INFORMATION BRIEF
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TANF Background

This information brief provides a description of the federal Temporary Assistance for Needy Families (TANF) program, including allowable state uses of TANF, Minnesota's uses of TANF, TANF maintenance of effort requirements, and changes that were made to the program in the federal Deficit Reduction Act of 2005.

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What is TANF?

The Temporary Assistance for Needy Families (TANF) block grant program replaced the Aid to Families with Dependent Children (AFDC) entitlement program under the 1996 federal welfare reform law.[1] Under AFDC, each state received funding for recipients who met eligibility criteria set by the federal government. Federal funding in each state matched state program spending and varied from year to year depending on the number of recipient families. Under TANF, each state receives a fixed block grant of federal funds and may design its own program to assist needy families. The state program must meet federal statutory and regulatory guidelines, and the U.S. Department of Health and Human Services (DHHS) monitors states' compliance with the requirements of the federal law.

Federal welfare reform initially authorized block grants to the states for federal fiscal years 1997 to 2002. TANF was reauthorized through fiscal year 2010 as part of the federal Deficit Reduction Act of 2005. The TANF program continued to operate through a series of extensions from October 1, 2002, until enactment of the Deficit Reduction Act of 2005. Minnesota's annual TANF block grant amount is based on the actual AFDC payment to the state in federal fiscal year 1994.[2] Minnesota's current block grant is set at $263.4 million. In order to receive the federal block grant, each state must also spend its own resources, called a maintenance-of-effort (MOE) to provide assistance to needy families.

With the new block grants came a five-year lifetime limit on assistance and work participation requirements. Individuals are generally limited to 60 months of benefits under TANF. In addition, states must meet work participation targets, or risk losing a portion of their block grants. The work participation targets require 50 percent of participants in single-parent households to be involved in work activities for at least 30 hours per week. The work participation target for two-parent households is for 90 percent of participants to be involved in work activities for at least 35 hours per week if federally funded child care assistance is not utilized.[3] A state that fails to meet these targets for TANF- or MOE-funded recipients risks losing a percentage of its block grant and also having its MOE requirement increased by the amount of the grant reduction.

[1] The Personal Responsibility and Work Opportunity Reconciliation Act (Public Law 104-193) created TANF from a combination of most of the AFDC program (Maintenance Assistance, Emergency Assistance, and administration) and the JOBS program (employment services for AFDC recipients). The old AFDC/Transition Year child care program and the At-Risk child care programs were pulled out and put into the Child Care and Development Fund, which included a guaranteed child care funding stream and a capped funding stream which could be accessed by matching federal dollars.

[2] Federal fiscal years run from October 1 to September 30; federal fiscal year 2010 ends September 30, 2010. TANF block grant amounts to each state are equal to the 1994 or 1995 AFDC payment, or the average of AFDC expenditures from 1992 to 1994, whichever is highest. In Minnesota, the 1994 AFDC expenditure resulted in the highest TANF block grant.

[3] The work participation requirement for two-parent families who do utilize federally funded child care assistance is 55 hours per week (both parents combined).

Decreasing caseloads from 1994 through 2001 allowed many states to expand the range of programs funded with TANF and to accumulate TANF reserves. The base year for the TANF block grant, 1994, came at the end of a weak recession. From 1994 through 2001 the nation experienced a robust economic expansion and welfare caseloads declined throughout the country as AFDC replacement programs emphasized work in exchange for benefits. In Minnesota, state and federal spending on cash grants declined from $379 million in the 1994 base year to $288 million in state fiscal year 2005. Average monthly caseloads similarly declined from near 175,000 recipients in the mid-1990s to roughly 121,000 in fiscal year 2001. Caseloads increased in fiscal years 2002 and 2003 due to a recession before declining again in fiscal years 2004 and 2005. Caseloads are projected to decline slightly further over the next few years. With the fixed federal block grant and required state MOE funding, the decline in cash grant spending allowed the state to increase child care and employment-related benefits, accumulate a TANF reserve, and use provisions of the final federal regulations to fund a variety of programs besides the AFDC replacement program.

MFIP Monthly Average Recipients

Fiscal Year	Average Recipients
1999	135,642
2000	126,004
2001	121,323
2002	127,578
2003	129,443
2004	125,436
2005	112,970
2006	105,495
2007	103,359
2008	102,634
2009	102,399

* The monthly average recipients for fiscal years 2007 to 2009 are projected.
Source: November 2006 Forecast

Allowable State Uses of TANF

As specified in the federal regulations that govern the TANF program, a state may use its TANF allocation to:

> “(a) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
>
> (b) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;

(c) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and

(d) Encourage the formation and maintenance of two-parent families." 45 C.F.R. 260.20.

States may also use TANF funds for spending on various programs that had been authorized prior to September 30, 1995, under Title IV A or IV F of the Social Security Act.[4] Also, a state may transfer up to 30 percent of its TANF block grant to either the Child Care and Development Block Grant or the Social Services Block Grant. However, no more than 10 percent of a block grant may be transferred to the Social Services Block Grant.

Minnesota's Uses of TANF

In fiscal year 2007 and beyond, the state estimates it will spend less than one-third of its annual TANF block grant to provide cash assistance to families through either the Minnesota Family Investment Program (MFIP) or the Diversionary Work Program[5] (DWP). MFIP is Minnesota's TANF program, authorized by the Minnesota Legislature in 1997. MFIP provides a combined cash and food support benefit to eligible families. To encourage workforce participation, it phases out benefits more gradually as earnings increase than AFDC did.

Beyond MFIP and DWP, the state currently spends TANF funds on the following activities:

- Support services, including employment and training services, to eligible Minnesota families
- Transitional housing (for which TANF funding expires at the end of fiscal year 2007)
- State and county program administration
- Home-visiting program and initiative to reduce racial disparities in infant mortality rates (programs administered by the Department of Health)
- Ongoing transfers to other funds for the following purposes:
  - Transfers to the Child Care and Development Fund (CCDF) to pay for child care for eligible families
  - Transfers to the Social Services Block Grant for child protection initiatives
  - Transfers to the general fund to reimburse the general fund for a small portion of its costs related to the state's Working Family Credit

The state previously used its TANF block grant for a broader array of purposes on programs, such as intensive English as a second language instruction, specific types of job training

[4] Allowable uses include: MFIP cash assistance, emergency assistance, emergency assistance intensive family preservation services, certain employment and training programs, MFIP child care, transition year child care, and Basic Sliding Fee child care.

[5] DWP was established in 2003 to provide short-term diversionary benefits to eligible recipients. Families who meet the DWP eligibility requirements are prohibited from receiving MFIP assistance. Eligibility for DWP is limited to a maximum of four months once in a 12-month period.

provided by other state agencies, housing rental assistance, homelessness prevention, and energy assistance.

TANF Maintenance-of-Effort Requirements

In addition to adopting a TANF program to replace AFDC, each state must also spend its own resources to provide assistance to needy families. The federal law includes a MOE provision that requires a state to spend a specified percentage of the amount it spent in federal fiscal year 1994 under its old AFDC and related programs, including child care assistance to eligible families. 42 USC § 609 (a) (7). States must meet the MOE requirements in order to receive their full block grants. The MOE percentage is set at 75 percent for states that meet the federal work participation requirement, and 80 percent for those that do not. The state was able to claim the lower rate of MOE spending for several years when it consistently met work participation rates, due to a federal “caseload reduction credit” that allowed states to reduce its required work participation rate one point for each percentage point that cash assistance caseloads decreased compared to 1995. Minnesota also made a policy choice to fund two-parent families with state funds, so these families did not count toward the work participation requirement.

TANF reauthorization effectively strengthened the federal work participation rate by rebasing the caseload reduction credit comparison point to 2005. The forecast now assumes that, under current law, the state cannot meet federal work participation rate requirements and therefore must claim 80 percent of its historic spending or roughly $188 million per year. In state fiscal year 2006, the state met its TANF MOE requirement by using general fund spending on MFIP cash and food assistance, the MFIP consolidated fund, state-only health care for noncitizens, child care direct services, working family credit expenditures, and related state and county administrative costs.

Changes Made to TANF as Part of Reauthorization

The federal Deficit Reduction Act of 2005 (DRA) reauthorized TANF through federal fiscal year 2010. DRA included certain work and program integrity changes to TANF and directed the Secretary of Health and Human Services to define work activities and determine who is a work-eligible individual. States had to comply with the new requirements by October 1, 2006, or be subject to potential penalties as early as federal fiscal year 2007.

Federal statutory changes included:

- Extending work participation requirements to families with an adult receiving assistance in a separate state program that is used for TANF MOE (prior to fiscal year 2007, Minnesota had a separate state program for two-parent families that had been used for TANF MOE purposes);

- Recalibrating the caseload reduction credit by updating the base year from fiscal year 1995 to fiscal year 2005 (now states will only receive credit for additional caseload reductions after fiscal year 2005; in recent years, Minnesota has received a caseload reduction credit of about 30 percent);

- Creating a new penalty for states that fail to establish and maintain procedures to verify reported work participation data; and

- Creating a $150-million annual research, demonstration, and technical assistance fund for competitive grants to strengthen family formation, promote healthy marriages, and support responsible fatherhood.

DRA retains the 50-percent work participation requirement for all families and the 90-percent requirement for two-parent families, but includes families in separate state programs in the calculation of the respective work participation rates. A work-eligible individual counts as engaged in work for a month for the overall rate if he or she participates in work activities during the month for at least a minimum average of 30 hours per week and at least 20 of those hours per week come from participation in nine core activities. (See page 7 for a list of the nine core activities.) A family with two work-eligible parents counts as engaged in work for the month for the two-parent rate if work-eligible parents in the family are participating in work activities for a combined average of at least 35 hours per week during the month and at least 30 of the 35 hours per week come from participation in nine core activities. If the family receives federally funded child care assistance and an adult in the family is not disabled or caring for a severely disabled child, then the work-eligible individuals must participate in work activities for an average of at least 55 hours per week (at least 50 of the 55 hours per week must come from participation in the nine core activities) to count as a two-parent family engaged in work for the month.

As a result of the federal changes to the caseload reduction credit and work participation requirements, the 2006 Legislature moved two-parent families to a separate state-funded program that is no longer used for TANF MOE purposes, which eliminates these families from being included in the work participation rate calculation. In addition, the Minnesota Department of Human Services (DHS) is currently looking at other strategies to improve the all-families work participation rate.

DRA requires each state to have a system in place for determining whether the hours it reports toward the participation rates correspond to the hours in which work-eligible individuals actually participate in work activities. A state must describe this system as part of its Work Verification Plan (initial plans were due September 30, 2006; final approval is anticipated by September 30, 2007). A state must verify through documentation in the case file all hours of participation that it reports. Acceptable documentation for the reported hours must be based on affirmative reports that the individual actually participated for the reported hours, not an exception reporting system. Documentation may consist of, but is not limited to, pay stubs, employer reports, time and attendance records, time sheets, service provider attendance records, or school attendance records.

Each state must develop internal controls and procedures that are sufficient to verify and validate the work participation rates. Internal controls include the state’s mechanism for monitoring the quality of its work participation data and may entail such approaches as a secondary stage supervisory review, special studies, regularly scheduled audits, or ongoing sampling and quality assurance processes that are used to monitor adherence to established policies and work verification procedures by staff and contractors. A state will be liable for a penalty (between 1 and 5 percent of its TANF grant) if it fails to establish its work verification procedures by submitting its interim Work Verification Plan by September 30, 2006, or if it fails to have its complete plan approved by September 30, 2007.

If, beginning in federal fiscal year 2008, DHHS determines, through audits or special reviews, that a state has not maintained adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used to calculate the work participation rates over the course of a fiscal year, DHHS will base the penalty on the number of times the state fails to meet the requirements. If a penalty is assessed, it will be imposed immediately the following fiscal year. Any state that is subject to a penalty for failing to establish or comply with the work participation verification procedures must fully correct the violation by the end of the first fiscal year ending at least six months after DHHS's receipt of the state's corrective compliance plan.

DHHS estimates that over five years (federal fiscal years 2007-2011) states will pay penalties of $51 million due to failure to meet work participation requirements. For those states that fail to meet work participation requirements, DHHS does not anticipate assessing penalties until federal fiscal year 2009. DHHS estimates issuing penalties amounting to $7 million in fiscal year 2009, $16 million in fiscal year 2010, and $28 million in fiscal year 2011.

The Secretary of Health and Human Services defined work activities in interim final regulations published in the Federal Register on June 29, 2006. Included in the regulations are definitions for:

(1) the nine core activities, including:
- unsubsidized employment,
- subsidized private sector employment,
- subsidized public sector employment,
- work experience if sufficient private sector employment is not available,
- on-the-job training,
- job search and job readiness assistance,
- community service programs,
- vocational educational training, and
- job skills training directly related to employment, and

(2) the three additional activities, including:
- education directly related to employment, in the case of a recipient who has not received a high school diploma or a certificate of high school equivalency,
- satisfactory attendance at secondary school or in a course of study leading to a certificate of general equivalence, in the case of a recipient who has not completed secondary school or received such a certificate, and
- providing child care services to an individual who is participating in a community service program.

In addition, included in the regulations is a definition for "work-eligible individual." Previously, there were no definitions in the TANF statutes or regulations for these terms, so each state defined these terms slightly differently. According to DHS, these new federal definitions will have a minimal effect on MFIP, although they may require minor changes to state statute.

For more information about TANF and MFIP, visit the human services area of our web site, www.house.mn/hrd/issinfo/hlt_hum.htm.