Borrowed Time:

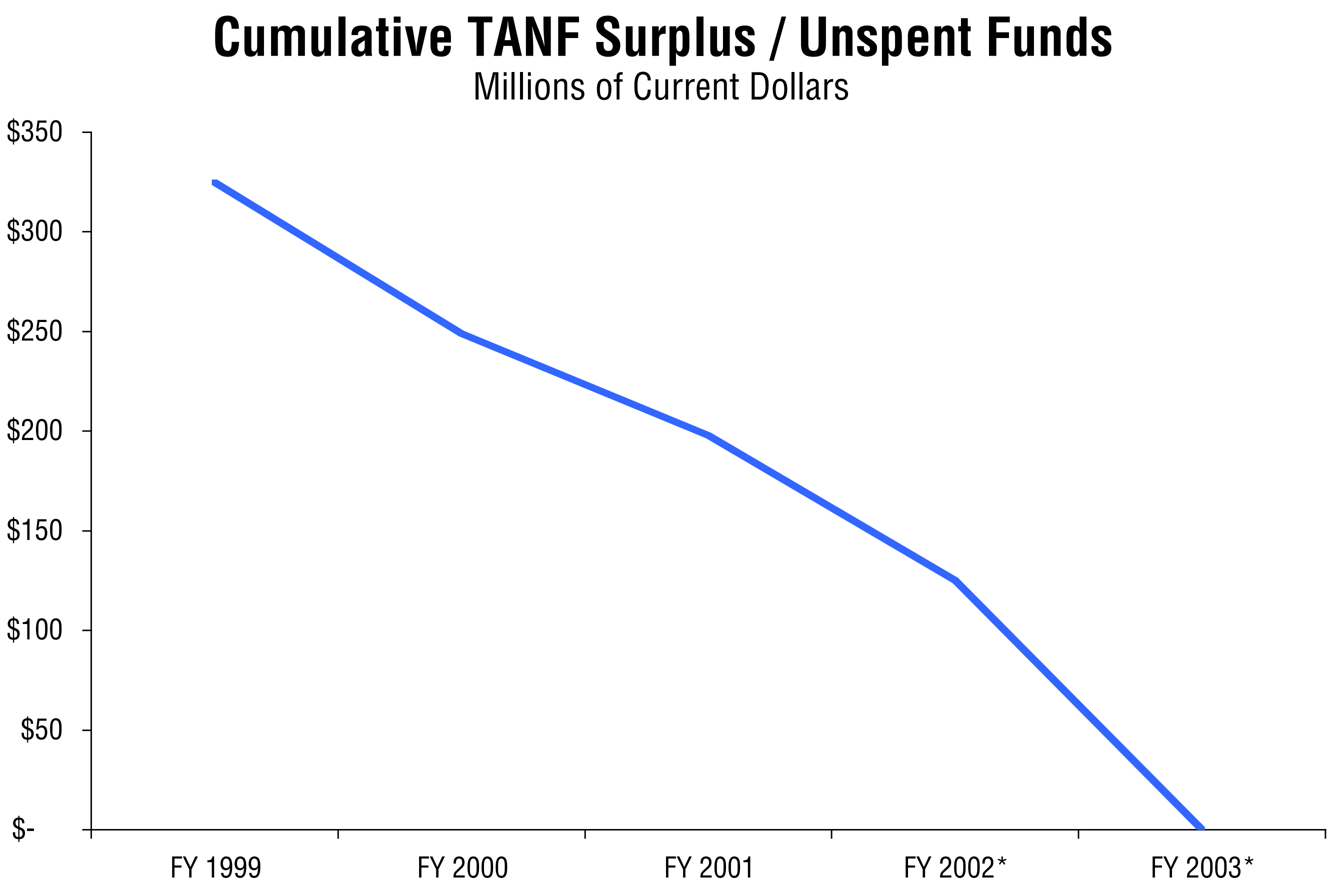
TANF Supplantation in Washington State*

Reform legislation four years ago promised to "end welfare as we know it." The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced Aid to Families with Dependent Children (AFDC) with a program of block grants: Temporary Aid to Needy Families (TANF).

The law has required states to make a variety of changes, such as mandating work and education activities — including job training and searches — tied to time-limited assistance. Families are limited generally to no more than five years of assistance, consecutive or nonconsecutive, with limited hardship exceptions.

Although AFDC's purpose of providing assistance to needy children remains, under the stated intent of ending dependency on government benefits, TANF creates sizeable incentives for states. Instead of generally equally shared costs, states are provided unprecedented flexibility to design and implement TANF, and are able to retain the savings with few restrictions. States done just this, responding to the block grants by building up substantial reserves of unspent

Figure 1



* J. Christopher Haugen.

FIGURE 2

Cumulative TANF Surplus

Unobligated Funds as of March 31, 2000

	State	Surplus (Millions)	Per Recipient Family
1	Wyoming	45.9	$70,076
2	West Virginia	166.9	$15,570
3	Idaho	19.4	$15,027
4	Montana	37.8	$8,313
5	South Dakota	17.8	$6,285
6	Mississippi	91.4	$5,986
7	Oklahoma	86.3	$5,596
8	Colorado	64.6	$5,479
9	Louisiana	165.5	$5,375
10	**Washington**	**272.9**	**$4,628**
11	Wisconsin	100.8	$4,362
12	New York	1,189.6	$4,337
13	Maryland	105.1	$3,466
14	Ohio	337.6	$3,369
15	Minnesota	119.3	$3,021
16	Georgia	169.6	$3,013
17	North Dakota	8.0	$2,717
18	Utah	22.7	$2,564
19	Arkansas	29.7	$2,358
20	Alabama	46.2	$2,355
21	New Mexico	46.9	$1,848
22	California	901.3	$1,741
23	Iowa	35.4	$1,682
24	New Hampshire	9.9	$1,659
25	Florida	112.6	$1,534
26	Tennessee	86.1	$1,516
27	Michigan	86.3	$1,085
28	Pennsylvania	106.1	$1,066
29	Arizona	34.0	$1,004
30	North Carolina	45.5	$937
31	Maine	9.3	$829
32	Rhode Island	13.7	$803
33	Hawaii	7.6	$502
34	Vermont	3.1	$494
35	Nevada	3.0	$487
36	South Carolina	7.7	$463
37	Texas	55.3	$433
38	Kansas	4.8	$373
39	Oregon	5.1	$302
40	Nebraska	1.7	$163
41	Alaska	0.5	$69
42	Connecticut	-	$0
43	Delaware	-	$0
44	Illinois	-	$0
45	Indiana	-	$0
46	Kentucky	-	$0
47	Massachusetts	-	$0
48	Missouri	-	$0
49	New Jersey	-	$0
50	Virginia	-	$0

federal dollars, while reducing state expenditures even further.

Federal Warning

Last year, Congresswoman Nancy Johnson (Republican-Connecticut), chair of the House Ways and Means Subcommittee on Human Resources, which has jurisdiction over TANF, sent a letter to the governors of all 50 states warning that more TANF funds needed to be spent or states risked having Congress take back some portion of current unspent funds or reduced future grant levels. This warning was followed by several legislative attempts last summer and fall to rescind some unspent TANF funds, which were stopped in no small part by Congresswoman Johnson.

Again in March, Johnson wrote to the governors, noting that progress had been made in increasing the use of TANF funds but once more suggesting that future TANF funding would be safeguarded only if states continue to make efforts to spend the funds they are now receiving, and to spend those funds wisely and in accordance with the true objectives of welfare reform.

As with most other states, Washington has accumulated a large surplus of unspent TANF funds. The surplus was created by significant caseload reductions and delayed reactions to boost expenditures to address the needs of remaining families (and sustain still further reductions). Legislation enacted in Washington the past two sessions will spend down the surplus over the next three years, largely through increased child care assistance. Nonetheless, the appearance of largesse has undermined arguments for sustained federal funding.

Supplantation

Johnson's second letter contained an even more important warning that warrants attention — states should not use TANF to supplant state funds. The letter notes that supplantation is allowed under the law but that it goes against Congressional intent. The letter makes clear that Congress will look unfavorably on states that have committed such abuses when the reauthorization of TANF comes before the Congress in 2001 and 2002.

Washington has realized substantial savings — at least $300 million this biennium — by replacing state human service expenditures with TANF funds. These funds have been shifted to the general fund, underwriting $20 billion in general expenditures without a specific beneficiary. While there have been more glaring examples in other states of direct transfers of TANF supplanted funds to dedicated budgets like transportation, Washington's use of TANF supplantation as a general revenue source will be viewed as little different.

The state has produced even more savings by shifting federal funds within human services, netting significant but difficult to calculate indirect savings for the general fund. Such financing will pose numerous problems for the state should reauthorization

Excerpt from Congresswoman Nancy Johnson's Letter tp State Governors (March 2000):

In reviewing these and similar investments for your own state, I hope you will be careful to avoid supplanting TANF funds. By supplantation, I mean replacing state dollars with TANF dollars on activities that are legal uses of TANF funding. Supplantation, of course, is perfectly legal under the TANF statute. However, if the savings from supplanted federal funds are used for purposes other than those specified in the TANF legislation, Congress will react by assuming that we have provided states with too much money. As the reauthorization of the TANF legislation in 2002 approaches, it would be a shame if a few states followed the suggestions of their budget officials and replaced state dollars with TANF dollars in order to provide tax cuts, build roads or bridges, or in general use funds for non-TANF purposes. It has become increasingly clear that the media, child advocates, Congressional committees, and, at my request, the General Accounting Office, are watching to see if states supplant TANF funds. Thus, it is likely that jurisdictions that do so will become widely known and criticized. Equally important, these jurisdictions could provoke Congress to take actions that would hold serious consequences for every state.

Figure 3

TANF Supplantation in Washington

General Fund-State savings created by TANF expenditures, Millions of Dollars

Cost Shift	**1999-2001 Budget**
Welfare Reform / Temporary Assistance (1998)	20.7
SSBG (1999)	34.4
GA-H and FAP (2000)	2.8
Maintenance of Effort	
Reduction to 80 percent (1999)	196.9
Reduction to 75 percent (2000)	46.8
Total	**301.6**

What is Supplantation?

Supplantation is the practice of states using federal funds to replace state spending on a program. In the context of TANF, specific state programs that assist the needy are now eligible for TANF funding, generating savings that states can expend elsewhere. Supplantation is generally considered using such savings for categorically different purposes — e.g. shifting from human services to the general fund or transportation.

Figure 4

TANF Surplus relative to Caseload Reduction

March 31, 2000 unobligated TANF funds per case removed from state welfare rolls, January/March 1994- October/December 1999

1. Wyoming	4.75	26. Hawaii	(0.02)
2. New York	3.32	27. Alabama	(0.05)
3. Washington	**2.96**	28. Pennsylvania	(0.37)
4. New Mexico	2.72	29. Arizona	(0.42)
5. West Virginia	2.56	30. Vermont	(0.45)
6. Montana	2.22	31. Maine	(0.49)
7. Minnesota	2.21	32. Florida	(0.59)
8. South Dakota	1.73	33. Michigan	(0.62)
9. Louisiana	0.88	34. North Carolina	(0.65)
10. Oklahoma	0.75	35. Nevada	(0.75)
11. North Dakota	0.70	36. Texas	(0.77)
12. Idaho	0.67	37. Nebraska	(0.81)
13. Utah	0.62	38. Kansas	(0.82)
14. Rhode Island	0.57	39. South Carolina	(0.86)
15. California	0.50	40. Oregon	(0.87)
16. Ohio	0.44	41. Alaska	(0.94)
17. Mississippi	0.42	42. Connecticut	(1.00)
18. Arkansas	0.40	43. Delaware	(1.00)
19. Colorado	0.39	44. Illinois	(1.00)
20. Maryland	0.36	45. Indiana	(1.00)
21. Georgia	0.29	46. Kentucky	(1.00)
22. Iowa	0.22	47. Massachusetts	(1.00)
23. New Hampshire	0.15	48. Missouri	(1.00)
24. Wisconsin	0.10	49. New Jersey	(1.00)
25. Tennessee	0.02	50. Virginia	(1.00)

reshape or even merely rebase block grants at lower levels.

Relative Reductions

Washington state has produced a very large TANF surplus — 10th largest in the country. Washington has also reduced caseloads, but not as fast as other states. As a result, the state has created the third largest TANF surplus relative to caseload reduction. In other words, the state has realized larger savings for each family taken off of welfare, or more practically, is not spending as much on the families recently off or still receiving full TANF benefits.

As noted above, this biennium the state boosted expenditures, and these savings will be spent, but frugal spending last biennium on job training and child care may very well dampen future caseload reductions.

Conclusion

TANF has produced windfall savings for the state, building a surplus of federal funds, and permitting the supplantation of over $300 million in state funds. Boosted spending on child care will exhaust the surplus of federal funds in the coming years, even if reauthorization preserves current block grant levels and flexibility.

As the state faces a tough budget situation in the 2001-2003 biennium, reversal of supplantation is unlikely. It is probably just a matter of time, however, before federal intervention curtails supplantation, and forces the state to scramble to fund human services.