Poverty in the Midst of Plenty:
It's Time to Invest in the State's Poorest Children

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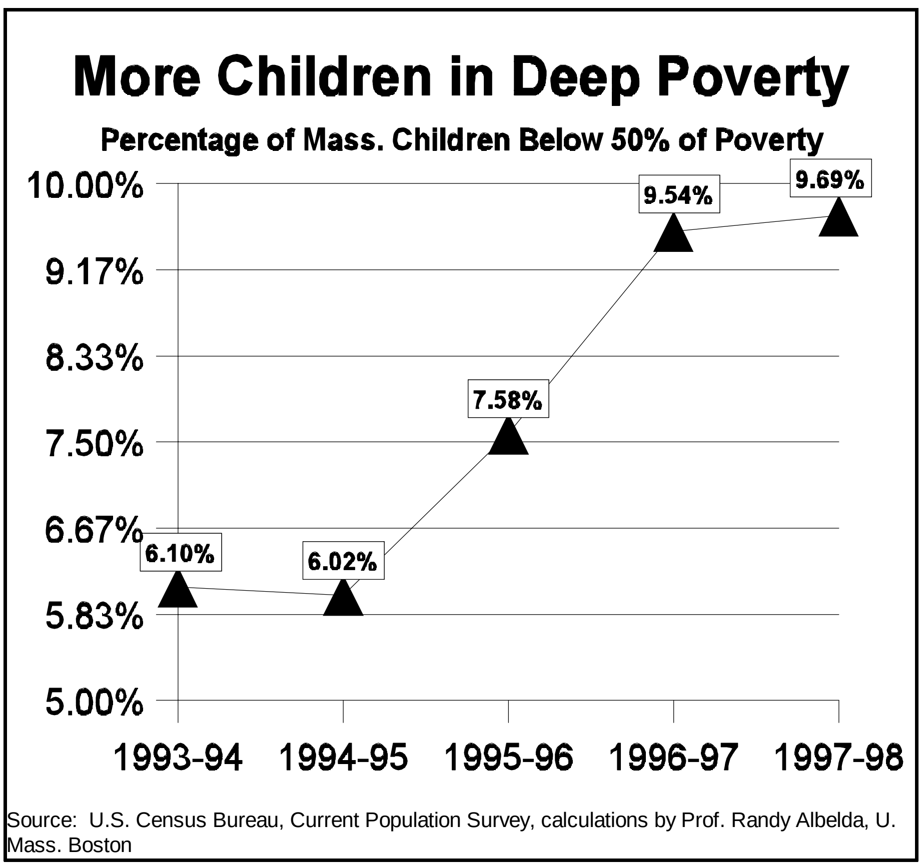
The Massachusetts economy is booming and the welfare caseload continues to drop steadily. State spending on cash assistance is less than half of pre-welfare reform levels. But the state's poorest families are worse off than ever before. Rents have escalated and the purchasing power of the cash benefit has declined by over 30% since 1988 when Massachusetts last increased welfare grants.

Despite the boom, preliminary data show an increase in the percentage of children who live in very poor families–families with incomes that are less than half the federal poverty level.



The severe and worsening poverty of the state's lowest income families is occurring at a time when the state has a steady stream of federal welfare funds and an obligation to spend state funds to qualify for the federal funds. Until now, the Governor and the Legislature have elected to redirect state and federal “welfare” spending away from benefits the lowest income families can use to meet basic needs.

The House budget for FY 2001 proposes to take an important step towards addressing the needs of the state’s poorest children by providing for a 10 percent increase in the welfare grant, the first grant increase since 1988.

This analysis of state and federal welfare spending in Massachusetts shows that Massachusetts can easily afford this modest grant increase without raising bottom line spending for cash assistance and without changing the priorities implicit in recent years’ allocation of state and federal “welfare” dollars.

Background on the federal welfare block grant.

In 1996, with the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act, Congress converted the Aid to Families with Dependent Children (AFDC) program into a block grant. Under the federal-state AFDC program which the block grant replaced, Massachusetts received federal matching funds for state expenditures for welfare benefits; education, training, and child care for welfare recipients and former recipients; emergency assistance for families; and administration of these programs. For every additional dollar the state spent on these programs, the state generally received an additional dollar in federal funds.

The federal Personal Responsibility Act substituted the Temporary Assistance for Needy Families (TANF) block grant for the previous matching program. The state now receives a set amount each year–$459.4 million–until federal FY 2002, subject to annual appropriation by Congress. The state may also qualify for additional “bonus” payments.[1]

To draw down the TANF block grant funds, the state does not have to “match” the federal funds as it did under the AFDC funding system, but the state does have to spend a specified amount, known as state “maintenance of effort” (MOE) to obtain the federal funds. To meet the minimum MOE requirement, the state must spend 75% of its “historic state expenditures” (or 80% if the state fails to meet federal work participation rates) on “qualified state expenditures.” “Historic state expenditures” are the state's federal FY 94 expenditures *from state funds* for AFDC, AFDC administration, Emergency Assistance, AFDC child care, and JOBS. “Qualified state expenditures” are generally expenditures of state funds on these programs and other programs reasonably calculated to accomplish the purposes of the block grant. HHS has calculated Massachusetts' “historic state expenditures as $478.6 million. Under federal law, Massachusetts must spend at least 75% of $478.6 million from state funds–$358.9 million–to draw down the full welfare block grant.

Massachusetts is receiving much more in federal welfare funds than it would have received under the AFDC program.

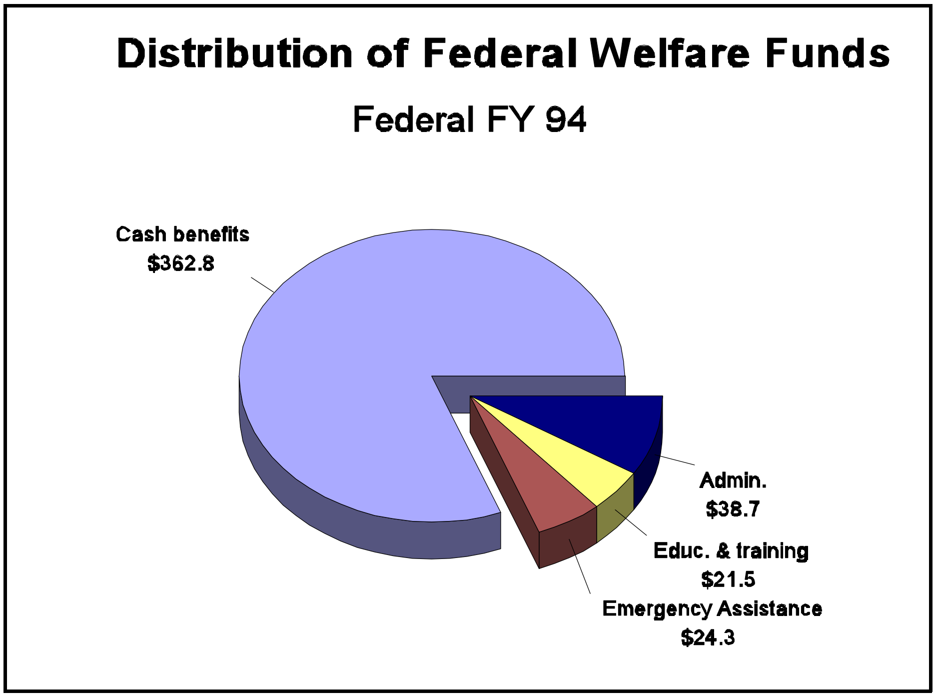
The TANF block grant is $459.4 million per year. The block grant was set at the average of what the state received from the federal government for AFDC, AFDC administration, JOBS (the education and training program), and emergency assistance for federal FY 92-94. Those years–the depths of the Massachusetts recession–were years of high welfare spending in Massachusetts, because welfare caseloads historically have increased during recessions.

State spending on welfare has fallen dramatically. In state FY 2000, the state plans to spend approximately $440 million on cash assistance for families, the Employment Services Program (education, training, and job search) for current recipients, emergency assistance, residential programs for teen parents, and the administration of these programs. Under the former matching formula, the state could have expected to receive a federal match of somewhat less than half of $440 million, or less than $220 million. However, under the block grant, the state receives $459.4 million as long as the state meets its minimum MOE obligation.

As a result, the state will receive approximately $260 *more* this year from the basic federal welfare block grant[2] than the state would have received under the former AFDC matching formula based on current state spending. So far, the state has not used this "windfall" to meet the basic needs of the state's poorest families.

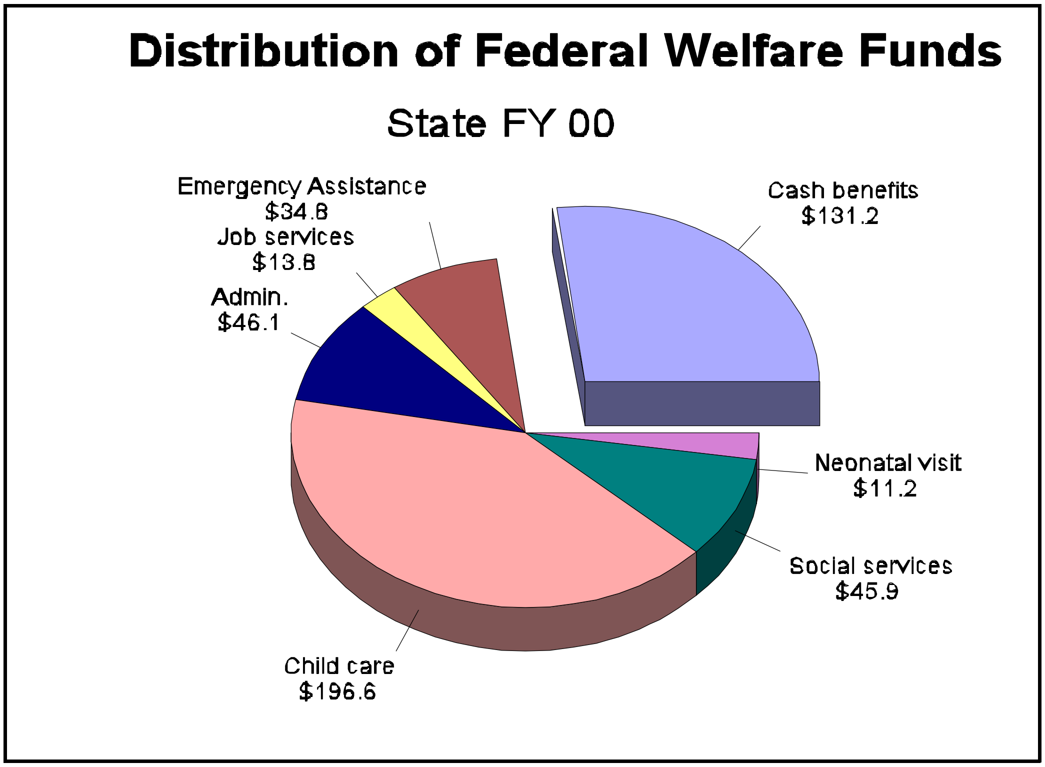
The state is no longer spending the bulk of federal welfare funds to support the poorest families in the state.

Under the AFDC program, federal welfare funds had to be spent on cash assistance and services for the families who met cash assistance financial eligibility limits. Consequently, during the years on which the block grant funding is based, the vast majority of the federal funds were spent on cash assistance for very poor families.



The Personal Responsibility Act allows states to transfer up to 30% of the block grant to child care and social services for non-welfare families. In addition, federal regulations issued on April 12, 1999 allow states extraordinary flexibility in spending the TANF funds which are not transferred. Until the regulations were issued, states were reluctant to spend TANF funds for families who were not receiving cash assistance, because they feared that doing so would count against the family's federal 60-month time limit, would trigger the assignment of child support to the state, and would require the state to count these families in determining whether the state met the TANF work participation rate. The April 12 regulations make clear that these otherwise applicable TANF rules do not apply to expenditures of TANF funds on services that are either (a) not designed to meet a family's basic needs (e.g., for food, shelter, and daily expenses), or (b) provided to support a working family's employment.

Massachusetts has taken advantage of the flexibility allowed under the federal welfare law and is now spending most of the federal welfare block grant for programs and services other than traditional welfare benefits.



During state FY 00, the state plans to spend less than $131.2 million in federal welfare funds on cash assistance benefits, compared with $362.8 million in federal funds spent on those benefits in federal FY 94. The decline in the proportion of federal welfare funds spent on cash assistance is directly related to the decline in the caseload, but also reflects the fact that welfare benefits have been frozen whereas most non-welfare services have benefited from modest rate increases.

Massachusetts has avoided accruing a surplus of block grant funds by redirecting TANF spending away from the cash assistance program.

By the end of federal FY 99, 45 states and the District of Columbia reported some amount of unspent TANF funds, totaling $7 billion. Massachusetts had accrued only a relatively small amount, $70 million or 1% of the total.[3] In contrast with some other states, Massachusetts has succeeded in identifying spending that can paid for with block grant funds. Both the Governor's budget for state FY 2001 and the House budget would spend down the surplus, primarily by spending more of the federal funds for income-eligible child care and by using federal funds for early education child care (currently provided with state funds by the Department of Education). Thus, the House budget proposes to spend in state FY 2001 all of the $459.4 million block grant the state will be allocated plus almost all of the prior years' TANF which the House Ways and Means Committee projected would remain at the end of FY 2000.

In previous years, the TANF surplus accumulated in part because the state spent less than appropriated amounts. If spending is less than appropriations again in FY 2000, as it has been every year since the block grant began, then there will be a somewhat larger surplus to roll over to FY 2001than the House budget assumes and consequently more TANF funds to spend in FY 2001 or subsequent years than are allocated in the House budget.

The state is not maintaining historic levels of state spending for needy families.

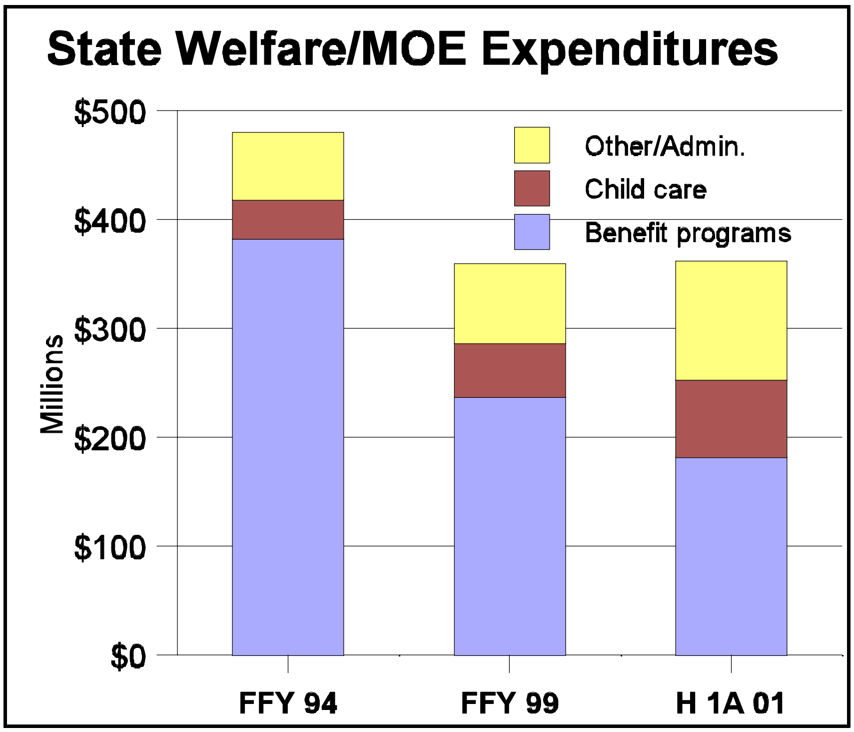
Although Massachusetts is spending almost all of the federal welfare block grant and is therefore maintaining federal spending at pre-welfare reform levels, state spending for needy families has dropped to 75 percent of state spending before welfare reform.

This decline in state spending is permitted but certainly not required by current federal law. Instead of the dollar-for-dollar state match that was generally required under the former AFDC statute, the state now must spend only 75% of what the state spent from state funds in federal FY 94 for AFDC, education and training, emergency assistance, AFDC administration, and AFDC-related child care to qualify for the block grant, provided that the state meets federal work participation rates in its cash assistance program. In federal FY 94, Massachusetts spent $478.6 million in state funds on these programs. Since the federal law passed, Massachusetts has spent only $358.9 million per year, the bare minimum "maintenance of effort" (MOE) required by federal law to qualify for the block grant. In federal FY 99, 33 states (plus the District of Columbia) spent *more* than the 75% minimum: Massachusetts did not.[4]

In addition to reducing its overall state spending, Massachusetts has redirected state spending away from the cash assistance program. This *redirection* of state spending, like the *reduction* in state spending, is permitted but certainly not required by federal law. Federal law provides that to qualify as state MOE spending, the spending must generally be on "needy families." However, the state is not required to spend MOE only on the programs and services that make up "historic state expenditures"–the cash assistance program and related services.

Instead, the state may have a definition of "need" for each program in which it is counting as MOE spending. Thus, just as TANF may be spent on child care programs for families far above the poverty level and far above cash assistance levels, so also spending on families may qualify as MOE provided that the state defines an income eligibility limit for that spending.

As is the case with state TANF expenditures, state MOE expenditures are increasingly made up of non-welfare spending. For example, for federal FY 94, "other" includes only emergency assistance and welfare administration. In federal FY 99, the state counted $33 million in the earned income credit. Similarly, for FY 94, "child care" consists almost entirely of welfare-related child care. The state FY 2000 budget directs the state to track $20 million in spending on early education child care historically provided through the Department of Education so that the spending can be used to meet the state's MOE requirement.[5] The Governor's budget for FY 2001 also assumed that $20 million in early childhood education would count towards MOE. This accounting device does not, of course, increase state spending, but simply recharacterizes spending so that the state will not have to spend state funds on other benefits or services to qualify for the welfare block grant.

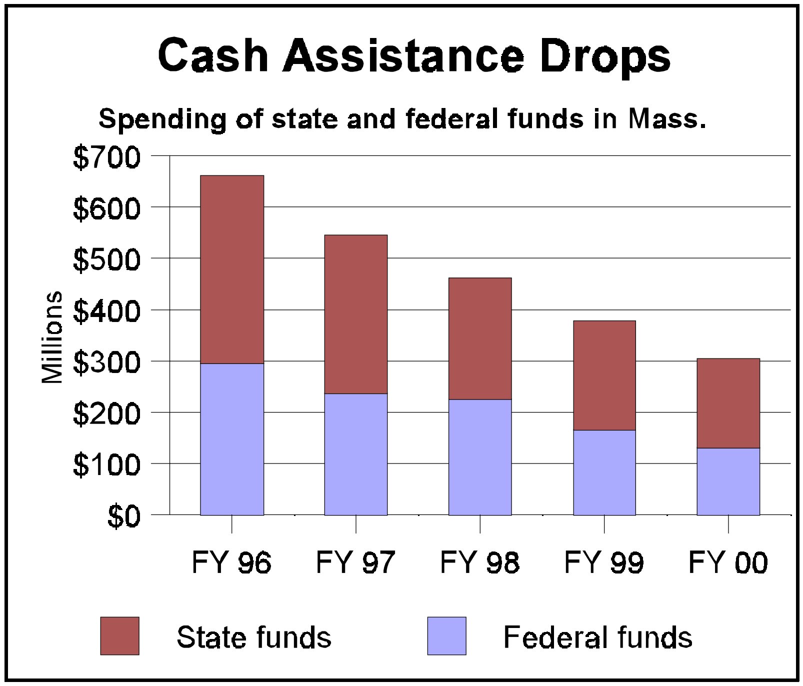


Massachusetts has thus taken advantage of the federal welfare law's freedom to spend less state funds in total (from $478.9 million in federal FY 94 to $358.9 million in federal FY 99) and to count towards MOE non-welfare child care and other spending that did not qualify for matching funds in federal FY 94. The decline in the percentage of state funds spent on cash assistance as compared with other services is a consequence of the caseload decline in conjunction with frozen cash assistance benefit levels.

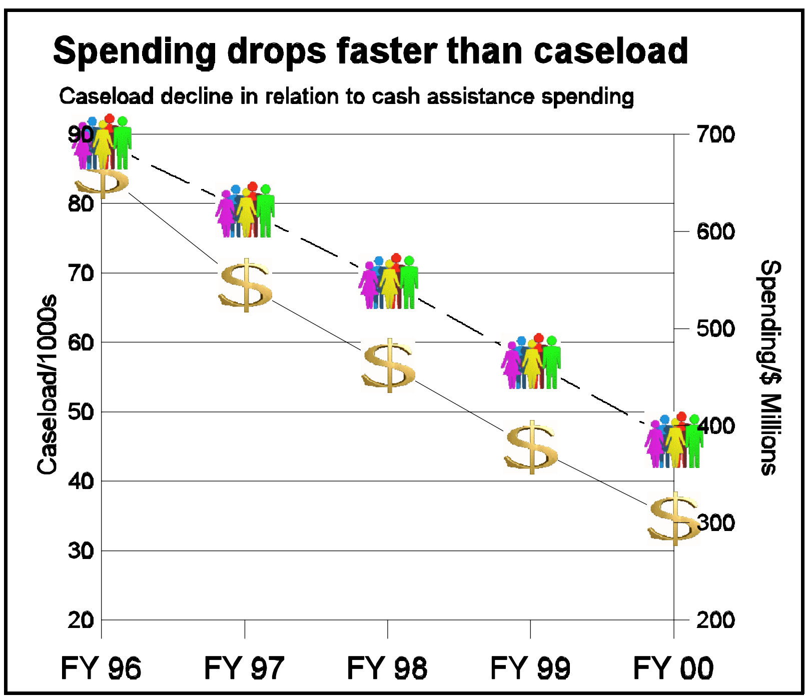
Combined state and federal expenditures on the poorest families have plummeted.

A dramatic decline in state and federal spending on cash assistance spending is the corollary to the state's increased use of federal welfare funds for non-welfare services and programs and the state's counting towards MOE of non-welfare spending.

The decline in combined state and federal spending on cash assistance is a direct reflection of the drop in the cash assistance caseload. In state FY 96, the caseload averaged 88,988 families. As of February 2000, the caseload consists of 45,078 families. House 1A, using earlier caseload numbers, projected a continued drop to an FY 01 average of 42,480 families. Using more recent data, the House projects a caseload average of about 40,500 for FY 2001.[6]



Note that the drop in total welfare spending has gone down even faster than the drop in the caseload. This is because the cost per case has decreased, meaning that the average family on welfare is receiving a *lower* monthly benefit than families received before welfare reform. There are a number of factors contributing to the lower average of monthly benefit, including the higher rate of employment of welfare recipients (due in part to the state welfare law's improved treatment of earnings and to



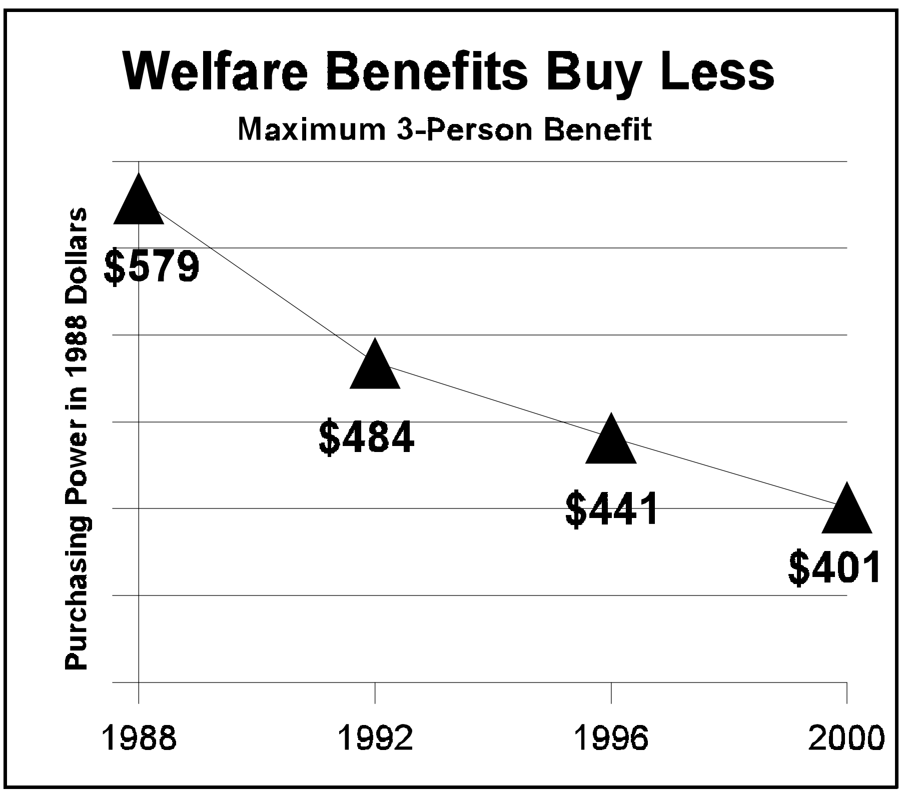
the improved economy), a higher percentage of families whose benefits have been reduced because of sanctions, the family cap (which excludes some children from benefits), and a higher percentage of children living with non-parent relatives who do not receive assistance. Except for families with earnings, families receiving lower benefits are worse off financially than they would be if they received the full benefit.

The poorest families are poorer than ever.

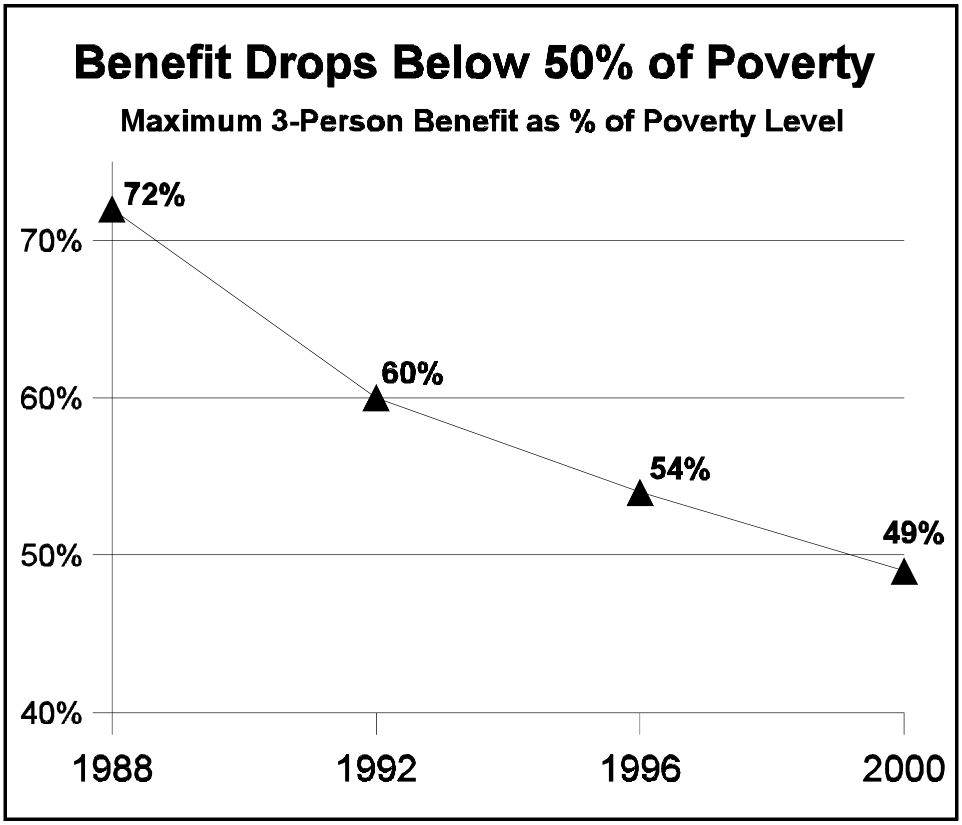
Did the drop in the caseload and the almost parallel drop in spending on cash assistance occur because families left welfare and now have higher incomes? If that were true, then reducing spending on cash assistance and redirecting the spending elsewhere might be appropriate. But the increase in deep child poverty revealed by census data on the first page of this report shows that the poorest families are not better off.

Why has deep child poverty increased in Massachusetts?

A key reason is that there has been no increase in the cash assistance grant since 1988. The value of the welfare grant has dropped by over 30% since 1988 when welfare grants were last increased, and by more than 10% since 1995 when the state's welfare reform law went into effect.[7]



Grants have declined but costs have increased. The federal poverty level is increased annually to reflect the national increase in the cost of living.[8] Since welfare grants have been static since 1988, they provide a decreasing percentage of the federal poverty level. In 1988, the Massachusetts maximum welfare benefit for a family of three was 72% of the federal poverty level. Today, the maximum grant is only 49% of the federal poverty level.

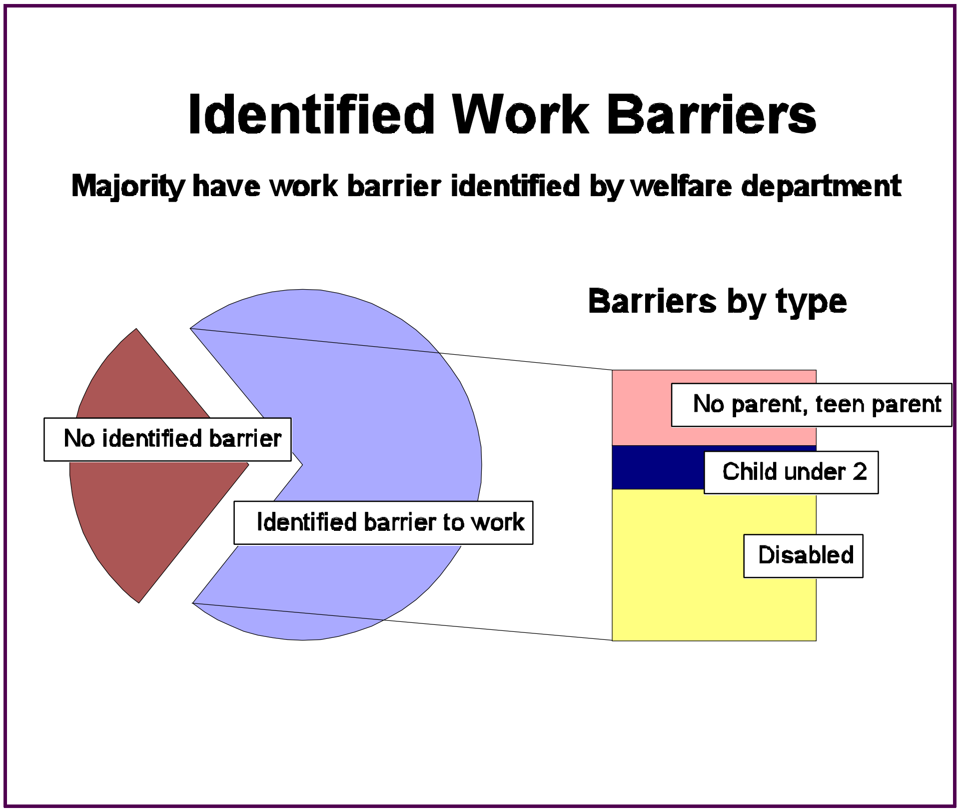


Like Massachusetts, other states have also experienced a windfall because welfare caseloads have dropped while the block grant is frozen at the federal spending level in the early 1990s when caseloads were much higher. Thirteen other states have used some of the windfall to increase benefits for families who are not able to support themselves without assistance.

The House proposed 10 percent grant increase would restore the purchasing power of the grant to approximately 1995 levels.

The families who are still on welfare do not have realistic alternatives.

In the current booming economy, families who can get jobs, even very low paying and unstable jobs, are leaving welfare or not applying for welfare in the first place. The welfare caseload, which is now at less than half of the levels in the early 1990s, is increasingly comprised of families with major barriers to employment.



Over 70 percent of welfare families have barriers to work identified by the welfare department including a very young child, a disabled parent or other family member, or no parent present in the home. These families are receiving welfare because they cannot sustain themselves through paid work. Less than 30% of welfare families have not been identified as having a barrier to work, but many of these families have undiagnosed disabilities, low literacy, homelessness and other impediments to stable employment. These families rely on cash assistance because they cannot sustain themselves through paid work.

The grant increase adopted by the House would not require an increase in welfare expenditures.

Based on current caseload projections for FY 2001, a 10 percent grant increase would cost $22.5 million. Because of the expected decline in the caseload, welfare expenditures would drop by almost $30 million from FY 2000 appropriations even with the grant increase. Because the grant increase adopted by the House would not increase the bottom line for cash assistance expenditures, it would not require any redirection of state or federal welfare spending away from services and benefits to non-welfare families.

Conclusion

From a fiscal point of view, Massachusetts has effectively managed the federal welfare block grant and state maintenance of effort funds. Unlike many other states, Massachusetts has achieved almost full utilization of the block grant and is not allowing the federal government to hold onto large amounts of unspent funds. The state has used the block grant to create new programs, such as the newborn home visiting program, and to expand child care programs. The relatively small current surplus provides a further opportunity to create new programs or expand existing ones, but is both modest and manageable compared to the very large surpluses in some other states.

However, most of the new spending is for services, instead of benefits families can use to meet basic needs such as rent, food, utilities and other daily expenses. In addition, the state has reduced its spending from state funds by 25%, the maximum permitted by federal law.

Meanwhile, severe poverty is increasing. There are *more* children in Massachusetts in families with incomes below 50% of the federal poverty level. For families who rely on cash assistance benefits because they cannot support their families through paid work, the benefit value has declined by more than 30% since 1988 when grants were last increased.

The welfare block grant was based on the federal match for state spending on the lowest income families. The state should not leave those families behind in allocating federal block grant funds and state MOE spending during this time of unprecedented prosperity.

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Notes

1. Massachusetts was awarded a bonus in federal FY 99 of $20 million because of the state's decline in the rate of births outside of marriage. Massachusetts was awarded a "high performance" bonus of $10.6 million in federal FY 00 because the state improved from 36th in federal FY 98 in the rate of job entry for welfare recipients. Bonus payments are added to the block grant and are subject to the same rules as other block grant funds.

2. This does not include bonus payments.

3. Ed Lazere, *Welfare Balances After Three Years of TANF Block Grants: Unspent TANF Funds at the End of Federal Fiscal year 1999* (Center on Budget and Policy Priorities, Jan. 10, 2000). These data are based on expenditure data reported by the states in November and December 1999. States may have revised their reports since the data were collected for this study.

4. Ed Lazere, *Welfare Balances After Three Years of TANF Block Grants.*

5. To count this spending for MOE, the state has to establish an income eligibility limit and has to track spending on families who are below that limit.

6. Although the state is no longer required to spend state funds as a match for federal funds, the percentage of cash assistance benefits covered by state funds has remained fairly constant at between 50% and 57% of the total expenditure. Both House 1A (the Governor's proposed budget for FY 2001), and the House budget would continue the decline in total spending on cash assistance, but would increase the percentage of the total covered by state funds to 67% for House 1 and 70% for the House budget. The proposed allocation of state and federal funds for FY 2001 is an appropriate accounting response to the fact that the welfare caseload is increasingly comprised of recipients who are exempt from the state's two-year time limit because the parent is disabled or caring for a disabled family member. By covering exempt families from state-only funds, the state does not have to count months during which the family receives assistance against the family's federal 60-month TANF time limit.

7. During the years 1997-1998, an average of 139,000 children were in poverty and an average of approximately 130,000 children were on welfare. Thus, the decline in the value of the welfare grant may account for most of the increase in deep child poverty.

8. The federal poverty level has been widely criticized as understating the true poverty level in Massachusetts, because of the state's high cost of living. *See, e.g.,* MassINC, *The Road Ahead: Emerging Threats to Workers, Families and the Massachusetts Economy* (1998).