

New York's Increasing Dependence on the Welfare Surplus

SUMMARY

This month marks the fifth anniversary of the 1996 federal welfare reform act. One of the act's sweeping changes was the transformation of the primary federal welfare program from an entitlement with expenditures driven by the size of the caseload to a block grant. The block grant gave the states greater flexibility in running their welfare programs, as well as the opportunity to reap savings if caseloads fell.

In New York State, caseloads have fallen far below the levels that had been used to set the state's block grant. With lower spending needed to maintain a baseline level of assistance and a fixed block grant, there has been a surplus of TANF funds in each state fiscal year since 1997-1998. This brief, based largely on information from the New York State Division of the Budget, examines how the surplus has been allocated each year by the state and then reviews how New York City allocated its share of last year's surplus. The brief also addresses some of the implications of the state's and city's dependence on TANF surplus funds.

Among the key findings in this fiscal brief:

- New York State's TANF surplus has ranged from between \$908 million to \$1.7 billion, with a cumulative value of \$6.7 billion over the last five years.
- A major use of TANF surplus funds by the state has been to expand social services, particularly child care and other programs providing welfare-to-work assistance.
- The state has also set aside a contingency fund that will grow to nearly \$800 million this year to provide a reserve should the caseload begin to grow again, thus shrinking the surplus.
- During the city's last fiscal year, \$470 million in TANF surplus funds were allocated to provide expanded services that have been baselined in the local budget.
- The city's largest use of TANF surplus funds has been for child care, with allocations to support an estimated 26,000 new slots.
- Little of the TANF surplus is used in the city for fiscal relief, replacing local spending with TANF funding.
- With the state and city now both reliant on the TANF surplus to help fund baseline services, a smaller surplus in the future would force a choice among reducing services, raising taxes, or shifting budget priorities.
- An economic slowdown leading to larger caseloads or a major change in the size of the block grant when TANF is reauthorized next year could reduce—or eliminate—surpluses. **IBO**

INTRODUCTION

The federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, often called the welfare reform act, ushered in sweeping changes to the nation's public assistance system. Among the many changes 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. New York's caseload has fallen dramatically since those years, so the difference between the block grant amount and what the state now needs to spend on public assistance grants results in the "TANF surplus." Under the new system, New York State has amassed a welfare windfall of \$6.7 billion over five years.

New York City has also been a beneficiary of the TANF surplus. In addition to the use of these funds in its own budget, the state has allocated TANF surplus funds to the city and other localities. IBO estimates that in 2001 New York City was allocated \$470 million in TANF funds for a variety of programs and services such as child care, foster care, pregnancy prevention and job training. A rise in New York's welfare caseload or a reduction in the allocation from Washington could erase all or part of the surplus, putting a significant portion of the city's budget—and the programs it funds—at risk.

NEW YORK STATE SURPLUS SPENDING

New York State has increasingly used the TANF surplus to create or expand a variety of social service programs and to provide fiscal relief for the state, counties, and cities by using the surplus

funds to supplant the need for spending state and local revenues. In state fiscal year 1997-1998, \$781 million in surplus funds was targeted for these kinds of uses. By state fiscal year 2000-2001, the surplus allocated to providing services and for fiscal relief was \$1.65 billion.

Since a surplus began to materialize in 1997-1998, fiscal relief initiatives have garnered the most funds, totaling \$1.8 billion, including the Governor's proposals for the current fiscal year.¹ In 1997-1998, fiscal relief included about \$200 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.

New York State Programmed TANF Surplus

(Dollars in millions)

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	5 YEARS
Fiscal Relief Initiatives	\$416.4	\$233.0	\$354.0	\$419.6	\$386.6	\$1,809.6
Child Care Credit	0.0	0.0	0.0	5.0	61.0	66.0
EITC	0.0	0.0	49.0	174.0	323.0	546.0
Child Care	66.6	76.6	430.0	344.0	304.0	1,221.2
Recruitment/Retention	0.0	0.0	0.0	93.0	0.0	93.0
Employment	80.5	24.0	191.1	277.2	130.6	703.4
Transitional Initiatives	60.8	29.0	77.6	169.0	22.0	358.4
Computer Systems	50.0	10.0	30.0	0.0	20.0	110.0
Child Welfare/WIC	3.0	3.0	15.0	49.5	20.0	90.5
Welfare Reform Evaluation	0.0	0.3	0.0	0.5	0.5	1.3
Contingency Fund	104.0	114.0	330.0	114.2	127.6	789.8
Child Support Disregard	0.0	0.0	0.0	0.0	8.0	8.0
Total	\$781.3	\$489.9	\$1,476.7	\$1,646.0	\$1,403.3	\$5,797.2

SOURCES: IBO, NYS Division of the Budget.

NOTES: TANF revenue and programmed surplus projections for 1997-1998 through 2000-2001 are from adopted state budgets at the beginning of the year. Figures for 2001-2002 are from the Governor's Executive Budget including 30-day amendments.

The \$430 million for child care in 1999-2000 includes \$230 million for that year and \$200 million for a child care contingency fund.

The 2000-2001 Recruitment/Retention allocation provided \$80 million for recruitment, training and retention programs for hospital, nursing home and home health care workers, and \$13 million for foster care and mental health workers.

In later years this initiative was discontinued as shrinking caseloads and grant outlays—the state also chose not to raise the value of the individual grant—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, primarily those providing assistance to clients leaving the welfare rolls for the paid labor force. Faced with this maintenance of effort provision, beginning in 1997-1998 the overwhelming majority of these TANF fiscal relief funds have gone to support programs

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PROJECTING THE STATE TANF SURPLUS

The annual TANF surplus is a function of the difference between the TANF revenues available for the year—largely the annual federal

\$1.812 billion, leaving a surplus of \$781 million. Later in the year, projected baseline spending was reduced to \$1.685 billion, increasing the surplus by \$127 million. Rather than add to programs in the middle of the fiscal year, the state rolled the \$127 million into the following year.

New York State TANF Revenues and Allocations

Dollars in Millions

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Budgeted TANF revenues					
Annual TANF grant	\$2,443	\$2,443	\$2,443	\$2,451	\$2,443
Roll from previous year	\$150	\$127	\$528	\$238	-\$10
Total TANF revenues	\$2,593	\$2,570	\$2,971	\$2,689	\$2,433
Baseline TANF allocations	\$1,685	\$1,551	\$1,257	\$1,068	\$1,030
TANF surplus					
Programmed	\$781	\$490	\$1,477	\$1,646	\$1,403
Unprogrammed - rolled forward	\$127	\$528	\$238	-\$25	\$0
Total TANF surplus	\$908	\$1,018	\$1,715	\$1,621	\$1,403
Total TANF allocations	\$2,593	\$2,570	\$2,971	\$2,689	\$2,433

SOURCES: IBO, NYS Division of the Budget.

NOTES: TANF revenue and programmed surplus projections for 1997-1998 through 2000-2001 are from adopted state budgets at the beginning of the year. Baseline allocations use latest modified amounts during the year. Figures for 2001-2002 are from the Governor's Executive Budget including 30-day amendments. The annual TANF grant for 2000-2001 includes a bonus payment for good performance. The unprogrammed roll for 2000-2001 is negative because the non-surplus baseline expenditures are expected to exceed original projections.

block grant—and how much the state actually spends on welfare grants and programs during the year. Prior to each fiscal year, the state projects TANF revenues and welfare spending to generate an initial estimate of the TANF surplus for the coming fiscal year.

First, TANF revenues are calculated. These include the annual TANF grant to New York State, currently set at \$2.443 billion, plus any performance bonuses awarded by federal officials, and any surplus funds that were not dedicated—or programmed—for specific uses in the previous fiscal year.

Next, baseline TANF expenditures are projected. These include the TANF portions of public assistance grant expenditures for the Family Assistance Program, as well as expenditures on other programs that were previously covered by the federal funding streams now incorporated into the TANF block grant. The difference between the projected revenues and baseline expenditures is the expected surplus for that year. The Governor and legislature allocate it among various programs and jurisdictions.

Changing annual surpluses. Annual surpluses have varied over time. In 1997-1998, the state received its annual TANF allocation of \$2.443 billion. In addition there was \$150 million available from the previous year, during which the state made the transition from the old entitlement system to the block grant, resulting in total available TANF revenues of \$2.593 billion. State officials originally projected that grant costs and other baseline spending would total

While state officials have continued to apply this general method of estimating and allocating the TANF surplus, the size of the programmed surplus has varied significantly from year to year. One factor driving this change has been the continuing decrease in the statewide Family Assistance caseload, with the average number of recipients declining from 977,000 in 1997-1998 to 642,000 in 2000-2001. The corresponding decline in grant expenditures largely accounts for the year-to-year decreases in projected TANF baseline spending.

A second factor determining the size of the programmed surplus is the accuracy of the beginning-of-the-year baseline expenditure projections. In a period of rapid caseload decline, conservative projections will tend to overestimate baseline spending and underestimate the TANF surplus, resulting in fewer dollars for allocation to programs. When actual spending is lower than the initial projections, the size of the annual surplus grows. The additional surplus dollars remain unprogrammed during the fiscal year in which they are generated; instead they are rolled into the subsequent year.

This is exactly what happened in 1998-1999. The beginning-of-the-year baseline projection was so high that it actually reduced the programmed surplus to \$490 million from \$781 million the previous year. But subsequent projections significantly reduced the baseline expenditure estimates, and created a pool of \$528 million in unallocated TANF funds that was rolled into 1999-2000.

This large roll, together with less conservative initial projections, significantly increased the programmed surplus to \$1.477 billion in 1999-2000. In 2000-2001, initial projections resulted in an even larger programmed surplus of \$1.646 billion. However, in contrast with earlier years, these projections may have been too optimistic. More recent baseline spending projections have been slightly higher, and appear likely to result in the need to borrow \$25 million from future years' TANF allocations. As a result of this *negative* roll, the 2001-2002 Governor's budget projects a somewhat lower programmed surplus of \$1.403 billion. **IBO**

related to child welfare, either directly or through transfer to the Title XX Social Services Block Grant.

Social services. The rapid expansion in the size of the surplus over the last two years also has led to large increases in funding allocated to create or expand welfare-to-work efforts as well as for programs providing direct assistance to low-income working families. Support for child care—a critical need for families on welfare with young children entering the labor force—has seen the largest increase, with TANF surplus funds growing from \$67 million in 1997-1998 to \$344 million in 2000-2001. The TANF surplus allocation for child care over five years is \$1.2 billion, including the Governor’s proposal for this year.

As noted, a considerable portion of TANF surplus funds have also been used for programs designed to aid low-income families. From 1997-1998 to 2000-2001 annual funding for employment programs grew from \$81 million to \$277 million, and funding for transitional services such as drug treatment and pregnancy prevention rose from \$61 million to \$169 million. While the Governor’s 2000-2001 budget maintains high levels of TANF surplus funding for child care, it proposes to reduce funding for employment programs and transitional initiatives. The reductions reflect the fact that there are large amounts of unspent TANF funds from previous years still available for these programs.

The state also has begun to use TANF surplus funds to pay for expansion of its earned income tax credit (EITC) and child care credit. The Governor’s 2001-2002 budget proposes to significantly increase this use to pay for further expansion of these credits.

In addition, each year the state has set aside significant amounts of TANF surplus funds as a contingency against an economic downturn or some other unforeseen future need. The cumulative total in this TANF contingency fund is currently \$662 million. The Governor proposes to set aside another \$128 million in the contingency fund, which would raise the fund to a total of \$790 million.

Unspent funds. State officials have estimated that there are currently about \$1.6 billion in unspent TANF surplus funds that were budgeted in state fiscal years 1997-1998 through 2000-2001. As discussed above, \$662 million of this amount

	Statewide	State	Local	NYC
Fiscal Relief Initiatives	\$419.6	\$206.4	\$213.2	\$126.0
Child Care Tax Credit	5.0	5.0	0.0	0.0
EITC	174.0	174.0	0.0	0.0
Child Care	344.0	61.0	283.0	170.4
Recruitment/Retention	93.0	93.0	0.0	0.0
Employment	277.2	127.2	150.0	97.9
Transitional Initiatives	169.0	63.0	106.0	75.2
Child Welfare/WIC	49.5	49.5	0.0	0.0
Welfare Reform Evaluation	0.5	0.5	0.0	0.0
Contingency Fund	114.2	57.1	57.1	0.0
Total	\$1,646.0	\$836.7	\$809.3	\$469.5

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

has already been set aside by the state in a contingency fund for unforeseen future needs. The remainder represents TANF surplus funds that were programmed for specific purposes, but have not yet been spent by the state or local governments to which they were allocated. They remain available for spending on the specific programs for which they were originally designated. Unspent surplus funds from any year are not counted as part of any future year’s TANF surplus.

SURPLUS IN THE CITY

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. In state fiscal year 2000-2001, localities across New York received \$809 million of the \$1.6 billion surplus. New York City is the beneficiary of a substantial portion of this local share, with an estimated \$470 million allocation in 2000-2001.

The allocation of the majority of these funds by the city flow from decisions made by the state. Because the Governor and state legislature have used a large portion of the TANF surplus to increase the state’s Child Care Block Grant (CCBG), the city’s allocation of these funds to subsidize child care locally has grown dramatically—from \$167 million in 1997-1998 to \$368 million in 2000-2001. Nearly three-quarters of this increase is a result of TANF surplus funding added to the block grant.

Use of the TANF Surplus in the New York State Child Care Block Grant (CCBG)

(Dollars in millions)

	1997-1998	1998-1999	1999-2000	2000-2001
Statewide CCBG Subsidies	\$294.0	\$338.0	\$493.0	\$613.0
TANF Portion of Statewide CCBG Subsidies	66.6	76.6	230.0	321.5
New York City's CCBG Subsidy Allocation	167.0	178.0	263.3	368.0
TANF Portion of NYC CCBG Subsidy Allocation	37.8	40.3	122.8	194.5
Percent of NYC CCBG Allocation from TANF	22.7%	22.7%	46.7%	52.9%

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

NOTES: For 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 contingency fund to be spent in later years. For 2000-2001, \$38.5 million from this contingency fund was included in that year's statewide CCBG subsidies. All the CCBG subsidy figures listed above exclude local maintenance of effort spending.

Looked at another way, while TANF surplus funds once represented less than one-quarter of the city's annual CCBG allocation, they now represent more than half. The TANF portion of the city's CCBG allocation provides subsidies for about 26,000 child care slots.

New York City also is eligible to receive a sizable amount of TANF surplus funds for other programs aimed at low-income families and those seeking to make the transition from welfare to work. In 2000-2001 the city was allocated \$98 million for employment training and job retention programs. An additional \$75 million was allocated for transitional programs such as domestic violence screening, drug treatment, and pregnancy prevention. (The city did not provide IBO with the data necessary to estimate how much of the local allocation remains unspent.)

Fiscal relief. The state allocates \$126 million to the city under the rubric of fiscal relief. In reality, the city uses the vast majority of these funds to pay for ongoing social programs baselined in the city budget, particularly for child welfare programs such as foster care and preventive services. Almost three-quarters of the \$126 million will be transferred to the Title XX Social Services Block Grant, replenishing a pool of funds that has been significantly cut by the federal government over the last several years.²

Generally, the city has made only limited use of the TANF surplus for true fiscal relief. In city fiscal year 1998 the city saved about \$70 million by swapping surplus funds for city dollars that would have otherwise been used to cover part of the local share of the cost of Family Assistance grants. In later years this was discontinued because shrinking caseloads and grant outlays made it more difficult for the city to maintain the level of spending required under federal regulations. In city fiscal

year 2001, the city budgeted only about \$12 million in savings through swaps of TANF funds for city funds, and even less in later years.

DEPENDING ON THE SURPLUS

New York State and City have become increasingly dependent on the TANF surplus

for funding a number of programs, particularly the expansion of child care subsidies and some welfare-to-work programs. New York State's TANF surplus has grown over the last few years as a result of the convergence of two factors. The Family Assistance caseload has been dropping as a result of a growing economy and welfare reform policies. Meanwhile, the size of the state's block grant from Washington has been held flat. A change in either of these two factors could reduce or even eliminate the surplus.

Economic downturn. The first potential threat to the size of the TANF surplus would be an economic downturn. All of the reductions in the Family Assistance caseload in recent years have occurred during a period of economic prosperity. Historically, economic downturns have been associated with growing public assistance caseloads, as increases in unemployment push more people onto the rolls and make it harder for others to leave. While welfare reform policies have raised the barriers to receiving assistance, it is possible that a future economic recession could significantly increase the Family Assistance caseload. This, in turn, could reduce the available surplus by increasing TANF baseline expenditures for grants and possibly for other poverty-related needs such as shelters for homeless families.

This type of disruption to TANF funding would likely be temporary. Depending on the length and severity of an economic downturn, the reductions in the TANF surplus could be covered by utilizing some of the nearly \$800 million in the contingency fund. Precise figures would vary depending on exactly when job losses accelerated and when hiring slowed, but a slowdown that raised the average number of recipients statewide by 100,000 in each of the next two years would likely consume about \$250 million of the contingency to pay for additional grant costs. Under that modest slowdown scenario, a

substantial portion of the reserve would still be available for other needs.

TANF reauthorization. A more serious long-term problem would result from a reduction in the flow of block grant funds from Washington. The TANF system created by the 1996 federal law is only authorized through September 2002, and must be renewed by Congress sometime before then. There is the very real possibility that Congress could use the reauthorization process to reduce the national funding level, which would likely reduce New York State's annual allocation. When TANF was originally authorized, few people anticipated the magnitude of the caseload reductions that have since occurred. Funding was based on historical expenditures; there was no intent to create large TANF surpluses in many states.

Given the size of the unspent surpluses in a number of states, including New York, some members of Congress have argued

that the states do not need these funds. Since TANF funds compete with other needs, it is likely that some in Congress will push for significant reductions in the block grants to states. On the other hand, New York, like some other states with large surpluses, has allocated much of its surplus TANF funds for programs to facilitate the transition from welfare to work. To the extent that such initiatives are viewed favorably in Congress, there may also be support for maintaining the grants near the current levels.

Depending on its magnitude, a decrease in New York State's grant could result in the reduction or elimination of the flow of TANF surplus funds to the city. A substantial reduction in the city's TANF surplus funds—currently nearly \$500 million a year—could have a significant fiscal impact, forcing city officials to make difficult choices between curtailing child care, job training and other services, or drawing on additional city funds to maintain these and other programs. **IBO**

This report was written by Paul Lopatto, senior budget and policy analyst for social services.

END NOTES

¹ As this fiscal brief went to press, Albany legislators were negotiating a “baseline budget” agreement for the current fiscal year and it was unclear if the use of TANF funds would change significantly from the Governor's initial proposals.

² The city does not count the funds used to cover the cutback in the Title XX block grant as part of the TANF surplus. The discrepancy stems from differences between city and state officials on the appropriate definition of TANF baseline expenditures.