Center on Budget and Policy Priorities

Extending the TANF Emergency Fund Would Create and Preserve Jobs Quickly and Efficiently

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Updated April 6, 2010

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The TANF Emergency Fund created by the American Recovery and Reinvestment Act of 2009 (ARRA) has enabled states to create subsidized jobs for TANF recipients and other low-income unemployed individuals and to bolster overall consumer demand by helping states meet the growing need for basic assistance among very poor families with children.[1] Some 42 states have had their applications for TANF Emergency Funds approved and additional states have applications in the works. But the fund is set to expire on September 30, 2010 at a time when unemployment will remain high and increased numbers of people will have exhausted their unemployment benefits. If Congress allows the fund to expire, both the economy and poor families with children will be negatively affected.

Job placements in the subsidized jobs programs that the fund supports often run for at least six months. A number of states, anticipating the fund's expiration on September 30, are planning to start scaling back their programs well before then. Some states will stop making new job placements beginning in March. Some states – for example, Georgia, Illinois, Pennsylvania and Florida—recently launched subsidized employment programs with a built-in September 30th termination date for all placements.

Moreover, a majority of states are drawing on the TANF Emergency Fund to provide basic cash assistance to the increasing numbers of poor families with children as unemployment rises and more workers exhaust their unemployment benefits. This basic assistance is itself a job creator because the families receiving it spend virtually all of it immediately to meet basic necessities, thereby boosting local economies. Because the Emergency Fund is set to expire on September 30, however, some states are now considering cuts in basic cash assistance for very poor families starting in the next state fiscal year, which begins on July 1 in most states. This problem is compounded by the fact that the TANF Contingency Fund, created as part of the 1996 welfare law to help states meet increased need during recessions, has run out of money.

The impending reductions in basic cash support will cause affected families to cut back their expenditures. This will cause a further loss of jobs, as well as a significant increase in severe hardship and deprivation.

Accordingly, Congress should, as part of any forthcoming jobs package or other legislation to address the weak economy, extend the TANF Emergency Fund, allow all states to draw down additional funds and provide it with some additional funding. This is necessary both to create and preserve jobs and to avoid destitution among some of the nation's poorest children and their parents. The basic facts are as follows:

States are using the TANF Emergency Fund to create jobs, stimulate the economy, and reduce hardship. As of April 1, some 26 states had been authorized to use TANF Emergency Funds to establish new or expand subsidized employment programs. [2] Several additional states plan to begin operating such programs shortly. These states have plans in place to provide subsidized jobs to about 160,000 individuals by the end of September.[3] In addition, 39 states have received TANF Emergency Funds to provide either basic cash support or non-recurring, short-term assistance to the growing number of very poor families with children. These families spend quickly any funds they receive, so this assistance helps sustain local merchants and, through them, neighborhood economies.

But in anticipation of the fund's scheduled expiration on September 30, various states and counties are planning to start dismantling their TANF subsidized jobs programs and to cut cash assistance for impoverished families. Only a few states have plans to continue their subsidized jobs programs if the TANF emergency fund is not extended. When the fund ends on September 30th, nearly all of the newly created jobs will be lost. And, in some places, those losses will be realized beginning as early as March. San Bernardino and Los Angeles counties plan to stop placing people in subsidized jobs on March 31 and May 31, respectively. New York State is planning to stop making job placements during the summer (and will start making new jobs placements shorter than their usual six months' duration before that). If states knew the TANF Emergency Fund would continue for another year, those that have jobs programs in place would continue to operate them (with some states further expanding their programs) and additional states would create such programs.

Similarly, when states act this spring to adopt budgets for their next fiscal year, many are likely to institute cuts in TANF cash assistance in anticipation of the expiration of the TANF Emergency Fund. The cuts will lead to virtually a dollar-for-dollar reduction in household consumption and thus to a further loss of economic activity and jobs, while pushing already-poor families deeper into poverty. Most of these states would *not* make such decisions if they knew Congress would extend the fund.

With unemployment expected to remain high for the next few years, it is essential to extend the TANF Emergency Fund at least through September 30, 2011. History suggests that the road to recovery from the current economic crisis will be a long one. Unemployment has been slow to recover after recent recessions, and poverty even slower. In the recession of the early 1990s, unemployment did not peak until *15 months* after the recession technically ended. In the 2001 recession, unemployment did not peak until *19 months* after the recession ended. And in both recessions, poverty did not start to recede until after unemployment did.

An extension of the TANF Emergency Fund also is necessary to ensure that the money Congress provided for this fund when it enacted ARRA last February will be fully used, as Congress intended, to stimulate the economy, create jobs, and meet increased needs for basic assistance. If Congress does not extend the fund, fewer new jobs will be created in the months ahead, more existing jobs will be lost, and some of the money that Congress provided for the fund may revert to the Treasury unspent on September 30. All of these outcomes are the *opposite* of what the economy needs at this point.

The remainder of this paper provides further information and analysis of these issues.

States Already Making Plans to Ramp Down Jobs Programs

As of April 1, 25 states and the District of Columbia had obtained HHS approval for plans to operate new or expanded subsidized employment programs for TANF recipients. (See the box for a description of these programs and the Appendix for a list of states that have received approval to operate them.) Several other states are planning to begin operating such programs soon.

States have used a variety of approaches to develop or expand these programs. Some have created new programs designed to meet the needs of communities hit hard by plant closings. Others have created programs that place individuals in a broad range of jobs in non-profit organizations, government agencies, and for-profit businesses.

What Is a Subsidized Job?

A subsidized job is one in the private or public sector where part (or all) of the wages is financed with public funds. States have used TANF-related funds to support a range of subsidized jobs approaches, including summer jobs programs for low-income youth and transitional jobs programs designed to help participants enter the labor market by gaining work experience and connecting with employers.

These programs provide wage-paying employment to unemployed individuals for at least 20 hours per week — and often on a full-time basis — for a temporary period, such as six months. Subsidized jobs positions enable employers both to avert layoffs (by helping them meet wage costs for a period of time) and to accelerate hiring (by allowing them to add new workers sooner than they otherwise would and then retain them as business improves).

Tennessee, for example, has focused job creation efforts on areas of very high unemployment. The creation of subsidized jobs in rural Perry County helped to lower its unemployment rate from 27.3 percent in January 2009 to 18.6 percent in August 2009. New York has mounted an initiative to create "green jobs," expand health care outreach, and subsidize private-sector employers who hire new permanent employees. California is creating subsidized employment programs through an initiative in 43 of its 52 counties that aims to eventually place about 20,000 individuals in subsidized jobs. As of January 2010, there were about 15,000 active placements in counties throughout the state. Florida plans to place 10,000 persons in subsidized jobs, all of which will terminate September 30.

Yet while the TANF Emergency Fund does not expire until September 30, various states and counties already are starting to make decisions to ramp down their subsidized employment programs in order to put them on a path toward shutting them down entirely by September 30. A subsidized employment placement generally runs for a minimum of six months because employers often are reluctant to train workers who will not remain with them at least that long. As a result, a number of the subsidized jobs programs have set a date for ceasing to accept new job placements, working backward from September 30. Other states and counties will operate shorter, curtailed programs because of the looming expiration, while still others are holding off altogether on plans to implement or expand subsidized job efforts.

In short, the impending termination of the TANF Emergency Fund will lead to fewer individuals being placed in jobs over the next eight months as states ramp down, or hold off on creating, their subsidized jobs programs. Most jobs created with the new funds will disappear when the September 30 date is reached.

Pending State Decisions Could Withdraw Stimulus from Economy and Increase Hardship

A majority of states are using TANF Emergency Funds to help them provide basic cash support to the increased numbers of very poor families seeking TANF assistance. (A list of these states is in the Appendix.) Economists widely regard basic assistance to very poor families as among the most effective forms of economic stimulus in ARRA. Research shows that low-income individuals spend virtually all of their limited income to meet ongoing needs such as shelter, food, and transportation. That, in turn, helps to sustain local merchants and services and, through them, neighborhood economies and jobs.

Moody's Economy.com has estimated that for every dollar of stimulus funding spent on a temporary increase in food stamp benefits (another component of ARRA), the Gross Domestic Product increases by $1.73, making this the most effective of all stimulus options that Moody's assessed.[4] (The Department of Agriculture estimates the multiplier at $1.84. [5]) The impact of TANF cash assistance should be similar, since its recipients are among those with the lowest incomes and spend the funds they receive quickly, just as low-income families do with food stamp benefits.

Some states have seen significant TANF caseload increases because of the recession. The states receiving TANF Emergency Funds for increased basic assistance costs served about 185,000 more families in their TANF programs in September 2009 than in December 2007, the official start of the recession. This represents a 13 percent increase. In the absence of the TANF Emergency Fund, states would have received *no additional federal aid* when caseloads increased, and a number would have felt compelled to implement TANF cuts last year. Thus, the availability of federal ARRA funds was instrumental in some states' decision to reject or delay cutting TANF during a severe recession.

The next few months will be crucial for state policymakers as they adopt budgets for the next fiscal year. States will need to know what federal help they can count on to help fund their TANF programs. Governors and state legislatures will adopt budgets between January and June, depending on the state. Some states, particularly those with short legislative sessions, require the adoption of budgets by March or April.

As fiscal pressures on states intensify, various state legislatures will face proposals for TANF cutbacks; proposals are already pending in a number of states. Whether states enact these cuts will depend in substantial part on whether they are going to receive TANF Emergency Funds after September 30.

If states do decide to cut TANF programs and services, it would harm the economy. Mark Zandi of Moody'sEconomy.com recently told the Congressional Joint Economic Committee, "[State] Fiscal 2011 budgets are likely to be more troubled than those for the current year. . . . [States] will be under intense pressure to cut jobs and programs and to raise taxes and fees. . . . For state and local governments to turn into a weight on growth will be a meaningful impediment to the broader recovery's prospects."

Congressional Action Needed Now

Congress can enable states to maintain their jobs programs and avert cuts in TANF cash assistance by acting in coming weeks to extend and expand the TANF Emergency Fund for another year, through September 30, 2011. At the same time, Congress should raise the maximum amount that a state can receive from this fund. Under current law, the maximum amount that a state can receive over the two-year period 2009 and 2010 is 50 percent of the state's annual TANF block grant amount.[6] Some states hit hard by the recession have reached or are now very close to that limit. If the limit is not increased along with an extension, states with the greatest need for continued assistance will be unable to benefit from an extension.

The Administration's 2011 Budget Proposal Extends and Expands the TANF Emergency Fund and Provides Extra Incentives to Create Subsidized Jobs

The Administration's 2011 budget proposal accomplishes the following:

Extends the TANF Emergency Fund. The Administration's budget proposes to extend the fund for one year beyond its current termination date, through September 30, 2011.
Provides incentives to states to create subsidized jobs. States would be reimbursed for 100 percent of the costs associated with providing subsidized jobs to eligible individuals. Currently, states are reimbursed for 80 percent and some states have indicated they have had difficulty identifying state funds to cover the remainder of the costs.
Expands allowable uses of the fund to include increased expenses for work activities and work supports that last longer than four months. Many states are serving more families in their TANF programs than prior to the recession. This has resulted in the need for states to expand their work programs, including the work supports (such as transportation assistance) families need to participate in such programs. This expansion of the TANF Emergency Fund will make it possible for states to cover any expansion in work programs that last for longer than four months. (Work activities

and associated work supports lasting four months or less can already be covered as a one-time non-recurring benefit.)

Provides states with a new maximum allocation. All states would receive a new maximum allocation for FY 2011 equal to 50 percent of their TANF block grant. Any funds drawn down in 2009 and 2010 will not count against the new maximum allocation.

Provides additional money to cover the extension and expansion. The Administration's budget includes $2.5 billion in FY 2011 to cover the expansion and extension of the TANF Emergency Fund.

While extending the fund through 2011, Congress should also provide some additional funding. States were authorized to spend $2 billion from the fund as of the beginning of April and we anticipate that most of the $5 billion currently in the fund will be drawn down by September 30.

The President's FY 2011 Budget includes a legislative proposal and funding that addresses all of these issues *and* provides states with an incentive to create subsidized jobs. (See box above for a description of the proposal.) However, it is important that this proposal (or a variant of it) be enacted now and not as a part of the regular budget process. States are making decisions now that will determine the future of these programs for next year. The longer it takes to enact the President's proposal, the more likely states are to begin ramping down their subsidized employment programs and to begin cutting benefits to deeply poor families.

The TANF Emergency Fund got off to a somewhat slow start after ARRA's enactment. It took several months before federal instructions, guidance, and forms were developed and states could apply for the funds. In addition, in light of state budget crunches, many states initially perceived the requirement that they provide matching funds to be a barrier to developing or expanding programs such as subsidized employment. (The fund currently reimburses states for 80 percent of increased TANF expenditures, leaving 20 percent for the state to cover.)

There are two reasons why we expect most of the $5 billion to be spent by September 30. First, the pace of expenditures from the fund has increased in recent months as states have submitted more requests to operate subsidized jobs programs and to serve growing cash assistance caseloads. Second, states can apply for authorization to use these funds in a fiscal quarter no earlier than 30 days before the start of that quarter, so states have not yet been able to apply for funds for the remainder of federal fiscal year 2010.

Finally, the level of state spending is greater than it might initially appear. During 2009 and 2010, states also drew down more than $1.3 billion in federal funding from the regular TANF Contingency Fund (established under the 1996 welfare law) to help them meet rising needs, so total spending from the Contingency Fund and the Emergency Fund combined is about $3.3 billion to date.

Conclusion

Unless states know soon that additional aid will be available for fiscal year 2011 under the TANF Emergency Fund, they will begin to scale back and subsequently eliminate the subsidized jobs they have created using the fund. Within a few months, they will start to curtail jobs programs and limit job placements to shorter periods.

In addition, many states will feel compelled to institute harsh cutbacks in cash assistance for very poor families with children even though need is continuing to rise. The result will be a further loss of jobs, a withdrawal of needed stimulus, and an increase in serious hardship among some of the nation's poorest children and families.

APPENDIX
Approved TANF Emergency Fund Applications
(as of April 1, 2010)

State	Amount TANF Emergency Fund Approved	Basic Assistance	Non-Recurring Short-Term Benefits	Subsidized Employment	Received TANF Contingency Funds	Percent of Maximum Allocation Approved*
Alabama	$11,095,922	X	X	X		23.8%
Alaska	$0					0.0%
Arizona	$0				X	46.7%
Arkansas	$290,011	X			X	47.7%
California	$441,375, 951	X		X		24.1%
Colorado	$11,591,141	X	X		X	60.4%
Connecticut	$0					0.0%
Delaware	$6,037,042	X	X	X	X	84.1%
D.C.	$991,963			X	X	8.8%

Florida	$100,032,272	X		X		35.6%
Georgia	$7,748,184			X		4.7%
Hawaii	$10,076,235	X	X	X	X	50.4%
Idaho	$0					0.0%
Illinois	$72,426,458	X	X	X		24.8%
Indiana	$0					0.0%
Iowa	$13,755,717	X				21.0%
Kansas	$7,522,624	X	X		X	51.4%
Kentucky	$4,809,361	X				5.3%
Louisiana	$241,823	X				0.3%
Maine	$5,916,931	X	X			15.1%
Maryland	$50,818,739	X	X		X	84.4%
Massachusetts	$41,766,692	X	X		X	64.9%
Michigan	$65,856,153		X	X	X	63.7%
Minnesota	$65,530,195	X	X	X		49.8%
Mississippi	$16,372,123	X		X		37.7%
Missouri	$0					0.0%
Montana	$3,978,429	X		X		20.9%
Nebraska	$0					0.0%
Nevada	$14,645,508	X			X	96.7%
New Hampshire	$5,706,444	X				29.6%

New Jersey	$154,226,235		X	X		76.3%
New Mexico	$22,055,756	X			X	86.6%
New York	$436,288,584	X	X	X	X	75.7%
North Carolina	$79,377,854	X	X	X	X	99.2%
North Dakota	$5,150,652			X		39.0%
Ohio	$113,398,718	X		X		31.2%
Oklahoma	$2,574,412	X		X		3.5%
Oregon	$78,853,250	X	X	X		94.5%
Pennsylvania	$46,077,379	X	X	X		12.8%
Rhode Island	$843,192		X	X		1.8%
South Carolina	$10,358,960	X		X	X	67.4%
South Dakota	$1,090,860	X				10.3%
Tennessee	$28,487,551	X		X	X	69.7%
Texas	$5,295,838		X			2.2%
Utah	$6,130,330	X	X	X	X	62.9%
Vermont	$7,580,323	X	X			32.0%
Virginia	$17,453,760	X	X	X		22.1%
Washington	$66,327,374	X	X	X	X	74.8%
West Virginia	$4,790,318	X	X			8.7%
Wisconsin	$0				X	40.0%
Wyoming	$0					0.0%

Total	$2,044,947,264				
No. of States	42	35	23	26	19

* Includes funds received from the TANF Emergency Fund and the TANF Contingency Fund. States can receive a maximum of 50 percent of their TANF block grant amount. The percent here is the share of the maximum allocation they have received.
Source: U.S. Department of Health and Human Services and the Center for Law and Social Policy. See the following links for regular updates: http://www.clasp.org/resources_and_publications/publication?id=0664&list=publications (CLASP) and http://www.acf.hhs.gov/programs/ofa/tanf/apprTANFemerfund.html (HHS)

End Notes:

[1] The Emergency Fund reimburses states for 80 percent of increased TANF-related spending in three areas — subsidized employment, basic assistance, and short-term nonrecurrent benefits. For more background, see Liz Schott, "Opportunities Under the TANF Emergency Fund Created by the Federal Recovery Act," Center on Budget and Policy Priorities, July 29, 2009 at http://www.cbpp.org/files/7-29-09tanf.pdf and Sharon Parrott and Liz Schott, "Overview of TANF Provisions in the Economic Recovery Act," Center on Budget and Policy Priorities, February 25, 2009, at http://www.cbpp.org/files/2-26-09tanf.pdf.

[2] This paper draws upon the state requests that HHS has authorized to date for TANF Emergency Funds. Additional state requests are currently in process.

[3] This number is based on data collected from 28 states that have been approved for funding to operate a subsidized employment program or are planning to implement a program in the near future. Data was collected by staff from CBPP, the Center for Law and Social Policy and the National Transitional Jobs Network between January 28, 2010 and April 1, 2010.

[4] Mark Zandi, "The Economic Impact of the American Recovery and Reinvestment Act," January 21, 2009, p. 9. Moody's did not specifically analyze the TANF provisions of ARRA because those provisions are small in cost and represent only a tiny share of total ARRA resources.

[5] Kenneth Hansen and Elise Golan, "Effects of Changes in Food Stamp Expenditures Across the U.S. Economy," Food Assistance and Nutrition Research Report Number 26-6, U.S. Department of Agriculture, August 2002.

[6] The 50 percent cap applies to the combined amount that a state can receive under the TANF

Emergency Fund and the regular TANF Contingency Fund, but as noted below, the latter is now depleted.

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