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## **TEXAS AND THE TANF BLOCK GRANT**

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The Temporary Assistance for Needy Families (TANF) block grant is the sixth largest source of federal funds in the Texas state budget. It is second only to Medicaid in the support it provides for state health and human services. This *Policy Brief* analyzes Texas' fiscal and policy choices regarding TANF, in light of federal reauthorization and mounting federal deficits. The major findings of this report are that:

**Texas has not made the best use of surplus TANF funds.**

- Declines in cash assistance caseloads after 1996 left Texas with large federal TANF surpluses. Almost all of the TANF surplus will be depleted by the end of fiscal 2007.
- Instead of investing in child care and other strategies to support the transition from welfare to work, or giving working-poor families tools to escape poverty, Texas has used its TANF surpluses to replace state spending in other areas, primarily in child protective services.

**TANF cash assistance offers a minimal benefit and serves only extremely poor families in Texas.**

- The average monthly benefit for a family of three in 2005 is \$202. Families qualifying for TANF must have an income below 14 percent of poverty—less than \$2,256 annually for a family of three in 2005.

**TANF caseload declines are not related to successful welfare-to-work or anti-poverty efforts.**

- Welfare caseloads have fallen by 72 percent since 1996, even as the number of Texans living in poverty has increased. In 1996 cash assistance reached 22 percent of the 3.2 million impoverished Texans. By 2004 only 7 percent of the state's 3.7 million poor were receiving cash assistance through TANF.
- A 2001 statewide survey of Texas adults six months after they left TANF found that only 46 percent had a job. The median wage of those employed was \$6.25 per hour—well below poverty for a family of three.

**TANF cash assistance offers few carrots and wields a big stick.**

- Texas does not provide adequate cash assistance or work supports.
- Harsh sanctions and other restrictive policies adopted in 2003 caused TANF caseloads to plummet by 30 percent in 2004. Before this dramatic drop, TANF caseloads had been increasing slightly.

**TANF spending could be changed to truly make a difference for low-income families in Texas.**

- Texas could use TANF to invest in meaningful strategies to help poor children, support the transition from welfare to work, and give working-poor families tools to escape poverty, such as child care, adult literacy and job training, and other work supports.

## TANF Spending, 1997 to 2007

Since 1997, Texas has received an annual block grant of federal Temporary Assistance for Needy Families (TANF) funds—currently \$539 million a year. To receive these funds, Texas must spend \$251 million annually of its own general revenue or other state dollars to meet a “maintenance of effort” (MOE) requirement. Combined, the TANF federal and MOE dollars add up to more than \$1.5 billion available to the Texas legislature as it crafts the two-year state budget.

The following section briefly describes the TANF grant and separately analyzes the uses of federal and MOE TANF in Texas, because legislative budget writers have tended to see them as two related but quite distinct funding streams. A more detailed, agency- and program-level analysis of the 2005 legislature’s TANF spending decisions can be found on pages 10 and 11.

**From AFDC to TANF:** TANF replaced Aid to Families with Dependent Children (AFDC), Emergency Assistance (EA), and Job Opportunities and Basic Skills (JOBS) as part of massive federal welfare changes in 1996’s Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA).

Authorized by the Social Security Act in the 1930s, AFDC, EA, and JOBS were open-ended entitlement programs in which the state and federal government shared the cost of providing cash assistance, job training, and child care to households with children (typically families headed by a single mother). States were allowed to decide eligibility and benefit levels.

TANF, in contrast, provides a capped grant to states, with supplemental and bonus grants available, and gives states more flexibility in using the funds to provide time-limited assistance. States must meet federal work participation rates and reporting requirements related to expenditures and TANF recipients. (PRWORA also made major changes to child care, child support enforcement, Food Stamps, Supplemental Security Income, and Medicaid that are beyond the scope of this report.)

### **TANF Grant Small to Begin With; Increases in Poverty and Inflation Take a Further Toll:**

For fiscal 2006, Texas’ basic grant is \$486 million and its supplemental grant is \$53 million. Texas re-

### **TANF Goals**

The purpose of Temporary Assistance for Needy Families is to increase the flexibility of states in operating a program designed to:

- provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- prevent and reduce out-of-wedlock pregnancies; and
- encourage the formation and maintenance of two-parent families.

—*Social Security Act, Sec. 401(a)*

ceives supplemental funds because under AFDC, its federal spending per poor person was at least 65 percent below the U.S. average. Even with supplemental funds, however, Texas’ federal TANF grant works out to about \$147 per resident in poverty in 2004. This is less TANF assistance than in any other state except Alabama, with \$139 in federal TANF spending per poor resident. The U.S. average is \$459 per person in poverty, three times as much as the Texas grant provides.

Increases in the number of poor Texans do not translate to any additional federal TANF dollars, because the block grant is based on pre-1996 spending levels. Inflation is also not factored into the annual funding levels. As a result, each year states are able to do less and less with the same amount of nominal dollars. If the TANF block grant had originally been designed to take into account both inflation and increases in poverty, Texas would have received \$173 in federal TANF per poor resident in 2004, or \$86 million more than it actually received.

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**Federal Restrictions:** PRWORA requires states to spend their TANF grant “in any manner reasonably calculated” to accomplish one of the program’s stated goals (see box at left). For spending on the first two goals, recipients must be “needy,” or below a state-determined income line. Spending for the second two goals requires no income test.

Spending that does not meet one of these goals can still be allowed if it was historically part of a state’s AFDC, EA, or JOBS spending. Transfers of federal TANF to the Social Services Block Grant (Title XX) or Child Care and Development Block Grant are also allowed. Title XX transfers cannot exceed 10 percent of a state’s grant; Title XX and CCDBG transfers combined are capped at 30 percent.

**Texas’ Early Uses of Block Grant:** Like other states, Texas was at first hesitant to spend all of its TANF federal dollars, even as cash assistance caseloads plummeted (see pages 7-9). From 1997 to 1999, TANF federal spending in Texas averaged about \$400 million annually, about \$100 million less than it had been receiving each year. As a result, a large surplus of TANF federal dollars accumulated.\*

Furthermore, of the federal TANF that legislators were willing to spend, a significant share was used to replace, or “supplant,” state general revenue or federal Title XX funds. The 1998-99 budget used federal TANF for adult and child protective services, at-risk prevention, and other programs previously funded with other federal or state dollars.

To the extent that TANF was used to supplant, rather than supplement, state spending on social services, legislators passed up the opportunity to significantly increase funding for child care, job training, or other services tied more closely to anti-poverty efforts. (One notable exception was the creation of the Self-Sufficiency Fund, to provide customized job training for TANF adults.)

Hesitancy to spend TANF lessened in 1999 when legislators wrote the 2000-01 state budget. This was partly because the April 1999 release of fed-

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eral rules clarified how TANF could be spent, and partly because social services budget needs greatly exceeded available general revenue. In child protective services, for example, legislators were concerned that a spike in child deaths in Texas was due to inadequate funding for CPS investigators and foster care.

As in 1997, legislators authorized spending more federal TANF on child welfare services. The difference in 1999 was that legislators went beyond supplanting general revenue: TANF federal funds were used to hire more CPS staff and make other expansions and improvements in CPS.

Legislators also improved cash assistance with small increases in the benefit level, a better earnings disregard, and a restoration of a \$60 “back to school” bonus payment per child in TANF households. The Self-Sufficiency Fund was greatly expanded, to \$24 million for the biennium.

**From Surpluses to Shortages:** The 2001 session saw no major changes in the use of TANF federal funds, but the 2003 session’s massive revenue shortfall and ensuing budget crisis led to TANF cutbacks in cash assistance, employment services, and abuse or dropout prevention programs. For example, the \$60 “back to school” payment was reduced to \$30; the Self-Sufficiency Fund was cut to less than \$12 million for 2004-05; and Healthy Families, Family Outreach, the Second Chance Teen Parent program, and At-Risk Mentoring lost all their federal TANF funding.

\*For more detail on TANF budget decisions before the 2005 session, see <http://www.cppp.org/research.php?aid=279&cid=3&scid=12>, *The TANF Block Grant and the State Budget* (August 1997), <http://www.cppp.org/research.php?aid=219&cid=3&scid=12>, *TANF Spending for 2000-01* (September 1999), <http://www.cppp.org/research.php?aid=180&cid=3&scid=12>, *O TANF, Where Art Thou?* (April 2001), and <http://www.cppp.org/files/6/budgetimpact04-web.pdf>, *Truth and Consequences, The State Budget for 2004-05* (July 2004), pp. 39-43.

In the 2005 session, underfunding of child protective services continued to be a key state budget issue. Once again, legislators turned to federal TANF dollars as part of the solution, leaving most of the state's growth in general revenue available for other purposes such as school finance reform, Medicaid/CHIP restorations, and higher education support. (See pages 10 and 11 for more details on TANF in the 2006-07 appropriations bill.)

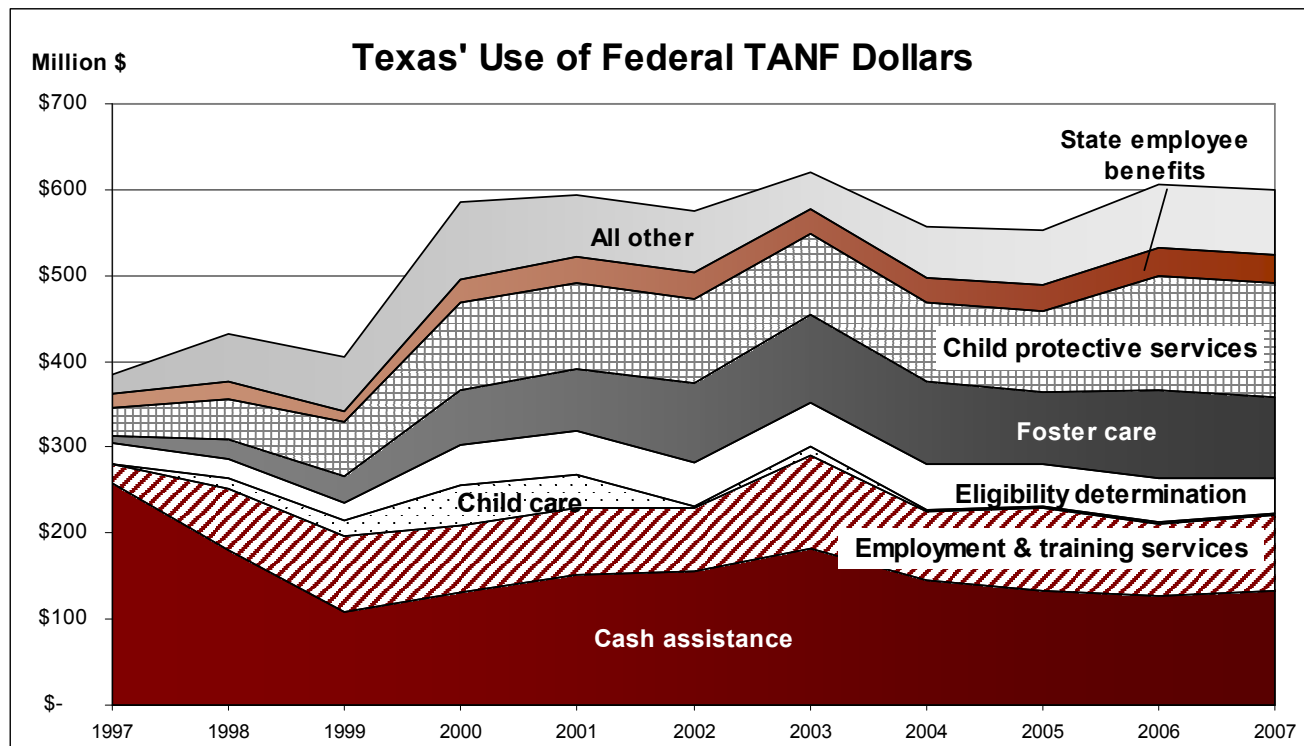
The chart below summarizes the first decade of Texas' use of federal TANF. The minimal use of TANF for child care is readily apparent, as is the flat funding for employment and training programs after 1999. (Federal TANF dollars are the only source of revenue in the state budget for welfare recipients' employment and training services; other items shown in the chart receive additional state and federal dollars, not just federal TANF funds.)

Also apparent is the shrinking share of federal TANF going to cash assistance—67 percent in 1997, versus 22 percent by 2007. In contrast, child protective services (including prevention programs) and foster care were 11 percent of TANF federal spending in 1997, but will hit 38 percent by 2007.

As mentioned earlier, the use of federal TANF for child protection meant that the funds were no longer available for other services such as child care. It also cost Texas the opportunity to draw down additional federal dollars in child welfare programs requiring state matching funds, such as Title IV-E.

This raises another potentially negative result of supplantation: by substituting TANF for state revenue in IV-E-funded programs, legislators may have put Texas in a precarious position now that Congress is considering turning IV-E entitlement funds into a block grant. In other words, a IV-E block grant based on Texas' low state spending on child protection could lead to inadequate federal funding for years to come, in the same way that extremely low historical spending on AFDC-related programs led to Texas' relatively small TANF block grant.

One final thing to note about Texas federal TANF spending is that it will total \$606 million in fiscal 2006 and \$599 million in 2007—well above the \$539 million expected annually at authorized levels. With TANF spending so much higher than TANF revenue, only \$33 million will remain of the state's once formidable surplus by the end of 2007.



Source: Legislative Budget Board. "Eligibility determination" includes the Texas Integrated Eligibility Redesign System. "Employment and training services" is the Choices program and Self-Sufficiency Fund. "All other" includes transfers to Title XX for family violence, children's mental health services, and family planning; Communities in Schools; adult education and family literacy; early childhood intervention services; and state agency administrative spending.

The TANF balance forecast (see chart on page 11) will change if the actual spending needs of TANF-funded programs turn out to be very different from projections made by state budget writers in 2005, or if Congress reauthorizes TANF at different spending levels. Reauthorization of TANF at current levels (\$486 million for the Texas basic grant and \$53 million in supplemental funds) would probably require the 2007 legislature to reduce federal TANF spending in the state budget until it more closely matches the amount of the TANF grant.

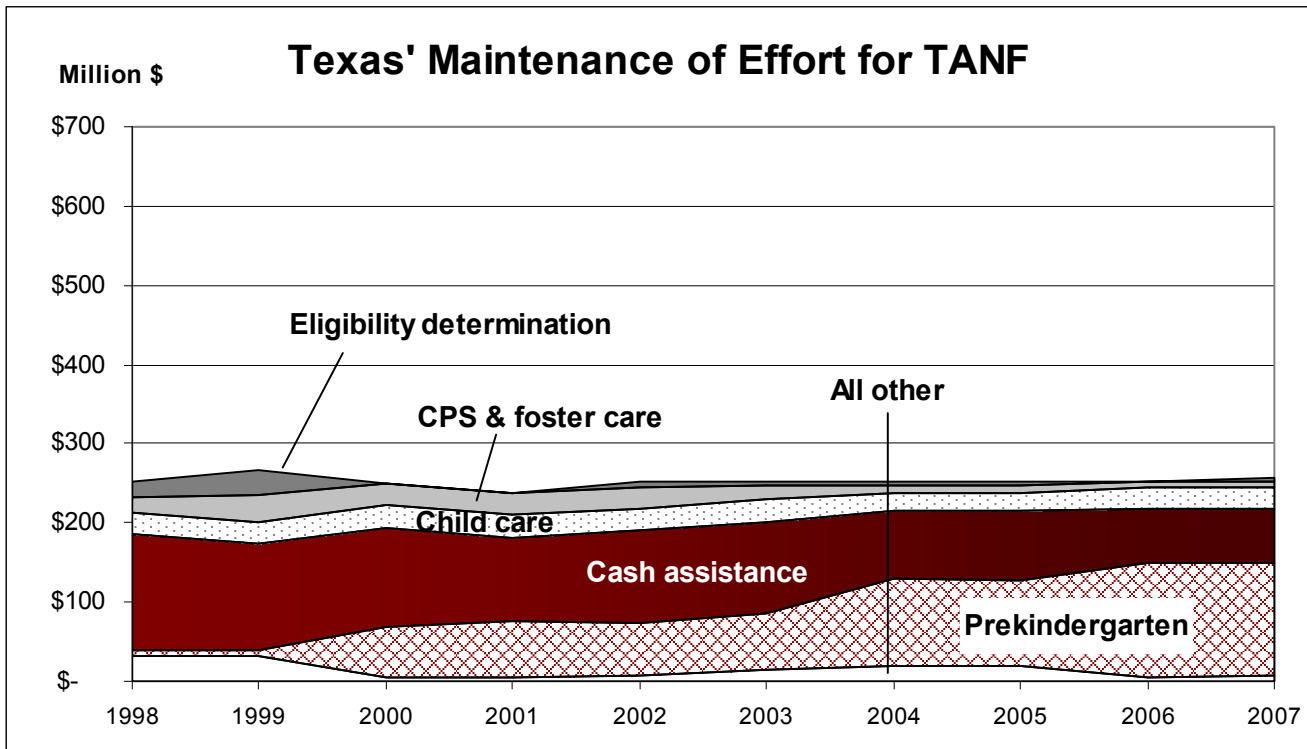
### Maintenance of Effort Spending

To receive federal TANF funds, states must meet maintenance of effort (MOE) requirements by spending at least 75 percent of what they spent out of state (i.e., nonfederal) funds on AFDC and related programs in fiscal 1994. For states that do not have a certain percentage of cash assistance recipients in work activities, the MOE requirement is 80 percent. MOE spending has to satisfy the purposes of TANF (see “TANF Goals” on page 2) and be spent on “needy families.”

For Texas, the MOE requirement is \$251 million annually at the 80 percent level. If the state could meet the more stringent work participation requirements at the 75 percent level, only \$235.7 million in state spending would be needed for MOE.

A large portion of Texas’ TANF MOE—about \$142 million a year in fiscal 2006 and 2007—is now met through public pre-kindergarten spending. This is very different from the early years of the grant, when cash assistance accounted for the largest share of TANF MOE.

The shift has taken place mainly because of plummeting cash assistance caseloads; with fewer and fewer Texans receiving TANF payments, fewer TANF federal and MOE dollars have been budgeted for cash grants. Legislators writing the 2000-01 budget originally intended to satisfy about \$75 million of the yearly TANF MOE requirement by counting state spending on child protection, foster care, and at-risk youth prevention programs. However, doubts about securing federal approval led to major revisions that instead made pre-kindergarten spending a major part of TANF MOE.



Source: Legislative Budget Board. “Eligibility determination” includes long-term care. “All other” includes substance abuse and other purchased services for families in the Child Protective Services system; adult education and family literacy; state employee benefits; child support supplemental payments, and hospital based workers.

## How Texas' Use of TANF Compares to Other States

Two things distinguish Texas' TANF spending from most other states: its highly restricted and meager cash assistance program, and the extent to which TANF federal funds have been used for child welfare services such as child protection and foster care. States' uses of TANF for child care and other core services are also a helpful basis for comparison in analyzing Texas' TANF choices.

**How Cash Assistance Compares:** To qualify for cash benefits initially, a Texas family of three could have no more than \$401 a month in income in mid-2003. Only six other states (Alabama, Arkansas, Florida, Indiana, Louisiana, and Virginia) had more restrictive income caps for initial eligibility; the U.S. median was \$704.

Families poor enough to qualify for help in Texas receive one of the nation's lowest benefits. Texas' maximum monthly TANF payment was \$213 for a family of three in 2003; only five other states (Alabama, Arkansas, Mississippi, South Carolina, and Tennessee) provided less. The median benefit nationwide was \$396 per month, almost twice as much as what Texas grants to poor families.

Texas' benefit was not always one of the lowest: in 1970, the Texas maximum monthly AFDC benefit of \$148 for a family of three was higher than that of 17 other states. However, because the Texas benefit has not been automatically adjusted for inflation until relatively recently, it has seen the largest decline in purchasing power. A benefit of \$148 in 1970 would have hit \$702 by 2003 if it had been increased every year for inflation using the Consumer Price Index.

**Funding Child Protection:** The extent to which TANF federal funds have been used for child welfare services can be shown in two ways: by how much of child welfare is funded by TANF, and by how much of the TANF block grant goes to child welfare services.

A national Urban Institute survey shows that Texas financed 27 percent of its child welfare budget for 2002 with TANF federal funds. This percentage made Texas' child welfare system the second most TANF-dependent, with Virginia in first place. Na-

tionally, the average for the 44 states using TANF to fund child welfare was 10 percent. Texas also ranked second in the share of its federal TANF that was used for child welfare—38 percent, according to the Urban Institute data, versus 14 percent nationwide.

### **Child Care Remains a Scarce Commodity:**

Texas is similar to other states in that TANF caseload declines freed up millions of dollars formerly spent on cash assistance. However, while many other states used these freed-up funds to subsidize child care for working-poor families, Texas only increased its use of TANF for child care for a very limited time (2000-2001). Texas also did not significantly increase general revenue funding for child care to expand the number of subsidies. As a result, availability of child care for families who are not current or former cash assistance recipients has been totally inadequate since welfare reform, compared to the demand for subsidized care. The result has been a "zero sum" game, in which serving a TANF recipient who needs child care often means that a working-poor family no longer gets a subsidy.

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### ***State budget writers have spread TANF throughout the HHS budget instead of concentrating it in a few key anti-poverty strategies.***

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Like other states, Texas has also used TANF to make up for the loss of other federal funds, such as Title XX, and to help address the state general revenue shortfalls that emerged after 2001. By using TANF as a "filler" to address funding gaps in various health and human services, state budget writers have spread it throughout the HHS budget instead of concentrating it in a few key anti-poverty strategies. As a result, TANF now helps fund six state agencies, supporting more than 40 budget "strategies" in 2006-2007. TANF is still the only source of funding for cash assistance and for employment and training services for cash assistance recipients, but its patchwork use in so many other state programs makes it difficult for advocates to put a "face" on TANF when budget cuts to the grant are proposed at the federal level.

Sources: Urban Institute, Welfare Rules Database, April 2005; Urban Institute, *The Cost of Protecting Vulnerable Children IV: How Child Welfare Funding Fared During the Recession*, December 2004; U.S. Department of Health and Human Services, Administration on Children and Families, Fiscal Year 2002 TANF Financial Data.

## What's Behind TANF Caseload Declines?

State welfare caseloads have fallen by 72 percent since 1996, despite an increase in the number of Texans in poverty. In fiscal 1996, cash assistance, then known as Aid to Families with Dependent Children, reached 22 percent of the 3.2 million Texans living in poverty. The average caseload for basic AFDC—typically a mother with two children—was about 666,000; another 24,000 Texans received AFDC-UP (Unemployed Parent) benefits for two-parent households. A total of \$481 million in federal/state AFDC benefits was provided in 1996, roughly 1 percent of state government spending. (The program's share of state spending is not mentioned merely for informational purposes; the Texas constitution requires that "The maximum amount paid out of state funds for assistance grants to or on behalf of needy dependent children and their caretakers shall not exceed one percent of the state budget" biennially.)

By fiscal 2004, only 7 percent of the state's 3.7 million poor received cash assistance through TANF. Basic monthly TANF payments were made to 254,600 individuals on average, while 18,800 received TANF-State Paid (SP) benefits, for a total of \$200 million in ongoing TANF payments in 2004. In addition, \$6 million in a supplemental, \$30 per-child grant was provided to the 200,200 children on TANF in August 2004; \$12.3 million in \$1,000, one-time payments to families was made; and \$964,000 went to caretaker grandparents of TANF children through \$1,000, one-time payments. The value of all TANF cash benefits combined (\$220 million) was less than 0.4 percent of state spending in 2004.

Cash assistance caseloads did not decline because fewer Texans sought help. In fact, the monthly average number of TANF applications rose from 43,400 in 1996 to more than 61,000 in 2004. Nor have caseloads plummeted because adult recipients are receiving the child care, training, and jobs that

enable them to work their way out of poverty. A 2001 statewide survey of Texas adults six months after they left TANF found that only 46 percent had a job. The median wage of those employed was \$6.25 per hour—well below poverty for a family of three. Those who were unemployed cited a lack of transportation and child care as major barriers to work, along with poor health.

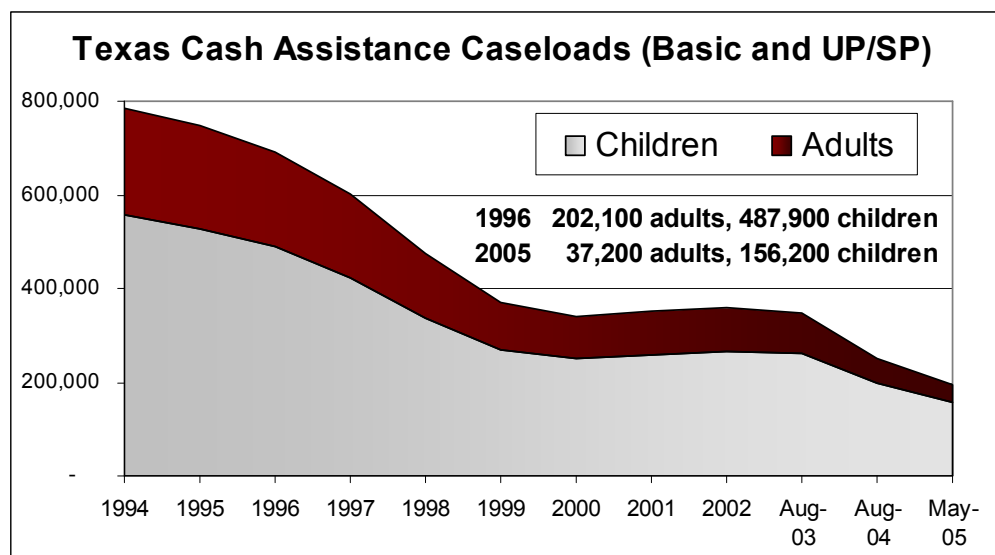
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Instead, most experts agree that the declines were due to an improved economy, a "work first" approach that redirected the most employable TANF adults to low-wage jobs, and other policy changes that made it harder to enter and stay on TANF.

As shown in the chart below, most of the initial decline in Texas TANF caseloads occurred by 2000. Basic and SP programs combined reached about 350,000 Texans from this point to September 2003, with caseloads actually increasing as the economy worsened in 2001.



Sources: Texas Department of Human Services; Texas Health and Human Services Commission. 1993 to 2002 are monthly averages for the fiscal year.

## Declines Resume After 2003 Policy Changes:

Texas TANF caseloads began another steep decline in September 2003, spurred in part by new “full-family” sanctions, so named because they deny benefits to children when parents break a program rule that is part of the Personal Responsibility Agreement (PRA) signed by adults on TANF.

TANF enrollment fell 26 percent between fiscal 2003 and 2004, from about 368,000 to 273,400 recipients. The number of children on TANF dropped 22 percent; children made up 65 percent of the caseload decline. Full-family sanctions are estimated to have caused 59 percent of the caseload decline from 2003 to 2004. (Other policy changes made in 2003 that reduced caseloads include a lower liquid, or “spendable,” asset limit of \$1,000 and stricter vehicle asset rules.)

Before September 2003, Texas sanctioned only adults in TANF households for failure to comply with program rules. Children, who are about 80 percent of the TANF caseloads, were not sanctioned. When an adult did not comply with work or child support cooperation requirements, the adult’s portion of the family’s benefit was terminated. Non-compliance with other requirements resulted in fixed-dollar-amount sanctions per infraction. For example, a parent was sanctioned \$25 a month per child not meeting school attendance requirements.

Under the full-family sanction adopted in September 2003, the family loses all TANF assistance when a parent violates any PRA requirement. Adults must show one month of compliance before their family’s benefits are reinstated.

### **TANF Personal Responsibility Agreement**

- Participate in approved work activities,
- Cooperate with child-support collection efforts,
- Not quit a job voluntarily,
- Ensure children receive required health and dental check-ups,
- Ensure children are current with their immunizations,
- Keep children attending school regularly,
- Attend parenting classes, and
- Not abuse alcohol or use, sell, or possess drugs.

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*Full-family sanctions are estimated to have caused 59 percent of the Texas caseload decline from 2003 to 2004.*

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### **What Are Full-Family Sanctions Really Accomplishing?**

Once the tougher sanctions were implemented, the percentage of adults not complying with work requirements fell from 40 percent in July 2003 to 12 percent in August 2004. In child support enforcement, the rate of noncompliance dropped from 5 percent to 1.6 percent. Noncompliance with parenting and conduct requirements fell from 10 percent to less than 1 percent.

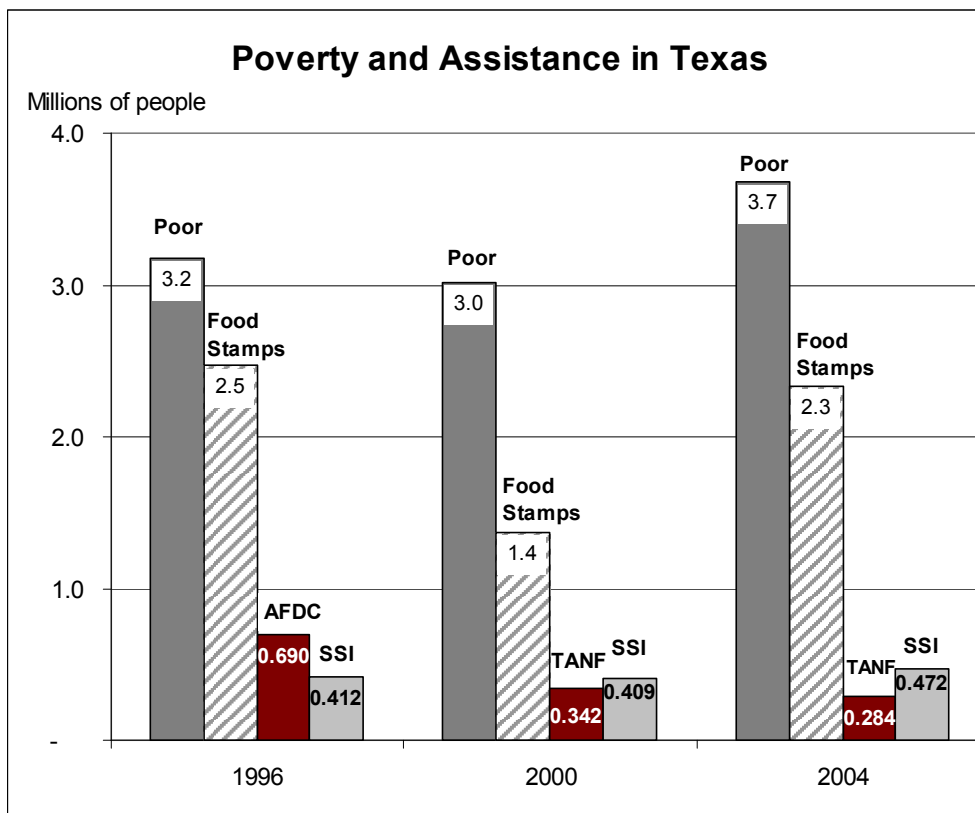
However, Texas data and studies from other states strongly suggest that high compliance has been achieved by forcing families off TANF when adults have difficulty complying with the rules, not because stricter sanctions have prompted most clients to comply with requirements.

Research shows that sanctioned families are more likely to have many severe barriers to getting or keeping a job, including transportation or child care problems, borderline disabilities, physical and mental health problems, and chemical dependency. The hardest-to-serve parents are also the families states should do their best to reach. But harsh sanctions serve the opposite purpose: not only do they deprive the neediest parents of cash assistance, they also sever their connection to employment services and other supports offered by TANF, further impeding parents’ ability to work and care for their children.

Supporters of full-family sanctions argued that stiff penalties would result in higher compliance by adults with TANF work requirements. Texas compliance rates did soar after September 2003, but other data show why compliance rates do not tell the whole story. First, only one-third of sanctioned families return to TANF within 6 months of being sanctioned. Furthermore, in fiscal 2004 the number of adults required to participate in the Choices work program dropped by 57 percent. Finally, the number of families with a Choices participant as a percent of all TANF families fell by 38 percent.

Rather than improving the employability of TANF adults, full-family sanctions have put basic assistance even further out of the reach of Texas’ most





Sources: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement; Texas Department of Human Services and Health and Human Services Commission; Social Security Administration.

needy families. This disconnect can clearly be seen by comparing TANF caseloads, eligibility criteria, and benefit levels to those of other programs and to the number of Texans in poverty.

In the chart above, “poor” refers to the number of residents below 100 percent of the federal poverty line—\$15,670 in 2004 for a family of three. Not shown is the poverty rate, which averaged 16.5 percent in 2004 for all Texans, and 23.2 percent for children under 18. The state poverty rate was 16.6 percent in 1996, meaning there has been no significant change.

**TANF:** Families qualifying for TANF in Texas must have incomes below 14 percent of poverty—less than \$2,256 for a family of three in 2005. The average monthly benefit for a family of three in 2005 is \$202; for an individual, \$62 a month.

**Food Stamps:** Food Stamp nutrition assistance, unlike TANF cash benefits, is an entitlement. Another key difference is that the federal government—not the states—determines the income eligi-

bility threshold. Households with gross incomes up to 130 percent of poverty (\$20,917 for a family of three) may be eligible for Food Stamps, far above the income limit for Texas TANF benefits. The federal government also decides the amount of the Food Stamp benefit, which averaged \$86 monthly for an individual in 2004. Finally, the federal government fully covers the benefit costs and pays for half of states’ administrative costs.

What Food Stamps has in common with TANF is the steep caseload declines seen after welfare reform in the mid 1990s. Major policy changes and en-

suing confusion about who was still eligible for Food Stamps, if not TANF, erased some of the gains that had been made in eradicating hunger. Texas Food Stamp caseloads began growing again in February 2001 and have continued to show steady growth—quite different from what has happened in TANF. However, millions of Texans are still not reached by Food Stamps: state officials estimate that only half of the potentially eligible population is being served.

#### **SSI Reaches More Texans Than TANF**

**Does:** Finally, the chart shows caseload changes for federal Supplemental Security Income (SSI), cash assistance for those who are elderly or blind or have a disability. The federal government funds SSI out of general revenues—not Social Security taxes—and covers the cost of eligibility determination. In 2005, the federal SSI benefit was \$579 a month for an individual, or \$869 for an eligible couple. (Texas does not supplement SSI with state-funded benefits.) Individuals at or below 73 percent of the federal poverty line are eligible.

## TANF in the 2006-2007 Texas State Budget

As in previous legislative sessions, the draft state budget was developed by the Legislative Budget Board (LBB) based on state agencies' requests for state and federal revenue. While the revenue forecast for 2006-07 was nowhere near as dire as for 2004-05, agencies had nonetheless been instructed to submit baseline budget proposals reflecting a 5 percent general revenue (GR) reduction. This set off an early scramble for any funds, including federal TANF, that might offset potential state GR cuts. Adding to the pressure on the TANF block grant was the high priority placed on school finance reform, Medicaid/CHIP restorations, and child protective services reform. If state GR growth was inadequate to meet all these needs, TANF could fill in some of the gaps.

In the end, legislators spent more federal TANF than had originally been recommended by the LBB, leaving a balance of only \$33 million by the end of 2007. The LBB's starting point for 2006-07 federal TANF spending was \$1.150 billion, only \$9 million more than budgeted for 2004-05. In the final budget—the May 2005 conference committee report on SB 1, and the July 2005 version of HB 1 funding the Texas Education Agency—\$1.205 billion in TANF federal spending is authorized. TANF Maintenance of Effort continues at \$503 million for the biennium.

### Child protection now the leading use of federal TANF:

A biennial increase of almost \$100 million in federal TANF at the Department of Family and Protective Services (DFPS) makes this agency the new leader in TANF spending, surpassing the Health and Human Services Commission. (See chart at right.)

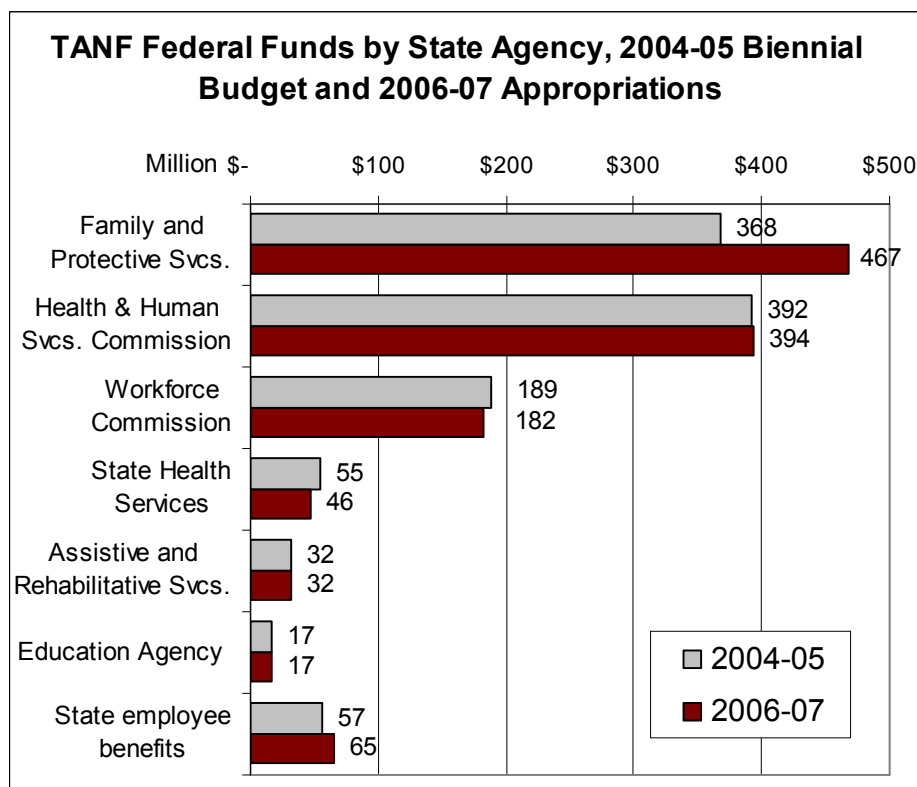
About half, or \$47 million, of the new federal TANF at DFPS will pay for CPS investigators and other items in the Child and Family Services budget; foster care payments are getting about

\$17 million more; and the STAR, Community Youth Development, and other at-risk prevention programs will receive \$27 million in new federal TANF for 2006-07.

### Cash assistance and eligibility determination:

For 2006-07, the Health and Human Services Commission (HHSC) is budgeted to receive only \$1.3 million more in TANF federal dollars, a scant 0.3 percent biennial change from 2004-05. Cash assistance, HHSC's main use of TANF, will get \$42 million less in federal and MOE funds in 2006-07, 9.5 percent less than in 2004-05. This cut is mainly due to the continued caseload decline caused by full-family sanctions enacted in 2003.

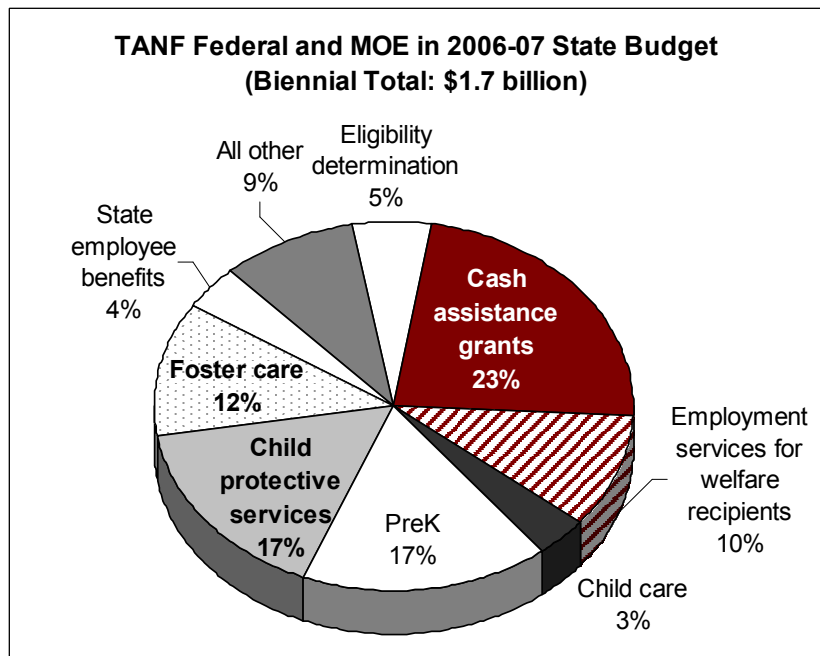
The Texas Integrated Eligibility Redesign System (TIERS), the state's fledgling computer system for eligibility determination, is budgeted to receive only \$3.2 million in TANF federal funds in 2006-07, compared to \$17.8 million in 2004-05. TIERS' reduced need for TANF is part of the project's overall cost decrease (from \$52 million in fiscal 2005 to \$24 million by 2007) as TIERS becomes operational and moves beyond the development



Source: Legislative Budget Board.

and testing phases. Finally, the use of call centers to determine eligibility for TANF and other services is forecast to cut TANF federal spending at HHSC by \$2.2 million in 2006 and \$7.8 million in 2007.

**Employment services and job training:** The Workforce Commission also saw cuts in TANF federal support, mainly for the Self-Sufficiency Fund for customized job training. The Fund was allocated \$6 million for 2006-07, a 47 percent reduction from the \$11.3 million spent in 2004-05. The number of clients served by the Fund will drop to 2,485 per year, compared to 4,470 in 2004 and 3,988 in 2005. Job services for cash assistance recipients will see a slight increase, from \$163 million in 2004-05 to \$167 million in 2006-07.



Source for both charts on this page: Legislative Budget Board. "MOE" = Maintenance of Effort.

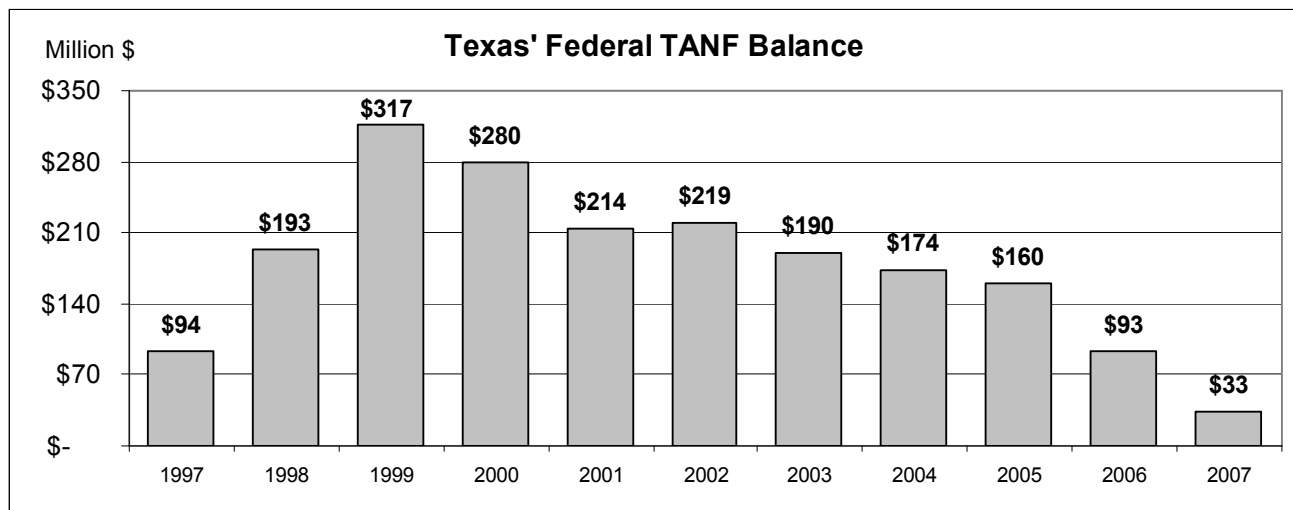
**Public health:** The Department of State Health Services received an overall cut of \$8.5 million in TANF federal funds, mostly because of a reduced transfer of TANF to Title XX for family planning.

and human services agencies are addressed in part with \$8.3 million in new TANF federal support. This is a 13 percent biennial increase in federal TANF used for state worker benefits.

**Other:** The Texas Education Agency and the Department of Assistive and Rehabilitative Services (DARS) will get the same amount of federal TANF as in 2004-05. At the Texas Education Agency, TANF is used mainly for Communities in Schools and adult education and family literacy programs. In the DARS budget, TANF continues to fund Early Childhood Intervention services.

To wrap up, the chart above shows TANF federal and MOE combined spending by program area—a departure from how TANF spending is usually viewed. Legislators have traditionally focused on the flexibility offered by TANF federal funds, seeing MOE only as a mandate to be satisfied (increasingly, through state pre-kindergarten spending). Viewing federal and MOE spending as a unified effort, in contrast, might lead to more strategic uses of the block grant.

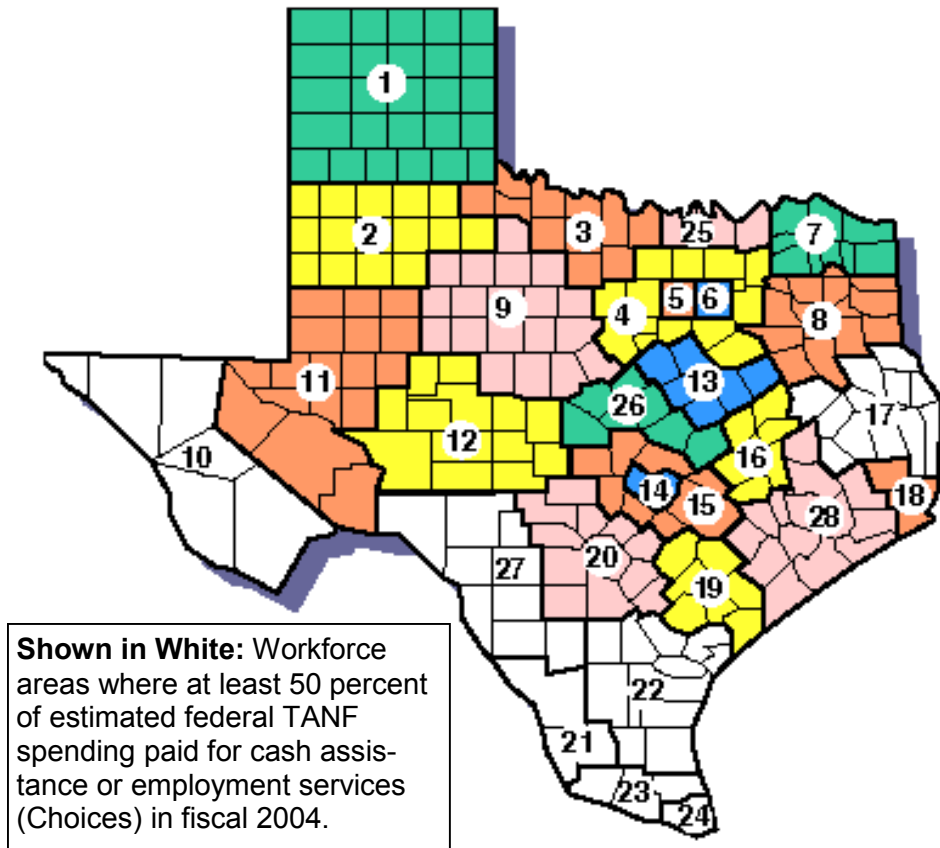
Finally, rising state employee benefit costs at health



# Regional Differences in Federal TANF Spending, Fiscal 2004

## Workforce Regions

- 1 Panhandle
- 2 South Plains
- 3 North TX
- 4 North Central
- 5 Tarrant County
- 6 Dallas
- 7 North East
- 8 East Texas
- 9 West Central
- 10 Upper Rio Grande
- 11 Permian Basin
- 12 Concho Valley
- 13 Heart of Texas
- 14 Capital Area
- 15 Rural Capital
- 16 Brazos Valley
- 17 Deep East Texas
- 18 South East Texas
- 19 Golden Crescent
- 20 Alamo
- 21 South Texas
- 22 Coastal Bend
- 23 Lower Rio Grande Valley
- 24 Cameron County
- 25 Texoma
- 26 Central Texas
- 27 Middle Rio Grande
- 28 Gulf Coast



**High-Unemployment, High-Poverty Areas Are Most Likely to Use TANF for Core Services:** The map above identifies the state’s 28 local workforce development areas. In each of these areas, boards appointed by local elected officials oversee the delivery of workforce-related services, including one-stop employment centers for employers and job seekers; child care subsidies for working-poor families and for families receiving public assistance; and Choices employment services for adult TANF cash assistance clients.

Using data at the workforce area and county levels, regional differences can be seen in how federal TANF is spent in Texas. Federal TANF is more likely to be spent on core poverty-fighting strategies such as cash assistance and employment services (the Choices program) in the workforce areas that have the highest levels of poverty and unemployment: the Upper Rio Grande, Middle Rio

Grande, South Texas, the Coastal Bend, Lower Rio Grande Valley, Cameron County, and Deep East Texas.

The Middle Rio Grande (Region 27), for example, had an annual unemployment rate of 9.9 percent in 2004, well above the state average of 6.1 percent. Cameron County (Region 24) had a poverty rate of 36 percent in 2004, compared to the state average of 17 percent. Areas in which at least half of TANF federal funds were spent on cash assistance and employment services are shown in white in the figure above.

Shaded-in areas, in contrast, are where more federal TANF was spent on child protective services, foster care, state eligibility determination, state employee benefits, at-risk prevention programs, and other programs discussed elsewhere in this report.

Sources: U.S. Census Bureau, Federal Assistance Award Data System, data for fiscal 2004; Texas Workforce Commission, Letter WD 12-04, Preliminary Planning Estimates for Workforce Funding Categories, Fiscal 2004 TANF Choices Allocations; Texas Health and Human Services Commission, “TANF Cases, Recipients, and Expenditures, SFY 2004,” prepared by Texas Works Reporting Team, December 2004. Unemployment rates are from the Texas Workforce Commission, not seasonally adjusted annual average. Poverty rates are from the American Community Survey for 2004.

## Reauthorization Issues

The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) created TANF and authorized grants to states through fiscal 2002. With the House and Senate unable to agree on TANF reauthorization, Congress has enacted 11 temporary extensions—the most recent one through December 2005—to continue funding at the 2002 levels. The House has actually passed a TANF reauthorization bill; the Senate has not. Major issues in reauthorization include:

**Funding Levels.** Congress has to decide the amounts of the basic, supplemental, and bonus grants that states will receive. Major differences exist in the original amounts proposed for child care for the next five years of the TANF and child care block grants—a \$1 billion increase proposed by the House, or \$6 billion more by the Senate. More recently, the House’s 2006 budget reconciliation/tax cut package would provide less new money for child care, even as states would be required to provide more child care to families leaving cash assistance. With a state waiting list for subsidized child care already exceeding 27,000, Texas would clearly benefit from increased federal child care funding. The House’s budget package would also make cuts to Medicaid for low-income working families, Food Stamp eligibility, and child support enforcement programs.

**Work Participation Requirements:** Both the House and Senate propose to increase work participation rates to 70 percent of families with an adult receiving TANF, up from the current 50 percent, and to eliminate a separate standard for two-parent families. However, the House would require 40 hours a week of allowable work activities for participants to apply toward the rate, while the Senate would allow 34 hours a week, or 24 hours if the adult has a child under 6. The Senate would also allow more of the requirement to be met with vocational education or rehabilitative services.

Full-family sanctions for adults not meeting work requirements would be required in the House proposal; the Senate would let states decide the penalty amount, as under current law.

**Fatherhood and Marriage Promotion:** Fatherhood programs would be authorized in either chambers’ proposals, but new funding for these is

found only in the Senate version. For marriage promotion, the Senate’s proposal differs with respect to domestic violence concerns and voluntary participation.

### **“Superwaiver” and Food Stamp Block Grant Proposal:**

The House would allow all states to obtain broad waivers of federal law in several major programs—not just TANF, but also Food Stamps, housing, Title XX, child care, job training, and adult education. The Senate would restrict waivers to ten states and to TANF, Title XX, and child care. The House would also let five states opt for a block grant for the Food Stamp program. For a more detailed CPPP analysis of the damage to Texas’ safety net that could result from a superwaiver or Food Stamp block grant, see *Good News, Bad News for Food Stamps in Congress* (<http://www.cppp.org/research.php?aid=131&cid=3&scid=5>).

**Transitional Medical Assistance:** The Senate would improve and extend for five years the Medicaid coverage that certain former TANF recipients and other needy individuals can receive. The House provides only for a one-year extension, increasing the risk that this coverage could soon fall victim to federal budget cuts. In October 2005, 58,904 children and 23,451 adults in Texas were enrolled in Medicaid because of transitional medical assistance. While these adults and children constitute a very small share of the state Medicaid caseload of 2.7 million, the potential loss of Medicaid coverage would further strain the health care safety net’s ability to serve the uninsured.

**Legal Immigrant SSI Eligibility:** Certain legal immigrants, such as refugees, who came to the U.S. after PRWORA was enacted on August 22, 1996, face different eligibility criteria for Supplemental Security Income. These immigrants can only receive SSI in the first seven years of their U.S. residency, unless they become U.S. citizens. The Senate’s TANF proposal would extend the period during which SSI can be received by these legal immigrants to nine years. Considering how many more Texans are now reached by SSI compared to TANF (see page 9), this provision would help expand the availability of cash assistance.

## The Future of TANF in Texas

Two issues emerge as the most salient for Texas in deciding the uses of Temporary Assistance for Needy Families funds in the 2007 session and beyond. One issue is the current budget allocation between anti-poverty programs and child protection; the second, related issue is the small amount of federal TANF received by Texas compared to other states that makes today's TANF spending levels unsustainable.

**Reallocating the uses of TANF:** Rather than investing in meaningful strategies at the front end to help families permanently escape from poverty, Texas is instead spending a significant amount of TANF at the back end on child protective services (CPS). Texas should refocus TANF spending on strategies to lift families out of poverty and into the workforce, helping to prevent tragic child maltreatment and the costly state response.

Permanently lifting families out of poverty in turn requires dramatic increases in child care assistance, housing assistance, adult literacy and job training, and other work supports. These are all areas where the state has always relied heavily on federal funding, investing only minimal amounts of state general revenue. Texas needs to find ways to use TANF, other federal funds, and increased state support to equip a much larger share of low-income parents—not just the 37,200 adults left on the TANF rolls—with the necessary skills to enter, advance, and succeed in the workplace. As part of this effort, Texas should restructure the TANF cash assistance program to emphasize self-sufficiency and occupational mobility.

As in other states where TANF supplantation has taken place, however, Texas will have to restructure its TANF spending with a great deal of caution. Without the TANF dollars supporting it now, the Texas CPS system would collapse. Even with the amount of TANF it receives, the Texas CPS system is one of the most underfunded in the nation. (For more information, see *Funding Child Protection in Texas*, October 2004, <http://www.cppp.org/research.php?aid=56&cid=4>)

Texas' reliance on TANF for core child protection programs also results in a low level of state baseline spending for CPS and foster care through Title IV-E, which requires matching state funds. This

low baseline spending could create future CPS funding problems for Texas if Congress decides to block grant Title IV-E as it did TANF, determining the amount of a state's block grant by locking it in at some low level of historical state spending.

### **Recognizing the limits of the TANF grant:**

Even without a reordering of TANF priorities, Texas has to find new ways to fund child protection. Significantly increased reliance on TANF for CPS is not likely to be a future option for state budget writers, because Texas' dwindling TANF balance will not even cover the cost of maintaining TANF spending at current levels. This is where the relatively small size of the Texas TANF grant comes into play: not only is too much of the state's grant being used for CPS; the grant and accumulated surpluses are no longer enough to cover current spending levels. If Congress reauthorized TANF at higher levels, Texas' TANF spending would be sustainable for a few more years; major increases might even allow higher spending on child care and other work supports without redirecting TANF funds from CPS. Unfortunately, new federal TANF dollars are extremely unlikely given congressional plans to slash welfare-to-work spending to cut taxes. A more likely scenario is that the 2007 Texas legislature will have to use less federal TANF in the state budget. Ideally, general revenue would be used to replace TANF.

The challenge of finding new state dollars to use in combination with TANF federal funds, whether for family work supports or for child protection, is a formidable one. Texas has a structural deficit, meaning that growth in state tax revenue will not be enough to pay for future budget needs in major areas like K-12 education, Medicaid, and prisons. Therefore, increased funding for any program currently receiving TANF would require new state tax revenues. (To learn more about the state's long-term tax and budget challenges, see *The Texas Revenue Primer*, April 2005 update, <http://www.cppp.org/research.php?aid=361&cid=6>)

In short, Texas needs to re-examine its uses of TANF, develop a strategic plan that refocuses on the core TANF goal of moving families out of poverty, and find ways to supplement TANF federal spending with its own general revenue support for critical state services.

## Additional Reading

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