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To: The Honorable Bryan Terry, Chairman, Joint TANF Working Group
The Honorable Bo Watson, Member, Joint TANF Working Group
The Honorable Steven Dickerson, Member, Joint TANF Working Group
The Honorable Raumesh Akbari, Member, Joint TANF Working Group
The Honorable Robin Smith, Member, Joint TANF Working Group
The Honorable David Hawk, Member, Joint TANF Working Group
The Honorable Harold M. Love, Jr., Member, Joint TANF Working Group

From: Justin P. Wilson, Comptroller of the Treasury
Jason E. Mumpower, Deputy Comptroller

Date: December 17, 2019

Subject: Ongoing Comptroller inquiry into Tennessee TANF reserve

We wanted to update you on the status of our response to your letter, dated November 22, 2019, requesting the Comptroller's Office to advise the working group on an appropriate level of reserves for Tennessee's TANF program.

In short, a reserve amount will depend on the legislature's vision for the TANF program and whether the state chooses to expand TANF-funded services.

Our work on this matter is ongoing. Since receiving your request, we have been in contact with the state Department of Human Services and the federal government to confirm the amount of federal TANF funding Tennessee has spent over the past decade. Once those numbers are confirmed, we will assist the legislature in establishing a target amount of funds to keep in reserve, based on the methodology described later in this memo. To help provide policy options for the legislature, we are also researching how other states in the Southeast spend their TANF funds.

States have flexibility in spending and keeping federal TANF funding

Temporary Assistance to Needy Families, or TANF, is found in Title IV, Part A of the Social Security Act. As outlined in law, the program has four main goals:

1. Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
2. End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;

3. Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
4. Encourage the formation and maintenance of two-parent families.¹

In general, states receive two streams of TANF funding. All states receive a State Family Assistance Grant, an annual block grant. Tennessee's annual block grant is approximately \$191 million. States with high unemployment rates may also receive additional federal money through contingency funding. Tennessee received contingency funding from 2010 to 2016, but has not received such funding in recent years.

Federal fiscal year	Block grant	Contingency funding	Supplemental funding	Total federal award
2010	\$191,523,797	\$7,156,820	\$58,836,296	\$257,516,913
2011	\$191,523,797	\$23,841,887	–	\$215,365,684
2012	\$191,523,797	\$16,840,738	–	\$208,364,535
2013	\$191,523,797	\$16,749,677	–	\$208,273,474
2014	\$191,523,797	\$19,018,337	–	\$210,542,134
2015	\$191,523,797	\$21,336,072	–	\$212,859,869
2016	\$191,523,797	\$18,809,327	–	\$210,333,124
2017	\$190,891,768	–	–	\$190,891,768
2018	\$190,891,768	–	–	\$190,891,768
2019	\$190,891,768	–	–	\$190,891,768

“Supplemental funding” in 2010 includes federal stimulus money through the American Recovery and Reinvestment Act (ARRA), plus supplemental grants for states with high population growth or low welfare grants.

Within a few high-level limitations, the TANF block grant is flexible: federal law specifies that states can spend the money “in any manner that is reasonably calculated to accomplish the purpose of this part.”² For convenience, we group TANF spending into nine categories:

- **Basic assistance:** payments to families for basic needs, such as food, housing, clothes, utilities, and other necessities.
- **Child care:** spending for families that need child care to work, look for a job, attend school, complete community service, etc.
- **Work, education, and training:** subsidized employment; high school and adult education, including GED and English as a second language classes; postsecondary and career and technical education; and job search assistance and coaching.
- **Refundable tax credits:** refundable earned income tax credits (not applicable in Tennessee) and other state or local tax credits.
- **Pre-K/Head Start:** pre-kindergarten education or Head Start programs.
- **Child welfare:** individual and family counseling, parenting skills classes, adoptive services, etc.
- **Emergency and short-term benefits:** payments to families in crisis situations, including emergency housing, homelessness assistance, burial assistance, emergency food aid, etc.

- **Program administration:** payroll and operational costs of administering the TANF program, plus the cost of monitoring and tracking systems.
- **Other:** other activities, including financial education and debt management counseling, mental health and substance abuse services, after-school or tutoring programs, sex education, marriage education, and responsible fatherhood programs.

In addition to discretion in spending the money, federal law is unusually flexible in allowing states to keep funding they did not spend in previous years. Many federal grants contain “use it or lose it” provisions where states lose the federal funding they have not spent after a specified period of time. TANF, however, has no such provision, and states may carry over unspent block grant funds forever without limitation.

States are required to spend a minimum amount of state funding each year

Like many federal grants, TANF contains a state maintenance of effort requirement – in essence, a required state match each year. This minimum level of state spending is tied to how much states spent in federal fiscal year 1994 on the predecessor program to TANF. This amount is then adjusted depending on whether a state meets work requirements.

If the state meets work requirements – that is, a specified percentage of its TANF recipients are employed – the minimum level of state spending is 75 percent of the 1994 amount. If the state does not meet work requirements, the state must spend 80 percent of the amount it spent in 1994.

Unlike some federal grants, TANF does not have an ongoing match requirement to access the full amount of federal funding – for example, spending \$1 of state money to receive \$2 of federal funding, up to the federal limit. So long as a state meets its maintenance of effort requirement, or the minimum amount of state funding, it may draw down the full amount of its federal award.

State expenditures in FFY 1994	80 percent of 1994 spending	75 percent of 1994 spending
\$110,413,171	\$88,330,537	\$82,809,878

The TANF reserve

Media coverage has referred to the “TANF reserve,” and this memo also uses this terminology. From a technical standpoint, however, Tennessee’s unspent TANF funds are not a reserve in the usual sense of the word.

TANF, like most federal grants, is a reimbursement grant. As such, Tennessee does not receive funding from the federal government until it spends its own state money. Once those state funds have been spent, Tennessee is reimbursed for that spending with federal dollars.

As a result, the reserve referenced in this memo is not a reserve in the technical sense. Unlike the Rainy Day Fund, TennCare Reserve, or the reserves of other state agencies, this TANF funding is not held in the state’s bank accounts or invested in short-term securities to earn interest. Instead, this reserve is simply the amount of federal funding that Tennessee was awarded, but has not yet drawn down from the federal government.

Discussions around agency reserve funds or higher-than-anticipated tax collections sometimes suggest returning surplus funds to taxpayers through a sales tax holiday, lowered fees, etc. In this scenario, though, there is no money to return to taxpayers, as these funds will remain with the federal government unless spent on the TANF program.

Setting a reserve target will depend on the legislature's vision for the TANF program

There is no guidance or best practices at either the federal or state level on an appropriate level of TANF reserves. When contacted by our office, a TANF expert from the Congressional Research Service indicated that there are no federal requirements or recommendations regarding TANF funding, and that such decisions are left entirely to states.

Similarly, while Tennessee state law sets guidance and targets for other reserves, such as the Rainy Day Fund, it has not formally adopted a policy regarding unspent TANF money.

Thus, to establish a target amount for the TANF reserve, we recommend working in several steps:

1. Setting a baseline amount as a starting point – in effect, a minimum amount of federal funding to cover a shortfall if Tennessee does not expand its TANF program.
2. Determining the amount of federal funding available for the legislature to spend, should it choose to spend down the reserve.
3. Researching how other states in the Southeast spend their TANF funds, and considering Tennessee-specific policy options.
4. Incorporating such policy changes into the target reserve amount in step 1.

Setting a baseline amount of TANF funds to keep in reserve

Currently, we are working with the state Department of Human Services to confirm the amount of federal TANF funding Tennessee has spent over the past decade. Once these figures are confirmed, we will continue our work to find a baseline amount of TANF funds to keep in reserve.

This baseline would be the minimum amount of federal funding to keep in reserve if no changes were made to Tennessee's TANF program. In other words, if Tennessee kept its benefits at the level they are now and did not increase spending in other areas (e.g., job training or child care), how much funding might be needed to cover an increase in TANF recipients during a recession?

This baseline – likely a range of funding – would consider several factors. For one, Tennessee received additional TANF funding through the American Recovery and Reinvestment Act (ARRA) during the 2008 recession. With the change in federal administration, our baseline estimate would cover two scenarios: (1) a recommended target if Tennessee were to receive a similar amount of federal stimulus money, and (2) a higher target if Tennessee were to receive no additional federal funding.

In addition, we plan to look into Tennessee's steady population growth since the last recession and the characteristics of these new residents (whether they have minor children, etc.). We also plan to look into changes in Tennessee's TANF program since the recession: namely, eligibility

criteria, and whether it is more difficult to get into or stay in the program; and benefit levels, since Tennessee has recently increased the maximum payments to families.

Determining the amount of TANF funding available for the legislature to spend

Setting a baseline target will give the legislature a better idea of how much money it has to work with, should it choose to spend down the TANF reserve. This additional funding has two aspects:

- **Spending down the reserve to the baseline amount.** Lowering the reserve to its target balance would provide a stream of one-time, nonrecurring funds.
- **Keeping the reserve from building up again.** To prevent the reserve from building back up, Tennessee would need to spend the full \$191 million of its annual block grant each year. Drawing down the entire block grant every year would require an increase in recurring spending.

For example, if the reserve was \$700 million and the legislature chose a reserve target of \$300 million, Tennessee would need to spend \$400 million of the reserve to reach the target balance. This \$400 million would be nonrecurring, one-time funding that should accordingly be used for nonrecurring, one-time expenses. Because the amount in this example is so large, however, the legislature may not wish to spend it all in one year.

Once the reserve balance was lowered to the target \$300 million, Tennessee would also need to make adjustments to its TANF program to keep the reserve at that balance. Since the economy has recovered, Tennessee has spent less federal funding than it has been awarded each year, causing the reserve to build up. As such, if Tennessee continues its TANF spending at its current level – spending significantly less than it is awarded each year – the reserve will begin accumulating again, and will soon be over the target balance.

On average over the past three years, Tennessee has spent about \$69 million of its \$191 million annual block grant, leaving roughly \$122 million unspent. Thus, to keep the reserve from building back up, Tennessee would need to spend an additional \$122 million of federal funding each year. This additional \$122 million would be recurring federal money that could be used for ongoing expansions to the TANF program.

Researching how other Southeastern states spend their TANF funding

We are currently investigating how other states in the Southeast use their TANF funds. Although our work into this matter is ongoing, our preliminary findings show that Tennessee falls behind other states in areas such as child care, child welfare, and education and job training.

Incorporating changes to the TANF program into the reserve fund target

Any policy changes made by the legislature, whether based on other states' programs or issues specific to Tennessee, should be factored into the targeted reserve amount. In doing so, we encourage the legislature to consider a plan of action during a future recession.

For example, if Tennessee were to begin spending more TANF funding on job training or education, would the legislature intend to cut back this spending during a recession to focus on providing cash benefits to families? Or would the legislature prefer to maintain its spending on job training and education, or even increase such spending to try to simulate the economy?

Answers to questions such as these should be taken into account when setting a reserve amount, as they may move the targeted amount up or down.

¹ 42 U.S.C. § 601 (2017)

² 42 U.S.C. § 604 (2017)