Federal Budget Brief
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New Federal Welfare Requirements Pose Tough Choices for Washington

Introduction

The 2006 federal budget agreement will increase the Temporary Assistance for Needy Families (TANF) work requirements that Washington State must meet while not sufficiently funding the increased childcare costs that meeting the new mandates will require. The small amount of additional child care funding provided - four million dollars a year for Washington State - is less than 20 percent of the cost of additional child care expenditures that will be needed. In addition, if Washington State does not meet the increased work requirements, the state could face penalties of tens million in reduced federal funds.

Washington State, like other states, is caught between a rock and a hard place. The State faces stiff fiscal penalties if the TANF program - called WorkFirst - does not meet increased federal work participation requirements, yet it will not receive sufficient federal funding to meet the new obligation.

The fiscal and policy scenario includes:

- **Thousands of additional families will be required to participate in qualified work activities because of substantial increases in the work participation rate that Washington State must meet in the WorkFirst program.**
- **New federal rules for WorkFirst that will increase the operation costs for the state, and may create additional barriers for families struggling to maintain necessary assistance.**
- **Declining real dollars for TANF. Federal funding has been flat since the WorkFirst program started in 1997.**
- **Washington will only receive an additional four million dollars per year in child care funding – an amount that is inadequate to cover the additional families needing child care.**

Washington must increase the number of parents participating in work activities

The federal TANF law requires that 50 percent of TANF families participate in qualified work activities, with the rate adjusted downward based on caseload decline.[1] Until now, the effective work participation rate that states had to meet was much lower than 50 percent because the federal government gave states credit for the caseload reductions under welfare reform. Under the budget agreement, states will no longer get credit for past caseload reductions, only for new reductions occurring after 2005. Starting in October 2006 – just nine months from now - Washington will now have to meet the full 50 percent requirement (unless adjusted downward for new caseload decline) or face fiscal penalties. Based on its performance for 2004 - the most recent confirmed work rate data available - Washington State would need to have an additional 4,330 families participating in work activities next year. (While most TANF recipients participate in some type of work activity, not all of these activities meet the strict parameters that count for the Federal work rate).[2]

If Washington doesn't meet the 50 percent work participation rate, it could face a penalty of up to a five percent reduction of its block grant, or nearly $20 million.[3] (The penalty amount can be reduced or waived based on reasonable cause, the state entering a corrective compliance plan or other factors.) In addition, if the state is in a penalty situation it could be required to **increase state spending of up to 37 million dollars** or about a 14 percent increase to replace lost federal dollars.[4]

New federal rules will increase state costs and restrict state flexibility

A hallmark of the 1996 federal welfare law was that states were given broad flexibility in how they would be able to manage their state programs, allowing states to respond flexibly and design work programs appropriate to its families and its economy.

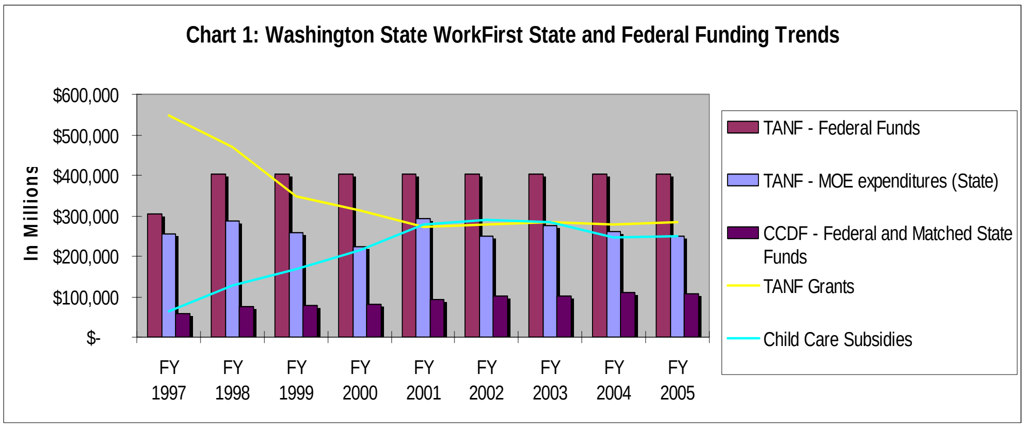
In the new budget agreement, Congress directs the U.S. Department of Health and Human Services to issue new regulations. These regulations will include detailed new rules about how states must track work participation, what documentation states must require from families, and defines which activities can be considered for purposes of meeting the work rates. These new rules would be effective October 2006. While these rules are likely to increase state administrative costs, Congress has provided no new funding. Moreover, these rules could limit state flexibility in tailoring its WorkFirst program to meet the needs of Washington's TANF families. The focus of this issue brief is the fiscal impact on Washington State of the new federal welfare requirements – the brief does not discuss full range of policy choices the state might face.

Increased reporting and verification requirements will increase administrative costs and will be a particular burden on working families. Employed WorkFirst recipients could be penalized for their efforts and be forced to miss time from work to verify that they are working. The new rules could require significant, costly changes to the automation systems used to collect and report data. Finally, the federal budget agreement adds a new fiscal penalty on states for failure to establish or comply with work verification procedures which adds further financial burdens on a state struggling to meet these requirements.

Flat Federal Funding Represents a Decreasing Federal Contribution

Washington State's basic share of the federal TANF block grant is $404 million a year. Federal TANF funding has remained constant since the program began. This is a substantial reduction in "real" (inflation-adjusted) dollars - the basic federal TANF block grant is now worth 17 percent less than it was in 1997. By 2010, the still-flat TANF block grant will have lost 26 percent of its 1997 value. At the same time, Washington State has decreased it is own state spending on this program (now at about 75 percent of the amount it spent prior to TANF).

While the TANF caseload has declined substantially – from 97,000 families in 1997 to a little over 54,000 families – this decline has enabled a shift of spending from welfare families to helping working families with child care. Nearly the same amount of funds is spent on child care as on TANF cash grants (see chart 1).



Source: Washington State Office of Financial Management – WorkFirst Performance Team

Child care funding falls short

The federal budget agreement provides an extremely modest amount of additional childcare funding - four million dollars a year for Washington State. Using current funding and this limited additional funding, Washington State would need to place an additional 4,330 WorkFirst families in work activities.

The additional four million dollars in childcare funding would provide $77 a month for child care subsidies for each of these 4,330 additional families. Assuming only one child per family needed childcare, these funds (if spread evenly) would provide less than 11 percent of the median cost for infants and only around 24 percent of cost of a subsidy for a school-age child in child care centers. .

As a practical matter, it is likely that these additional child care costs will put pressure on child care funding. Washington State currently uses one-quarter of its state and federal TANF funds for child care (supplementing other child care funding.) Most of these TANF funds are used for child care for low-income working families that are not receiving TANF cash assistance; eighty percent of families in Working Connections child care are non-TANF.

The limited new child care funding combined with the increased child care need could require the state to add more funding for child care or consider cuts in child care for low-wage workers who have left the WorkFirst program or have never been on the program but rely on child care to stay employed. Confronted with the current $100 million funding challenge in the TANF box in the 2005-2007 biennium, a taskforce initially recommended eliminating subsidies for some of these families - those with incomes between 175 and

200 percent of the federal poverty level. This year, Governor Gregoire rejected this recommendation and instead proposed additional state funding to avoid these cuts. Several years ago, Governor Locke, faced with similar funding challenges, cut back eligibility 225 percent of poverty to the current 200 percent.

Conclusion

The new TANF requirements and potentially stricter rules add up to difficult choices for Governor Gregoire and the Washington State legislature. Washington State has made some commendable choices – including a commitment to childcare reaffirmed by the Governor's proposal to add additional child care dollars in the 2006 state supplemental budget.

The state may need to spend more in some areas due to federal regulations and it may choose to take away from areas it has spent in the past. Families transitioning off WorkFirst and families attempting to stay off welfare could see their child care subsidies eliminated unless the state decides to make additional investments in low-income families.

Endnotes:

[1] The TANF work participation rate measures the percentage of TANF cases with an adult on the grant that is participating in federally-prescribed work activities for 30 hours per week (20 hours for a single parent with a young child). The federal TANF law sets forth 12 categories of qualified work activities include: unsubsidized employment, subsidized private employment, subsidized public sector employment, work experience, on-the-job training, job search and job readiness assistance , community service programs, vocational educational training , and providing child care for a community service participant, job skills training directly related to employment, education directly related to employment , and satisfactory attendance at secondary school or in an equivalent course of study.

[2] For 2004, Washington achieved a participation rate of 35 percent; of 29,688 families (with an adult), some 10,514 were participating in a countable activity for the requisite number of hours (US Department of Health and Human Services, Administration on Children and Families: http://www.acf.hhs.gov/programs/ofa/particip/2004/table04b.htm). In 2005 the unofficial participation was 40.2 percent, likely requiring fewer additional families to participate to reach 50 percent, but the underlying numbers are not available to make an accurate estimate

[3] Additionally, states face a penalty for not having 90 percent of their two-parent families participating in work activities. In 2004, Washington State's participation rate was 31 percent: 4,723 families were in the state's official two-parent rate, and 1,465 families were participating in a countable activity. As with the 50 percent all-family rate, the state would no longer get credit for past caseload reductions. The penalty for not meeting the two-family rate would be based on the proportion of a state's caseload that consists of two-parent families (about 10 percent) and thus would be about one-half of one percent of the block grant

[4] There are two components to the penalty: first, the state would be required to spend state funds to substitute for the lost federal funds. Second, if Washington State fails to meet the federal participation rate, the state would have to increase its state contribution to 80 percent of historic spending, or by as much as $17 million. The state contribution or "maintenance-of-effort" requirement of the federal TANF law requires a state to spend 80 percent of its historic spending level or face a penalty. However, a state that is meeting the work rates may reduce its MOE share to 75 percent of its historic spending. Washington State has done so. But, if a state is at risk of not meeting the work rates for any year, it needs to anticipate this and raise its spending level back up to 80 percent of historic state spending for that same year. (For example, if Washington State fails to meet a work rate in 2008, it must meet the higher MOE requirement *in 2008.*)