TANF FINANCE:

Expenditure and caseload trends undermine safety net*

Declining welfare caseloads have yielded significant savings over the last six years. Block grants under Federal welfare reform legislation allowed the states to keep this windfall. Flexibility, however, also brought the risk of higher costs should caseloads rise or moving hard-to-employ recipients into the workforce prove difficult.

In Washington, Federal funds, based on pre-reform caseloads, accumulated faster than they were spent. Instead of the historic equal division of program costs between state and federal revenues, the state reduced its financial commitment, spending down federal dollars. Subsidized child care expanded dramatically while other savings were used to supplant state human services expenditures.

During the 2001-2003 biennium the state will exhaust the accumulated surplus of federal funds, projecting a negative ending balance of $31.7 million [FIGURE 3]. Although the official forecast projects stagnant caseloads, rising unemployment will likely result in increased welfare claims. Two budget cycles of welfare savings are yielding to a future that will require significantly higher state financial support.

SAVINGS AND SUPPLANTATION

Since 1997, the state has saved $623.6 million from reduced WorkFirst caseloads. Projected through next biennium under the Governor's proposed budget, the total exceeds $1 billion [FIGURE 2].

Washington is not alone in realizing these savings – dramatic national welfare caseload reductions and flexibility from the federal government have produced a boon for state legislatures across the country. States have supplanted state human service dollars with federal funds – using TANF block grant revenues to cover existing programs costs and redirecting state appropriations to other purposes.

Figure 1

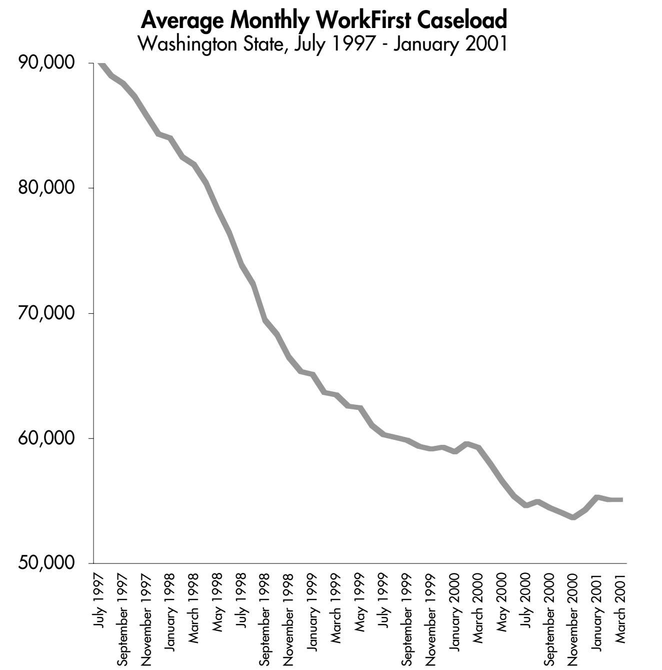


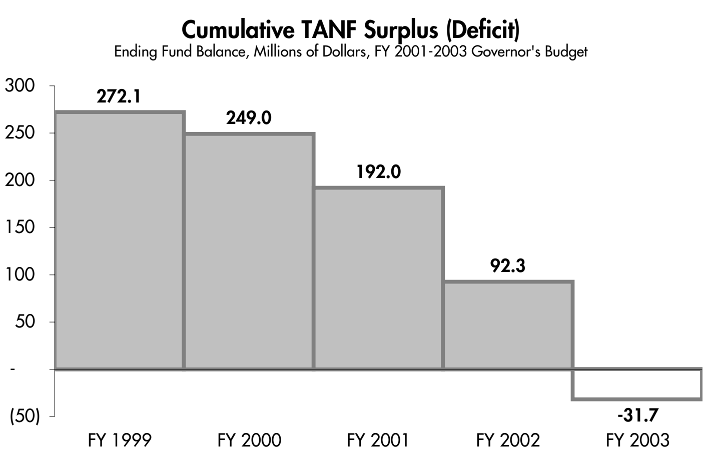
Figure 2

Direct Savings from Caseload Reduction since 1997

Cash Benefits Only, Fiscal Years 1998-2003, Millions of Dollars

1998	1999	2000	2001	2002	2003	Total
63.5	140.7	191.5	227.8	233.3	234.0	1090.9

Figure 3



* J. Christopher Haugen and Nick Zajchowski

Figure 4

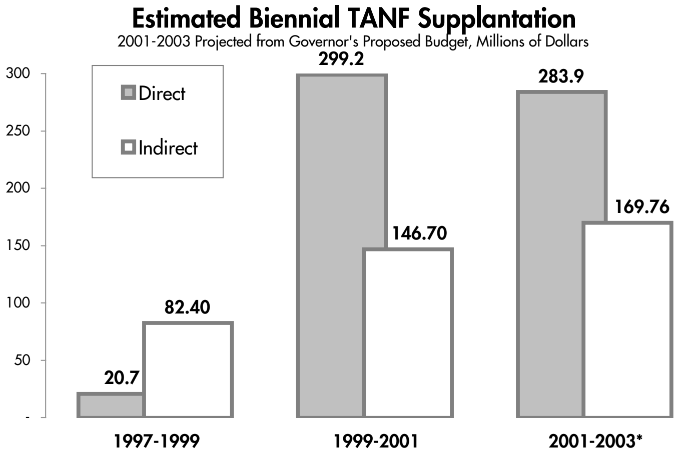


Figure 5

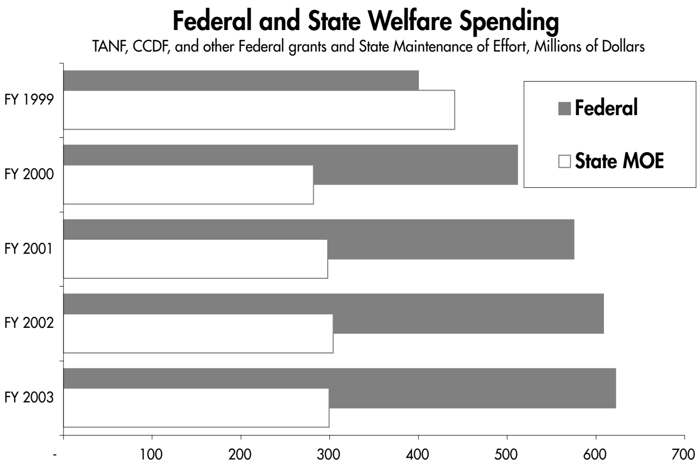
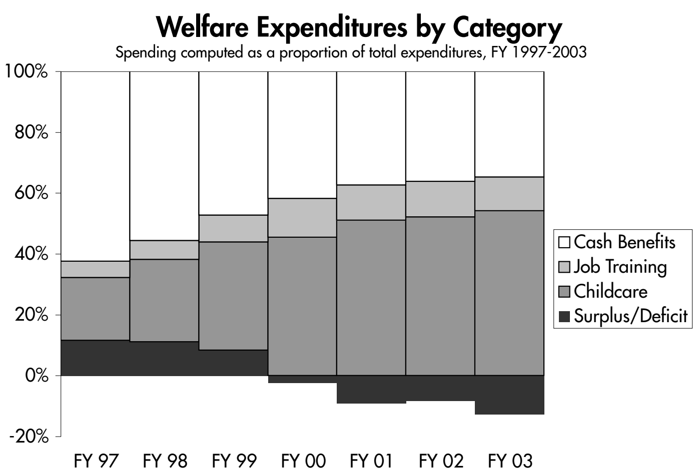


Figure 6



*Statistically, long-term variance in unemployment explains 89 percent of the shift in demographic-adjusted national welfare caseloads. Analysis of 138 months of Washington specific data yields an r-value over .6 and a semi-annually continuous lag correlation of .79

Determining the extent of supplantation in Washington is complicated by the nature of program enhancements. Over three biennia (including the Governor's proposed 2001-2003 budget) $603.8 million in caseload reduction funds have been directly supplanted: passing from human services to the state general fund [Figure 4].

Other savings have remained in human services, primarily funding child care programs. Involving federal expenditures made without matching state funds, the effect on state revenues is indirectly the same. In order to constitute true supplantation, however, it must be assumed that state funds would have been used in the absence of federal dollars to fund these expenditures.

Unemployment and Welfare

The success of welfare reform will be tested ultimately by recession – whether by the current economic downturn, or in the future. A strong economy has aided welfare caseload reduction, primarily through the strong relationship between unemployment and the demand for welfare assistance.

The transition from welfare to work has occurred within a tight labor market. State and national data* illustrate that the strong relationship between unemployment and welfare caseloads has persisted even after welfare reform [Figure 7].

Limited job and wage progression leaves former welfare recipients highly susceptible to changes in the business cycle. Given the particular vulnerability of lower-income workers to recession-induced job displacement and layoffs, even a mild economic downturn can be expected to increase welfare caseloads.

Official Forecasts

The Office of Financial Management projects no effective change in WorkFirst caseloads, anticipated to remain below 54,000 over the next 30 months. The forecast is based on entry/exit rates from the previous 12 months, with some demographic adjustments. At the same time, the official state economic forecast projects the number of unemployed to grow by 14.1 percent over the same period [Figure 8].

Caseloads have exceeded projections in recent months, topping 55,000. Unemployment has also increased. Based on the economic forecast, WorkFirst caseloads can be expected to rise 18 percent above the official state forecast, to over 63,000 by the end of the 2001-2003 biennium.

Nationally, a dozen states have reported recent caseload increases. In the aftermath of February's drop in employment, the largest in a decade, more increases can be expected. Total US welfare rolls, which reached a low of 5.8 million in September, will almost certainly grow this year for the first time in seven years.

Five-Year Limit

Next August the first Washington families will exhaust benefits under the TANF five-year lifetime limit. In general, states cannot use federal funds to provide assistance for a cumulative total of more than 60 months for more than one-fifth of the average monthly caseload.

Based on September 2000 data, a maximum of 5,227 households could reach the limit in August 2002, growing to 21,616 households over the subsequent 11 months. This corresponds to 25,895 households that had been WorkFirst clients for 24 months or longer as of September; another 27,203 have been clients for 12-23 months [Figure 9].

The Washington State Institute for Public Policy (WSIPP) concluded that approximately 6,829 households are at high risk of reaching the five-year limit by August 2003, representing 13 percent of current recipients. The WSIPP model thus predicts that about 14,787 households that have used two or more years of welfare benefits will not exceed the five-year time limit on the sixth anniversary of welfare

Figure 7

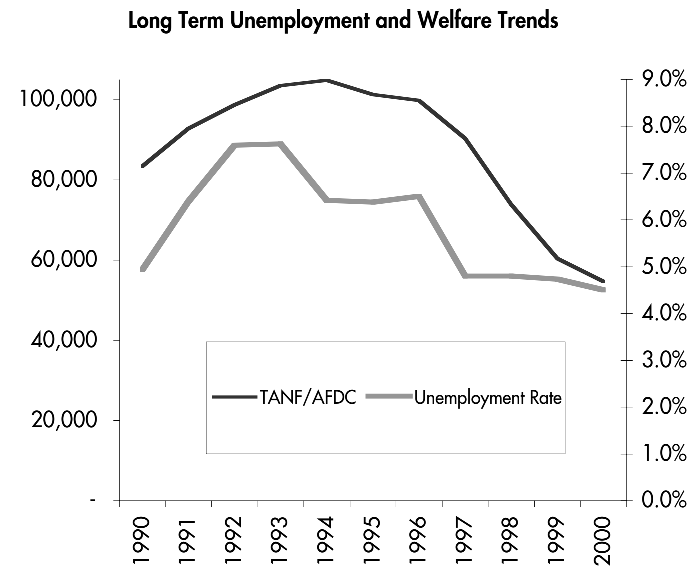


Figure 8

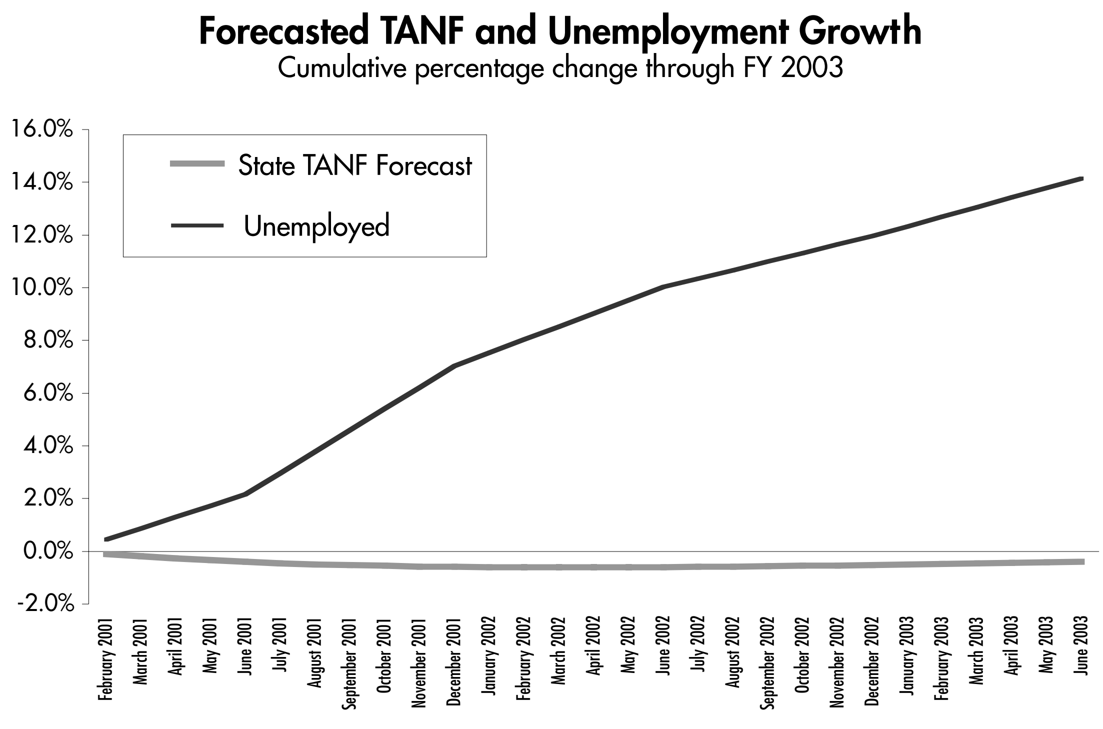
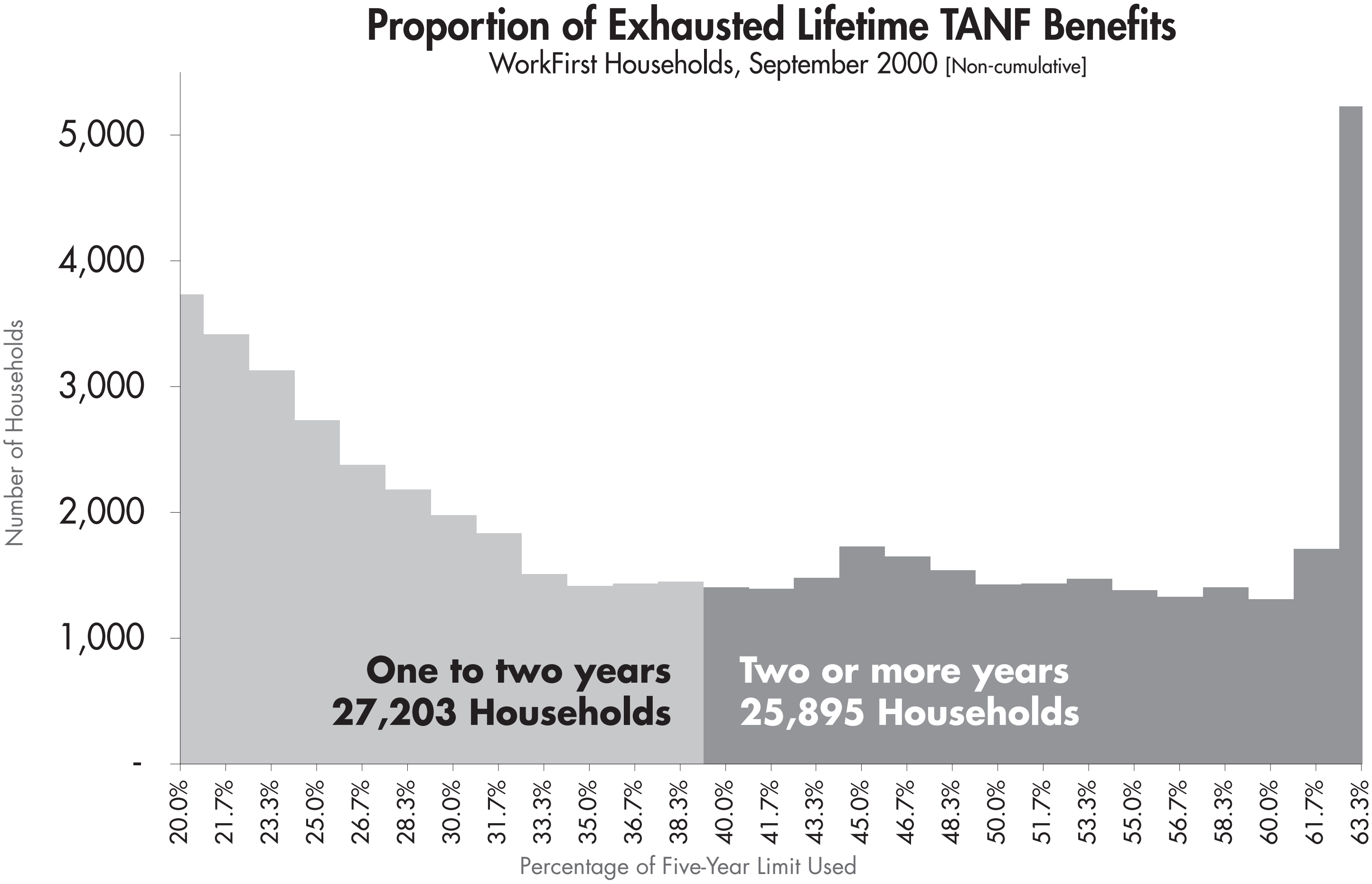


Figure 9



Source: Imputed from DSHS Data

reform. This projection is made by assessing household characteristics to estimate the likelihood of future need for welfare benefits.

Broader economic factors and an economic downturn would have an adverse effect on recipients subject to the time limit not considered by the WSIPP model. However, to the extent that a recession also causes increased TANF utilization by clients with relatively low lifetime use of WorkFirst, Washington's short term situation is improved as the base for calculating the 20 percent waiver is increased.

The Legislature has not granted the statutory authority to exceed the 20 percent exemption to the time limit. Continued assistance to affected households could be assured by redirecting existing Maintenance of Effort cash benefit expenditures, but that would require administrative steps – separating and segregating block grant and maintenance of effort funds – that have not occurred. Work stipends or enhanced non-assistance support would also offset the impact of the time limit but have not been pursued.

Outlook

Years of supplantation have drained state dollars from human services, and no TANF surplus will exist to maintain current services over the 2003-2005 biennium. In fact, Congressional reauthorization of TANF next year could re-base block grants levels to current caseloads, producing an even larger shortfall.

The state will face more immediate problems, however, should caseloads rise with growing unemployment. Increased costs in the 2001-2003 biennium would speed exhaustion of the TANF surplus, while the return of past recipients nearing the five-year limit to WorkFirst caseloads could force the state to redirect a substantial portion of caseload reduction savings back to welfare.

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