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It is an honor to be asked to appear before this subcommittee to discuss the finances of the block grant program of Temporary Assistance for Needy Families, (TANF), the Child Care and Development Fund (CCDF), and the Welfare-to-Work grant program. Though the CCDF specifically provides federal funds for child care, states and localities may also fund child care services directly from the TANF and welfare-to-work programs. Additionally, states have the option to transfer up to 30% of the TANF block grant to the CCDF.

TANF and CCDF are relatively new programs, created in the 1996 welfare reform law, and the information we have is based on only their first 2 years. The Welfare-to-Work grant program was added to TANF in the Balanced Budget Act of 1997. Therefore, the available information shows early trends in these programs.

CCDF and TANF Spending Trends

Chart 1 shows the trends in federal spending for CCDF and TANF, and compares them with spending in their predecessor programs in FY1995 and FY1996. The 1996 welfare reform law significantly increased federal funding for the programs consolidated into the CCDF. Federal outlays for CCDF did not rise significantly in FY1997 from the FY1996 level. However, in FY1998, CCDF outlays did rise, a full 35% from FY1997 levels, from $2.3 billion to $3.1 billion.

The 1996 law fixed TANF's basic block grant at $16.5 billion, an amount based on historically high expenditures made under Aid to Families with Dependent Children (AFDC) between FY1992 and FY1995. Since the spring of 1994, the welfare caseload has declined by 43%. Generally, expenditures have declined with the fall in the caseload. FY1998 federal TANF expenditures totaled $11 billion—down from $16 billion in its predecessor AFDC and related programs (excluding child care) in FY1995.

Fiscal year 1998 was the first year of the Welfare-to-Work program, added to TANF by the Balanced Budget Act of 1997. Total outlays in the welfare-to-work programs were $16 million in FY1998.

Use of TANF for Child Care

TANF allows states to use its block grant funds for child care in two primary ways:

- Up to 30% of the TANF block grant may be transferred to the CCDF. This amount is reduced by any amounts transferred to the Social Services Block Grant (SSBG). Up to 10% of TANF may be transferred to the SSBG, a percentage that is scheduled to be reduced to 4.25% in FY2001.
- Child care is an allowable activity that may be funded directly by the TANF block grant.

Table 1 shows how much of the TANF block grant was used for child care in FY1998. States used only 1.5% of the FY1998 TANF block grant to directly fund child care expenditures. States also transferred only 4% of the FY1998 TANF block grant to the CCDF.

There are two additional ways that TANF can help finance child care. First, some states have continued a practice from the AFDC program that allows recipients with earnings to deduct out-of-pocket child care expenses from their earned income when computing benefits. This often increases the cash benefit paid to the family. Second, proposed regulations allow states to count toward their TANF maintenance of effort requirement state-funded child care expenditures made in excess of those required to receive the maximum amount of CCDF matching funds. In FY1998, states reported at least $140 million of such "excess" child care expenditures. Since states must make progress toward meeting their TANF maintenance of effort requirement to draw down block grant funds, the ability to count these "excess" child care expenditures can help states access their TANF block grant funds.

Welfare-to-Work and Child Care

Funds from the welfare-to-work grant program may also be used for child care, but in limited circumstances. Child care may be funded as a job retention and support service only once a participant has been placed in a job readiness or employment activity and only if child care is not otherwise available. The welfare-to-work program is also targeted to long-term TANF recipients with additional barriers to employment. Moreover, it should be noted that most welfare-to-work funds are not controlled by the states, but by localities. The Department of Labor is not collecting data on child care expenditures separately from data on overall expenditures for job retention and post-employment services.

Grants and Spending

TANF, CCDF, and the welfare-to-work grant program make quarterly grants to the states. However, a grant is not a transfer of cash to the states. A grant permits a state to draw cash from the federal treasury when it is needed to pay the state for actual expenditures in its program. Essentially, a grant award is like a line of credit to the state. It establishes an amount that the state may draw from the federal government, but actual cash is drawn only when needed.

Table 2 summarizes TANF, CCDF, and welfare-to-work program grants and expenditures. TANF and CCDF grants represent the sum of FY1997 and FY1998 grants; the welfare-to-work program made grants beginning in FY1998.

As of September 30, 1998, all three programs had some unexpended funds. Almost all welfare-to-work funds were unspent. However, it should be noted that having unspent grants at the end of a fiscal year is not unusual. In federal grants-to-state programs, the time when grants are converted into actual spending is determined by both federal deadlines for states to obligate and expend grant funds, and by state decisions about obligating and expending funds. Each of the three programs has different rules setting deadlines for obligating and expending grant funds. The CCDF has different deadlines for the obligation and expenditure of discretionary, mandatory, and matching funds. The welfare-to-work program allows 3 years for the expenditure of mandatory grant funds. There is no deadline for the expenditure of TANF funds.

Additionally, TANF and the welfare-to-work grant program require states to expend some of their own funds in order to draw cash from federal grants. Though TANF is a block grant, states must make progress toward meeting the program's maintenance of effort (MOE) requirement to draw federal funds. The welfare-to-work grant program is a matching grant program. CCDF also requires states to expend their own funds in order to draw matching grants. In FY1997 and FY1998, all states participated in the CCDF matching grant program.

States have "obligated" some of the grants that have yet to be spent. Generally, a state obligation is a commitment to spend. The definition of obligation varies from program to program. The types of commitments that constitute an obligation may also vary from state to state. According to the Department of Health and Human Services (HHS), states obligated all of their FY1998 mandatory CCDF funds. Additionally, states have obligated more than half of all unexpended TANF funds.

TANF Balances

The presence of billions of dollars in "unused" TANF funds has aroused interest. However, the TANF program is new, so there is little history available to assess the magnitude of the balances. There also are no norms to help indicate whether the TANF balances are abnormally large.

The obligated balance will finance future expenditures that are anticipated and reflects commitments already made by the states. Since federal law imposes no time deadline for states to draw cash from their TANF grants, obligations can represent long-term contracts or commitments that will provide benefits and services to TANF families for several years into the future.

In TANF, about $3 billion remained at the end of FY1998 that was both unexpended and unobligated. These are funds states have available from FY1997 and FY1998 grants for new commitments, new TANF spending, or additional transfers to CCDF or SSBG. These are also the balances available to help finance future unanticipated expenditures, such as increased benefits paid if the caseload rises in response to a recession. There are three points I would like to make about the TANF balances:

- First, in passing TANF, Congress anticipated that TANF grants might be insufficient in a given fiscal year to meet program costs and provided several sources of federal funding to meet extra costs. One such source is the flexibility provided to "reserve" TANF grants from previous fiscal years and accrue balances without fiscal year limit, by setting no deadline on the obligation and expenditure of TANF grants. (The other sources are the TANF loan and contingency funds.) Also in passing TANF, Congress permitted states to use TANF directly for child care or to transfer funds to CCDF or the SSBG. States were thus given choices, and implicitly asked to make tradeoffs between making current TANF expenditures, planning for future TANF expenditures, hedging against unexpected increases in future TANF expenditures, or using TANF funds for other purposes, such as child care.
- Second, there is a great deal of variation in the amount of TANF funds remaining unexpended by state. Some states, such as Connecticut, Illinois, and Maine, have spent all or nearly all of their TANF funds and have no unspent balances. Other states have considerable balances of unspent funds. Table 3 shows the state-by-state variation in TANF balances.
- Third, the TANF program is a relatively large program. Federally-financed TANF expenditures were made at a rate of just under $1 billion per month in FY1998. Therefore, it might be illustrative to compare these balances with spending in the program.

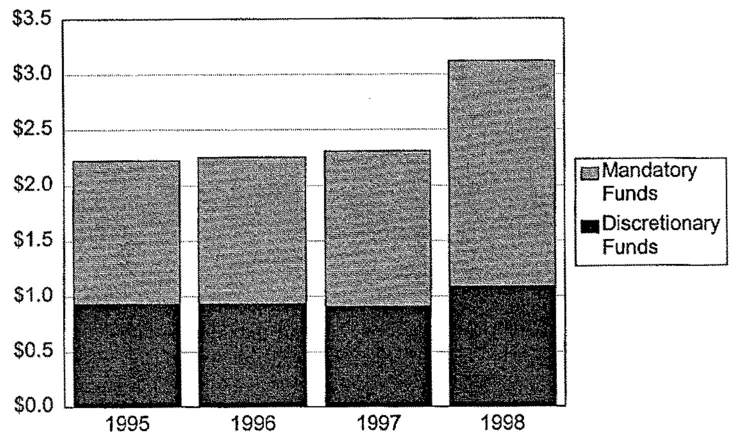
Table 4 addresses the question: How many months of expenditures could these balances finance? This is done by dividing the TANF balance (as of September 30, 1998) by average monthly expenditures. The table looks at different categories of expenditures and expenditures at different rates to put the $6.3 billion in perspective.

The table first shows the unexpended balances divided by average monthly federal expenditures during FY1998. The total unexpended balance represents about one-half year (6.7 months) of federally-financed expenditures. The obligated balance and unobligated balances each represent approximately one-quarter year of expenditures.

The unobligated balance can be used to help defray unexpected increases in expenditures that might exceed both federal and state funding for a given fiscal year. An unexpected caseload increase (for example, during a recession) would likely directly increase expenditures on cash benefits. Therefore, the table relates the unobligated balance to total cash benefit payments. Two measures are shown to provide a range of how long the unobligated balance would last in the event of an unexpected increase in expenditures. The unobligated balance is related to cash benefits paid at the FY1998 rate, showing that 2½ months of cash benefits at the FY1998 expenditure rate could be paid using the unobligated balance. An additional measure showing the balance related to cash benefits paid at a "recessionary rate" of their historical peak (FY1994) is also shown. The unobligated balance represents about 1½ months of cash assistance paid at the historical peak rate of benefit payments.

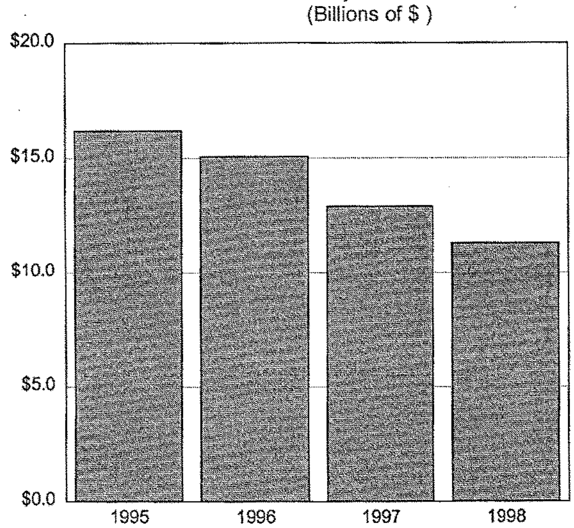
A Congressional Research Service report Welfare Reform: Unspent TANF Funds (Report Number RL30082) goes into greater detail about TANF balances. Thank you for the opportunity to appear before this committee. I would be happy to answer your questions.

Chart 1.
Federal CCDF Spending: FY1995-FY1998
(Billions of $)



Note: All data represent budget outlays except data for pre- welfare reform mandatory funds, which are the federal share of expenditures for AFDC/JOBS, transitional, and at-risk child care.

Federal AFDC/TANF Expenditures: FY1995-FY1998
(Billions of $)



Note: All data represent the federal share of expenditures for TANF and AFDC, EA, and JOBS.

Table 1.—Use of Federal TANF Grants: Expenditures for Child Care and Transfers: Fiscal Year 1998

[$ in millions, through September 30, 1998]

	Dollars	Percent of total TANF grants
Total Grants	$16,562	100.0%
TANF federally-funded child care expenditures	247	1.5%
Transfers:		
Child Care Delvelopment Fund	652	3.9%
Social Services Block Grant	1,079	6.5%

Source: Table prepared by the Congressional Research Service (CRS) based on data from the Department of Health and Human Services (HHS).

Table 2.—Welfare Reform Block Grant Programs: Cumulative Grants, Expenditures, and Unexpended Balances through September 30, 1998

[$ in millions]

	Grants	Transfers	Expendi-tures	Unex-pended
CCDF (combined FY1997 & FY1998)	4,938	–	4,131	807
TANF (combined FY1997 & FY1998)	29,942	2,392	21,200	6,276
Welfare-to-Work (FY1998)	1,240	–	16	1,224

Source: Table prepared by the Congressional Research Service (CRS) based on data from HHS and Federal budget documents.

Table 3.—TANF Obligated and Unobligated Balances by State: September 30, 1998

[$ in millions]

State	Unexpended balance		
	Total	Obligated balance	Unobligated balance
Alabama	37.4	–	37.4
Alaska	16.7	16.7	–
Arizona	79.6	31.7	47.9
Arkansas	29.3	29.3	–
California	1,472.9	1,472.9	–
Colorado	81.2	–	81.2
Connecticut	–	–	–
Delaware	1.0	1.0	–
District of Columbia	42.6	7.5	35.1
Florida	395.8	142.9	252.9
Georgia	68.8	17.1	51.7
Hawaii	8.1	1.1	6.9
Idaho	31.1	–	31.1
Illinois	–	–	–
Indiana	195.3	195.3	–
Iowa	35.3	6.4	28.9
Kansas	21.6	–	21.6
Kentucky	44.9	–	44.9
Louisiana	129.8	–	129.8
Maine	–	–	–
Maryland	146.9	–	146.9
Massachusetts	28.3	28.3	–
Michigan	103.4	14.1	89.3
Minnesota	136.9	–	136.9
Mississippi	33.2	33.2	–
Missouri	63.2	63.2	–
Montana	30.0	30.0	–
Nebraska	36.7	–	36.7
Nevada	14.8	8.0	6.8
New Hampshire	6.0	–	6.0
New Jersey	223.1	–	223.1
New Mexico	60.1	4.9	55.2
New York	689.1	–	689.1

Table 3.—TANF Obligated and Unobligated Balances by State: September 30, 1998—Continued

[$ in millions]

State	Unexpended balance		
	Total	Obligated balance	Unobligated balance
North Carolina	93.1	–	93.1
North Dakota	8.1	5.8	2.3
Ohio	554.9	544.9	–
Oklahoma	110.2	–	110.2
Oregon	51.7	51.7	–
Pennsylvania	282.9	37.9	245.0
Rhode Island	15.7	–	15.7
South Carolina	34.7	–	34.7
South Dakota	11.3	3.4	8.0
Tennessee	91.5	14.5	77.0
Texas	211.4	211.4	–
Utah	13.6	–	13.6
Vermont	11.1	–	11.1
Virginia	32.3	32.3	–
Washington	142.4	0.9	141.5
West Virginia	80.7	–	80.7
Wisconsin	240.5	191.5	49.0
Wyoming	37.0	37.0	–
Total	6,276.4	3,235.2	3,041.3

Source: Table prepared by the Congressional Research Service (CRS) based on data from HHS.

Table 4.—TANF Balances Related to Expenditures: FY1998 Expenditures and Balances Through September 30, 1998

[$ in millions]

Ratio	Balance	Average monthly expenditures	Potential months of expenditures from the balance
Total balance to federally-financed expenditures	$6,276	$941	6.7
Obligated balance to federally-financed expenditures	3,235	941	3.4
Unobligated balanced to federally-financed expenditures	3,041	941	3.2
Unobligated balance to total (federal and state) cash benefits, FY1998	3,041	1,218	2.5
Unobligated balance to total (federal and state) cash benefits, peak year, FY1994	3,041	1,892	1.6

Source: Table prepared by the Congressional Research Service (CRS) based on data from (HHS).