

Temporary Assistance for Needy Families Program Overview

Although the Child Care and Development Fund (CCDF) provides the majority of federal funds dedicated to helping low-income, working families pay for child care, a significant amount of public child care funding comes from an often overlooked source: the Temporary Assistance for Needy Families (TANF) program. TANF is a federal block grant intended to help low-income families achieve economic security and independence from government support. Alongside providing cash assistance to help families meet basic needs and engage in work-related activities, TANF serves as the country's second largest source of public child care dollars. In total, states contributed over \$5 billion of their \$31 billion in total TANF funds to help families cover child care costs in fiscal year 2019.

Funding Sources. TANF receives mandatory federal funding, meaning funding is set by statute and not subject to the annual appropriations process. Section 403(a) of the Social Security Act automatically appropriates just over \$16.5 billion annually—as it has done since TANF's inception under the 1996 welfare reform law, the Personal Responsibility and Work Opportunity Reconciliation Act.¹ As this amount has remained unchanged since 1996, by FY2019, its value had diminished by 37%, as TANF appropriations have not been adjusted for inflation.²

Allotments to States. The Office of Family Assistance in the U.S. Department of Health and Human Services distributes these federal funds annually to states as a single block grant according to the following:

Basic Block Grant: Each state receives a share of mandatory funds equal to the amount of federal funds it received from pre-1996 welfare programs (Aid to Families with Dependent Children, Emergency Assistance, and Job Opportunities and Basic Skills Training programs). However, a 0.33% set-aside for research on TANF has slightly lowered these allotments since FY2017.³

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Maintenance of Effort (MOE): To receive the basic block grant, each state must spend its own funds on activities for needy families at a level equal to 75% of what the state spent on welfare programs in FY1994. However, since states are also required to maintain spending on some of the same programs to meet their

CCDF maintenance of effort requirements, they may double count up to \$888 million of their CCDF MOE funds towards their TANF MOE requirements.^{4,5} Thus, in FY2019, total TANF MOE funds were recorded at \$14.7 billion,⁶ but only \$13.8 billion were explicitly dedicated for the program.

Use of Funds. As a block grant to states, TANF offers broad flexibility in how states may spend funds to achieve four statutory 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.

To prevent welfare dependency—TANF’s second statutory goal and the impetus for welfare reform in 1996—the law sets certain requirements for how states may spend federal TANF funds. A state has latitude over how it structures eligibility requirements for individual family recipients, as long as the state meets overall federal requirements related to income eligibility, work status, and time limits. For example, 50% of all families—and 90% of two-parent families—receiving TANF assistance in a state must meet “engaged in work” requirements or the state will face a grant reduction in the subsequent fiscal year. To meet these overall requirements, states may set any individual eligibility rules they see fit.

However, the requirements above apply specifically to what TANF considers “assistance” activities and not necessarily “non-assistance” activities. Assistance activities are payments to help families cover ongoing needs like food, clothing, and shelter—payments that correspond to what most consider cash welfare and are often distributed as such. Work and time limit requirements for these activities are typically the strictest. The largest portion of TANF funds is spent on basic assistance, as states allocated over 21% of their funds for these purposes in FY2019.⁷

Non-assistance activities are typically short-term, non-recurring payments and may include other benefits and services such as supporting employment, education, and job training, or supporting child welfare and youth development. Most notably, funds provided to help families cover child care services are considered non-assistance if the family is employed, and assistance if the family is unemployed but performing activities like community service or job training.⁸

The Intersection of TANF and Child Care. Both CCDF and TANF aim to support families with similar income characteristics and work statuses. In fact, 70% of mandatory CCDF funds must be spent on families receiving TANF, transitioning off TANF, or who are at risk of becoming dependent on TANF.⁹ Additionally, child care is key to achieving TANF’s goal of supporting needy families while encouraging them to work. For these reasons, Congress created

three channels by which states may use their TANF funds to help families cover child care costs.

Transfers to CCDF: Within the fiscal year they receive the funds, states are allowed, but not required, to transfer up to 30% of their federal TANF funds to CCDF and the Social Services Block Grant, collectively (although transfers to SSBG are capped at 10%). Transferred funds are subject to CCDF rules and reporting requirements, helping to ensure young children are served in child care programs that meet the minimum health and safety requirements and other regulations set by CCDF. In FY2019, states transferred \$1.3 billion of their \$16.5 billion in federal TANF funds to CCDF.¹⁰

Federal Direct Spending: Separate from CCDF, states may use any amount of their federal TANF funds to directly provide child care support for families (both assistance and non-assistance). Direct spending on child care is not subject to the minimum health and safety standards and other requirements set by CCDF. In FY2019, states spent \$1.4 billion of their \$16.5 billion in federal TANF funds on direct child care services and an additional \$60 million was spent directly on pre-K and Head Start in the same year.¹¹

State MOE Direct Spending: State funds used for direct child care spending may also count as contributions toward their TANF MOE requirements. In FY2019, states reported spending an aggregate of \$2.3 billion on child care out of their \$14.7 billion in total funding that counted toward their collective TANF MOE contributions. After excluding the CCDF MOE funds that states may concurrently count for their TANF MOE (\$888 million), states spent about \$1.4 billion of an updated total \$13.8 billion in MOE funds on direct child care services in FY2019.¹²

Impacts on Child Care. TANF funds constitute a large portion of overall government child care spending each year. Of the nearly \$14.5 billion in both state and federal CCDF and TANF spending on child care in FY2019, 29% was from TANF.^{13,14} However, 56% of the TANF dollars reported for child care—\$2.8 billion of the total \$5 billion—were obligated for direct services and not subject to the health and safety standards enforced by CCDF.

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Even though Congress has provided increased appropriations for CCDF over time, declining TANF transfers have muted their impact. Between 2000 and 2017, total funding for CCDF—the only public funding with minimum health and safety requirements—increased by only 19% (including transfers from TANF), despite a 63% increase in CCDF funds appropriated by Congress.^{15,16}

Endnotes

1. Gene Falk, The Temporary Assistance for Needy Families (TANF) Block Grant: A Primer on TANF Financing and Federal Requirements, Congressional Research Service, December 14, 2017. Available at: <https://fas.org/sgp/crs/misc/RL32748.pdf>.
2. Gene Falk, Patrick A. Landers, The Temporary Assistance for Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions, Congressional Research Service, November 17, 2020. Available at: <https://fas.org/sgp/crs/misc/RL32760.pdf>.
3. Gene Falk, A Primer on TANF Financing and Federal Requirements. Available at: <https://fas.org/sgp/crs/misc/RL32748.pdf>.
4. Ibid.
5. Karen E. Lynch, Trends in Child Care Spending from the CCDF and TANF, Congressional Research Service, June 16, 2016. Available at: <https://fas.org/sgp/crs/misc/R44528.pdf>.
6. U.S. Department of Health and Human Services, FY2019 Federal TANF & State MOE Financial Data, Administration for Children and Families, Office of Family Assistance, September 10, 2020. Available at: https://www.acf.hhs.gov/sites/default/files/ofa/tanf_financial_data_fy_2019_91020.pdf.
7. U.S. Department of Health and Human Services, TANF and MOE Spending and Transfers by Activity, FY2019, Administration for Children and Families, Office of Family Assistance, October 22, 2020. Available at: <https://www.acf.hhs.gov/ofa/resource/tanf-and-moe-spending-and-transfers-by-activity-fy-2019-contains-national-state-pie-charts>.
8. U.S. Department of Health and Human Services, Categories and Definitions for TANF and MOE Funds, Administration for Children and Families, Office of Family Assistance. Available at: https://www.acf.hhs.gov/sites/default/files/ofa/categories_and_definitions_for_tanf_and_moe_funds.pdf.
9. Karen E. Lynch, Child Care Entitlement to States, Congressional Research Service, July 18, 2019. Available at: <https://fas.org/sgp/crs/misc/IF10511.pdf>.
10. U.S. Department of Health and Human Services, FY2019 Federal TANF & State MOE Financial Data, Administration for Children and Families, Office of Family Assistance, September 10, 2020. Available at: https://www.acf.hhs.gov/sites/default/files/ofa/tanf_financial_data_fy_2019_91020.pdf.
11. Ibid.
12. Ibid.
13. Karen E. Lynch, Child Care Entitlement to States, Congressional Research Service, July 18, 2019. Available at: <https://fas.org/sgp/crs/misc/IF10511.pdf>.

14. This calculation uses allocations for CCDF in FY2019 (not actual FY2019 expenditures) but uses actual expenditures for TANF in FY2019. While CCDF allocations are comparable to TANF transfers to CCDF since neither are typically liquidated the same year they are allocated, the TANF direct spending expenditures on child care are not comparable to CCDF allocations because they were liquidated in FY2019. TANF expenditures had to be used, instead of allocations, because the Administration for Children and Families no longer publishes data on liquidated TANF funds by the grant year they were awarded.
15. Congressional Research Service, The Child Care and Development Block Grant: Background and Funding, September 17, 2014. Available at: https://www.everycrsreport.com/files/20140917_RL30785_523d234ca8f11b399d2adf7d0609aa077586fe95.pdf.
16. U.S. Department of Health and Human Services, Table TANF 5. Federal TANF and State MOE Spending: 2000 – 2009, Administration for Children and Families, Office of Administration. Available at: <https://aspe.hhs.gov/report/indicators-welfare-dependence-annual-report-congress-2009-2013>.