



## **TANF Emergency Fund Helps Cushion Effects of the Recession and Creates Options for State Policymakers**

The recession has sharply increased the number of unemployed or underemployed individuals and families and has increased spending on programs to assist such households, while it has simultaneously cut deeply into state revenue. To help states maintain critical supports for low-income families, the American Recovery and Reinvestment Act (ARRA) contains a number of measures to help finance safety net programs, such as Wisconsin Works (W-2) and the state Earned Income Tax Credit (EITC).

One of the important sources of aid to states in ARRA is the \$5 billion TANF Emergency Contingency Fund (ECF). Because the annual block grants to states from the Temporary Assistance for Needy Families (TANF) program have been frozen since its inception in 1996, TANF does not serve well as a counter-cyclical source of aid during an economic downturn.<sup>1</sup> Thus, the increased ARRA funding for the ECF provides a badly needed infusion of funding for states to allow them to cope with the greatly increased need for assistance driven by the recession.

States may receive ECF dollars for 80 percent of the increased expenditures incurred by September 30, 2010, in any of these four categories:

- increased TANF caseload and basic assistance costs;
- non-recurrent, short term benefits, such as emergency benefits and the state EITC;
- subsidized employment costs; and
- certain costs of summer food service programs.

### **Wisconsin's share of the ECF**

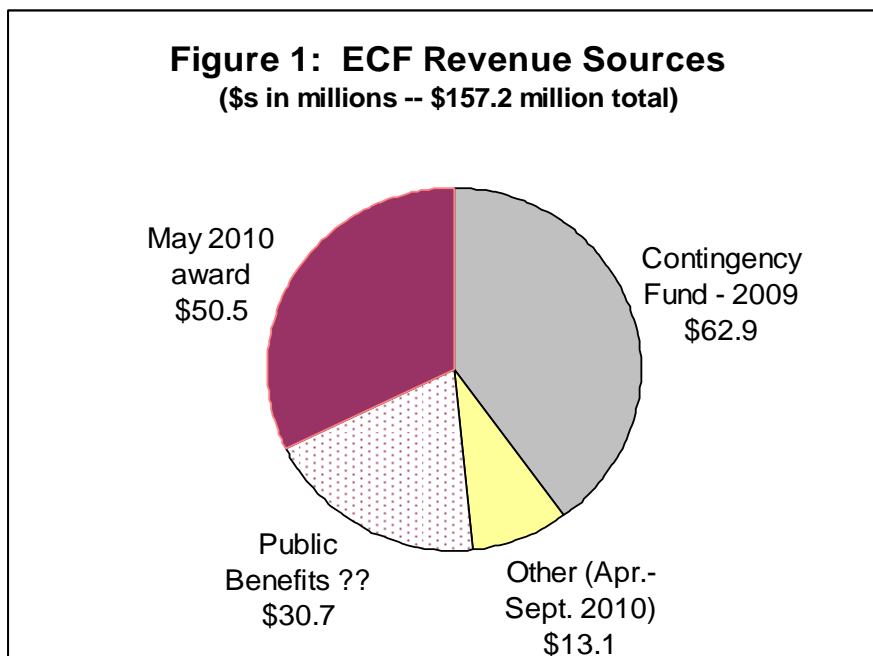
Each state's total share of the ECF is capped at half of its annual TANF appropriation. In Wisconsin that means our state could get as much as \$157.2 million from the ECF; however, that amount is offset by the \$62.9 million the state received in 2008-09 from the regular TANF Contingency Fund. Thus, Wisconsin is potentially eligible for about \$94.3 million from the ECF, of which only \$5.6 million was budgeted in the biennial budget bill (Act 28).

On May 25, 2010, Wisconsin received approval for \$50.5 million from the ECF, based chiefly on increased W-2 caseload and spending and higher state expenditures for the EITC. The state will also be able to draw down ECF dollars based on spending for the new transitional jobs demonstration program discussed below, which won't begin until July.

DCF has been seeking \$30.7 million from the ECF based on increased spending for weatherization and fuel assistance, but thus far has not succeeded in getting federal officials to

agree that those expenditures qualify as eligible non-recurrent, short-term benefits. Regardless of whether that part of Wisconsin's ECF application is approved, the state should be able to qualify for some of the remaining \$43.8 on the basis of W-2 and EITC spending between April 1 and September 30, and for roughly \$4 million of expected spending during the initial three months of the transitional jobs demonstration program.

Figure 1 illustrates Wisconsin's tentative plan for tapping all of its potential allocation of ECF dollars. The success of that plan hinges on whether federal officials accept the Department of Children and Families' (DCF) argument that state spending for fuel assistance and weatherization qualifies as non-recurrent short term benefits. At this point it is unclear how much additional ECF revenue Wisconsin may be able to receive based on spending over the second half of the current federal fiscal year in the areas of W-2 and the EITC, but DCF estimated that the new transitional jobs demonstration program will generate \$3.4 million from the ECF.



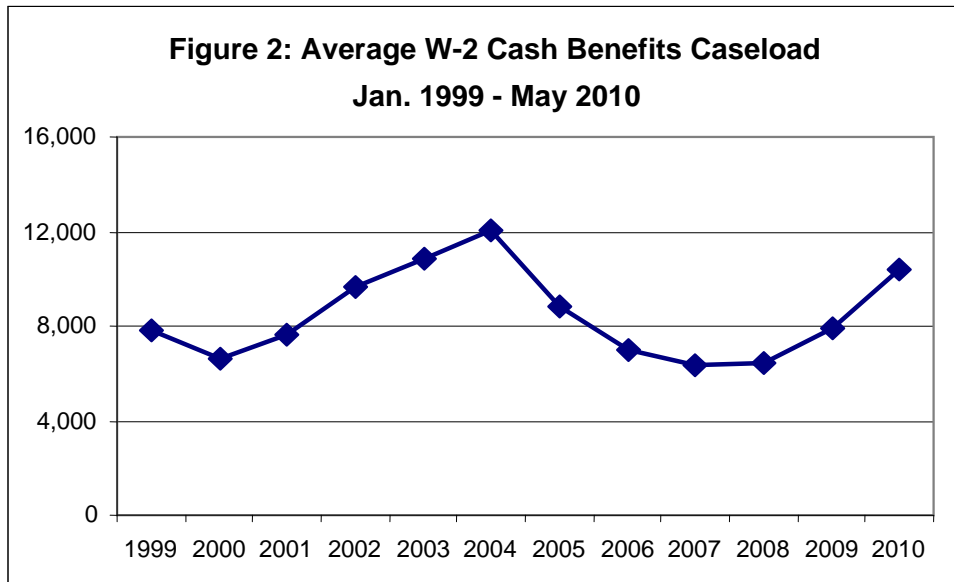
### **Extension of the ECF could yield \$94.4 million (HR 4213)**

In late May 2010 the U.S. House of Representatives approved H.R. 4213, which would extend a number of portions of the Recovery Act. It would provide an additional \$2.5 billion for the ECF in federal fiscal year 2011, which could yield up to \$94.4 million more for Wisconsin.<sup>2</sup> In addition, H.R. 4213 would allow states that haven't spent all of their current ECF allocation to qualify for that funding based on spending for individuals in subsidized job placements that begin by September 30, 2010.

In mid-June the Senate voted on a somewhat amended version of H.R. 4213. The Substitute Amendment proposed by Senator Baucus includes the House ECF provisions; however, a vote to end the filibuster on the bill fell a few votes short of the 60 needed to advance the legislation. It is likely that additional amendments will be offered, and it is unclear whether any of those ECF changes will ultimately be approved.

## Increased W-2 Participation

Although W-2 participation is still far below the level when the program began in 1997, it has increased significantly during the recession and continues to increase. Figure 2 illustrates the rebound in the W-2 cash benefit caseload over the last couple of years. The average participation over the first five months of 2010 is 62 percent higher than the 2008 average, and the May figure (11,619) is 86 percent above the May 2008 level. On the other hand, the current participation level does not look high if one takes a longer-term perspective. For example, the May 2010 cash caseload is only about one fourth of what it was when W-2 started in 1997,<sup>3</sup> and only about one seventh of the AFDC enrollment two decades ago.



Not surprisingly, the sharp rise in W-2 participation over the past year or two has resulted in a substantial increase in W-2 spending, relative to the low levels in 2007 and 2008. In recent months the Department of Administration (DOA) has increased the W-2 funding levels for benefits, services and administration by \$11.7 million in 2009-10 and \$35.8 million in 2010-11.

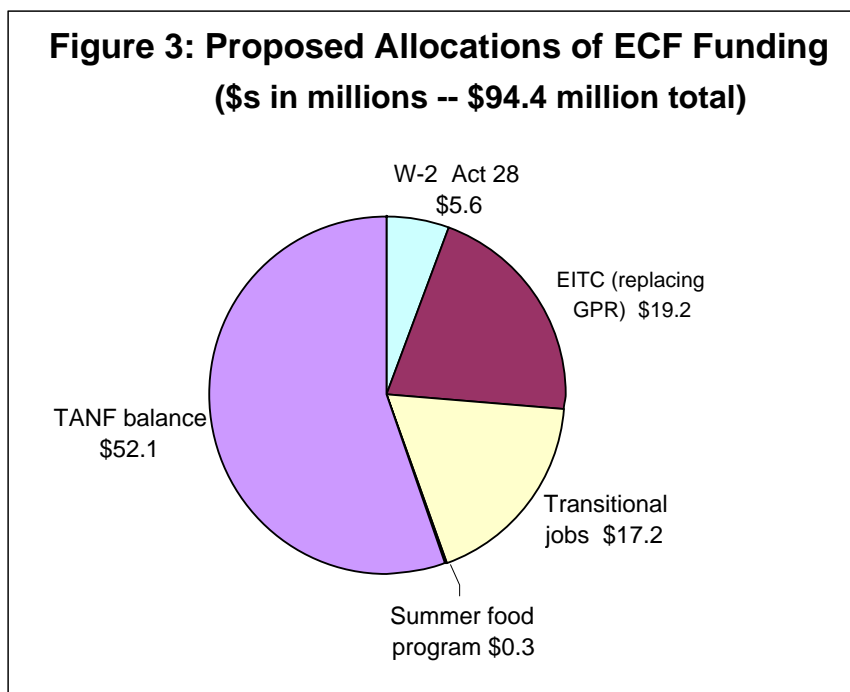
The ECF will essentially pay 80 percent of the increased W-2 spending for basic assistance through September 30, 2010 (and potentially beyond that if the ECF is extended). However, rather than waiting for the state's application for ECF dollars to be approved, DOA transferred unspent child care funding from savings in the Wisconsin Shares program to cover the increased W-2 expenditures, which gives policymakers the opportunity to allocate the ECF revenue for other purposes.

## Proposed Use of ECF Dollars

The biennial budget bill, Act 28, included just \$5.6 million from the ECF, which was earmarked to pay for increased costs in Wisconsin Works (W-2). That leaves a total of up to \$88.7 million that the state could potentially receive for expenditures prior to September 30, 2010. The Governor has submitted a request to the Joint Finance Committee, to be considered at their June 23 meeting, to allocate the entire \$88.7 million, not just the \$50.5 million that the state has been awarded thus far.

Figure 3 illustrates the proposed allocations of all of the \$94.3 million from Wisconsin's potential share of the ECF, including the \$5.6 million already appropriated for W-2. The Governor's proposal would divide the remaining \$88.7 million as follows:

- \$17.2 million for the transitional jobs demonstration project, which was authorized in ACT 28 but wasn't funded at that time, and which is expected to create more than 1,500 slots for low-income adults;
- \$19.2 million for the state EITC, which would replace state General Purpose Revenue (GPR) with federal TANF revenue, thereby helping the state boost the modest GPR balance;
- \$300,000 for summer food services programs; and
- \$52,055,400 that would add to the balance in the state's TANF fund.



Focusing just on the ECF dollars would miss an important part of the total picture with respect to how the state is coping with the growing costs of increased W-2 participation and other challenges posed by the current recession. In recent months the Department of Administration has approved the transfer of about \$106 million from reduced spending for the Wisconsin Shares child care subsidy program, stemming largely from efforts to improve program integrity. Table 1 shows how DCF plans to use the reallocated funds, as well as the Governor's proposal for using the potential ECF revenue that wasn't included in Act 28.

As the table illustrates, the reduction in spending for the child care subsidy program has allowed the state to transfer almost \$47.6 million into W-2 benefits, services and administration, and about \$7.3 million for improvements in Wisconsin Shares program integrity, including \$1 million for the new automated attendance tracking system.

The Doyle Administration is also seeking to use about \$38.8 million of TANF funding from Wisconsin Shares underspending to help pay for the state's Earned Income Tax Credit (EITC), replacing that sum of General Purpose Revenue (GPR). That shift, coupled with the proposal to

use \$19.2 million from the ECF for the tax credit, would allow the state to add \$58 million to the estimated closing balance in the General Fund at the end of the 2009-11 biennium. Using TANF to supplant GPR dollars is controversial because the state’s annual TANF allocation has been frozen at the same level since 1997, and diverting TANF dollars undermines the state’s capacity to fund W-2 and child care for low-income families. The practice of using TANF funds to supplant GPR funding began in 1999 but was phased down in recent years because it had created a large structural deficit in the TANF-related budget for W-2 and Wisconsin Shares.

Finally, DCF and the Governor have proposed using a little over \$10 million in 2010-11 to begin a child care rating system, know as YoungStar, which would be funded from the estimated \$60.5 million in Wisconsin Shares savings that year. The Governor has proposed a rating system for child care in each of the last three biennial budgets, and his proposal finally won preliminary legislative approval in Act 28. That bill directed DCF to come up with a plan and a funding source for implementing the rating system, for review and approval by the Joint Finance Committee. That plan is on the committee’s June 23 agenda.

**Table 1: Proposed TANF Funding Changes in 2009-11**

	DOA funding shifts		June 14 - ARRA funding request	Total change (vs. Act 28)
	2009-10	2010-11	2009-11	2009-11
<b>Potential ECF revenue</b>			88,747,600	88,747,600
<b>Spending Changes</b>				
WI Shares subsidies	-46,000,000	-60,500,000		-106,500,000
Child care admin.	3,120,800	4,200,000		7,320,800
YoungStar (child care quality)	0	10,046,800		10,046,000
W-2 (benefits, services & admin)	11,723,500	35,844,500		47,568,000
Caretaker Supplement	776,200			776,200
EITC (replacing GPR)	29,000,000	9,759,300	19,240,700	58,000,000
Transitional jobs			17,151,500	17,151,500
summer food service			300,000	300,000
<b>Spending Subtotal</b>	<b>-1,379,500</b>	<b>-649,400</b>	<b>36,692,200</b>	<b>34,662,500</b>
<i>Increased TANF balance</i>			<i>52,055,400</i>	<i>54,085,100</i>

### Potential changes to the Transitional Jobs Program

Late in the last floorperiod, the legislature approved a bill (AB 898), now signed into law as Act 333, which authorizes DCF to make a number of changes to the transitional jobs demonstration program – provided the department determines that those modifications are the “preferred mechanism” to draw down ECF revenue. Those changes include providing a wage subsidy to an employer equal to the amount of wages the employer pays the program participant, up to 40 hours per week at the minimum wage.

Act 333 directs DCF to determine whether the state can receive ECF revenue on the basis of increased spending for the EITC, fuel assistance and weatherization. Though it is now clear that EITC expenditures can be used to qualify for ECF dollars, the other issues are still unsettled, which makes it difficult for DCF to determine whether the ACT 333 modifications are the preferred mechanism for accessing the state’s remaining share of ECF revenue.

The drawn-out Congressional debate over HR 4213, which would extend the ECF revenue, also makes it very hard for DCF to exercise the option. If the House-passed bill clears the Senate, it

would give states more time to qualify for ECF dollars based on job placements that begin by September 30, which might make the Act 333 changes a less attractive option. On the other hand, if HR 4213 is finally rejected, the state probably doesn't have enough time to implement and take advantage of the changes authorized in Act 333 before the September 30 deadline for qualifying for the ECF revenue.

### **Key policy choices**

Policymakers face a number of important policy questions this week and in the months ahead relating directly or indirectly to the use of ECF revenue. Some of the more significant issues include the following:

- *Transitional jobs* – Initiating the transitional jobs demonstration program is probably one of the easier choices for legislators, since Act 28 directed DCF to develop the program. Although the budget bill didn't fund the program, it directed DCF to look for funding, and the ECF meets that need. DCF issued an RFP in mid-April 2010, and is preparing to initiate the program in July. The initial 3 months of the demonstration program would generate an estimated \$3.4 million from the ECF, and most of the program's cost could be financed with ECF revenue if Congress extends that source of TANF funding.
- *Act 333 changes to the transitional jobs demonstration program* – DCF has the authority to make a number of changes to the demonstration program if making those modifications is the "preferred mechanism" for the state to qualify for ECF revenue that the state might otherwise be unable to obtain. While that would seem to be a very attractive option, uncertainties about what types of other spending qualify and about the potential extension of the period of time for qualifying make it difficult for DCF to use Act 333 as a means of drawing down additional ECF dollars.
- *Using ECF and/or other TANF funds for the EITC* – The Governor has proposed using about \$19.2 million from the ECF revenue for the state's earned income tax credit, thereby supplanting or freeing up state GPR revenue and improving the General Fund balance. That \$19.2 million is part of a total increase during the 2009-11 biennium of \$58 million for the EITC, compared to the amount of TANF approved for that purpose in Act 28. While that would boost the General Fund balance, it would cut into the TANF reserves that the state would otherwise be able to carry into the next biennium to meet future challenges in financing W-2 and the child care subsidy program. According to the Legislative Fiscal Bureau, approval of the Governor's ECF recommendations and other TANF funding shifts shown in Table 1 would lead to a TANF deficit of about \$34 million in 2012-13.
- *Initiation of the YoungStar child care rating system* – For the last several biennial sessions, the Governor, child care advocates and many legislators have endorsed the creation of a child care rating system, currently referred to as YoungStar. The idea finally won preliminary approval by the legislature in the 2009-11 biennial budget bill, but the funding for it and the implementation plan must now be approved by the Joint Finance Committee. Because this issue is only tangentially related to the ECF, we won't discuss it in depth. However, the issues are somewhat intertwined because of concerns that have been raised about whether – from a long-term perspective – the state can afford to use roughly \$12 million per year from Wisconsin Shares savings for an ongoing investment in child care quality. For some legislators, the answer to that question may depend in part on whether

they approve the Governor's plan to use \$58 million of TANF funding to replace state GPR spending for the EITC.

## **Conclusion**

The Recovery Act's appropriation for the TANF Emergency Contingency Fund (ECF) has helped Wisconsin cope fiscally with the recession-fueled increase in W-2 participation, which is up more than 60 percent in the first half of this year, compared to 2008. ECF revenue also gives the state the opportunity this year to initiate a transitional jobs demonstration program with an estimated 1,518 slots.

The state may also use some of the initial \$50.5 million it has received from the ECF to help finance the increased cost of the state's Earned Income Tax Credit (EITC). Because Act 28 had already budgeted General Fund dollars for that purpose, increasing TANF funds for the EITC would allow the state to supplant some of the planned state spending and add to the General Fund balance. However, that would diminish the future ability of the state to finance programs for low-income families, such as W-2 and Wisconsin Shares.

Wisconsin hopes to get nearly \$44 million more from the ECF before its scheduled expiration at the end of the current federal fiscal year (Sept. 30, 2010). However, it appears that Wisconsin won't qualify for all of the additional funding by that date unless federal officials are persuaded that the state's spending for fuel assistance and weatherization qualify as "non-recurrent short term benefits."

In late May, the House approved a bill (HR 4213) that would extend and increase the ECF, which would boost Wisconsin's potential share by \$94.4 million. It would also allow the state to use unspent funds from the current federal fiscal year for transitional job placements that start before September 30, 2010. That measure, which is still pending in the Senate, would enable Wisconsin to continue the new transitional jobs program beyond the end of the current biennium and would help fund the increased W-2 participation, which is unlikely to decline before the economy improves significantly.

Jon Peacock, research director  
June 22, 2010

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## **Endnotes**

<sup>1</sup> One way in which the original TANF law does provide some counter-cyclical relief is that it set aside a \$2 billion Contingency Fund, which allows states meeting economic triggers to draw additional funds based upon high levels of state spending. Wisconsin is one of 18 states that received contingency funds in FY 2009.

<sup>2</sup> H.R. 4213 would cap a state's share of the additional ECF revenue at 30 percent of the state's annual TANF allocation. However, the HHS Secretary would have the ability to limit grants if it appears that the additional \$2.5 billion wouldn't be sufficient to fund all the qualified state requests.

<sup>3</sup> The combined AFDC and W-2 cash caseload was 43,888 in January 1997 (a period of transition between the two programs).