



How New Jersey's Public Assistance Dollars Are Spent:

*An Initial Report from
Legal Services of New Jersey's
Poverty Research Institute
Budget and Poverty Analysis Project*

Legal Services of New Jersey
NJPRI
Poverty Research Institute

Acknowledgements

The bulk of the research and writing for this report was carried out by Kristin Mateo, Director of Special Projects and Principal Researcher at Legal Services of New Jersey (LSNJ), and staff to the LSNJ Poverty Research Institute. A number of other LSNJ staff contributed to the project, most notably, Maura Sanders, Senior Attorney, who provided substantive expertise, perspective and continual assistance throughout the project and to Cynthia Schirmer Searcy, formally of LSNJ, for her initial work and data collection on the project. Special thanks go to Brian Baxter, Deputy Chief, Governor's Office of Policy and Planning, as well as to Steve Gregorowicz, Administrator, Office of Budget and Financial Management and Ross Robbins, Director, Office of Contract Management Services, both of the New Jersey Department of Family Development, for their cooperation in providing necessary information and data. And finally, to Ed Lazere, Policy Analyst, of the Center on Budget and Policy Priorities, for his continual guidance and consultation. Kristin Mateo and Melville D. Miller, Jr. of LSNJ served as principal authors, and all errors, oversights and omissions are their own.

*Legal Services of New Jersey
Edison, New Jersey
June 2000*

EXECUTIVE SUMMARY

This report draws four principal conclusions concerning welfare expenditures in New Jersey.

- New Jersey, like many states, garnered a huge and unexpected “windfall” under the federal welfare reform statute passed in August 1996. The windfall stemmed from the combination of declining caseloads and a new federal revenue format.
- Most of this windfall has been committed by the State to designated purposes and programs, so that currently there is virtually no identifiable available surplus. Surpluses continue to grow, however, because the welfare caseload is still in decline (at the rate of approximately 1000 families per month), and thus additional and uncommitted revenue, in excess of State projections, continues to build.
- State officials have for the most part “reinvested” these windfall savings in the “near TANF” (lower middle income, sometimes termed the “working poor”), former TANF and current TANF populations, and are to be commended strongly for these efforts. The vast majority of these dollars went to the near-TANF population, not current recipients. The very positive part of this approach is that funding for important new anti-poverty initiatives was made available. The less hopeful effect is that the *current* TANF population has been less well served (no grant increase to help meet higher living costs; no significant new funding for case managers), and is at considerable risk should caseloads begin to rise during an economic downturn. Furthermore, given the precipitous and largely unexplained caseload declines (only one-third of recipients leave the welfare rolls because they have a paying job), much more resources must be committed to understanding the situations of—and if necessary helping—these “disappeared” former recipients.
- Despite the willing assistance from state officials in securing the information contained in the report, the fact remains that release of this report was delayed due to difficulty in securing complete and accurate information. For reasons discussed in the report, this information is not as a practical matter readily available to the general public, and state reporting formats, procedures and technology must be changed to make this important information more accessible.

INTRODUCTION

In 1999, Legal Services of New Jersey (LSNJ) began intensive research concerning how New Jersey expends welfare funds. Over the past several years it has become clear that much of State public assistance policy is driven or circumscribed by fiscal concerns. To a large degree, if federal or state funds become available for particular purposes, such projects emerge. If there is a shortfall, such projects disappear. Certain important possible steps—such as grant increases—never receive serious consideration in major part because of fiscal concerns. To make an effective case for essential welfare initiatives, costs and potential funding sources must be part of the presentation.

Part of the work of LSNJ's Poverty Research Institute, the Budget and Poverty Analysis Project, will be an ongoing research effort. This document marks the first report from the research efforts. A portion of the support for the research comes from the Fund for New Jersey and from the Annie Casey Foundation, the latter via a grant to the Association for Children of New Jersey and its child-based Budgeting Project.

In some ways the initial impetus for this research stemmed from the 1996 sea change in federal welfare law. With the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in August 1996, most fundamental federal welfare requirements, including those related to revenue and allowable expenditures, were changed. Caps on federal revenue available to states were imposed, along with state maintenance of effort (MOE) requirements. For a variety of reasons beyond the scope of this report, welfare caseloads nationally had been in decline in the 1990's prior to federal welfare reform, and this decline continued for the rest of the decade. In combination with the new federal revenue rules, which in general fixed a state's federal welfare revenue at early 1990's levels, nearly all states received a federal welfare revenue "windfall", a sum of available money well beyond what it took to pay grants to the much smaller caseload. It thus becomes imperative to understand how states, in this case New Jersey, currently use and could apply these newly available surpluses.

The Study Sponsor— Legal Services of New Jersey

Legal Services of New Jersey (LSNJ), an independent, non-profit corporation, coordinates the statewide Legal Services system. LSNJ strives to ensure equal access to justice under law to all people of New Jersey, providing free legal assistance to low-income people in civil matters. Legal Services in New Jersey embraces the vision of full access to essential civil legal aid for all economically disadvantaged people who cannot secure a lawyer on their own and, through that legal aid, equal justice, both substantive and procedural. From this vision, New Jersey Legal Services' core mission

statement is: “Just Justice”- Legal Services seeks to secure equal substantive and procedural justice for all economically disadvantaged people. Legal Services seeks to provide its services in the most effective and efficient manner. Consequently, LSNJ is constantly on guard for approaches with potential to alleviate poverty for the poor generally, beyond just the parties to a lawsuit. Over the years LSNJ has engaged in extensive social science research in an attempt to better understand—and address—the problems and legal needs of the poor. Prioritizing, for example, legal representation that tends to help rebuild impoverished, deteriorated communities, or that addresses in a single forum or legal action recurrent problems which otherwise would repeat themselves hundreds and thousands of times in individual cases.

The Study Group on Work, Poverty and Welfare

In 1995, a group of more than fifty organizations and individuals concerned about the impending changes in the welfare law formed the Study Group on Work, Poverty and Welfare. Through regular meetings with representatives of the Governor, the Department of Human Services and the Legislature, the Study Group has played an influential role in shaping aspects of the WFNJ statute, regulations and implementation. The Study Group remains a very active observer of the Work First program.

The Poverty Research Institute

To remedy the dearth of information and statistics on poverty in the state, Legal Services of New Jersey founded the Poverty Research Institute (PRI) in 1996. The PRI is the first and only entity in New Jersey exclusively focused on developing and updating information on the extent and effects of poverty in the state. Through original research and compilation of data from publicly available sources, the PRI seeks to generate and distribute information. Such information aims to increase public awareness and knowledge and assist policymakers in making informed decisions. Recent research projects have included a study on the cost of living in the state entitled *The Real Cost of Living: The Self-Sufficiency Standard for New Jersey*, and a Budget Analysis Project which examines the TANF budget and expenditures. The *Assessing Work First* series, of which this report is a key part, is an ongoing PRI effort to assess how the changes resulting from Work First New Jersey have affected people in poverty. The overall title of this ongoing welfare research is the *Work, Poverty and Welfare Evaluation Project (WPWEP)*.

PART ONE

The Scope of this Report

This initial research sought to:

- Identify and analyze state resources and expenditures targeted for WFNJ.
- Analyze past and current spending patterns of federal TANF and state MOE dollars, including inquiry into the type and amount of expenditures made for WFNJ programs over time.
- Determine the amount of federal and state dollars appropriated but not spent on WFNJ, and identify spending limitations for unobligated funds.
- Examine trends in WFNJ funding sources and expenditures, seeking to understand the interrelationship of funds dedicated for safety net programs targeted for WFNJ participants and other low-income populations.

This report looks primarily at public assistance-related expenditures of the New Jersey Department of Human Services. It does not attempt an exhaustive review of additional “Welfare to Work” resources which pass through the State Department of Labor; while there is some discussion of these funds, they will be covered more fully in a later report.

Several primary and secondary sources were used to evaluate the Work First New Jersey budget, including the New Jersey State Budget, requisite federal reporting forms (ACF-196 and Welfare To Work Formula Grant Status forms), administrative data on Work First New Jersey, conversations with and data secured from key staff from New Jersey’s Office of the Governor, the Department of Human Services, and its Division of Family Development (DFD), the Department of Labor, the Office of Management and Budget, and the Office of Legislative Services.

PART TWO

Availability and Credibility of Data

Part of the mission of this research project was to assess the accessibility of state budget data relating to poverty programs to the average citizen. An overview of our conclusions follows.

A. Budget Transparency

In many respects budgets are a cornerstone of state government. They identify revenue and expenditures, but they also implicitly indicate underlying governmental values, policies and priorities. The role of budgets and fiscal review has become far more important as governmental programs have increased in complexity. The post-1996 devolution of welfare to states, and the fiscal responsibility that necessarily followed, has further heightened the degree to which financial information is critical to accountability. If budgets are seen as a door through which answerability and compliance can be found, then the degree to which the public can easily access and interpret this information—“transparency” - is of the utmost importance. Transparency is a prerequisite for public debate; it helps identification of problems and as a corollary, aids in reform. It supports accountability and promotes public trust¹. Although this project did not, at its inception, intend to evaluate or comment on New Jersey’s budget transparency, the recurrent difficulty experienced in the acquisition and compilation of fiscal data contained in this report, and an even greater level of frustration over avenues of inquiry which could not be pursued, due to inadequate reporting and presentation, brings the issue of budget transparency and the degree to which it may preclude or inhibit public debate to the fore. The difficulties encountered in putting together this analysis are, of course, specific to the state public assistance budget. On the other hand, some problems which we encountered are definitely applied with equal force to New Jersey’s entire budget process. In welfare and in the budget as a whole, there is frequently no continuity in reporting; design and content of budget detail in department budgets often varies dramatically from year to year. When combined with the significant lags in data collection and reporting that we saw in the welfare area, such format changes make longitudinal analysis - even within a single information source—unreliable or impossible. Administrative data necessary to credibly evaluate key aspects of the budget often are not available—even though as in the case of welfare some is legislatively required.² The funding sources used as the basis for various reports are rarely footnoted or identified, making lateral comparison across reports nearly impossible. Because of this, data can seemingly appear contradictory, and without significant explanation, often has little meaning. The public data available on WFNJ is opaque, and some might consider it obfuscatory; in

either case it is virtually impenetrable. In addition, WFNJ's budget cannot credibly be analyzed in totality without updated administrative information regarding caseload size, cumulative time on TANF, participant demographics and other statistics. Such information is essential if one is to make judgements or draw conclusions about the appropriateness of programmatic funding levels. In the end, it is painfully clear that there must also be significant attention given to the issue of budget transparency and the need for much more full reporting of actual performance and expenditures.

We hasten to add that for the most part these access difficulties resulted from problems and deficiencies in the "system": non-standardized, non-uniform report formats, ambiguous or inconsistent terminology and definitions, inferior technology, and related factors. While government officials may sometimes be reticent about releasing budget and performance data, in general we were met by openness and cooperation from state officials, although some responses sometimes took an extremely long period of time.

B. ACF-196 Data Limitations

TANF expenditure reports, known as ACF-196 forms, are required federally by the U.S. Department of Health and Human Services. These forms provide general state expenditure information in broad categories, such as Work Activities, Administration, and Transitional Services. Additionally, the forms provide information on federal TANF dollars which may have been transferred to two other federal benefit programs for low-income families, the Child Care and Social Services Block Grants (CCDF and SSBG), allowable under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). Although the information contained in these reports has some utility, it has significant limitations. Substantial time lags exist in the state's ability to accurately report county expenditures, making current figures for FY 99 unreliable (significant county reimbursements were not documented at the time of the last available ACF submission, October 9, 1999—just nine days after the close of the fiscal year). Secondly, because TANF was implemented during FY 97, reported ACF data for FY 97 is not indicative of a full year of programmatic expenditures. Because of these two limitations, current ACF-196 data cannot reliably be used to compare and evaluate expenditure patterns over the last three years (FYs 97, 98 and 99). Additionally, the reporting categories themselves appear to be too broad to provide useful information on specific programmatic initiatives, and the very use of the reporting lines appear to be subjective. For example, although New Jersey lauds its initiatives for post-TANF recipients, the state recorded no expenditures under the general category of "transitional services" for FYs 97, 98 or 99. Concern over the accuracy of the ACF

figures is further heightened by DFD's recent announcement of its spending plan for surplus TANF funds. The TANF balances announced in conjunction with the spending plan contradict surpluses reported on the federal ACF forms. While ACF figures are reported on a federal fiscal year and DFD figures on a state fiscal year, the amounts are so discordant that discrepancies can not be simply be attributed to the difference in reporting cycles. It should also be noted that revisions to the FY 97 and 98 federal ACF-196 forms were submitted as recently as October 1999. A comparison of the two surplus balance sources is listed below—please note that ACF-196 data is not available for FY 2000.

Figure 1
TANF Surpluses
Federal and State Report Comparison

TANF Funding	ACF-196 (federal)	DFD Figures (state)
1997	\$ 13,860,000	\$ 75,200,000
1998	\$ 34,937,000	\$ 96,100,000
1999	\$ 204,289,000	\$ 52,600,000
TANF Surplus	\$ 253,086,000	\$ 223,900,000
2000 (anticipated)	not available	40,807,000
Total Surplus	253,086,000	264,707,000

Source: ACF-196 forms, New Jersey Department of Family Development

For these reasons, while we are providing data compiled from New Jersey's ACF-196 forms as background information, we have chosen not to use the federal forms as a basis for analysis. Therefore, for the purposes of this report, ACF-196 data has been relied on principally only for the identification of New Jersey's transfer of federal TANF dollars to the state's SSBG and CCDF programs.

PART THREE Patterns of Expenditure

A. Changes in Federal Funding

Under the 1996 PRWORA statute, the federal government devolved the programmatic and fiscal responsibility for the provision of public assistance to low-income individuals and families to the states. The federal program, Temporary Assistance to Needy Families (TANF), block-granted aid to the state programs, provided that each state maintained a specified prior spending level. Before TANF, the federal government shared responsibility for funding AFDC, JOBS, and Emergency Assistance (EA) with the states. Under AFDC, federal contributions varied annually, responding to a state's fluctuation in caseload size and related programmatic expenditures. Under this system, the federal government matched a state's spending, with total federal contributions to a state's AFDC program ranging from 50 percent to 79 percent, depending upon the state's per capita income; wealthier states received less, poorer states more. Between 1987 and 1993, for example, states such as Mississippi, West Virginia, Arkansas and Utah received the highest federal contributions (75% or more), while 12 states, including New Jersey, received the minimum federal match of 50%.³ Because this funding formula directly responded to state expenditures, it contained an inherent financial incentive for states to maintain their own level of spending on public benefit programs. Under TANF's fixed block grant structure the implicit incentive to maintain state spending was eliminated. PRWORA, therefore, established minimum state expenditure thresholds, or "Maintenance of Effort" (MOE) levels, set at 80% of the federal TANF block grant.⁴

Using a formula which pegged TANF block grant amounts to years of historically high welfare caseloads and federal funding created significant "windfalls" for many states. Indeed, New Jersey's share of federal dollars for TANF increased approximately 14.6% over 1996, the last year without a block grant. However, because the state's MOE level was set at 80% (and subsequently reduced to 75%, because of New Jersey's compliance with established Work Participation Rates), the state's proportionate share of programmatic dollars was reduced. Currently, New Jersey must spend approximately \$75 million per quarter in order to receive \$101 million in available federal funding (under the old system of AFDC New Jersey would have needed to spend \$101 million, 50% of the program's total cost, in order to draw down the same amount of federal funds). In total, the combination of federal TANF and state MOE, leaves New Jersey with approximately \$8.4 million in additional annual revenue for cash assistance, Job Opportunities and Basic Skills (JOBS) and Emergency Assistance (EA), as compared to 1996. While cumulative funding in these categories has re-

mained essentially flat, increasing by 1.2% over 1996, welfare caseloads have declined by 50%. Fixed federal funding coupled with the state's massive caseload decline has created enormous opportunities for investment in new programs and initiatives.

Figure 2
1996 & 2000 Funding Comparison
Cash Assistance, JOBS and EA

TANF Funding	FY 96	FY 00 (est)
Federal Dollars	\$ 352,647,076	\$ 404,034,823
State Match	\$ 343,204,200	\$ 300,160,007
Total	\$ 695,851,276	\$ 704,194,830
Average AFDC/TANF caseload	110,021	52,445
Average AFDC recipients	316,795	145,812

Source: ACF-196 forms, Center on Budget and Policy Priorities
NJ State Budget FY 1999-2000, DHS caseload statistics

These reductions are not exclusive to the TANF program. Overall, the precipitous drop in caseloads for a number of public benefit programs has resulted in large decreases in cash grant expenditures over the past four years.

Figure 3
Caseload and Expenditure Changes
FY 1996 to FY 2000

Fiscal Year	WFNJ	GA Employable	GA Unemployable	Food Stamps
1996	\$ 386,564,482	\$ 42,097,133	not available	\$ 513,924,475
1997	\$ 349,057,637	\$ 35,916,674	\$ 24,730,253	\$ 472,406,247
1998	\$ 292,778,380	\$ 29,083,119	\$ 27,230,040	\$ 404,740,335
1999 revised	\$ 217,136,959	\$ 26,860,900	\$ 21,455,874	\$ 361,746,155
2000 estimated	\$ 165,127,000	\$ 25,994,256	\$ 21,522,571	\$ 328,015,485
Expenditure Change 96 to 00	-57.3%	-38.3%	not available	-36.2%

Fiscal Year	WFNJ	GA Employable	GA Unemployable	Food Stamps
1996	316,795	22,219	10,764	544,400
1997	277,934	19,821	10,678	507,778
1998	231,273	17,368	10,410	442,158
1999 revised	178,114	15,934	10,238	397,048
2000 estimated	145,812	14,902	10,134	360,229
Expenditure Change 96 to 00	-54.0%	-32.9%	-5.9%	-33.8%

Source: New Jersey State Budget, FY 1998-1999 & FY 1999-2000

B. Financing State Programs

The degree of programmatic flexibility (including whether non-Work First New Jersey (WFNJ) populations are eligible for a particular program and whether PRWORA restrictions apply), is in part, determined by the method through which the state chooses to fund the program. While restrictions articulated under PRWORA, such as time limits and work requirements, attach to federal TANF funds, states have been given significant latitude with regard to the design of programs using state MOE dollars. There are essentially three ways in which states can spend federal TANF and state MOE dollars: (1) states can commingle state and federal funds to finance a TANF program; (2) states can segregate state funds for use in a TANF program; or (3) states can set aside state funds for use in a separate state program, in which no federal dollars are used. Each option carries with it varying degrees of use restriction and administrative reporting requirements. The third option, creation of a separate state program, affords the state the greatest amount of flexibility and freedom in design of supportive and ancillary welfare programs, as time limits, work participation requirements and other PRWORA restrictions may not apply to use of this money. Data for FY 97 and FY 98 indicate that New Jersey supported only one small program through use of separate state funding—a program providing food stamp benefits to eligible qualified immigrants. In FY 98 DHS began using separate state funds to support cash assistance and other support programs for two parent families. However, despite the fact that no federal dollars are used, administration of the separate state two-parent program mirrors the general Work First New Jersey program—all rules, restrictions and time limit requirements of Work First apply. In its FY 2001 budget DHS has indicated its intention to use separate state funding to support a small post-TANF housing initiative for former recipients of WFNJ/TANF (\$2.5 million annually).

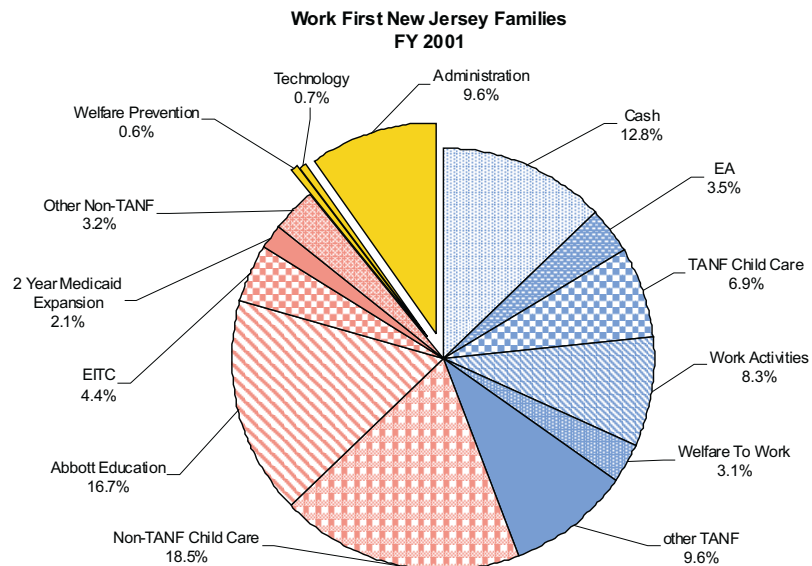
Use of separate state programs should be embraced by the state as an important and powerful component of Work First New Jersey. Used creatively these programs afford the state a significant amount of autonomy, and can effectively encourage state goals and priorities of supporting families and work. Again, the strength of this funding mechanism lies in its flexibility—it enables the state to provide services to families without subjecting them to time limits and work activity restrictions. For example, New Jersey could provide financial assistance to families engaged in post-secondary education, in order to increase low income families' prospects for ultimately securing better, more stable employment that would allow them to escape poverty. Similarly, by using MOE state funds in a separate state program, New Jersey could further invest in work supports,

such as housing assistance, thereby enhancing family stability. Funds could also be used for expansion of programs serving immigrants ineligible for TANF, such as supporting cash grants and housing assistance for battered immigrant women.

C. “New Investment Strategies”

The steep decline in welfare caseloads and concomitant infusion of dollars has enabled the state to now place an emphasis on supporting post-TANF and other low-income families. Although the shift in the state’s use of welfare dollars for non-TANF populations began with the mass movement of families off of TANF, the introduction of New Jersey’s FY 2001 budget made public the redirection of state and federal spending toward what has been termed, “new investment strategies,” projects which support post-TANF recipients and other low-wage earners. If fully realized, 55% of all TANF and MOE money and 44% of the total funds available for WFNJ (including other federal and state money), would be used to directly support cash assistance and ancillary programs, such as Emergency Assistance, child care and work activities, for eligible families in FY 2001⁵.

Figure 4



Looking exclusively at TANF/MOE expenditures for FY 2001, fifteen percent would be immediately shifted to support two new initiatives, a state based Earned Income Tax Credit (6%) and Abbott Early Childhood Education (9%). There was initial concern over increased reliance on TANF/MOE dollars to support these programs long term. But while use of “welfare” dollars to support these initiatives is high in the early years of the programs, current information indicates that use of TANF/MOE to support EITC will eventually level off at 50% of the program’s costs, and that support for Early Childhood Education will be phased out entirely by FY 2003.

Figure 5
TANF/MOE Expenditures
For EITC & Abbott Education

Fiscal Year	EITC	Abbott Education	Total Expenditures
2001	48 million	69 million	117 million
2002	75 million	52 million	127 million
2003	47 million	0	47 million
2004	53 million	0	53 million

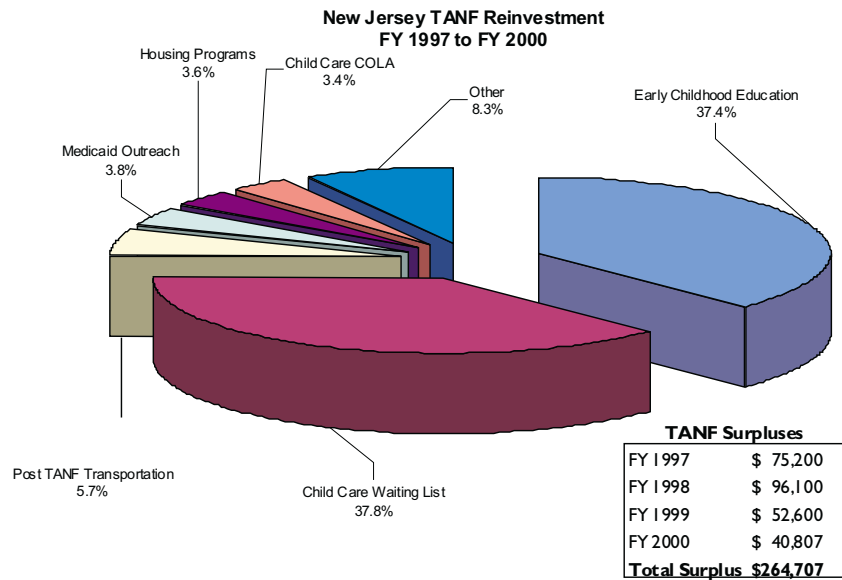
Source: New Jersey’s Office of the Governor, Division of Policy and Planning

In the event TANF is federally reauthorized at a lower amount, or there is a large increase in the number of cash assistance recipients, such use of any TANF/MOE funds to support these programs must be reconsidered to ensure that the fundamental needs of public assistance recipients—who by definition have no where else to turn—are fully served first before welfare funds are diverted to other uses. Current EITC legislation should have protective caveats to this effect.

D. State TANF Surplus

As identified in Figure 1, recent information released by the state indicates that New Jersey has an unexpended TANF surplus of approximately \$265 million. Surplus TANF funds are almost exclusively slated to support non-TANF populations. Large ticket items such as reducing waiting lists for state-based child care for non-WFJ families and financing legislatively mandated educational programming comprise the overwhelming percentage of surplus expenditures.

Figure 6



Eliminating the TANF surplus by FY 2001 has been an expressed commitment of DHS; FYs 99 and 00 budgets contain approximately 124 million in surplus dollars, and FY 2001 is projected to include the balance, more than \$120 million.

An additional note. The language of the final TANF regulations (promulgated in October 1999) makes it clear that carry-over funds must be used only to fund programs categorized as “assistance” as defined under Section 260.31.⁶ A cursory review of the programs itemized under the Department’s surplus TANF spending plan indicates that these programs, almost without exception, would not assist current TANF recipients and would not qualify as “assistance.” In fact, a major portion of these surplus dollars (nearly 80%) are going to fund programs for families who may never have received TANF. It will therefore be necessary for the state to reclassify these programs by drawing from carry-over to support the “assistance” portion of the current year’s program (*e.g.*, cash grants, TANF child care) while using the current year’s TANF funds to support these other services and programs.

Although not technically considered to be surplus funds, New Jersey has set aside \$46 million toward a state “rainy day fund”. Established in 1998, this contingency fund is to be used only in the event of unforeseen emergencies, such as unanticipated caseload increases. These funds have not

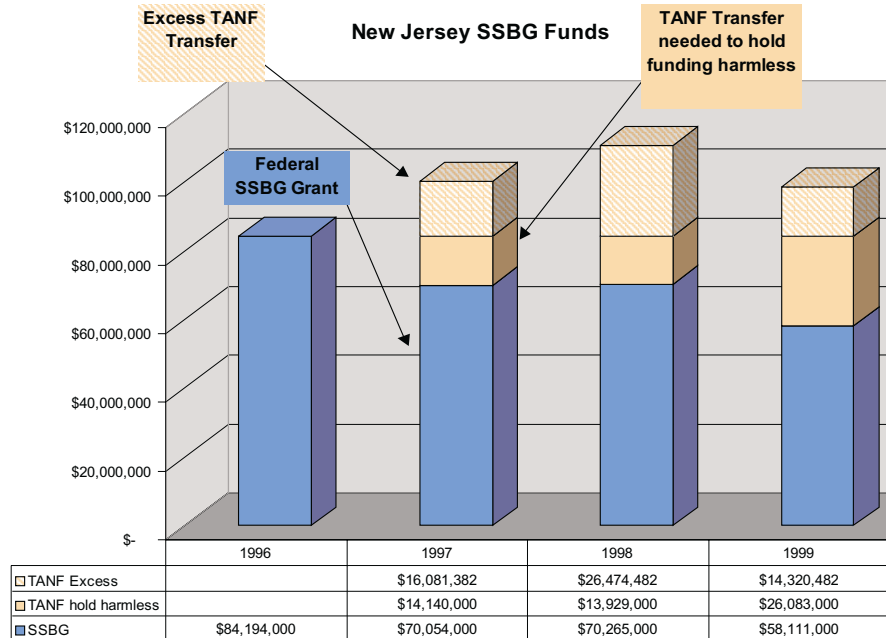
been included, nor should they be, in the state's TANF surplus spending plan.

E. Use of Transferred TANF Funds

Since 1997 approximately \$121 million in TANF funds have been transferred annually to the Social Services and Child Care Development Block Grants. Under TANF regulations states may opt to transfer up to 30% of the total they receive under the federal TANF block grant to these programs (with a 10% cap on transfers to SSBG and a total transfer allowance of 30%)⁷. New Jersey has opted to transfer the maximum amounts allowable for these programs in each of the three years since TANF's implementation.

Although \$40 million in federal TANF funds have been transferred to SSBG each full fiscal year, the extent to which this money has been used to purchase additional services is unclear. In some cases, transferred dollars have been used to hold existing programs harmless against recent cuts in the federal grant to the states. However, between 1997 and 1999 over \$56 million in federal TANF funds, in excess of that needed to hold SSBG funding constant at 1996 levels, was transferred to the state's SSBG. While the precise nature and extent of the redirection of the excess funds is unknown, it seems that a significant portion of these transferred TANF dollars have been used to replace existing state expenditures and are not being used to support new programs or services. New Jersey's twenty-one counties must contribute money toward the state MOE requirement—50% of administrative costs and 5% of the actual cash assistance granted to TANF clients in their respective counties. Because of the sharp decline in TANF caseloads the state received millions less in contributions from the counties than initially anticipated or budgeted. In order to make up for this shortfall, a significant portion of the transferred SSBG dollars were used to pay for services previously financed by the state. The state money previously used to fund these programs was then, in turn, used to pay for New Jersey's MOE requirement. This method of financing the state's \$303 million annual MOE requirement, while creative and within the parameters of the law, effectively means that the state, in part, has used TANF dollars to finance its MOE contribution. One danger this poses is of a federal backlash against such practices. Indeed, there is fairly clear evidence that such a backlash is already occurring⁸. Furthermore, the reliance on this transfer as a primary source of state match funding may pose future problems, as New Jersey will effectively lose \$24 million in SSBG transfer in FY 2000, due to changes in the final TANF regulations which reduce the allowable SSBG transfer from 10% of the TANF block grant to 4.25%.

Figure 7



Source: NJ State Budget FY's 98, 99, 00, 01

F. Child Care

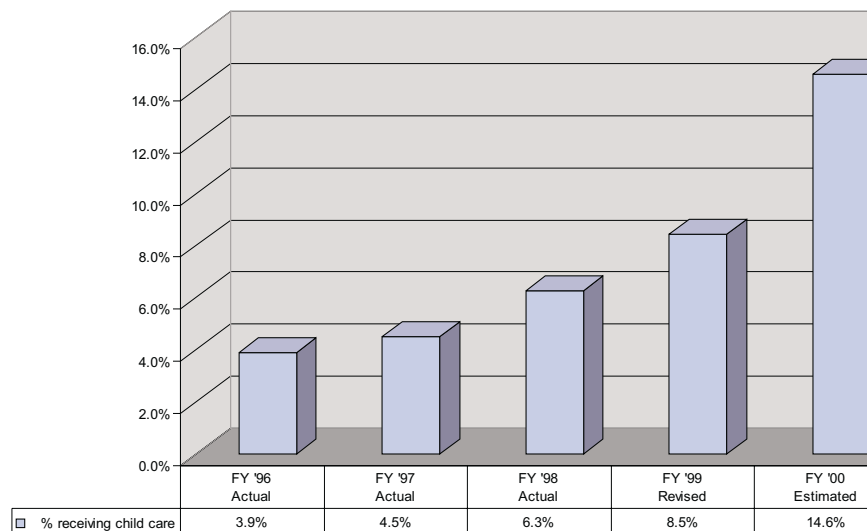
Child care appropriations exceeded outlays for monthly cash grant payments for the first time in FY 2000, with a declining percentage of total child care dollars going to TANF families. As lauded in the state's 2000-2001 Budget in Brief, "It is important to note that New Jersey is now spending more for child care on non-TANF clients than TANF clients. Of the fiscal 2001 Child Care budget, approximately \$72 million is allocated for active TANF clients; the balance is being budgeted for the working poor." According to the State's budget, the ratio of child care expenditures for non-TANF clients to expenditures for TANF clients is now nearly 3:1, with a total recommended child care budget in excess of \$264 million for FY 2001. While there have been substantial increases in funding for non-TANF families, analysis of child care budget figures reveal that the largest increases in funding have gone to active TANF recipients and transitional services for recipients leaving the TANF rolls, representing increased line expenditures of 2.3 times and 4.6 times respectively, between FY '96 and FY '00.

While child care funding for active TANF participants has increased during a time of dramatic caseload decline, there remains a significant under-utilization of this program. Estimates for FY 2000 indicate that only 14.6% of children receiving TANF will receive child care placements; this, however,

represented a substantial increase over the 1996 utilization rate of 3.9%. Although not all TANF recipients are eligible for child care, data released in the September 1999 WFNJ Quarterly Report reveals that of the 29,163 TANF families participating in a work activity—a prerequisite for child care assistance—only 19% received it⁹. While the general entitlement to child care appears fairly well known among TANF recipients, and while reasons behind a recipient’s decision not to accept child care assistance can be complex, anecdotal evidence points to a combination of problems relating to proximity, quality, the unwillingness of some child care centers to accept governmental subsidies and simply a recipient’s preference to leave their child with a friend or relative¹⁰.

Figure 8

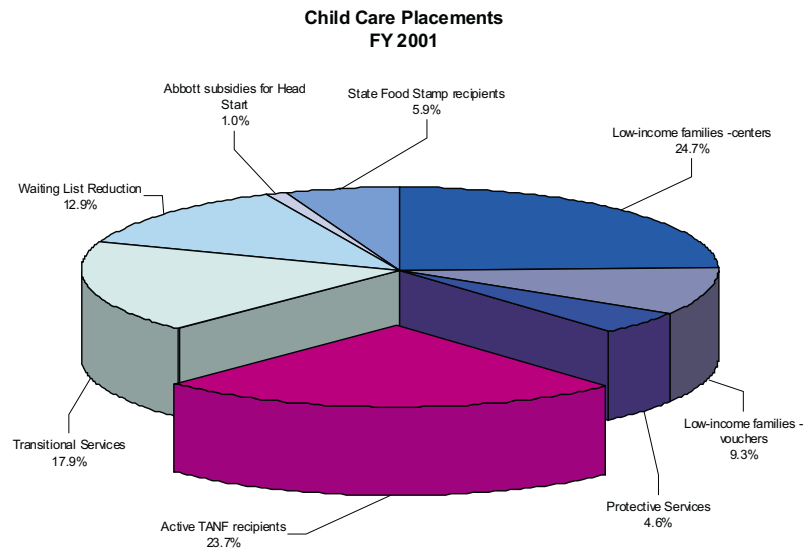
**Percent of TANF Children Receiving Child Care
|FY 1996 to FY 1997**



Source: New Jersey State Budgets FY’s 1998,1999,2000, 2001ACF-196 forms

As stated earlier, New Jersey has made a conscious decision to concentrate resources on low-income families that do not receive TANF cash assistance. The child care budget best illustrates this policy. The following chart reveals that in FY 2001 the state anticipates that active TANF recipients will receive just 24% of all child care placements.

Figure 9



G. Housing shifts away from Emergency Assistance

Unlike child care, which has received large infusions of funding under WFNJ and consequently serves greater numbers of clients, declines in Emergency Assistance (EA) rolls have outpaced overall reductions in WFNJ caseloads. For example, while there was a 54% decline in New Jersey's TANF caseload between FY '96 and FY '00, the number of families receiving Emergency Assistance (EA) declined by 68% over the same period. However, actual declines in annual dollar expenditures for this budget line were not as extreme, with net expenditures moving from \$41.7 million to \$23.3 million, representing only a 44% funding decline over FY '96. This seeming disparity is explained by the fact that monthly grant assistance payments to individuals increased by **78%**, a \$181 increase, over 1996. In other words, while fewer clients are being served, the significant increase in monthly payments has kept annual expenditure levels relatively high. This data supports supplemental analysis done by LSNJ, identifying a policy shift which emphasizes use of more costly motel and shelter placement over apartment-based rental assistance. Sadly, such hotel/motel/shelter placements are generally less desirable and positive, especially for families. Specifically, between April, 1997 and August, 1999, there was a 42% decline in the TANF caseload. During that same period, there was an **80% decline in the number of households receiving Temporary Rental**

Figure 10
Emergency Assistance Expenditures

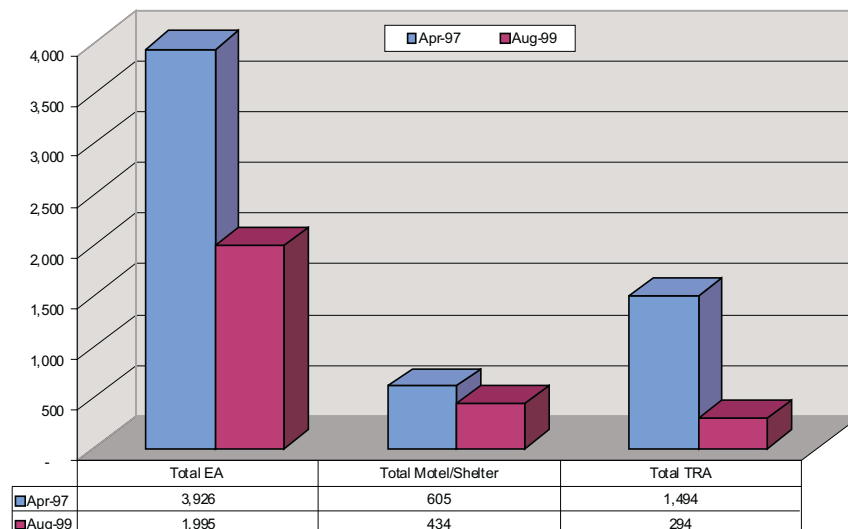
	Actual FY 96	Actual FY 97	Actual FY 98	Actual FY 99	Revised FY 00	% Change
Average monthly EA recipients	15,025	12,170	8,165	5,819	4,782	-68.2%
Average monthly EA grant	\$ 232.37	\$ 263.70	\$ 281.79	\$ 355.46	\$ 413.61	78.0%
Total EA expenditure	\$ 41,897,989	\$ 38,510,748	\$ 27,609,784	\$ 24,821,061	\$ 23,734,596	
Credits	\$ 193,803	\$ 1,462,872	\$ 560,479	\$ 418,490	\$ 431,970	
Net EA Expenditures	\$ 41,704,095	\$ 37,047,876	\$ 27,049,306	\$ 24,402,571	\$ 23,302,626	-44.1%
Average monthly TANF caseload	105,516	92,591	72,581	57,955	52,051	-50.7%
% of caseload receiving EA	14.2%	13.1%	11.2%	10.0%	9.2%	

Source: New Jersey State Budget—FY's 1999, 2000, 2001
Department of Human Services Monthly Caseload Statistics

Assistance (TRA), which is a monthly rental supplement to landlords for permanent rental housing). However, there was only a **28% decline in the more expensive, transient motel and shelter** placements during this same two year time span. Indeed, twelve of New Jersey's twenty-one counties experienced TRA declines of 75% or greater during this period. It is important to evaluate this decline in the context of overall caseloads. In January 1997, 1.5% of the caseload received TRA. By August, 1999 that figure had **dropped to .5%**. This suggests a serious deviation from past policy supporting Emergency Assistance for market based rental housing - certainly a more stable environment for families seeking to leave TANF for work - and a current emphasis toward use of Emergency Assistance for transient, temporary placements in hotels, motels and shelters. At a mini-

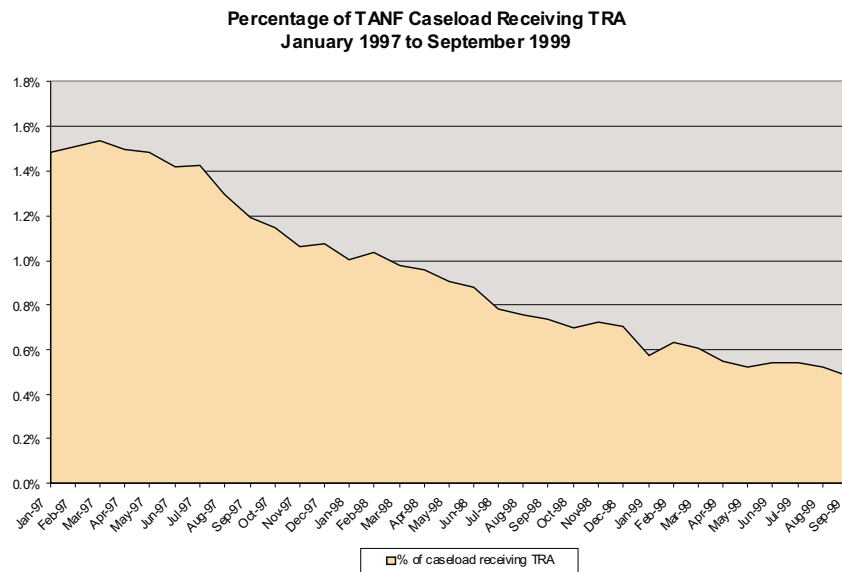
Figure 11

**Change in EA, Motel & Shelter and TRA
1997 to 1999**



mum, such a major policy shift should have been the focus of a major public debate through the rulemaking process, not buried in the detail of expenditure data.

Figure 12



H. Welfare To Work

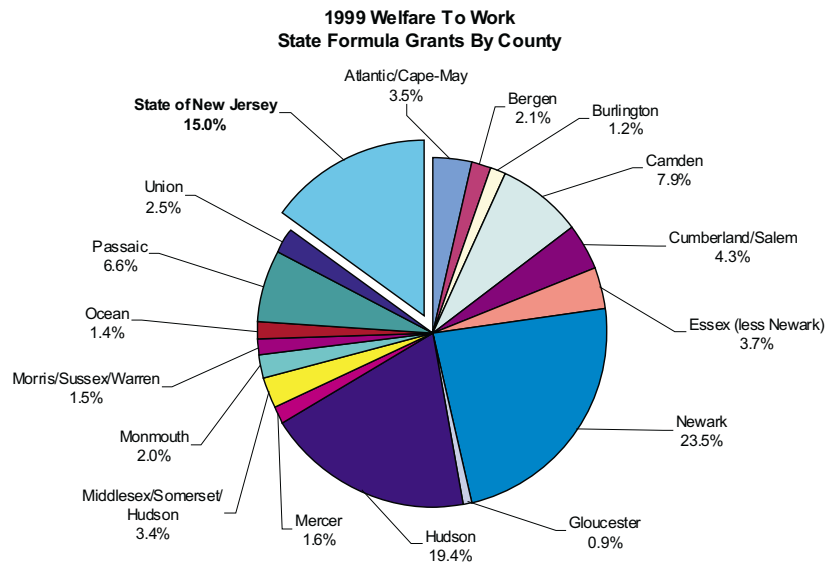
Welfare To Work (WTW), passed by the federal government in 1997, was conceived and established as a compliment to the TANF block grant. Administered through the U.S. Department of Labor, funds are distributed to states and local communities to create job opportunities and work support for long-term welfare recipients with significant barriers to employment. WTW Grants are limited in nature. Authorized only in 1998 and 1999, with a prescribed three year expenditure time frame, no further funding has been authorized or approved. Approximately 75% of federal funds are allocated to states based on a formula which takes into consideration a state's poverty rate, number of TANF recipients and unemployment rate, with the remaining dollars available on a competitive basis to county Workforce Investment Boards (WIB's), community based organizations and private organizations. A 50% state match is required for all formula funds drawn down from the federal government. New Jersey's combined 98 and 99 WTW formula, competitive and state match funds total almost \$90 million.

Figure 13
Welfare to Work Funds

Funding Type	1998	1999	Total
Formula Funding	\$ 23,257,092	\$ 21,708,979	\$ 44,966,071
State Match	\$ 11,620,546	\$ 10,854,489	\$ 22,475,035
Competitive Grants	\$ 9,914,297	\$ 12,218,277	\$ 22,132,574
Total	\$ 44,791,935	\$ 44,781,745	\$ 89,573,680

In New Jersey, 15% of the state’s formula grant, or \$6.7 million, is retained by the Department of Labor, with the remaining 85% allocated to county Workforce Investment Boards (WIBs) (based on a 50% poverty, 25% unemployment and 25% TANF recipient funding formula) which in turn administer and disperses the funding locally. States around the country experienced significant problems spending the appropriated funds because of the strict qualification requirements of the program. Previously, 70% of the WTW dollars needed to be spent on long-term recipients meeting two out of three stringent criteria, with the remaining 30% going toward non-custodial parents of long-term recipient children. Subsequent amendments to WTW, passed in 1999, relaxed some of the eligibility criteria. Under the new statute clients no longer need to meet the definition of multiple barriers—they simply need to have received assistance for 30 months, or have reached or be within 12 months of reaching, a life-time limit. Non-custodial parents are eligible if they are unemployed, underemployed or receiving other types of assistance.

Figure 14



The second WTW funding mechanism consists of competitive grants and comprises the 25% of federal funds not allocated by formula. These grants, as the name suggests, are selectively awarded based on an RFP process. While we do include information on competitive grants, it is important to understand that they are not administered or coordinated through the state. Five counties: Union, Mercer, Essex, Hudson and Cumberland, received the multi-year competitive grants totaling approximately \$22 million.

Not including competitive grants, which are administered directly between the organization receiving funds and the federal government, \$67,441,106 in federal WTW funds and required state match are available to New Jersey for employment assistance to long-term recipients. Approximately half of this money must be expended by September 2001, the balance, by September 2002.

As of March 2000, of the over \$34 million made available to the state in 1998, **only 34%** has been expended or allocated. A full \$24 million is as yet unobligated. Of the over \$33 million made available in 1999, only \$357,000, **or just over 1%**, has been expended.¹¹ In other words—the state has available, and must spend, \$24 million by September 2001 and an additional \$32 million by September 2002. To date, the state itself has spent none of its 15% set-aside for either the 98 or 99 grant cycle. However, DHS's current budget indicates the State's intention to spend approximately \$33 million in WTW and state matching funds in 2001. March 2000 Welfare To Work Formula Grant cumulative Quarterly Status Reports.

CONCLUSION

Departmental estimates categorize approximately 37% of New Jersey's current TANF caseload as long term recipients (defined as those with cumulative or consecutive cash benefit receipt of 30 or more months, since the inception of Work First New Jersey). This translates to 18,000 New Jersey families, including approximately 28,000 children, at risk of permanently losing cash benefits. The long term direction and sustainability of the current Work First New Jersey budget raise concerns. The growing percentage of TANF and MOE funds being used to support populations ineligible for WFNJ, and the absence of any identifiable new programs in the FY 2001 budget to assist long-term WFNJ recipients, as they come closer to their termination after five years on welfare (the first such terminations will begin in February, 2002), are troubling. We note that in private discussions state officials have repeatedly affirmed their interest in beginning such programs, and have indicated the possibility of supporting some of them with "Welfare to Work" funds. Additionally, there is no guarantee that PRWORA will be re-authorized at current funding levels when it comes before Congress in 2002. While there is certainly money available today for the plethora of programs supporting non-WFNJ populations, there is concern that these large and ongoing items may displace other more vital programs in the future. It is, without question, essential to support those leaving WFNJ nothing in this report should be taken to suggest any disagreement with such a mission. The state's effort to create transitional supports in the areas of child care and Medicaid are exemplary. Indeed, a report recently released by LSNJ's Poverty Research Institute speaks to the difficulty of families seeking to survive in New Jersey on minimum and low-wage jobs.¹²

However, the imbalance—between the many initiatives to help the working poor and the absence of new programs to address the special needs of those remaining on TANF rolls are of concern. It is important for the State to recognize that when considering public assistance funds, it is those most in need, those with the least education and the greatest barriers to work, and in general who have the least voice, who must be helped first.

Release of programmatic and budget data unquestionably can have political ramifications. Such data is effectively beyond the reach of the general public, and nearly so, even to those analysts and advocates who devote their time to its elucidation. The lack of budget transparency must be addressed.

New Jersey is, indeed, a very different place from when PRWORA was first authorized. In August 1996, the time of authorization, New Jersey's unemployment rate stood at 6.1%; most recent releases place it at 3.8%. Social policy has also undergone dramatic changes in recent years, with the responsibility for design and implementation of these policies devolving to

state and local governments. In turn, states have enthusiastically embraced this notion of programmatic and fiscal autonomy. The opportunities implicit under TANF, particularly the flexibility to respond to the demographics and socio-economic characteristics of New Jersey's TANF population, have yet to be fully realized. A buoyant economy, declining caseloads and fixed federal funding have created an unprecedented opportunity to address the very real and very difficult problems facing our most vulnerable citizens. It is incumbent upon the state to seize this opportunity and to develop creative and comprehensive approaches—including services, supports, investment in education, case management and the like—to identify and address the needs of those remaining on the WFNJ rolls.

ENDNOTES

- 1 “Fiscal Transparency and Participation in the Budget Process,” Folscher, Alta, 1999.
- 2 Comparison of actual WFNJ Quarterly Reports to their statutory requirements revealed significant non-compliance with the law.
- 3 “Welfare Reform: Early Fiscal Effects of the TANF Block Grant”, GAO, 1998; “Block Granting Welfare: Fiscal Impact on the States,” The Urban Institute, 1999.
- 4 75% to meet minimum MOE requirement, 80% for states failing to meet targeted work participation rates.
- 5 Non-programmatic expenditures which cannot be attributed to WFNJ or non-WFNJ populations, such as administration, technology and welfare prevention are segregated out.
Examples of other state and federal dollars included in the WFNJ families FY 2001 budget include funds from CCDF, Title 19, Welfare To Work and the required state match to these federal programs.
Examples of programs supported by WFNJ categorized as “other” in Figure 4 include transportation assistance, substance abuse treatment, case management, KidCare outreach and homeless prevention among other.
- 6 64 FR 17840-41 Examples of “assistance” include cash, payments, vouchers and other forms of benefits designed to meet a family’s ongoing basic needs (i.e., for food, clothing, shelter, utilities and household goods).
- 7 Final TANF regulations reduce the transfer limit to SSBG from 10% of the federal TANF block grant to 4.25% but maintain an overall transfer cap of 30%. This reduces the total amount New Jersey may transfer to SSBG to just over \$17 million.
- 8 Hernandez, Raymond, *Federal Welfare Overhaul Allow Albany to Shift Money Elsewhere*, The New York Times, April 23, 2000; Johnson, Nancy, Chair of the Congressional Ways and Means Subcommittee on Human Resources, letter to Governors regarding TANF surpluses, March 15, 2000.
- 9 A two-year transitional Child Care benefit is required under federal TANF regulations.
- 10 Legal Services of New Jersey’s 1999 study of current welfare recipients reported that, of those needing child care, 76.9% were aware that assistance was available. A subsequent study released by Mathematica revealed similar results about awareness of transitional child care benefits—71% of respondents reported having knowledge of transitional benefits.
- 11 March 2000 Welfare To Work Formula Grant cumulative Quarterly Status Reports.
- 12 Pearce, Diana, *The Real Cost of Living: The Self-Sufficiency Standard for New Jersey*, Legal Services of New Jersey Poverty Research Institute and The New Jersey Center for Economic Policy and Education, December 1999.