

## With Welfare Surplus Shrinking, City Could Face \$80 Million Aid Loss

### SUMMARY

In the last two years, New York State has redirected a large portion of its “TANF surplus”—money left over from the federal welfare block grant due to lower caseloads—for fiscal relief as the state faced severe fiscal hardship. These shifts, which included exhausting a \$662 million contingency fund, have reduced the amount of TANF surplus that had been available for other social service spending. Faced with a smaller TANF surplus available for 2004-2005, the Governor’s Executive Budget would reduce the city’s TANF surplus allocation, with a potential reduction of over \$80 million for child welfare programs.

After reviewing the history of the TANF surplus, this brief describes recent changes in state use of the surplus and the likely results for the city under the Governor’s proposed budget for state fiscal year 2004-2005. Key findings include:

- New York State used about \$1 billion in TANF surplus to help close an enormous budget shortfall in 2002-2003, and another \$372 million in 2003-2004.
- In order to maximize the TANF surplus funds available for fiscal relief, the state completely exhausted a \$662 million contingency reserve of surplus TANF funds that had been accumulating since 1997-1998.
- With the contingency fund gone and the costs of programs funded with TANF continuing to grow, the state has begun cutting back on some of the social service-related uses of the TANF surplus.
- Under the Governor’s proposed budget for 2004-2005, statewide TANF surplus allocations for child welfare would fall \$141 million from the 2003-2004 level. Employment programs would be allocated \$101 million statewide, down from a peak of \$282 million in 2000-2001.
- Some of the Governor’s proposals would result in fewer TANF surplus dollars allocated for city service delivery. Depending on how the lost funds are replaced the additional cost in city funds could exceed \$80 million.
- The future of TANF remains up in the air with reauthorization of the 1996 legislation, originally scheduled for 2002, still not completed. Given the state’s and the city’s dependence on using surplus TANF funds for other social services programs, reauthorization could significantly alter the mix—and possibly even the level—of funding for these programs.

---

## BACKGROUND

One of the most important changes brought about by the federal welfare reform act of 1996 was the creation of a new system using Temporary Assistance for Needy Families (TANF) block grants to the states. These block grants gave states greater control over the administration of welfare programs. They also paved the way for states to garner surplus funds if their welfare caseloads dropped.

The amount of the block grant is set by a formula based on actual federal welfare spending in New York and other states between the years 1992 and 1995. As with most other states, New York's caseload has fallen dramatically since those years. Thus, the difference between the block grant amount and what the state now needs to spend on public assistance grants and related expenses results in the "TANF surplus." In addition to the use of these funds in its own budget, the state has allocated TANF surplus funds to New York City and other localities.

## DIFFERENT YEARS, DIFFERENT SURPLUS LEVELS

New York State has increasingly used the TANF surplus to create or expand a variety of social service programs and, particularly in the last two years, to provide fiscal relief for the state and local governments by using the surplus funds to supplant the need for spending state and local revenues. In state fiscal year 1997-1998, \$881 million in surplus funds were made available for social service programs and fiscal relief. Over the next several years the size of the surplus generally increased as welfare reform policies and an expanding economy led to significant decreases in the Family Assistance caseload and total grant outlays.

Starting in 2002-2003, state officials began to use one-time mechanisms to enlarge the pool of surplus available above the amount attributable to the current year caseload level. In that year the allocated surplus peaked at \$2.59 billion as the state used up its \$662 million TANF contingency fund as part of its efforts to close a growing budget gap. (The allocated surplus refers to the estimated TANF surplus in the adopted budget for that fiscal year, all of which is allocated for specific programs or contingency reserve funds.) In 2003-2004, the adopted budget included an allocated surplus of \$2.02 billion. While significantly smaller than the previous year, it still relied on over \$400 million in a one-time addition to the surplus brought about by postponing TANF transfers to the Child Care Block Grant (CCBG). With these temporary additions to the annual surplus no longer available, future surpluses are expected to be significantly smaller than in the last two years. The 2004-2005 Executive Budget proposes an allocated surplus of \$1.48 billion,

about 40 percent lower than the 2002-2003 surplus.

## CHANGING TANF SURPLUS ALLOCATIONS

Along with the size of the TANF surplus, the mix of programs and initiatives funded with the surplus has varied from year to year. For instance, in some years the state has set aside a significant portion of the surplus for fiscal relief; there has also been a steady increase in the amount allocated for child care services. An examination of the TANF surplus allocations included in the adopted budgets for each year indicates the changing priorities of state officials.

*Fiscal Relief.* In 1997-1998 the state allocated \$248 million intended to reduce state and local Family Assistance grant costs by substituting TANF surplus funds for a share of the grants that the state and localities would have otherwise funded from their own revenues. In later years this initiative was discontinued as shrinking caseloads made it more difficult for the state and local governments to maintain the level of welfare spending required under the federal law. Under the 1996 law states were required to spend at least 75 percent of the amount they had been spending under the previous welfare entitlement system on TANF grants and other specified programs.

There were no further TANF surplus funds allocated to provide true fiscal relief by using TANF funds to replace state and local funds and thereby reduce state or local spending until 2002-2003, when the economic downturn led to a significant increase in the projected state budget gap. As part of their efforts to close this gap, state officials increased the size of that year's TANF surplus available for allocation to \$2.59 billion primarily by exhausting a \$662 million contingency fund accumulated from prior year surpluses. They then allocated \$1.05 billion of the surplus for fiscal relief. While a small portion of this went to provide local fiscal relief, the vast majority of these funds were used to replace state revenues.

State officials used two budget mechanisms to provide this fiscal relief without violating federal maintenance of effort spending requirements. One mechanism involved using TANF funds to replace state funds for programs that benefit low-income individuals (and are therefore, TANF eligible), but were never part of the TANF maintenance of effort base. This included \$380 million for the Tuition Assistance Program and \$50 million for the state's pre-kindergarten program. The second mechanism made use of more favorable accounting of prior year spending to retroactively replace state and local funds with current year TANF dollars.<sup>1</sup> This latter mechanism provided a significant one year benefit to the state, but was

---

largely unavailable in the next fiscal year. The \$372 million allocation for fiscal relief in 2003-2004 is almost entirely composed of continued TANF funding for tuition assistance and pre-kindergarten.

With a much smaller surplus expected for the next fiscal year, the Governor's 2004-2005 Executive Budget proposes using no TANF surplus funds for fiscal relief. State funds would replace TANF for the pre-kindergarten program and a somewhat modified Tuition Assistance Program. Eliminating the use of TANF surplus funds for fiscal relief will help the state absorb the decline in the size of the surplus. This will limit, but not avoid, reductions in other program areas receiving TANF surplus funds, some of which directly benefit localities.

*EITC and Child Care Credit.* The state has made increasing use of TANF surplus funds to pay for expansion of its earned income tax credit (EITC) and child care credit. TANF surplus allocations to fund the state EITC for low-income working families have risen from \$49 million in 1999-2000 to \$382 million in 2003-2004, while TANF funding for the state child care credit has increased from \$5 million to \$108 million over the last three years.

The 2004-2005 Executive Budget proposes to further increase surplus funds for the EITC to \$397 million, while reducing funding for the child care credit to \$90 million.

*Child Welfare.* TANF surplus allocations for child welfare programs such as foster care and preventive services have increased from \$268 million in 1997-1998 to \$583 million in 2003-2004. This includes TANF funds that are transferred to the Title XX Social Services Block Grant.

The 2004-2005 Executive Budget, however, proposes reducing TANF surplus funds for child welfare to \$442 million, a decrease of \$141 million from 2003-2004. This decrease would result primarily from reducing the transfer of TANF funds to Title XX.

*Child Care.* The state has dramatically increased TANF surplus allocations for child care from \$67 million in 1997-1998 to \$408 million in 2003-2004. A major increase in the use of TANF funds for child care occurred in 1999-2000, when officials allocated \$230 million for child care that year and an additional \$200 million to a child care reserve fund that was spent over the following three years. Each year all of the TANF surplus funds allocated for child care are blended with other federal and state child care funds to form the state Child Care Block Grant. The vast majority of these CCBG funds are then

distributed to New York City and other localities to pay for child care subsidies.

The 2004-2005 Executive Budget proposes reducing TANF surplus allocations for child care to \$375 million, a decrease of \$33 million from 2003-2004. It would, however, preserve the CCBG at its current level by replacing TANF funds with \$33 million from the federal Child Care Development Fund left over from prior years.

*Employment.* State allocations of TANF surplus funds for employment programs have varied significantly over the years, rising from \$81 million in 1997-1998 to \$282 million in 2000-2001, and then falling to \$97 million in 2003-2004. These funds have helped pay for a variety of welfare-to-work programs and other jobs, education, and training programs for low-income individuals. Some of these funds are used directly by state agencies to run their own employment programs, while the rest are distributed to cities and counties to fund locally administered programs.

The 2004-2005 Executive Budget proposes allocating \$101 million for employment programs, an amount comparable to the last few years but far lower than the 2000-2001 peak. The \$101 million includes \$22 million for the EDGE and BRIDGE programs, which in prior years had been funded with TANF baseline funds rather than the TANF surplus. If these two programs were funded from TANF baseline funds in 2004-2005, the level of TANF surplus funding for employment programs would be reduced by this amount.

*Transitional Services.* Transitional services include programs designed primarily to facilitate the transition from public assistance to independent living by helping to remove barriers to employment. This includes such specific services as enhanced case management, drug screening and treatment, and domestic violence screening. TANF surplus allocations for transitional services have followed a pattern similar to employment programs, increasing from \$49 million in 1997-1998 to \$133 million in 2000-2001, before decreasing to \$13 million in 2003-2004.

The 2004-2005 Executive Budget proposes to maintain the current level of surplus funding for transitional services.

*Other Social Services.* In addition to these transitional services, the TANF surplus has been used to fund a miscellaneous group of social services including food and nutrition programs, school-based health centers, pregnancy prevention, and homeless assistance. TANF surplus allocations for other social services

increased from \$15 million in 1997-1998 to \$59 million in 2000-2001, and have remained relatively flat since then.

The 2004-2005 Executive Budget would also maintain the current level of surplus funding for other social services.

**Contingency Reserve Fund.** In 1997-1998 state officials began to set aside a significant portion of the TANF surplus funds each year as a contingency against an economic downturn or some other unforeseen future need. By 2000-2001 this contingency reserve fund had grown to \$662 million. In 2002-2003, in an effort to increase the amount of TANF dollars available that year for fiscal relief, the state decided to use up the entire \$662 million contingency fund. Since no new TANF surplus funds were set aside in 2003-2004, the state currently has no TANF contingency reserve fund available to deal with unforeseen future needs.

has been the beneficiary of a substantial portion of this local share, receiving annual TANF surplus allocations in the areas of child welfare, employment, transitional services, and child care.

In the area of child welfare, the city annually receives significant amounts of TANF funds to help pay for ongoing foster care and preventive services programs baselined in the city budget. IBO estimates that the city will receive about \$276 million in TANF surplus funds for child welfare in 2003-2004, a figure that has increased over the past three years. Most of this allocation will come in the form of TANF transfers to the Title XX Social Services Block Grant. The 2004-2005 Executive Budget proposal to reduce the transfer of TANF funds to Title XX would result in a reduction of about \$82 million in the city's TANF surplus allocation for child welfare programs. State officials suggest that some of this shortfall could be made up by increases in other child welfare funding streams.

<b>NEW YORK STATE TANF SURPLUS</b>								
<i>Dollars in millions, state fiscal year</i>								
	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	Executive Budget 2004-2005
Fiscal Relief	\$248.4	\$18.0	\$0.0	\$0.0	\$0.0	\$1,049.7	\$371.5	\$0.0
EITC	0.0	0.0	49.0	174.0	323.0	351.0	382.0	396.7
Child Care Credit	0.0	0.0	0.0	5.0	61.0	87.0	107.7	90.0
Child Welfare	268.0	315.0	464.0	542.1	481.8	580.6	583.2	441.8
Child Care	66.6	76.6	430.0	344.0	304.0	340.4	408.0	375.0
Employment	80.5	24.0	191.1	281.5	120.0	96.1	96.8	100.6
Transitional Services	49.0	18.0	47.1	133.0	27.0	16.0	12.5	12.3
Other Social Services	15.0	14.0	35.5	58.7	48.2	65.9	55.4	56.4
Contingency Reserve Fund	104.0	114.0	330.0	114.2	0.0	0.0	0.0	0.0
Recruitment/Retention	0.0	0.0	0.0	93.0	20.0	0.0	0.0	0.0
Welfare Reform Evaluation	0.0	0.3	0.0	0.5	0.0	0.0	0.0	0.0
Systems	50.0	10.0	30.0	0.0	0.0	0.0	0.0	11.5
<b>Total TANF Surplus</b>	<b>\$881.5</b>	<b>\$589.9</b>	<b>\$1,576.7</b>	<b>\$1,746.0</b>	<b>\$1,385.0</b>	<b>\$2,586.7</b>	<b>\$2,017.1</b>	<b>\$1,484.3</b>

SOURCES: IBO, based on data from the New York State Division of the Budget.  
 NOTES: The \$430 million for child care in SFY 1999-2000 includes \$230 million for that year and \$200 million for a child care reserve fund to be spent in later years. The entire accumulated Contingency Reserve Fund was used up in the SFY 2002-2003 Programmed TANF budget. The figures for 1997-1998 through 2003-2004 are from the Adopted Budgets. For 2004-2005, they are from the Governor's Executive Budget including the 30 Day Amendments.

The 2004-2005 Executive Budget would not allocate any surplus funds to begin rebuilding the TANF contingency reserve fund.

### **NEW YORK CITY'S USE OF THE TANF SURPLUS**

While much of the surplus is spent directly by the state, localities throughout New York State also receive a considerable share through block grants and other initiatives. New York City

As mentioned earlier, state allocations of TANF surplus funds for both employment programs and transitional services have fallen dramatically over the last three years. As a result, allocations to the city in these areas have decreased sharply. Based on previous allocation patterns, we estimate that the city will receive about \$40 million in TANF surplus funds for employment programs in 2003-2004, compared to about \$100 million in 2000-2001. Similarly, we estimate that the city will receive about \$6 million in surplus funds for transitional

## USE OF THE TANF SURPLUS IN THE NYS CHILD CARE BLOCK GRANT (CCBG)

Dollars in millions, state fiscal year

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Statewide CCBG Subsidies	\$294	\$338	\$493	\$613	\$658	\$759	\$793
TANF Portion of Statewide CCBG Subsidies	\$67	\$77	\$230	\$305	\$325	\$381	\$372
New York City's CCBG Subsidy Allocation	\$167	\$178	\$263	\$368	\$396	\$415	\$480
TANF Portion of NYC CCBG Subsidy	\$38	\$40	\$123	\$184	\$200	\$201	\$232
Percent of NYC CCBG Allocation from TANF	22.7%	22.7%	46.7%	50.1%	50.5%	48.5%	48.3%

SOURCES: IBO, New York State Division of the Budget, and the Office of Children and Family Services.

NOTES: For SFY 1999-2000, \$230 million in TANF funds was added to the CCBG for that year, and an additional \$200 million in TANF funds was placed into a child care reserve fund to be spent in later years. This child care reserve fund was allocated in state fiscal years 2000-2001, 2001-2002, and 2002-2003. All the CCBG subsidy figures listed above exclude the local Maintenance of Effort spending.

services in 2003-2004, compared to about \$75 million in 2000-2001. The 2004-2005 Executive Budget proposals would maintain the city's TANF surplus allocations for employment programs and transitional services at about their current levels.

The city has fared much better when it comes to TANF surplus allocations for child care. Because state officials have used a large portion of the TANF surplus to increase the state's CCBG, the city's allocation of these funds to subsidize child care locally has grown dramatically—from \$167 million in 1997-1998 to \$480 million in 2003-2004. More than 60 percent of this increase is a result of TANF surplus funding added to the block grant. Looked at another way, while TANF surplus funds once represented less than one-quarter of the city's annual CCBG allocation, they now represent about half.

At the same time, the city's overall child care budget has become more dependent on the CCBG. In city fiscal year 1999, CCBG funds accounted for 34 percent of all budgeted child care funds at the Administration for Children's Services and the Human Resources Administration. As a result of increases in the city's CCBG allocation as well as reductions in city funds and other child care funding streams, by 2003 the CCBG portion of the city's child care budget had risen to 63 percent. Thus, the city's child care budget has become increasingly dependent on the availability of the state's use of TANF surplus funds to expand the CCBG.

The 2004-2005 Executive Budget would preserve the current size of the statewide CCBG by replacing some of the TANF surplus funds with other federal child care funds. Under this proposal the city's CCBG allocation would likely remain at about its 2003-2004 level. A further proposal to move some CCBG funds from quality assurance programs to child care subsidies could result in a modest increase in the city's allocation.

## THE FUTURE OF THE TANF SURPLUS

The growing dependence of New York State and City on the TANF surplus has led to concerns about the availability of the surplus in future years. The size of any future TANF surpluses and the impact of any funding reductions will be greatly affected by policy decisions that will need to be made by state and federal officials.

*State Issues.* The state's TANF surplus has risen over the years as the Family Assistance caseload and grant costs have decreased. This has allowed state officials to allocate increasing amounts of TANF dollars to fund a variety of state and local programs for low-income individuals. The growth in the TANF surplus, however, may be reaching its limit. In recent months the Family Assistance caseload has leveled off, and it is not clear how much lower it can go even when the job market shows significant improvement.

At the same time the demands placed on the TANF surplus have been growing. This has meant that over the last two years state officials have had to rely on one-time budget maneuvers to increase the size of the TANF surplus. In 2002-2003 the state expanded the surplus to \$2.59 billion primarily by exhausting the entire \$662 million contingency fund accumulated from prior year surpluses. In 2003-2004 the reduced surplus of \$2.02 billion included a one-time addition of over \$400 million by postponing TANF transfers to the CCBG. Mid-year estimates for the 2003-2004 state fiscal year indicated that the available TANF surplus will actually be less than \$2.02 billion, and state funds will be needed to make up for the shortfall.

The recent caseload trends and the unavailability of one-shot additions to the surplus have led state officials to project a significantly reduced TANF surplus of \$1.48 billion for 2004-2005. Barring a decision by Congress to increase the TANF

---

block grant, future surpluses are likely to remain relatively flat while the costs of the programs that they fund continue to rise. This could make it difficult for state officials to find ways to sustain these programs at their current service levels.

*Federal Issues.* An issue of extreme importance to the city is the reauthorization of the federal welfare system, currently under consideration by Congress. The 1996 welfare law was set to expire in September 2002 but has been extended through June 2004. The leading proposals for reauthorization call for freezing the TANF block grant to states at \$16.5 billion nationwide, the same level as 1996. Proponents of freezing the size of the TANF block grant point out that most states have experienced significant declines in caseloads and grant expenditures. Critics of the freeze point out that adjusted for inflation, its value has

fallen by 21 percent since 1996 and will continue to fall in future years. Of added concern is the likelihood that the emerging welfare reauthorization legislation will include provisions to increase work quotas for public assistance recipients as well as the required hours that they must work each week. Thus, New York State and City face the possibility of having to increase spending on welfare-to-work programs without being given sufficient new federal resources to fund this increase.

*Written by Paul Lopatto*

#### **END NOTES**

<sup>1</sup> This was made possible when it was determined that prior year spending against the MOE was higher than previously estimated. The state retroactively increased the TANF portion of Family Assistance grant payments for those prior years. As a result, the state and local funds set aside to make up for the prior year shortfall could be reduced, and the freed-up funds became available for 2002-2003.