

TANF UPDATE

A Report Prepared for the
Legislative Finance Committee

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Legislative Fiscal Division



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PURPOSE

This report summarizes a number of actions and events that have occurred since the adjournment of the legislative session, that impact the availability of federal Temporary Assistance For Needy Families (TANF) funds. As such, it is not intended to provide a great deal of background on discussions or events that occurred during the 2003 legislative session. Readers may wish to consult the Legislative Fiscal Report for more detailed background information regarding this topic. The intent of this report is to provide updated information and to make the Legislative Finance Committee (LFC) aware of recent events, their impact, and items regarding which the LFC may wish to engage in a discussion with the executive.

REDUCTION IN CASH ASSISTANCE

During the 2003 legislative session the legislature heard testimony regarding a potential reduction in the monthly cash benefit paid to families receiving Temporary Assistance for Needy Families (TANF) due to two reasons: 1) increasing caseloads; and 2) because the legislature increased the appropriation for childcare subsidies by \$3 million and reduced the appropriation for cash assistance by a like amount.

Caseload

The cash assistance caseload has increased significantly since October 2000. Due to this increase and anticipated increases of nine percent per year in the 2005 biennium, the Department of Public Health and Human Services (DPHHS) indicated that a reduction in the monthly cash assistance payment was likely to be needed to maintain expenditures within the available federal TANF funds. The legislature encouraged the department to delay this reduction and included statements in the Legislative Fiscal Report indicating it was legislative intent that benefit reductions not occur prior to December 2003. However, the department indicated during the closing days of the 2003 legislative session that it anticipated that the reduction would need to be implemented prior to December 2003.

Transfer to Childcare

In an effort to stabilize and/or decrease the growth of the TANF cash assistance caseload, the legislature transferred \$3 million of TANF cash assistance appropriations to childcare subsidies. Based upon the TANF caseload at that time, this reduction was estimated to be a reduction of about \$20 per month, per family.

SINCE ADJOURNMENT

After the legislature adjourned, the department proceeded with administrative rule changes and implemented a reduction in the monthly cash assistance payment effective August 1, 2003. This change, which reduced the benefit standard from 40.5 percent of the 2002 federal poverty level to 30 percent of the 2002 federal poverty level, impacted both the monthly cash payment and the income level at which families are eligible to receive cash assistance.

Monthly Payment Decrease

While it is difficult to estimate the impact on an individual family, the department estimated that for an average family of three this change equated to a reduction from \$507 per month to \$375 per month, a reduction of about 26 percent.

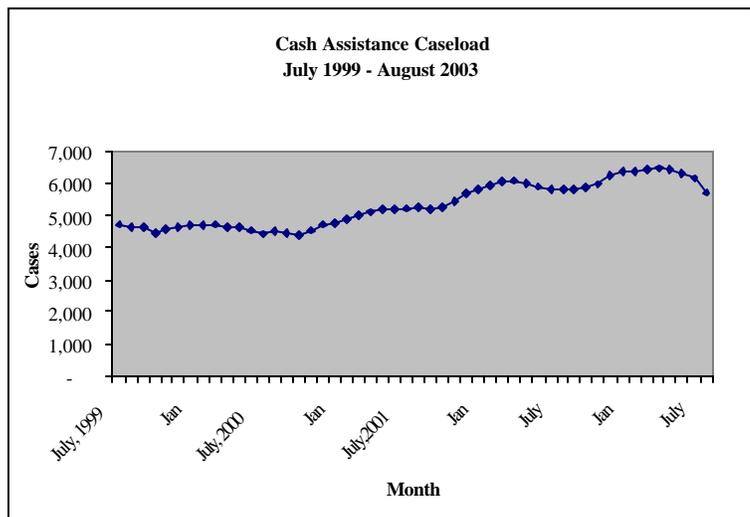
As illustrated in the table, the department's estimated costs for cash assistance for the biennium is \$5.3 million less than the 2005 biennium appropriation for cash assistance. The department's cash assistance caseload costs estimate, prepared in August 2003 to include the anticipated impact of the reduction in the monthly payment, projects expenditures of \$27.4 million in fiscal 2004 and \$30.8 million in fiscal 2005.

Description	Actual FY 2003	DPHHS Est. FY 2004	DPHHS Est. FY 2005	Total 2005 Biennium
Cash Assistance Costs	\$ 33,247,462	\$ 27,416,989	\$ 30,777,863	\$ 58,194,852
Legislative Appropriation		31,769,235	31,769,235	63,538,470
Estimated Costs (over)/under Appropriation		<u>\$ 4,352,246</u>	<u>\$ 991,372</u>	<u>\$ 5,343,618</u>

Caseload Decrease

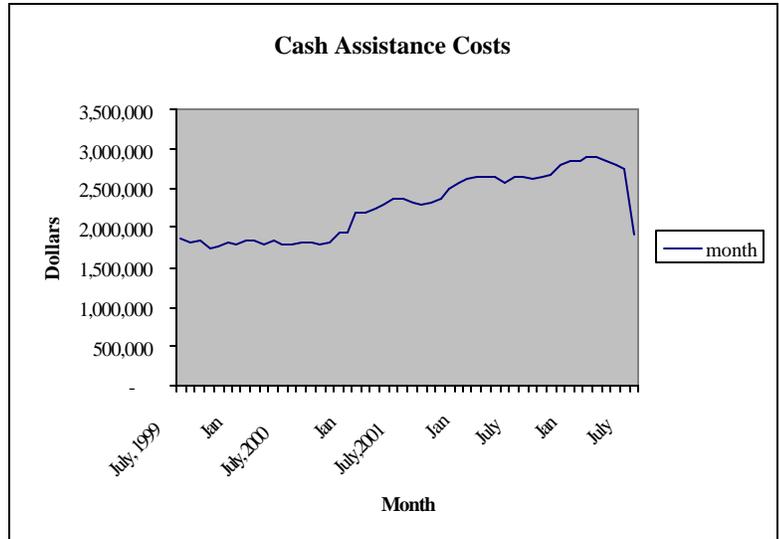
Department staff anticipated that, when implemented, the change in the monthly payment would decrease the cash assistance caseload and costs. However, it is still too soon to determine if this change will impact the projected nine percent increase that is expected over the course of fiscal 2004. As illustrated in the adjacent figure, the caseload dropped between July and August of 2003 from 6,185 to 5,731 cases, a decrease of 454 cases, or 7.3 percent.

It is interesting to note that the number of individuals in these TANF cash assistance cases decreased by 1,448 individuals between July and August 2003, from 17,162 to 15,714. Of the 1,448 individuals that are no longer receiving cash assistance 948, or 65 percent, are children.



Legislative staff requested that department staff provide information regarding the number of cases that may have closed due to the change in the monthly benefit payment implemented via the administrative rule change that was effective August 1, 2003. Department staff reviewed preliminary data (final data will be available in November) regarding the reasons for case closure between July and August and estimated that 292, or 64 percent of the cases closed between the two months, were or could have been impacted by the change in the monthly benefit. Of the 292 cases that might have been impacted by the change in the monthly payment, 55 cases had a case closure reason directly related to the change in the monthly payment (closure reason: “due to the change in the benefit standard”). The department estimated that a portion of the cases closed “due to earned income exceeding needs” and “at the request of the client” could be related to the administrative rule change implementing the reduction in the monthly payment.

As illustrated in the figure, monthly cash assistance costs dropped from almost \$2.8 million in July to only \$1.9 million in August, a level last seen in December 2000 when the total number of cases receiving cash assistance totaled 4,735. In other words, roughly 1,000 more cases are being supported by the same amount of funding that was used in December 2000.



TANF Maintenance of Effort (MOE)

In order to be eligible to receive the federal TANF grant, federal TANF regulations require that the state maintain a minimum level of state support for its TANF program. This minimum level of funding is commonly referred to as the TANF Maintenance of Effort (MOE).

The spending reductions proposed by the Governor in accordance with 17-7-140, MCA included a reduction in general fund support for job training and employment programs for TANF recipients. This reduction, as well as other smaller reductions, meant that Montana would not fully expend the TANF MOE within state fiscal 2003. However, compliance with this federal requirement is based upon a federal fiscal year and a one-time delay in spending was feasible while maintaining compliance with federal fiscal requirements. Thus, additional funding was not necessary in order to meet federal requirements for MOE spending.

The Executive Budget presented to the 2003 legislature included a request for approximately \$1.2 million general fund to increase TANF MOE expenditures in fiscal 2004 to offset the fiscal 2003 spending reduction. However, the legislature did not approve this request.

At fiscal year end 2003 the department had general fund savings above the level directed by the Governor’s spending reduction plan. Rather than revert the entire general fund savings, about \$1.2 million of general fund was expended for TANF MOE, so that the TANF MOE was fully expended within state fiscal 2003.

Performance Bonus

Tuesday, September 23, 2003 the Secretary of the U. S. Department of Health and Human Services announced the award of TANF “high performance” bonuses for federal fiscal 2001. Montana was 1 of 41 states to receive a bonus and will receive an additional \$1.6 million of federal funds. Montana earned bonuses in four areas: job entry, job retention and increased earnings (success in the workforce), Medicaid/CHIP enrollment, and Food Stamp enrollment.

On September 30, 2003 the Secretary of U. S. Department of Health and Human Services announced the award of TANF “high performance” bonuses for federal fiscal 2002. Montana was one of 40 states to receive a bonus for federal fiscal 2002 achievement and will receive an additional \$2.3 million of federal funds. Together these two “performance” bonuses total approximately \$3.9 million. TANF “bonus” funds may be expended for the same programs and purpose as the TANF grant.

ISSUES FOR CONSIDERATION

Use of Excess TANF Funds

The department's most recently prepared analysis of the entire TANF grant anticipates unexpended TANF funds totaling \$10.1 million by the end of fiscal 2005. Legislative staff is currently investigating the reasons (other than cash assistance costs that will be lower than the appropriated level) that this balance is larger than was anticipated during the past legislative session. This balance will increase to about \$14.0 million when the performance bonuses Montana will receive are added to it.

Realizing that circumstances might change, the legislature including the following language in HB2 regarding the use of surplus TANF funds:

Item 1 includes \$31,769,235 of federal funds in fiscal year 2004 and \$31,769,235 of federal funds in fiscal year 2005 to fund cash assistance benefits provided under Montana's Temporary Assistance for Needy Families (TANF) grant. If caseloads decrease below this level of funding, resulting in a surplus of federal TANF funds, the following priorities may be funded:

1. childcare subsidies;
2. a "rainy day" fund of up to \$4 million;
3. training and education programs to achieve employment in higher wage jobs, including programs offered by tribal colleges; or
4. supportive services needed for employment of TANF recipients.

While the legislature did provide guidance in HB 2 regarding the usage of excess TANF funds, the language in HB 2 is permissive. In other words, the language in HB 2 allows the department to expend excess TANF funds in the manner described, but it is not required. It is likely that statutory changes would be needed if the legislature wished to mandate expenditure of these funds. However, the LFC may wish to:

- a) inquire what plans the executive has for use of surplus TANF funds; and
- b) utilize its "power of persuasion" to encourage the executive to expend excess TANF funds for specific purposes.

TANF MOE

While the legislature did appropriate sufficient general fund to support expenditure of the entire TANF MOE in fiscal 2003, it did not approve the executive request to provide general fund to "backfill" the spending reduction ordered by the Governor. The use of general fund savings for this purpose as opposed to reversion to the general fund or use to reinstate service reductions implemented during the 2003 biennium was a policy decision implemented by the Executive Branch. The LFC may wish to:

- a) ask the executive to describe its rationale for the decision to fully expend TANF MOE in fiscal 2003; and
- b) comment upon legislative priorities and the usage of general fund for TANF MOE rather than other options for use or reversion of these funds.

Maintenance of Cash Benefit Level

The estimated funding above the 2005 biennium appropriation needed to maintain cash assistance payments at the fiscal 2003 level are shown in the adjacent table. If the average costs per case were maintained at the fiscal 2003 level of \$5,392 per year and the annual caseload increases 9 percent per year as it did in fiscal 2003, cash assistance costs would be about \$36.2 million in fiscal 2004 and \$39.5 million in fiscal 2005 or \$12.2 million above the appropriation for the 2005 biennium. When compared to the currently projected expenditure level, the department would need an additional \$17.5 million (\$12.2 above the appropriation level plus the \$5.3 million below the appropriation level that expenditures are currently projected) in order to maintain the monthly cash assistance payment at the fiscal 2003 level.

Estimated Costs to Maintain Fiscal 2003 Payment Level			
Description	FY 2003	Estimated FY 2004	Estimated FY 2005
Cash Assistance Costs - Actual	\$ 33,247,462		
Cash Assistance Cases (Monthly Ave.)	6,166	6,721	7,326
Percentage Increase	8.96%	9.00%	9.00%
Annual Average Costs Per Case	\$ 5,392	\$ 5,392	\$ 5,392
Percentage Increase	2.07%	0.00%	0.00%
Estimated Costs at Fiscal 2003 Ave. Costs Per Case		\$ 36,239,734	\$ 39,501,310
Legislative Appropriation		<u>31,769,235</u>	<u>31,769,235</u>
Estimated Costs (over)/under Appropriation		\$ (4,470,499)	\$ (7,732,075)
Biennial Total			
Estimated Costs at Fiscal 2003 Ave. Costs Per Case			\$ 75,741,043
Legislative Appropriation			63,538,470
Estimated Costs (over)/under Appropriation			<u>\$ (12,202,573)</u>

It appears that there may be sufficient excess TANF funds to fund a portion of this need. However, even if the entire \$14.0 million that is anticipated in unexpended TANF funds were used for this purpose additional funding of \$3.5 million would need to be identified. This funding could be made available through several options including: 1) decreasing expenditures of TANF funds for purposes other than cash assistance (would mean decreasing those services as well); 2) use of general fund available due to a Medicaid matching requirement that is less than was anticipated by the legislature; or 3) use of federal funds made available to states for fiscal relief. The executive without legislative intervention could implement any or all of these options. The LFC may wish to:

- a) inquire what if any plans the executive has to maintain cash benefits at the fiscal 2003 level;
- b) utilize its "power of persuasion" to encourage or discourage the executive to maintain cash benefits at the fiscal 2003 level; and
- c) prioritize the use of either surplus TANF funds or general fund for this purpose with other legislative funding priorities.