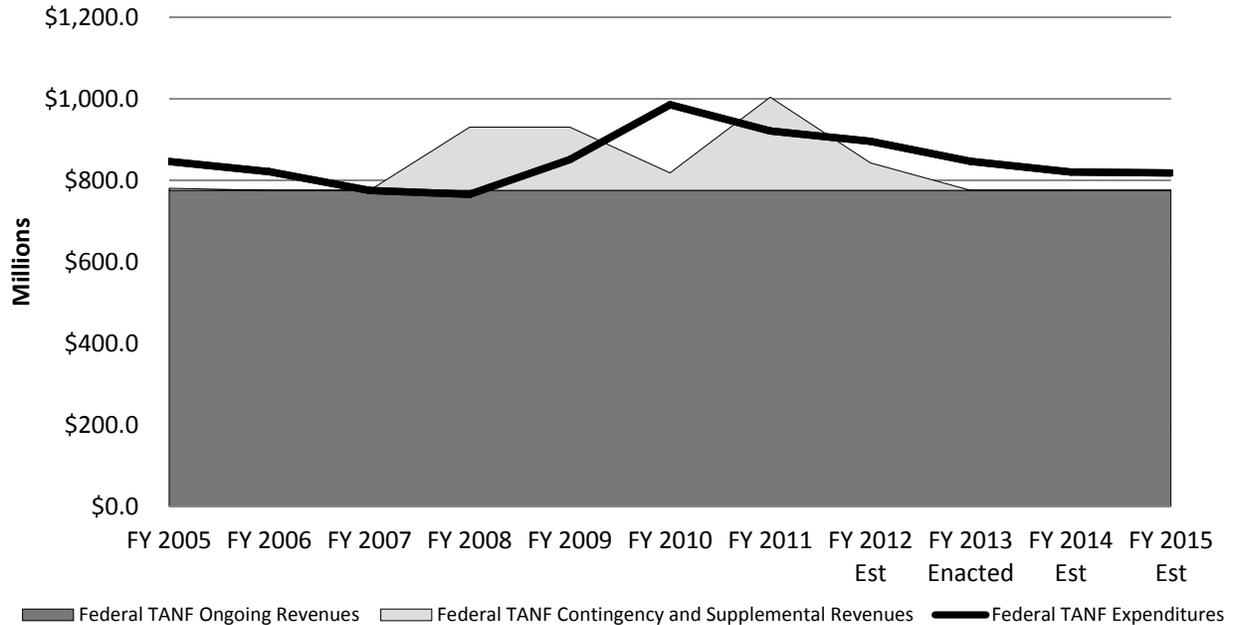
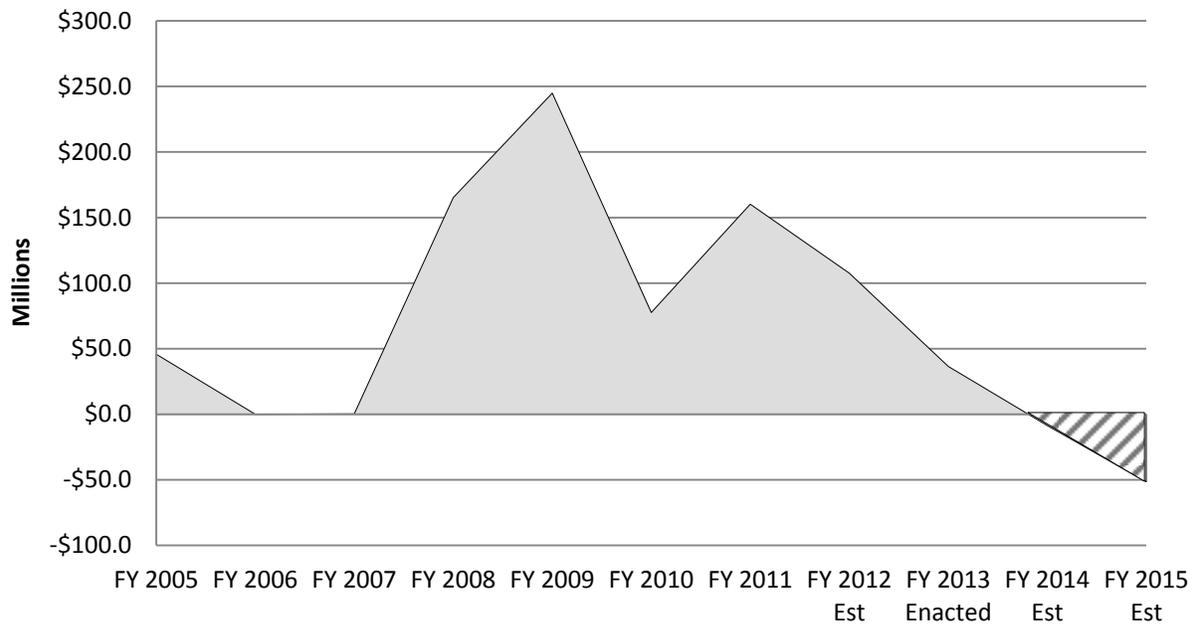


Figure 3
Federal TANF Year-End Balance



⁵ The FY 2013 budget also includes \$32.2 million in federal TANF specifically designated as one-time funding.

State TANF MOE claims during this time have also changed significantly. Prior to FY 2008, almost 80% of state TANF MOE claims were within the Department of Human Services (DHS) budget with the two largest sources of TANF MOE coming from FIP and Child Development and Care (CDC) subsidy payments. CDC provides subsidy payments to day care providers serving low-income families. The remaining 20% of state TANF MOE came from K-12 programs and workforce development activities outside of the DHS budget.

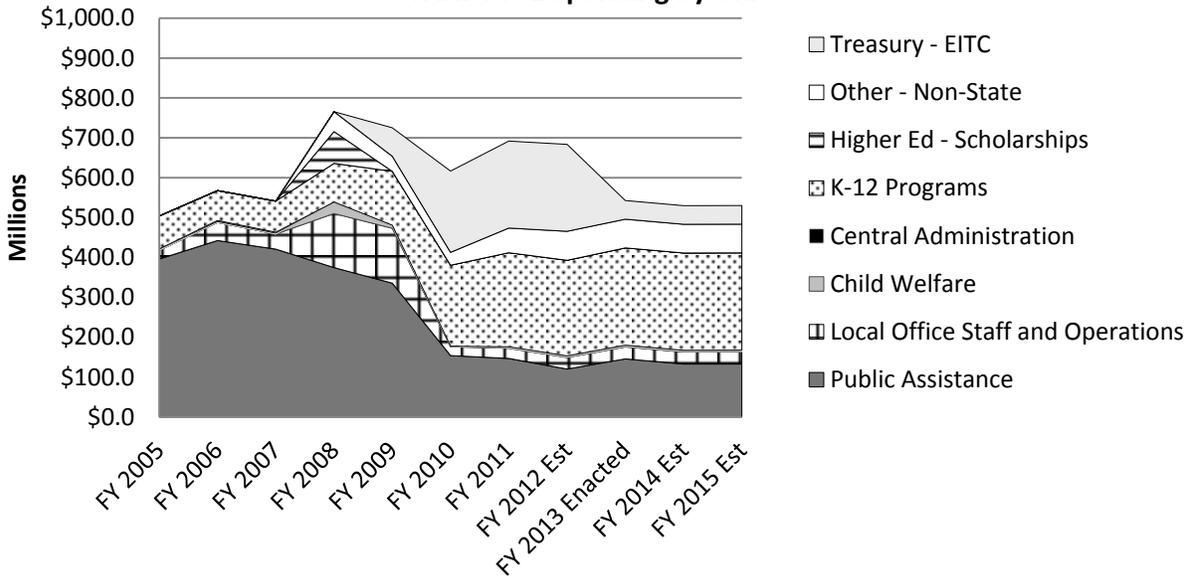
TANF MOE claims increased in FY 2008 as a result of the state's efforts to identify additional, existing programs and services that were TANF MOE eligible in its pursuit of TANF Contingency Funds.

- ▶ First, the state began to claim the financial aid programs funded through the Higher Education budget under TANF Purpose 3 - to prevent and reduce the incidence of out-of-wedlock pregnancies. For programs to be TANF eligible under Purpose 3, in general, federal TANF guidelines do not require recipients to meet an income test, while TANF MOE guidelines do. So, GF/GP and Merit Award Trust Funds that had supported financial aid programs were transferred from the Higher Education budget to DHS to generate additional TANF MOE claims, while federal TANF was transferred to Higher Education in their place.
- ▶ Second, the state reviewed the K-12 programs currently claimed as TANF MOE and determined that a greater percentage of gross funding was TANF MOE eligible.
- ▶ Third, the state entered into memorandums of understandings (MOUs) with non-state entities that would allow the state to claim TANF MOE on the TANF eligible programs and services those entities administer.⁶

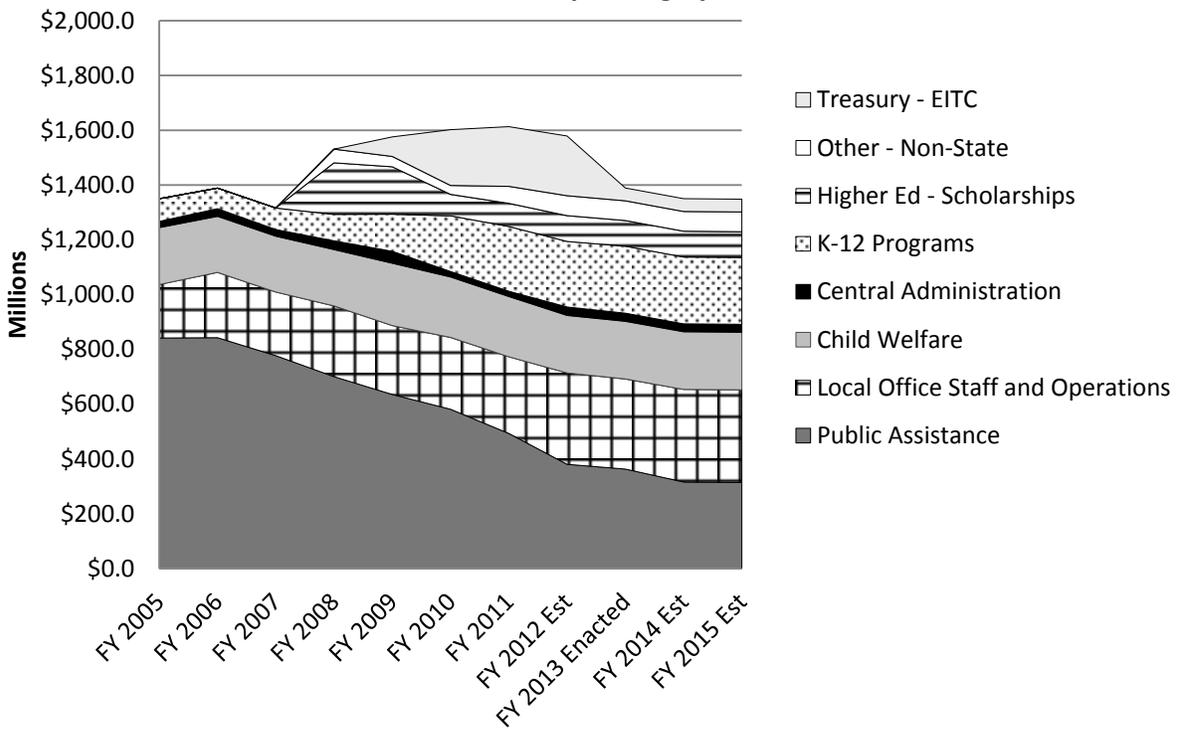
In FY 2010, TANF MOE claims within DHS declined by \$299.5 million, yet the state was still able to meet its TANF MOE requirements through the new state EITC and from the state's ability to claim a greater percentage of K-12 program funding as TANF MOE eligible. Since FY 2010, TANF MOE claims within the DHS budget have represented less than 30% of the total TANF MOE claim. The projected available TANF MOE for FY 2014 is \$530.0 million, which is roughly \$30.0 million greater than what will be required under federal law.

⁶ For additional information on historic TANF MOE claims see:
<http://www.senate.michigan.gov/sfa/Publications/Notes/2009Notes/NotesSepOct09df.pdf>.

**Figure 4
TANF MOE Spending by Unit**



**Figure 5
Gross TANF Spending by Unit**



The \$649.0 million in one-time supplemental TANF allocations to the state are projected to be exhausted by FY 2014. As the remainder of this report will detail, most of these funds were not used to support public assistance caseload increases related to an economic downturn but were used to directly offset GF/GP or to fund increased local office staffing costs.

- ▶ In particular, \$146.5 million of federal TANF fund balance was appropriated to offset GF/GP in the FIP line item during FY 2010, and ETCF was appropriated in FY 2011 to continue this GF/GP offset.
- ▶ Also, from FY 2005 to FY 2015, federal TANF and state TANF MOE spending on local office staff and operations is projected to increase \$143.7 million. Federal TANF supports \$135.1 million, or 94%, of that increase while TANF MOE increases \$8.5 million or 6%.
- ▶ Very little of these one-time funds were used to supplement services or for one-time program enhancements. Some of the program enhancements and one-time programs include \$32.2 million for energy assistance in FY 2013, \$30.0 million for litigation payments relating to a lawsuit against DHS on their implementation of the federal lifetime limit for FIP in FY 2012, and one-time information technology costs related to implementing the new Bridges eligibility determination system.

PUBLIC ASSISTANCE

Public assistance programs represented the largest total Gross TANF spending from FY 2005 to FY 2013. That is not the case starting in FY 2014. From FY 2005 to FY 2015, Gross TANF spending on public assistance programs projects to decrease \$528.1 million, or 63%. The primary spending reductions occurred within Child Development and Care (CDC) subsidy payments and Family Independence Program (FIP) cash assistance.

Gross TANF spending on CDC is down \$293.0 million, or 90%, from FY 2005 to FY 2015. CDC caseloads have declined from 64,900 cases in FY 2005 to 27,300 cases in FY 2013, or 60%. Policy changes, rather than economic factors, have been the primary reason for CDC caseload reductions. DHS implemented greater quality assurance and eligibility measures to the CDC program after a 2008 state Auditor General Performance Audit identified improper and potentially fraudulent CDC payments.⁷ Other program revisions include CDC rate reductions and reductions to the maximum number of reimbursable hours.

These policy changes and the resulting expenditure reductions have reduced Gross TANF funding rather than other fund sources, given the flexibility of TANF. The other primary fund source that supports CDC are federal Child Care Development Funds (CCDF). The state's allocation of these federal funds has stayed quite stable (from \$143 million in FY 2005 to \$152 million in FY 2012).

Gross TANF spending for FIP has declined \$210.1 million, or 54%. There were two significant policy changes that have reduced Gross TANF spending for FIP. First, beginning in FY 2007, the state began to utilize an average of \$65 million per year in state funds that the state did not claim as TANF MOE to provide assistance to 2-parent families and certain disabled recipients. The state created this state-funded FIP group so that those cases would not count against the federal work participation rate, since these recipients historically had difficulty meeting federal work participation requirements.⁸ This policy did not change gross spending for FIP, but did reduce how much of gross FIP spending is TANF funded.

The second and more significant policy change was revising the state and federal lifetime limits for FIP beginning October 1, 2012.⁹ The FY 2012 FIP caseload projections of 57,100 down from 79,600 reduce Gross TANF expenditures by \$126.2 million, or 37.6%, compared to FY 2011 Gross TANF expenditures. Of the 22,500 FIP cases no longer on the rolls, 13,500 FIP cases were closed directly

⁷ For more information on the CDC Performance Audit, see the HFA memo here:
<http://www.house.mi.gov/hfa/PDFs/DHS%20CDC%20audit%20mem.pdf>.

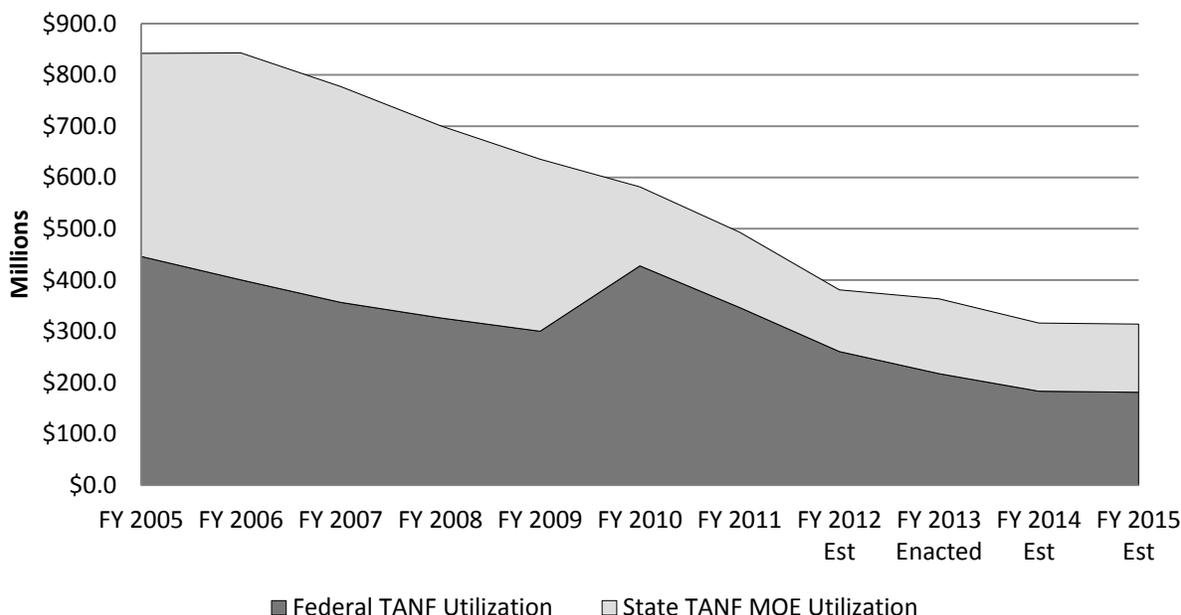
⁸ As background, the federal Deficit Reduction Act of 2005 revised the base year effective FY 2007 for calculating the state's caseload reduction credit, which states had used to reduce their required work participation rate, from FY 1995 to FY 2005. This federal revision increased Michigan's adjusted required work participation rate of 0% from FY 1998 to FY 2006 to 30.5% in FY 2007. For more information see:
<https://www.federalregister.gov/articles/2008/02/05/08-455/reauthorization-of-the-temporary-assistance-for-needy-families-tanf-program>.

⁹ For more information on the revisions, see the SFA memo here:
<http://www.senate.michigan.gov/sfa/Publications/Notes/2011Notes/NotesFal11fc.pdf>.

due to the federal and state lifetime limits, meaning another 9,000 FIP cases have either voluntarily left FIP or have been closed for other reasons. At this time, it is not clear why the additional 9,000 cases have left the FIP program.

Other public assistance programs with significant changes in Gross TANF funding include workforce development and training services outside of the DHS budget, which increased \$12.6 million, or 18%, and employment and training support services, which decreased \$9.1 million, or 63%.

Figure 6
TANF Utilization for Public Assistance



The federal TANF and state TANF MOE fund sourcing mix has also changed. From FY 2005 to FY 2009, federal TANF and state TANF MOE both supported around 50% of Gross TANF spending on public assistance programs. Then in FY 2010, federal TANF represented almost 75% of the Gross TANF funding as a result of efforts to save statewide GF/GP. Some of the changes in the FY 2010 enacted budget that led to this change in fund sourcing include:

- ▶ Appropriating \$146.5 million in federal TANF fund balance to offset GF/GP within the FIP line item.
- ▶ Reducing GF/GP \$91.6 million from CDC caseload reductions and increasing federal TANF \$46.5 million for FIP caseload increases.
- ▶ Redirecting \$37.4 million in federal TANF funds from programs cut elsewhere in the DHS budget to offset GF/GP in the FIP line item.

In addition to these changes in the FY 2010 enacted budget, \$77.6 million in federal TANF from the FIP line item was swapped for \$77.6 million in state funds from the Higher Education budget in a supplemental appropriations bill, partially offsetting some of the state TANF MOE reductions within

the public assistance programs. In total, state TANF MOE funding for public assistance programs reduced from \$335.5 million in FY 2009 to \$154.0 million in FY 2010.

In FY 2011, federal TANF represented 70% of Gross TANF spending. Federal TANF utilization did decline as a result of less federal TANF utilization within the FIP, CDC, and workforce development programs, but it did not drop to pre-FY 2010 rates because the state replaced the federal TANF fund balance used to offset GF/GP in FY 2010 with ETCF.

The FY 2012 budget as enacted increased GF/GP in the FIP line item by \$42.0 million compared to FY 2011 expenditures, and the gross reduction to the FIP line item from the changes to the state and federal lifetime limits were primarily taken as federal TANF savings. These changes reduced federal TANF utilization and increased state TANF MOE utilization on public assistance programs. However, since enactment, additional public assistance caseload savings have been taken as GF/GP savings and public assistance program increases have utilized federal TANF funds. So as currently projected, federal TANF will continue to represent 70% of Gross TANF spending during FY 2012.

The FY 2013 enacted budget lowers federal TANF utilization to 60% of Gross TANF utilization, and the projected FY 2014 and FY 2015 budgets would continue that rate. However, the federal TANF utilization rate remains higher than the federal TANF utilization rate in FY 2009.

LOCAL OFFICE STAFF AND OPERATIONS

Local office staff and operations spending was the second largest Gross TANF category from FY 2006 to FY 2013. Beginning in FY 2014, local office staff and operations is projected to overtake the public assistance category and become the largest spending category. From FY 2005 to FY 2015, Gross TANF expenditures is projected to increase \$143.7 million, or 74%, and of the Gross TANF increase, \$135.1 million is federal TANF.

Local office staff and operations Gross TANF utilization has increased for a number of reasons. First, the number of local office staff increased almost 30% from 7,460 in FY 2005 to 9,600 in FY 2014. Most of the new staff were hired either to meet the new caseload-to-direct care staff ratios required under the Children's Rights Settlement Agreement¹⁰ or to provide case management for increasing Food Assistance Program and Medicaid caseloads. The Children's Rights Settlement Agreement, in general, reduced the number of cases a direct care staff could supervise from 30 cases to 15 cases. Food Assistance Program caseloads have increased from a monthly average of 470,000 during FY 2005 to a monthly average of 927,300 through June of FY 2012 - an increase of 97%.

Second, payroll taxes and fringe benefit costs per local office FTE increased 50% from \$26,400 per FTE in FY 2005 to an estimated \$39,850 in FY 2015. Both insurance costs and retirement costs have increased with retirement costs increasing at the larger rate. A significant increase in retirement cost began in FY 2012 when the state began prefunding retiree health, dental, and vision benefits known as Other Post-Employment Benefits (OPEB).¹¹ The FY 2012 DHS budget utilizes over \$10 million in federal TANF for the OPEB prefunding increase.

Third, the average salary per local office FTE has increased 13%, from \$45,400 in FY 2005 to an estimated \$51,400 in FY 2015.

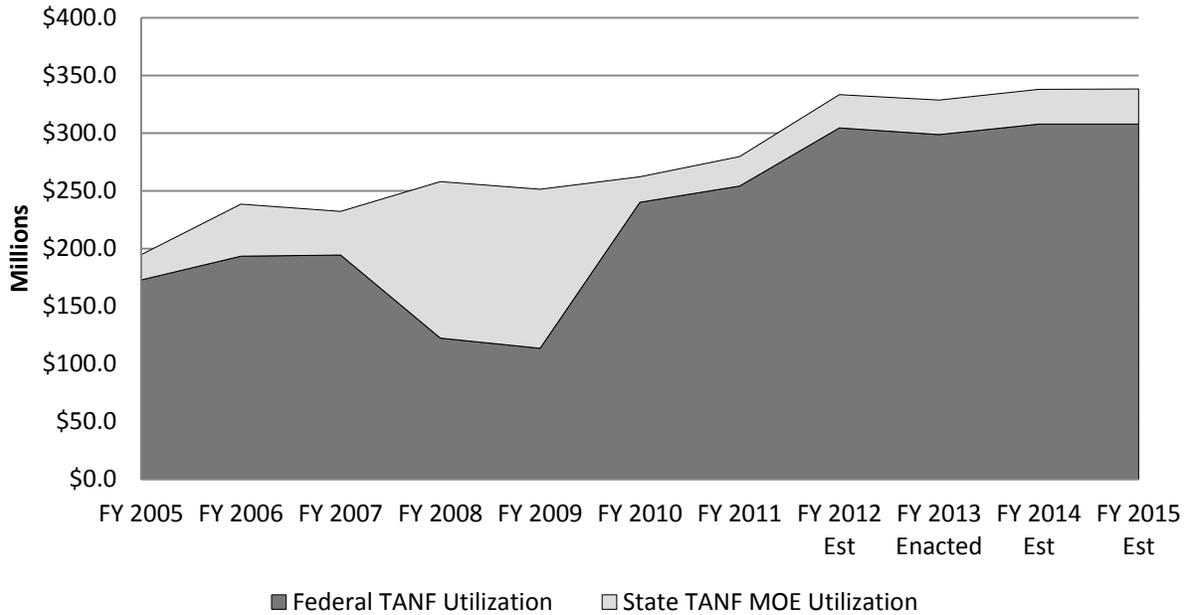
Gross TANF utilization in this area increased at an even faster rate than overall spending. In FY 2005, the percent of costs within the field staff salaries and wages line items and the payroll taxes and fringe benefits line item funded with Gross TANF was 24%. Of the \$341.0 million gross increase to these select line items, 32%, or \$107.5 million, utilized Gross TANF funds.

The local office staff and operations category also includes a larger transfer of federal TANF funds to the federal Social Services Block Grant (SSBG) – from \$43.9 million in FY 2005 to \$77.5 million in FY 2009, the maximum allowable transfer under federal law.

¹⁰ For more information, see: <http://www.childrensrights.org/reform-campaigns/legal-cases/michigan/>.

¹¹ <http://legislature.mi.gov/doc.aspx?2011-SB-0683>

**Figure 7
TANF Utilization for Local Office Staff and Operations**



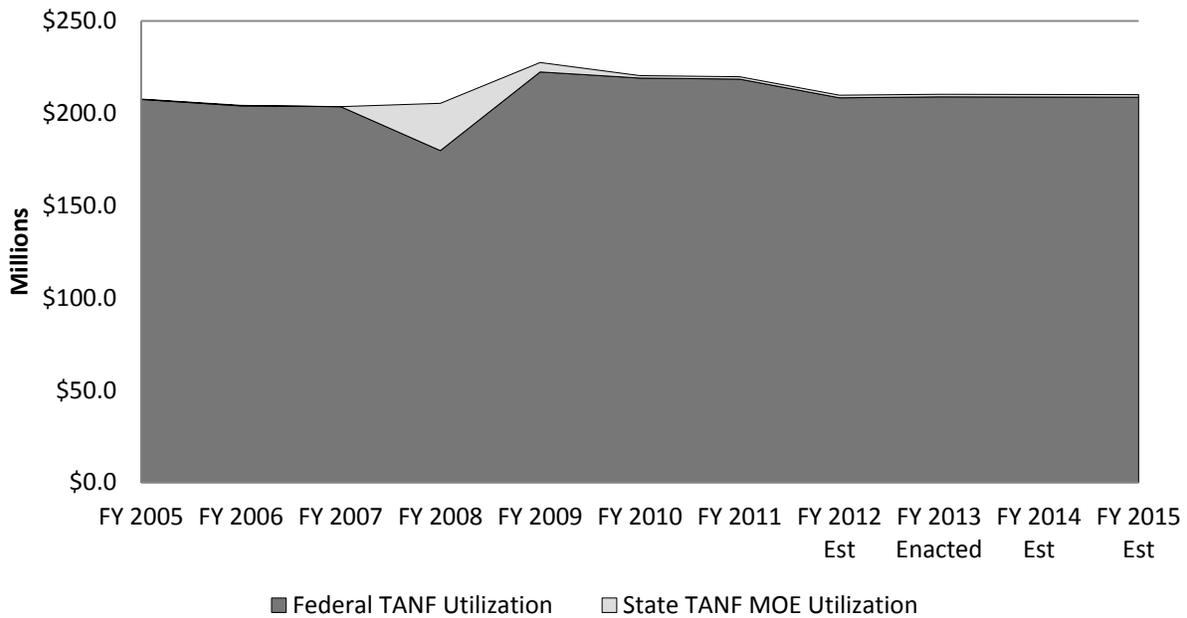
The federal TANF and state TANF MOE fund sourcing mix has also changed for local office staff and operations. Prior to FY 2008, federal TANF represented an average of 85% of the Gross TANF funding. Federal TANF utilization declined in FY 2008 and FY 2009 to less than 50% as a result of the swap of TANF to GF/GP and Merit Award Trust Funding with the Higher Education budget. In those fiscal years, the GF/GP and Merit Award Trust Funds from Higher Education were transferred primarily to local office staff and operations line items, and federal TANF was transferred from those lines to the Higher Education budget to better position the state to maximize TANF MOE claims. Starting in FY 2010, the state funding from Higher Education has been transferred to the FIP line item.

Since FY 2010, federal TANF has represented 90% of total TANF claims. Thus, staff increases were funded with both federal TANF and state TANF MOE. However, federal TANF utilization remains at a higher rate than prior to FY 2008.

CHILD WELFARE

Child welfare programs have experienced no significant Gross TANF utilization change on the whole, although some individual programs have either increased or decreased from FY 2005 to FY 2015. Some of the programs that have seen their Gross TANF utilization decline include family preservation programs (\$7.4 million), foster care payments (\$2.0 million), and Youth in Transition (\$1.0 million). These reductions have been offset by increases for the Child Care Fund (\$4.5 million), adoption subsidies (\$3.1 million), Family Support Subsidies within the Department of Community Health (\$2.1 million), and Children's Services program and policy staff (\$1.9 million).

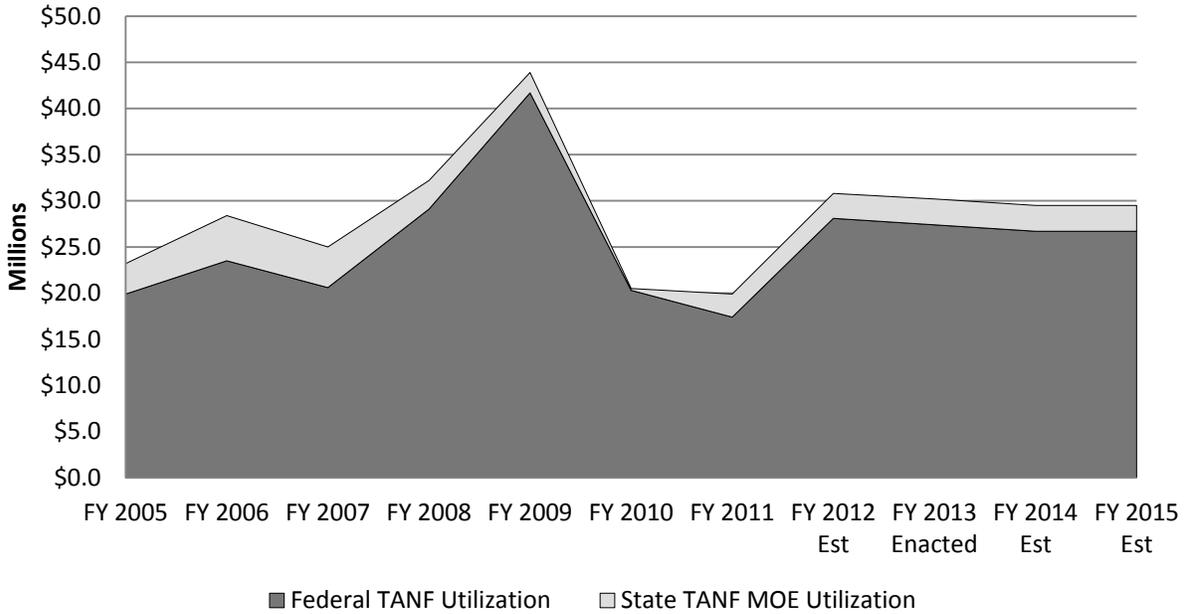
Figure 8
TANF Utilization for Child Welfare



CENTRAL ADMINISTRATION

Central administration represents the smallest portion of Gross TANF spending. Gross TANF did increase in FY 2009 primarily due to information technology spending to replace the old public assistance eligibility determination programs with the new program called Bridges. The increase from FY 2011 to FY 2012 represents greater projected Gross TANF utilization for information technology and Electronic Benefit Transfer (EBT) costs. In FY 2010 and FY 2011, information technology received \$11.3 million in Gross TANF each year, but the state forecasts \$15.4 million in Gross TANF utilization for FY 2012 and \$16.2 million in FY 2013. The gross authorization for EBT costs for FY 2012 is \$13.0 million, an increase from FY 2011 gross spending of \$10.8 million.

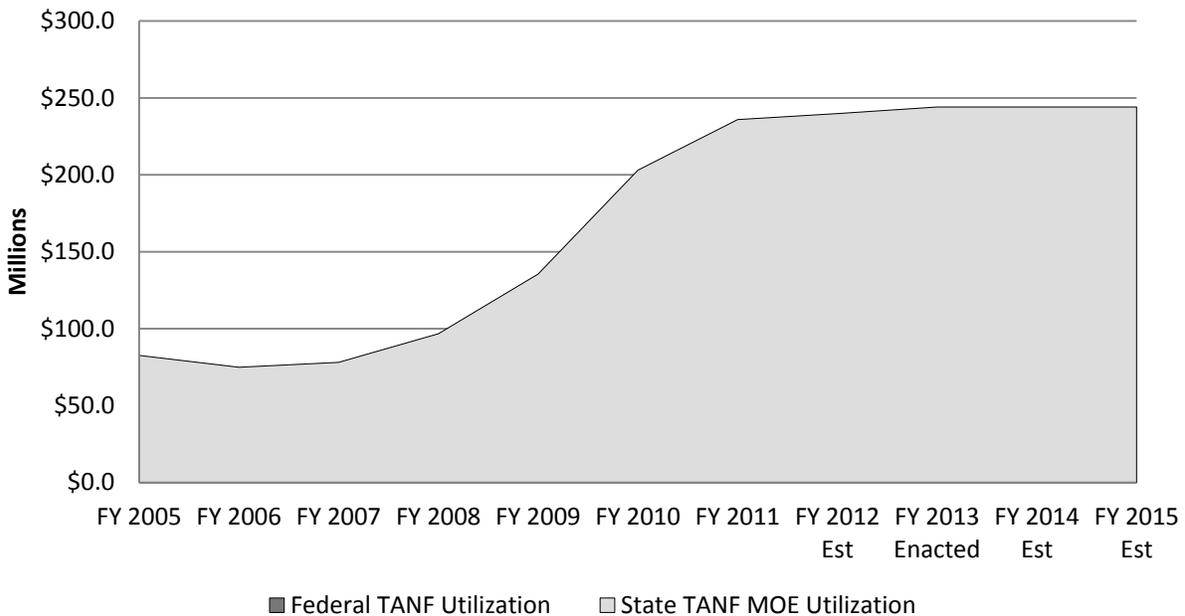
Figure 9
TANF Utilization for Central Administration



K-12 PROGRAMS

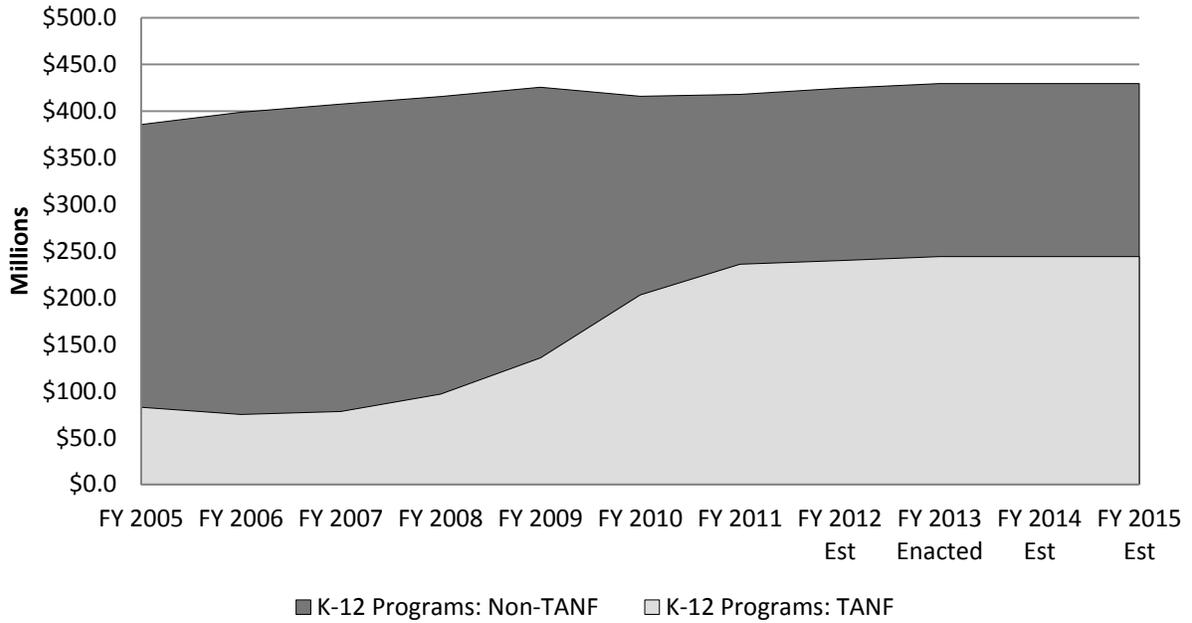
State TANF MOE claims in the School Readiness and At-Risk programs within the School Aid budget have increased \$161.5 million to \$244.1 million (almost half of the required state TANF MOE of \$499.8 million). During the same time, gross expenditures for those programs increased \$44.0 million or 11%. The state TANF MOE increase is more the result of the state's efforts to identify more MOE-eligible spending than an actual increase in spending for these programs. State TANF MOE claimable spending increased from 21% of gross School Readiness and At-Risk expenditures in FY 2005 to 56% beginning in FY 2011.

Figure 10
TANF Utilization for K-12 Programs



State TANF MOE of K-12 programs is currently calculated by subtracting the funding that is used for standard educational services (e.g., reading programs, alternative education, school health clinics, and security) and then multiplying the remaining expenditures by the percentage of students that receive free or reduced lunch. Prior to FY 2010, in addition to the current calculations, the state only claimed state TANF MOE for K-12 expenditures greater than the amount spent during FY 1995 – a federal requirement for existing state programs that were not part of the state's pre-TANF welfare programs. After consultation with an outside vendor, the state determined that the current programs were different enough when compared to the FY 1995 programs that they could be categorized as new programs rather than existing programs and therefore that calculation was no longer required, which generated additional TANF MOE claims.

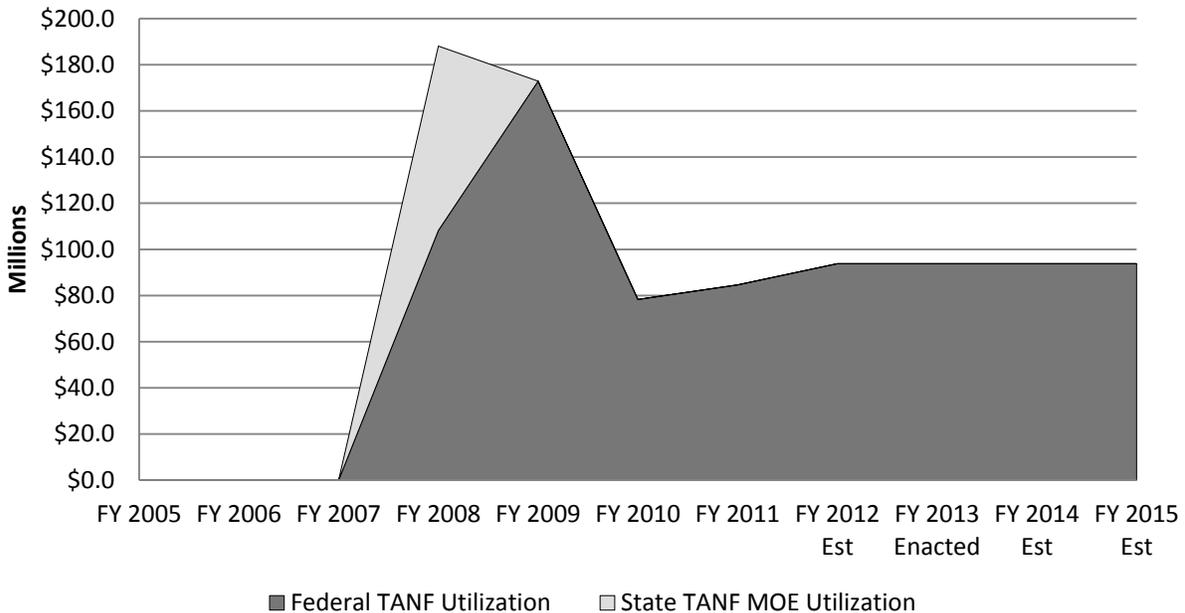
Figure 11
K-12 Programs TANF and Non-TANF



HIGHER EDUCATION FINANCIAL AID PROGRAMS

In FY 2008, the state began claiming financial aid programs within the Higher Education budget as TANF eligible to help draw down TANF Contingency Funds. These programs are claimed under TANF Purpose 3 "to prevent and reduce the incidence of out-of-wedlock pregnancies." For TANF Purpose 3, in general, federal TANF spending does not require an income test, while state TANF MOE does. To maximize state TANF MOE claims, from FY 2008 to FY 2011, a supplemental appropriations bill transferred out GF/GP and Merit Award Trust funds from the Higher Education budget to DHS and federal TANF funds were transferred from DHS to Higher Education. Beginning in FY 2012, this fund shift was included in the annual appropriations bills.

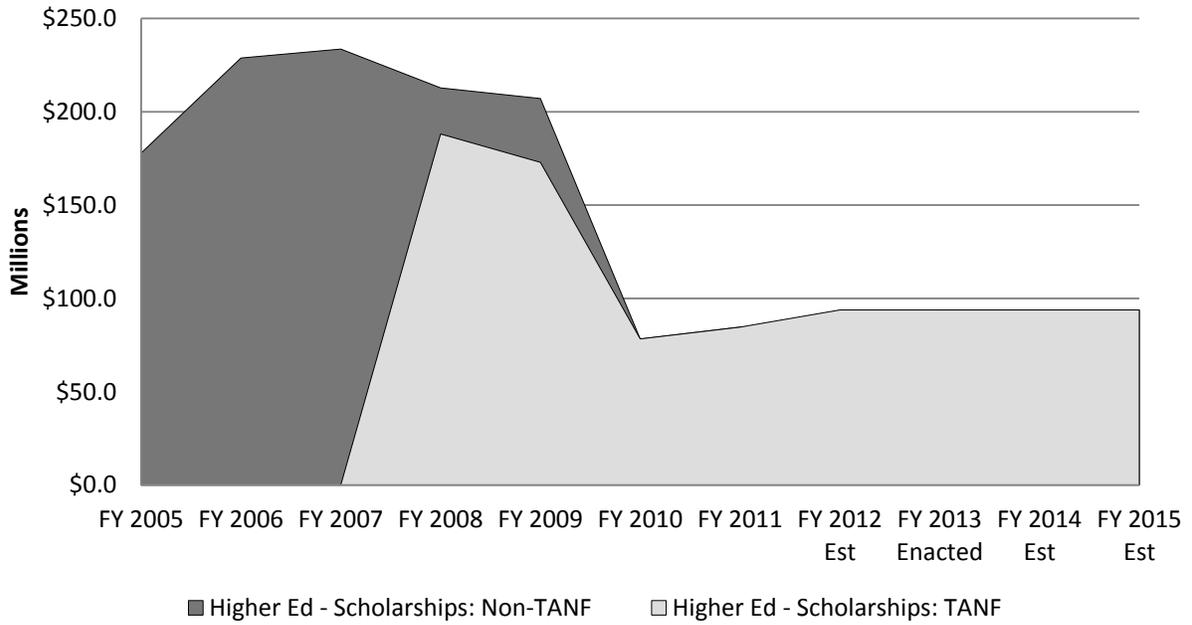
Figure 12
TANF Utilization for Higher Ed – Scholarships



The most significant change to financial aid funding occurred in FY 2010 when the Promise Grant Program and some other smaller grants were eliminated, an expenditure reduction of \$130 million.¹² While it is true that the scholarships were funded with Federal TANF during FY 2010, as **Figures 1** and **4** show on pages 4 and 7, the financial aid cuts essentially resulted in GF/GP savings for the state since the federal TANF that would have been transferred to the Higher Education budget was instead expended in the DHS budget for public assistance and local office staff and operations.

¹² For more information on financial aid funding see:
<http://www.house.mi.gov/hfa/PDFs/hied%20fin%20aid%20presentation%20march10.pdf>.

Figure 13
Higher Ed – Scholarships TANF and Non-TANF

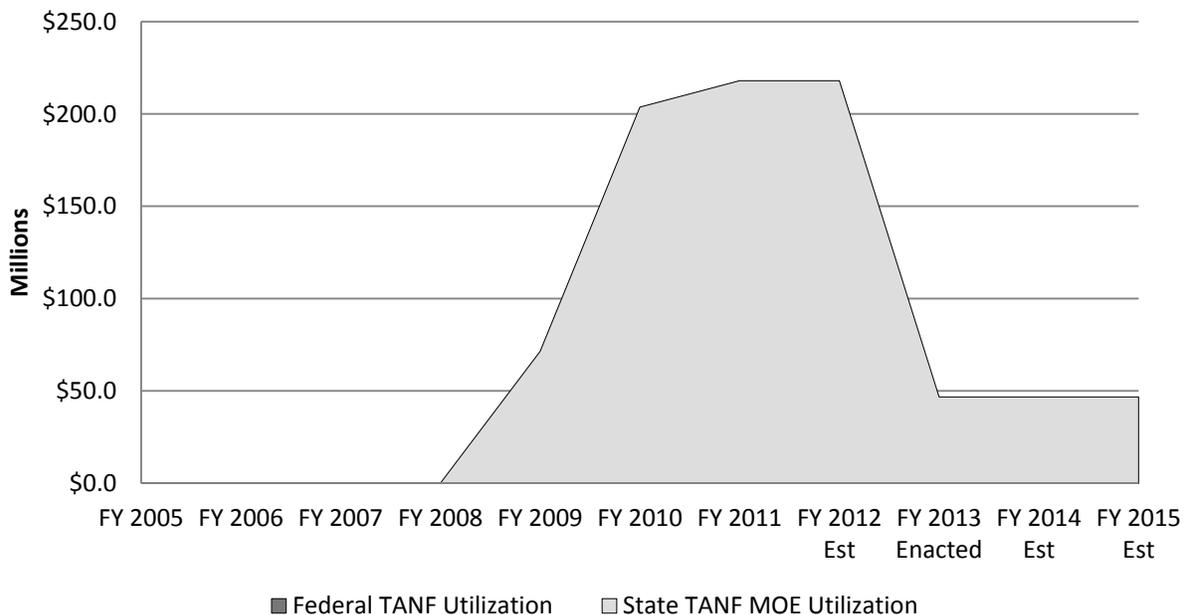


EARNED INCOME TAX CREDIT

The state Earned Income Tax Credit (EITC) was established in Tax Year 2008 in an effort to provide assistance to low-income working households. The credit was phased in during FY 2009 at 10% of the existing federal EITC and rose to 20% during FY 2010 through FY 2012. The credit also impacted the TANF program, as federal law allows states to claim the refundable portion of EITC that goes to families with children as state TANF MOE. At 20% of the federal EITC, the state was able to claim \$218.0 million in state TANF MOE. As part of the 2011 corporate income tax and personal income tax restructuring,¹³ the EITC was reduced to 6% of the federal EITC effective during FY 2013, reducing state TANF MOE claims by 79% to \$46.7 million.

In FY 2010 and FY 2011, this new tax credit helped the state draw down \$232.6 million in total Emergency TANF Contingency Funds (ETCF) appropriated through the federal American Recovery and Reinvestment Act of 2009 (ARRA). In order to draw down ETCF, the state had to show caseload increases in basic assistance, non-recurrent short-term benefits, or subsidized employment compared to the corresponding quarter in either FY 2007 or FY 2008. The state claimed the EITC as a non-recurring short-term benefit and therefore met the eligibility criteria to draw down ETCF.

Figure 14
TANF Utilization for Treasury – EITC



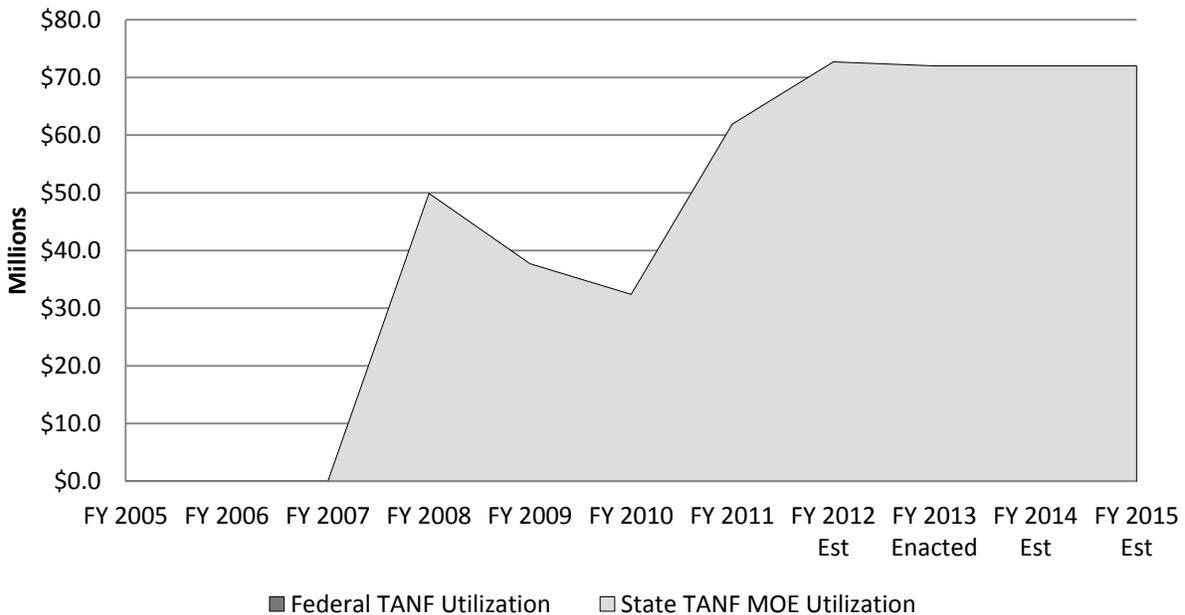
¹³ <http://legislature.mi.gov/doc.aspx?2011-HB-4361>

NON-STATE PROGRAMS

With regard to TANF MOE, federal law allows the state to claim any in-state spending that meets TANF eligibility requirements in meeting TANF MOE requirements. Beginning in FY 2008, the state entered into memorandums of understanding (MOUs) with non-state entities that allow the state to claim TANF MOE on the TANF eligible programs and services those entities administer. The amount of TANF MOE claimed in FY 2008 was \$49.9 million. For FY 2012, the state projects \$72.0 million in TANF MOE from these non-state entities. These additional TANF MOE funds helped draw down TANF Contingency Funds, and the state continues to enter into these MOUs to meet the regular TANF MOE requirements.

Some of the non-state entities include Wayne County youth programs, local United Way organizations, and various foundation grants.

Figure 15
TANF Utilization for Other – Non-State



OPTIONS TO ADDRESS FEDERAL TANF SHORTFALL

With current projections suggesting the state's remaining TANF fund balance will be depleted by FY 2014, the Legislature and Administration face important decisions regarding TANF usage. In general, there are two options to address federal TANF utilization: reduce or eliminate programs funded with federal TANF or offset federal TANF with GF/GP or another fund source, in order to maintain current TANF-funded services. The state could also use a combination of these two options.

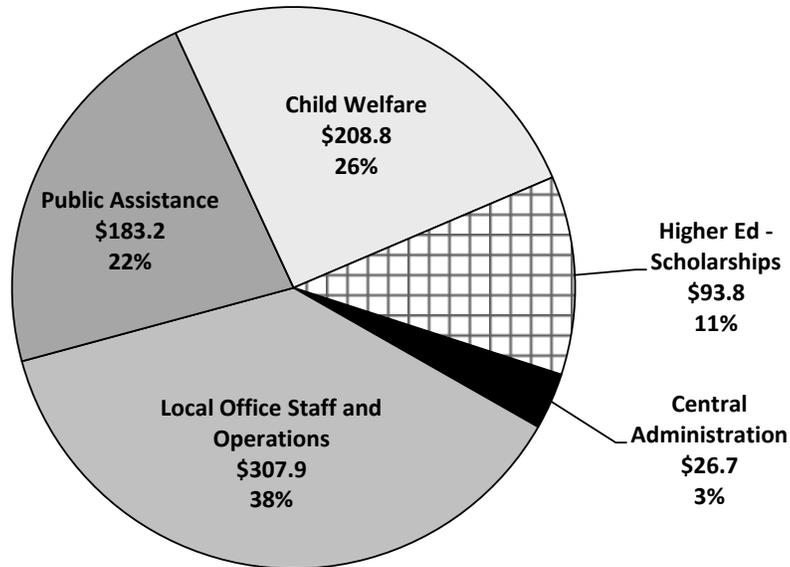
Options to Reduce TANF Programs

One alternative to address federal TANF utilization is to reduce spending on TANF-funded programs.

When examining options, the Legislature and Administration could examine categories with recent growth in TANF utilization. The two categories that increased federal TANF utilization from FY 2005 to FY 2015 were local office staff and operations and financial aid programs categories, and of those two, only local office staff and operations experienced a gross expenditure increase. Gross financial aid program spending has decreased \$84.1 million, or 47%, from FY 2005 to FY 2015. TANF is not the only fund source that supports local office staff and operations, so the gross reduction to local office staff would have to be greater than the targeted federal TANF reduction. For example, TANF and SSBG funds support around 33% of the gross cost for caseworkers of FIP recipients, so the state could only reduce TANF utilization by \$1 for every \$3 of gross reductions. Some risks of reducing local office staff and operations include increasing local office workloads and putting the state at risk of not meeting the caseload-to-direct care staff ratios required under the Children's Rights Settlement Agreement.

Child welfare has largely gone unchanged, and reductions to some of those programs may put the state at risk of not meeting the requirements under the Children's Rights Settlement Agreement. Public assistance has declined by \$264.9 million, or 59%.

Figure 16
Projected FY 2014 Federal TANF Spending
Total = \$820.4 million



The state could also review each specific TANF-funded program in detail, regardless of whether its category increased or decreased, and determine whether to reduce or eliminate that program.

In addition to program reductions, the state could reduce federal TANF spending if future public assistance and child welfare caseloads decline and utilize additional GF/GP (rather than federal TANF) if those caseloads increase.

It is important to note that these options assume reductions in federal TANF funding only with no impact on GF/GP utilization. That is, the state would have to discontinue the general practice of immediately redirecting federal TANF savings elsewhere in the budget to offset GF/GP until the projected federal TANF utilization is below the annual block grant allocation. This could make balancing the statewide GF/GP budget more difficult.

Options to offset TANF with GF/GP

The state could also replicate the strategy used during FY 2007 budget development and replace federal TANF appropriations with additional GF/GP. In FY 2007, \$78.0 million in additional GF/GP was appropriated into the FIP line item to replace federal TANF funds in order to maintain current services and correct a TANF spending imbalance that had developed at that time. This allocation of GF/GP, however, meant that less state revenue was available to address other budget priorities.

As already mentioned, the percentage of federal TANF used to support Gross TANF utilization for the two largest categories (local office staff and operations and public assistance) is greater than prior fiscal years, even though \$93.8 million in federal TANF is redirected from the DHS budget to the Higher Education budget for state funding. Without this fund shift, local office staff and public assistance would use even more federal TANF utilization and less state TANF MOE. For example, if

FY 2014 Gross TANF utilization for local office staff and operations used the FY 2007 federal TANF and state TANF MOE funding mix, state TANF MOE would increase by \$24.0 million. This same adjustment for public assistance programs would increase state TANF MOE by \$37.7 million.

Again, however, this increase in TANF MOE would require additional GF/GP revenues. If the state appropriates additional GF/GP for TANF-funded services, then those state funds could not be used elsewhere in the statewide budget. That is, other budget priorities could not be increased or would have to be reduced.



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