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CROUCHING BUDGET, HIDDEN TANF

The Texas House and Senate have approved their versions of the state budget for 2002 and 2003, setting the stage for conferees to work out major differences in the weeks ahead. One set of issues to be resolved is the use of the Temporary Assistance for Needy Families (TANF) block grant, which will bring at least \$973 million in federal funds to Texas in the coming biennium. This Policy Page highlights significant differences in House and Senate proposals affecting TANF spending and the TANF balance that would remain by August 2003.

THE TANF CHALLENGE

The TANF block grant provided large surpluses for budget writers in the past two legislative sessions. Instead of developing a strategic framework for using this block grant, lawmakers viewed surpluses primarily as a financing windfall, most notably in meeting increased demands at the Department of Protective and Regulatory Services (PRS), which now accounts for a full third of TANF spending.

This session, lawmakers face a very different scenario. Surpluses are gone, and in fact current spending levels exceed our federal TANF allocation and are unsustainable. Additionally, dissipation of TANF funds among multiple agencies and programs is threatening needed investments in the welfare-to-work services for which the TANF block grant was created. Decisions on TANF spending this session will either seize the rapidly evaporating opportunity to use this federal funding stream strategically or will continue the problematic patterns set in place in the past two budget cycles. For more background on TANF issues see:

<http://www.cppp.org/products/policyanalysis/briefingpapers/anfchallenge.html>

and analyses of TANF spending in the past two legislative sessions (*Policy Pages* #50 and #95) at:

<http://www.cppp.org/products/policypages/wr/index.html>

STARTING POINT: TANF IN THE INTRODUCED BUDGET BILL

Both the House and Senate started with a proposal by the Legislative Budget Board (LBB) to spend \$1.121 billion in federal TANF during the 2002-03 biennium, down slightly from \$1.179 billion in 2000-01. At these spending levels, TANF would continue to be one of the most important funding streams in Texas' health and human services, second only to Medicaid. In terms of total funding, the LBB recommendations for specific state agencies did not differ much from what they are receiving in 2000-01, with the exception of a \$44 million TANF reduction for the Texas Workforce Commission (TWC) and a \$31 million cut to PRS. For TWC and PRS, the TANF cuts were offset by

increases in federal Child Care & Development Funds (an update on child care funding will follow shortly in another *Policy Page*).

Even with the LBB's recommended reductions in TANF spending, the amount of TANF remaining by the end of the next biennium (August 2003) would only be \$80.6 million. This balance assumed that TANF would be reauthorized in 2002 by Congress at spending levels equal to those currently in effect. It also did not take into account TANF shortfalls in the current budget period (ending August 2001) due to increases in cash assistance and foster care caseloads. While the assumptions of continued federal funding levels may be reasonable, they are by no means secure. Another significant concern is the fact that even the spending levels in the introduced bill will cause the August 2003 balance of \$80.6 million to vanish in fiscal 2004 and become a deficit in 2005.

TANF BUDGET PRESSURES AND COMMITTEE DECISIONS

The first TANF challenge in the state budget emerged with the February 1st cash assistance caseload updates by the Texas Department of Human Services (DHS). While the introduced budget bill assumed 331,005 TANF recipients for 2002 and 325,710 for 2003, the forecast updates suggested caseloads could increase to 361,225 in 2002 and 364,476 in 2003. Additionally, the February updates of the federal poverty guidelines, which drive the dollar amount of assistance provided to eligible families (currently a maximum of \$201/month for a family of three), were slightly higher than the LBB had built into its assumptions. These two adjustments alone required an additional \$49.2 million in TANF in DHS' 2002-03 budget (\$44 million for caseload adjustments and \$5 million for the poverty level update). The caseload adjustments also affected TWC's request for funding to provide employment services (the Choices program) to TANF recipients. To keep pace with the increased number of TANF clients that will be referred to the Choices program, TWC needs an additional \$13.6 million in TANF. Just these two changes reduce the projected

August 2003 balance from \$80.6 million to \$17.8 million and deepen the looming deficit in the 2004-05 biennium.

Because TANF is scattered among numerous agencies, TANF budget items surfaced in several House Appropriations subcommittees and Senate Finance Committee workgroups. This made it difficult for legislators to quickly grasp the overall status of TANF in the budget and delayed both a detailed examination of the competing needs and, ultimately, decisions about TANF allocations. Some agencies receiving TANF were not requesting TANF increases, but DHS, TWC, and PRS all had significant and competing requests for added TANF funding for 2002-03.

The Senate Finance Committee acted only on the DHS caseload-driven increase and on a similar caseload up-tick in PRS foster care. All other TANF requests above the introduced bill levels were either disregarded or relegated to Article XI to await deliberations in the conference committee. The bigger questions of the sustainability of TANF funding over time and any priority-setting for the allocation of dwindling TANF funds were not addressed by the Senate (see table below).

The House Appropriations Committee took much more deliberate actions related to TANF. The two subcommittees responsible for marking up the appropriations to DHS, PRS, and TWC—Health and Human Services, and General Government—soon recognized that they were competing for the same limited pot of TANF funds. As the impact of the caseload updates become clear, the subcommittees eventually met together to discuss TANF and child care funding issues. The LBB was asked to provide an update on TANF requests and the impact of decisions on the August 2003 balance. During this period the Center provided its own analysis to the budgetwriters, showing that if they funded caseload increases and only a short list of critical TANF funding needs, the 2003 balance would be depleted and in fact would approach a \$10 million deficit. Recognizing the untenable position legislators were facing, the Center put together a scenario of possible TANF reductions, together with needed expenditures, which retained a positive balance by August 2003 of \$10 million.

By this time, the two House Appropriations subcommittees had actually recommended very few TANF increases (they did include TANF caseload growth and TIERS funding). Nonetheless, based only on those limited actions, official

LBB updates projected a 2003 TANF balance of only \$6.1 million and a 2005 deficit of \$216.7 million. Confronted with the Center's analysis and the LBB projections, the subcommittees began serious discussions about the need to restructure how TANF is allocated and to reduce current TANF spending. Encouragingly, several members were adamant that the first call on TANF needed to remain with basic assistance and welfare-to-work services. They also recognized the problematic impact of previous uses of TANF to supplant general revenue, with one legislator remarking, "We did what we did then because we could, and now we cannot."

The subcommittee members directed the LBB to provide detailed information on the use of TANF in the introduced bill and to highlight items that might be assumed to be "one-time" or contractual in nature and thus easier to back away from over time. In a short meeting on March 15th LBB staff presented this information. A good deal of discussion focused on possible areas of reduction, alternate revenue sources for items currently being funded with TANF, and targeted reduction amounts to prevent a deficit in both 2002-2003 and 2004-05. There was some discussion on whether or not it made sense to base current decisions on avoiding a possible deficit in 2004-05, due to the possibility that Congressional reauthorization of TANF in 2002 might provide some relief.

The two subcommittees then met privately for several days to decide what to do. Ultimately they opted to reduce TANF appropriations across several agencies to get to a balance that would be sustainable into the 2004-05 biennium. Late in the day on March 21st they presented their plan to the full House Appropriations committee where it was adopted with little discussion. In laying out their decisions, several of the members remarked on their commitment to finding other sources of revenue to replace some of the reductions. In fact, the plan already includes such refinancing in several areas. Additionally, the final House version of the budget includes a Rider in Article IX (Nine) directing that any supplemental TANF funding received in the current biennium be directed to the strategies in which they had reduced or eliminated TANF funds. The table below contains a summary of the House and Senate actions regarding TANF in the state budget which sets the stage for Conference Committee deliberations on this important federal funding stream.

OH TANF, WHERE ART THOU?
House and Senate Decisions Regarding TANF Funds
Dollars in Millions

	HOUSE	SENATE
Fiscal 2003 TANF Balance - Introduced Bill	\$80.6	\$80.6
Additions (detailed below)	-52.4	-55.9
Reductions (detailed below)	93.6	None
New projected Fiscal 2003 TANF Balance	\$121.8	\$24.7

HOUSE ADDITIONS	TOTAL	COMMENTS
Cash assistance caseload increases (DHS)	\$49.2	February 1 st caseload updates projected increase above the estimates in the introduced bill.
Capital Budget (TWC)	0.1	
Employee Benefits	0.8	
Maintain Child Care Licensing Caseload (PRS)	2.3	
Subtotal, Additions	\$52.4	

HOUSE REDUCTIONS	TOTAL	COMMENTS
Adult Education and Literacy Services (TEA)	-12.6	Strikes TEA Rider 37, Adult Education
Support Programs (TEA)	-6.0	Strikes TEA Rider 51, Teen Parents but replaces TANF funds with Foundation School Fund dollars.
Substance Abuse Prevention, Intervention and Treatment Services (TCADA)	-24.0	TCADA received TANF in the interim to fill shortfalls. Had been assumed to be one-time solution, not ongoing.
Barriers Project (DHS)	-7.2	Remains at \$12 million as in last session – no increase.
Family Violence Services (DHS)	-16.8	TANF cut is replaced with Crime Victim Comp. Funds.
Self-Sufficiency Fund (TWC)	-24.0	Zeros out TANF funding, but members committed to use Smart Jobs Funds to replace \$12 m. See discussion below.
Various welfare-to-work Services (TWC)	-3.0	Reduces funds in Riders 21 and 22 (TWC)
Subtotal, Reductions	-\$93.6	

SENATE ADDITIONS	TOTAL	COMMENTS
Cash assistance caseload increases (DHS)	\$49.2	Same as House
Increase Foster Care Rates	6.7	
	\$55.9	

HOUSE ARTICLE XI "WISH LIST"	COST	SENATE ARTICLE XI "WISH LIST"	COST
Improved Salaries (DHS)	\$5.9	Caseload Increase for Choices (TWC)	\$13.6
TX Integrated Eligibility Redesign System (TIERS)	10.2	TX Integrated Eligibility Redesign System	10.2
Other Automation/Admin. Costs (DHS)	4.8	Maintain Child Protective Svcs. Caseloads (PRS)	3.9
CPS/Child Care Reg./Foster Care/Other (PRS)	70.1	Maintain Child Care Licensing Caseloads (PRS)	2.3
Contingency Riders for Bills with TANF Costs	?	Increase pay for certain workers (PRS)	12.7
		All other PRS Requests	43.6
		Contingency Riders for Bills with TANF Costs	?

NOTES: Amounts above are only for TANF, not other sources of funding for listed items. DHS=Texas Department of Human Services, TWC=Texas Workforce Commission, PRS=Department of Protective and Regulatory Services, TCADA=Texas Commission on Alcohol and Drug Abuse, TEA=Texas Education Agency.

CONCERNS AND CONFERENCE COMMITTEE CONSIDERATIONS

The House budget bill contains significant cuts in TANF funds, even with alternative financing for some items. In contrast, the Senate made no such reductions. This very different approach to TANF spending will be a significant area for conference committee deliberations, although Congressional action may make resolution of this disparity a bit easier. The recently approved Senate Budget Resolution for fiscal 2002 contains a provision authored by Sen. Kay Bailey Hutchison (R-TX) and Sen. Bob Graham (D-FL) to restore Supplemental TANF grants to Texas, Florida and 15 other high poverty/high population growth states, at a total cost of \$400 million. If this change survives the budget process it would add \$52.7 million to the TANF funds available to Texas in the coming biennium.

As the budget conference committee begins its work the Center will produce a more detailed analysis of TANF considerations, but the following is a summary of major concerns and issues needing attention in the deliberations.

Legislation. Neither the House nor the Senate has made any provision for the numerous bills that require modest amounts of TANF funds. Both the House and Senate Human Services interim committees developed a comprehensive set of policy changes to address the expiration of Texas' welfare waiver in 2002 and to improve welfare-to-work efforts. Much of this work will be for naught if TANF funds are not earmarked for those bills with small TANF fiscal notes. **It is essential that the conferees set aside \$10 to \$20 million of TANF to ensure these positive changes are enacted.**

Choices Shortfall. The new projections of TANF caseloads will require an expansion of employment services and child care. TWC's request for \$13.6 million in TANF to meet this demand in the Choices program was overlooked by the House and only exists in the Senate in Article XI. Local workforce boards will run short of funds and clients will approach their time limits with inadequate employment assistance if this item is not funded.

Self-Sufficiency Fund. This TWC fund is the only dedicated education and training fund for TANF clients. The House cut all \$24 million in TANF—the only source of funding—for this program while committing to replacing \$12 million from the Smart Jobs fund. The Senate did not reduce TANF for this program. With the probability of the TANF supplemental funds being available again and considering the possible instability of the Smart Jobs funding stream, the conferees should continue some level of TANF funding for the Self-Sufficiency Fund.

TANF for Child Care. TWC's original request included using some TANF to transfer to the Child Care & Development Fund to reduce waiting lists for subsidized child care. Neither the House nor Senate adopted this recommendation, but given the increased demand for child care predicted in the coming biennium, the proposal deserves consideration.

The Big Picture Problem. What neither the House nor Senate has addressed in its allocations of TANF are the trio of larger problems: continuing over-dependence on TANF to fund services at PRS; inadequate investments in welfare-to-work supports to keep caseloads low; and, lack of a strategic plan to guide TANF expenditures and how they are divided among various agencies. Given the pressurized competition for general revenue this session it is unlikely that any real refinancing of TANF at PRS will occur. However, the conference committee will have the opportunity to focus TANF funds more strategically. Decisions made between now and the end of the session can position Texas either well or poorly for the TANF reauthorization debate and will either delay or confront mounting pressures on this important funding stream.

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