



Oregon

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April 29, 2009

The Honorable Margaret Carter, Co-Chair
The Honorable Peter Buckley, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048



Re: Potential TANF ARRA Funds - \$70.0 Million

Dear Co-Chairpersons:

The recently passed American Recovery and Reinvestment Act (ARRA) included additional funding for the Temporary Assistance for Needy Families (TANF) program. Based on a special formula, ARRA could give Oregon up to \$83.4 million in additional TANF funds over a two-year period.

Introduction to TANF Block Grant

The TANF Block Grant is a "capped" grant that is the primary federal program directed at helping low-income families with children to address basic needs and become self-sufficient. Oregon receives a fixed amount each year (\$166.8 million) for payments and services that meet at least one of the following four TANF purposes: (1) provide assistance to needy families so 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. The TANF grant assists low-income families through cash assistance and employment and training services through the Job Opportunity and Basic Skills (JOBS) program. TANF funds are also used in Child Welfare, Additions and Mental Health and Housing and Community Services.

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To receive this grant, the State must spend a minimum amount of its own funds for the above mentioned TANF purposes. This amount is called the TANF maintenance of effort (MOE) requirement and is \$97.8 million per year. Oregon meets its TANF MOE obligation through spending in multiple state agencies including Department of Human Services (DHS), Education in Pre-K, Commission on Children and Families, and Housing and Community Services.

TANF stimulus formula

ARRA increases the TANF grant award for federal fiscal years 2009 and 2010 based on a formula. The formula increases the award by 80% of the quarterly increase in Oregon expenditures since a base year. The increase acts like a rebate. If Oregon increases its expenditures in eligible areas, Oregon is reimbursed 80% of the increase back in the form of an additional award that can be spent on any TANF purpose. The ARRA increase does not require a match nor increase in Oregon's MOE expenditures.

The formula applies only to three categories of TANF funding:

- Basic assistance
- Subsidized employment
- Non-recurrent short-term benefits

Within each of these areas, the base year is either federal fiscal year 2007 or 2008, whichever is smaller. Although the base year can vary by category, analysis shows that 2007 is Oregon's preferred base year in each category.

The increase is calculated quarter-by-quarter. For example, the table below shows the basic assistance calculation for the first stimulus quarter (October through December 2008).

TANF stimulus award for basic assistance	
October-December 2008 (First quarter FFY 2009)	
TANF spending for basic assistance	
First quarter FFY 2007	\$19.2 million
First quarter FFY 2009	<u>\$ 24.2 million</u>
Increase in spending	\$ 5.0 million
ARRA award (80% of spending incl.)	\$ 4.0 million

Limitations and impacts of proposed reductions

ARRA limits Oregon's total additional award earned over the two years to \$83.4 million. This apparently can be earned in any pattern over the two year period (October 2008 through September 2010).

There are no specific restrictions on cutting programs. Of course, if Oregon cut a program in an eligible area during the stimulus period, it would lose any "rebate" that spending might earn. At 80%, that would be a substantial penalty. The table below portrays the impact of a proposed \$1 million reduction in TANF benefit expenditures:

Example impact of a reduction of TANF Benefit expenditures from Oct 2008 – Sept 2010	
Reduction Savings	\$1,000,000
Lost ARRA @ 80% reimbursement	\$800,000
Net GF Savings of reduction	\$200,000

Assumptions and caveats

Although the above calculation seems simple, the ARRA calculation is more complex and uncertain than the example shows. The major reasons are:

- In the basic assistance category only, the base year is determined by caseload rather than spending. Although the caseload calculation yields the same base year as a spending calculation, it only does so after adjusting for the change in TANF programs noted below.
- Oregon, like many states, modified its TANF program in FFY 2008. This means that FFY 2007 spending and caseload counts are not comparable to periods after 2007. Specifically, in FFY 2008 Oregon stopped using federal funds for assistance to people awaiting eligibility for SSI disability payments and assistance to two-parent families. Oregon also added a new Post TANF program in FFY 2008. For example, the calculation above (and, except where noted, the rest of this report) assumes the federal government will permit Oregon to adjust its FFY 2007 base year spending and caseload numbers to exclude The

State Family Pre-SSI/SSDI and the two-parent program and will allow Oregon to include the Post TANF program spending in the stimulus calculation. Although adjustments of this type are explicitly permitted by ARRA, and DHS's initial assumptions were mostly validated in the policy announcement issued April 3, 2009, no specific guidance has been received as to whether the methodology being proposed by Oregon will be accepted. This will likely be done on a state by state basis and DHS is currently putting together the more detailed funding request for review by the Federal Government.

- Due to declining revenue and rising caseloads, budget cuts in TANF programs are proposed for the current and next biennium. The stimulus "rebate" creates a much different situation than that which existed at the time these decisions were made.

Estimated TANF ARRA funds for 2007-09 and 2009-11

Based on current spending, Oregon will earn about \$20 million of TANF ARRA reimbursement in 2007-09. Of this, at least \$5 million is expected to be spent to cover TANF cost increases in 2007-09. Any remainder will carry over into 2009-2011.

The amount to be earned in 2009-11 is highly dependant on the level of spending on ARRA-eligible expenditures. Based on continuation of current spending, Oregon will earn between \$35 and \$50 million in 2009-11. When added to the 2007-09 grant, this means Oregon would earn total TANF ARRA funds of \$55 to \$70 million, which is well short of Oregon's maximum allowance of \$3.4 million.

However, because TANF caseload growth is not automatically built into the 2009-11 budget, it will be difficult to achieve the current spending level. At the Essential Budget Level of funding, Oregon may only earn between \$15 and \$20 million in ARRA funds in 2009-11. In any event, without making or identifying additional reimbursable expenditures in 2009-11 Oregon will not draw all available TANF ARRA funds.

The amount of any limitation request depends on the level of state spending. DHS will include limitation request for 2007-09 as part of the April

Rebalance process and for 2009-11 through the normal Ways and Means process.

Grant application requirements

Although TANF is a formula grant and ARRA funds are available for states up to a maximum amount, states must apply for the funds. The U.S. Department of Health and Human Services Administration for Children and Families (ACF) has not developed an application form; however, in its initial guidance to states (TANF-ACF-PA-2009-01 dated April 3, 2009), ACF provided that states may apply for ARRA TANF funds immediately by submitting the information as described in the ARRA statute.

Sincerely,



Jim Scherzinger
Deputy Director of Finance

CC: John Britton, Legislative Fiscal Office
Sheila Baker, Legislative Fiscal Office
Blake Johnson, Department of Administrative Services