INFORMATION BRIEF
Minnesota House of Representatives
Research Department
600 State Office Building
St. Paul, MN 55155

Danyell Punelli LeMire, Legislative Analyst
651-296-5058
July 2008

History of TANF Refinancing in Minnesota

This information brief provides a description of the federal Temporary Assistance for Needy Families (TANF) program, including allowable state uses of TANF, and the history of TANF refinancing in Minnesota. Refinancing is any investment of TANF funds that does not increase programmatic activities for eligible low-income populations and replaces state general fund investments.

Contents

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. Congress will need to reauthorize TANF for fiscal years beyond fiscal year 2010. 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 (Pub. L. No.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 that could be accessed by matching federal dollars.

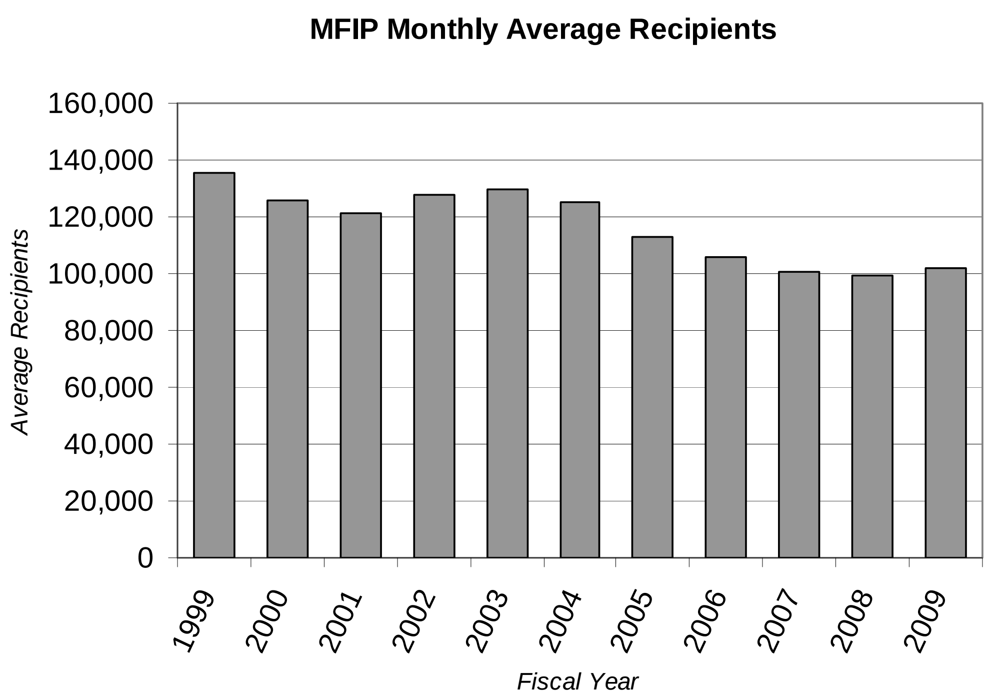
[2] Federal fiscal years run from October 1 to September 30; federal fiscal year 2010 ends September 30, 2010. TANF block grant amounts to each state are equal to the 1994 or 1995 AFDC payment, or the average of AFDC expenditures from 1992 to 1994, whichever is highest. In Minnesota, the 1994 AFDC expenditure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

[3] The work participation requirement for two-parent families who 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 in MFIP (Minnesota's welfare program) 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 113,000 in fiscal year 2005. Caseloads increased in fiscal years 2002 and 2003 due to a recession before declining again in fiscal years 2004 through 2007. Caseloads are projected to decline slightly further in fiscal year 2008 before increasing again beginning in fiscal year 2009.

With the fixed federal block grant and required state MOE funding, the decline in cash-grant spending has 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.



* The monthly average recipients for fiscal years 2008 and 2009 are projected.
Source: February 2008 Forecast, Department of Human Services

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.

TANF Refinancing in Minnesota

Any investment of TANF funds that does not increase programmatic activities for eligible low-income populations and replaces state general fund investments is considered refinancing. Minnesota has refinanced programs using TANF funds several times over the years. A significant amount of TANF was refinanced in fiscal years 2000 and 2001. There was a large TANF fund balance during the 1999 legislative session. In order to reduce the TANF fund balance, the legislature refinanced TANF on a one-time basis in fiscal years 2000 and 2001. Most of the TANF money that was refinanced replaced general fund spending on social services and child care assistance programs.

According to the Department of Human Services, the 2000 and 2001 refinancing was done to maximize federal financial participation and to allow for a re-assessment of TANF in the welfare reform environment in the following biennium. More recently, this practice has been used during years in which there were budget shortfalls in order to help balance the budget. Table 1 provides information on TANF refinancing from 1998 to 2011.

---

[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.

Table 1
TANF Refinancings Benefiting the General Fund: State Fiscal Years 1998-2011

State Fiscal Year	Total TANF Refinancing	Total TANF Spending	Percent of Total TANF Spending that was Refinanced	TANF Fund Balance	General Fund Balance (as of February forecast)
1998	$0	$186,050,000	-	$118,517,000	$1,045,000,000
1999	0	187,071,000	-	198,813,000	1,235,000,000
2000	49,800,000	265,546,000	19%	207,496,000	800,000,000
2001	54,620,000	300,488,000	18	178,470,000	856,000,000
2002	12,315,000	321,847,000	4	126,668,000	(2,289,000,000)
2003	12,315,000	373,571,000	3	21,006,000	(11,000,000)
2004	4,092,000	261,032,000	2	40,885,000	(160,000,000)
2005	3,277,000	274,124,000	1	81,188,000	0
2006	7,979,000	276,760,000	3	81,626,000	88,000,000
2007	31,814,000	289,161,000	11	55,705,000	1,013,000,000
2008	24,486,000	261,197,000	9	58,942,000	(935,000,000)
2009	42,216,000	311,158,000	14	12,218,000	NA
2010	5,096,000	270,968,000	2	5,684,000	NA
2011	7,109,000	269,712,000	3	406,000	NA
TOTAL	$255,119,000	$3,848,685,000	7%	-	-

Source: Departments of Human Services and Finance, June 2008
Note: Expenditures and TANF fund balances for fiscal years 2008-2011 are projected.

Since federal regulations limit the allowable uses of TANF, only programs that meet the federal TANF requirements may be refinanced using TANF funds. Some of the programs that have been refinanced using TANF funds include the child care assistance programs; MFIP; working family credit; other social services programs, including Parents Fair Share, New Chance, and Functional Work Literacy; and housing and economic development programs, including Supportive Services Grants, Pathways, Rental Assistance for Family Stabilization, and Homelessness Prevention. See Table 2 for the amount of refinancing to various programs from 1998 to 2011.

Table 2
TANF Refinancings Benefiting the General Fund: Detail (State Fiscal Years 1998-2011)

State Fiscal Year	Social Services Block Grant	Child Care & Development Fund	MFIP Cash	Working Family Credit	Other Social Services	Housing & Economic Development	Total TANF Refinancing
1998	$0	$0	$0	$0	$0	$0	$0
1999	0	0	0	0	0	0	0
2000	15,140,000	27,985,000	0	0	1,175,000	5,500,000	49,800,000
2001	15,140,000	27,751,000	0	6,554,000	1,175,000	4,000,000	54,620,000
2002	11,140,000	0	0	0	1,175,000	0	12,315,000
2003	11,140,000	0	0	0	1,175,000	0	12,315,000
2004	140,000	0	3,952,000	0	0	0	4,092,000
2005	3,277,000	0	0	0	0	0	3,277,000
2006	140,000	6,692,000	0	0	0	1,147,000	7,979,000
2007	140,000	30,527,000	0	0	0	1,147,000	31,814,000
2008	140,000	3,192,000	21,154,000	0	0	0	24,486,000
2009	140,000	3,192,000	38,884,000	0	0	0	42,216,000
2010	140,000	3,192,000	1,764,000	0	0	0	5,096,000
2011	140,000	3,192,000	3,777,000	0	0	0	7,109,000
TOTAL	$56,817,000	$105,723,000	$69,531,000	$6,554,000	$4,700,000	$11,794,000	$255,119,000

Source: Department of Human Services, June 2008

Notes: Expenditures for fiscal years 2008-2011 are projected. Expenditures not shown include base level Working Family Credit TANF expenditures, which represent investments in expanding the Working Family Credit and paying for the revenue lost when the child support pass-through was established (expansion began in FY 2001), expenditures to expand Basic Sliding Fee child care (expansion began in FY 1999) or Concurrent Permanency Planning (expansion began in FY 2002), and the time-limited Working Family Credit expenditures that have been used to fund low-income housing (expansion from FY 2000-2003).

For additional information on the TANF program, see the information brief TANF Background *or visit the human services area of our web site, www.house.mn/hrd/issinfo/hlt_hum.htm.*