New England

Fiscal Facts

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New TANF Block Grants: More Funds Now, but Enough in Hard Times?

by Jeannette Hargroves

In late August, President Clinton signed into law the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, thus, in his words, "ending welfare as we have known it." The new law terminates a 61-year guarantee of assistance to the poor, Aid to Families with Dependent Children (AFDC), where the federal government matched what states spent on mandated entitlement programs. Replacing AFDC is a new block grant program, Temporary Assistance to Needy Families (TANF), whereby each state receives a fixed federal allocation, a "family assistance" block grant.[1] The grants remain largely frozen through FY2002, except for minor "performance bonuses" that states may win if they achieve certain goals. And, if states experience a recession, they may, under limited circumstances, qualify for additional federal funds.

What impact will the shift to block grants have on New England state welfare budgets over the next six years? In a recession, to what extent will the region's states be able to access additional federal funds?

TANF Block Grants

In the short term, it is likely that the New England states will receive more federal dollars under block grants than they would have under AFDC open-ended matching grants (Table 1).

Table 1

In the Short Term, New England States Should Receive More Federal Dollars under Block Grants Than They Would Have under AFDC Matching Grants

New TANF Block Grants vs. Terminated Federal AFDC Funds

Millions of Dollars

	Block Grants	Projected Federal Funds under Terminated AFDC Program			
	Yearly Total	FY97	FY98	FY2000	FY2002
Connecticut	266.8	226.5	232.6	247.6	264.2
Maine	78.1	72.2	74.1	78.9	84.2
Massachusetts	459.4	409.1	420.1	447.3	477.3
New Hampshire	38.5	38.2	39.2	41.7	44.6
Rhode Island	95.0	88.7	91.1	97.0	103.5
Vermont	47.4	44.0	45.1	48.1	51.3

Note: Numbers are based on federal fiscal year.
Source: U.S. Department of Health and Human Services, Administration for Children and Families, Boston Regional Office, October 1996; *Federal Funds Information for States*, 1996.

[1]In addition to substituting TANF block grants for AFDC, the new law includes cuts totaling $55 billion over a six-year period in the food stamp and child nutrition programs, Supplemental Security Income (SSI), and other programs.

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State Budget Timetable

Annual Budgets
Massachusetts
Rhode Island
Vermont
FY97: July 1, 1996 to June 30, 1997

Biennial Budgets
Connecticut
Maine
New Hampshire
FY96-97: July 1, 1995 to June 30, 1997

Why the gains initially?

- First, the dollar amount of a TANF block grant is based on state's outlays for three programs — AFDC, Jobs Program, and Emergency Assistance Program — in three time periods: FY94, FY95, and the average of FY92 to FY94. The block grant is equal to the highest of the three outlays. This baseline is advantageous to New England states because most had record-high AFDC spending in FY94 or FY95.
- Second, the recent decline in welfare caseloads in New England is expected to continue in the near future, resulting in declining matching federal dollars if the funding were calculated under the old AFDC program. In FY95 and the first ten months of FY96, New England's monthly average caseload dropped 5 and 9 percent, respectively, in large part because of the improved economy and tougher state welfare regulations. (See Table 2.)

Contingency Funds

Although block grants may provide the region's states with increased revenue in the short term, they are likely to be inadequate during a recession, when caseloads and spending grow. During the most recent recession, for example, New England's AFDC spending rose by 50 percent between 1988 and 1993 (Chart 1).

Congress has attempted to provide states with a modest cushion against economic recessions by establishing a contingency fund whereby, under limited circumstances, states can receive additional payments worth up to 20 percent of their block grant allocations. Access is limited, however. An eligible state must maintain 100 percent of its baseline level of spending on welfare in the year(s) the state uses the fund. In addition, a "needy" state must satisfy either an unemployment or a food stamp "trigger":

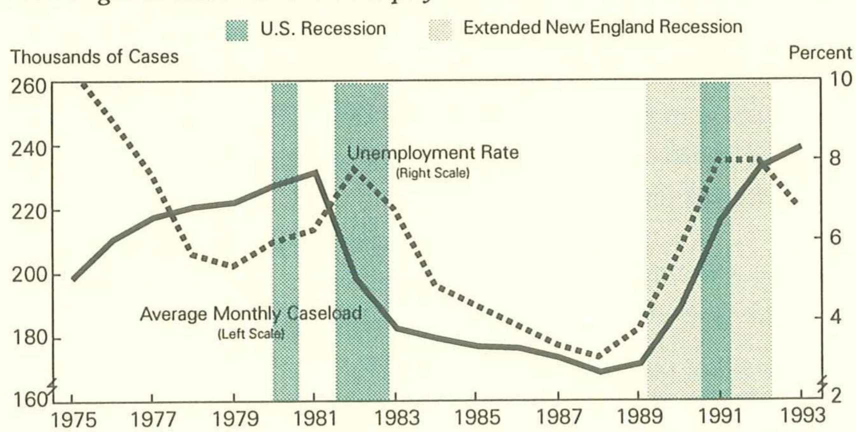
Unemployment Trigger. A state's unemployment rate for the most recent three months must equal or exceed 6.5 percent and be one-tenth higher than the state's unemployment rate in the comparable time period in either of the preceding two years.

Food Stamp Trigger. The monthly average number of individuals participating in the food stamp program for the most recently concluded three-month period must exceed by at least 10 percent the monthly average number of individuals par-

Chart 1

Business Cycle Influences AFDC Caseloads

New England Caseloads and Unemployment Rate



Source: U.S. Department of Health and Human Services, Administration for Children and Families; U.S. Bureau of Labor Statistics.

Table 2

Most New England States Currently Conduct Experimental Welfare Programs, Which Include Many Elements of the New Federal Legislation

	Time Limits for Employable Recipients	Weekly Work Requirement	State Child Care Services	School and Living Requirements for Teen Parents
TANF Requirements	• 24 months • 60-month lifetime limit	• 20 hours, FY1997-98 • 25 hours, FY1999 • 30 hours, FY2000+	• States may, but are not required to, provide child care assistance	• Attend school • Reside with parent or legal guardian
Connecticut	• 21 months • 6-month extension possible	• 20 hours, single parent (combined and averaged) • at least 20 hours for one parent in a two-parent family	• Subsidies for recipients with children under age 13 • Transitional services available	• Attend school • Reside with parent or legal guardian
Maine	• 60 months	• None for single-parent families • At least 30 hours for one parent of a two-parent family	• Transitional services available	• Attend school • Reside with parent, or have good cause for not residing with parent
Massachusetts	• 24 months out of a continuous 60-month period • 60-month lifetime limit	• 20 hours	• Transitional services available	• Attend school • Reside with a parent or in a structured, supervised setting
New Hampshire	• 24 months	• 20 hours	• Reimbursement available for work-related activities	• Attend school
Rhode Island	• 24 months, single-parent family • 4 months, two-parent family	• 20 hours, single-parent family • 40 hours, two-parent family	• Available for all employed recipients	• Reside with a parent or in a state supervised setting
Vermont	• 30 months, single-parent family • 15 months, two-parent family	• 20 hours, single parent of children under 13 • 40 hours, single parent of children 13+ • Full time, two-parent family	• Guaranteed for all recipients employed or in an education or training program • Transitional services available	• Attend school • Reside in an approved supervised setting • Participate in parenting education

Source: Reports from state Human Services departments, conversations with state officials.

ticipating in the food stamp program in the corresponding three-month period in FY94 or, if lower, FY95.

Given these triggers, what are New England's chances for needing and obtaining contingency funds?

Unemployment Trigger

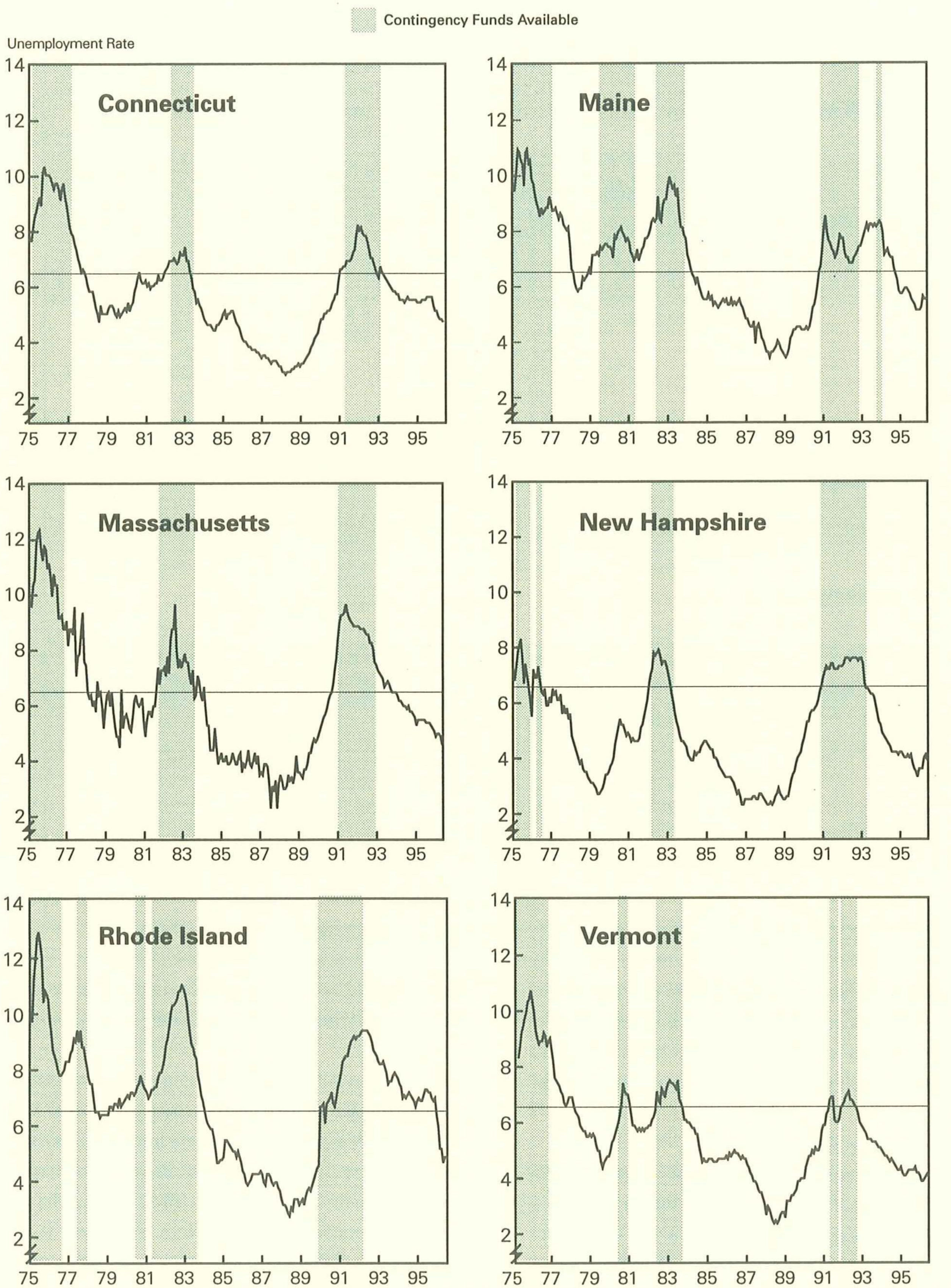
By its nature, the unemployment trigger provides help when a state's unemployment rate is above 6.5 percent and rising; it shuts off when the unemployment rate starts to fall. It also tends to shut off during a sustained period of steady high unemployment — Congress did not intend to offer ongoing aid to states that characteristically have unusually high unemployment rates.

One can debate whether 6.5 percent is the unemployment rate at which states need additional help. However, this can serve as a benchmark for assessing how the New England states would have fared had the unemployment trigger been in effect during the past 25 years, covering three recessions. As Charts 2 to 7 illustrate, the New England states would have received extra money only part of the time when their unem-

Chart 2 - 7

New England States Would Sometimes Have Lost Federal Contingency Funds Despite Having Unemployment Rates above 6.5 Percent

Access to Federal Contingency Funds Triggered by Unemployment Rate



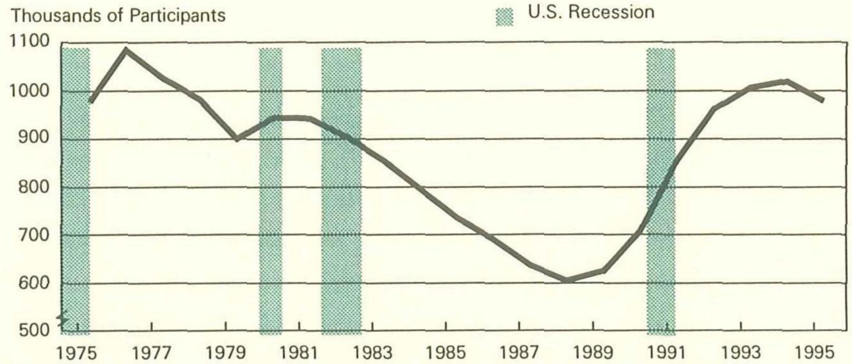
ployment rates were above 6.5 percent.

In the most recent downturn, for example, Maine and Rhode Island had unemployment rates of over 6.5 percent for 4 years and 6 years, respectively. If the unemployment trigger had applied then, Maine and Rhode Island would have accessed additional funds for only half of their periods of high unemployment. Massachusetts, with high unemployment for slightly over three years, would have accessed additional funds for only two-thirds of the time. By contrast, the sharp rise and fall in Connecticut's and Vermont's unemployment rates would have enabled these states to trigger additional funds for all or most of their periods of high unemployment.

Chart 8

High Food Stamp Participation in FY94 and FY95 Penalizes New England's Future Access to Contingency Funds

New England Food Stamp Participation



Note: Food stamp participation is the annual average of the monthly number of participants, plotted as of April 1.
Source: United States Department of Agriculture, Food and Consumer Services, October 1996.

The same story holds true in the previous two decades. The United States experienced a recession from fourth quarter 1973 to first quarter 1975. In New England, high unemployment lingered well beyond 1977 in all states except New Hampshire. If the unemployment trigger had been in place, none of the five states would have been eligible for additional funding after 1977.

The 1980-81 downturn in New England was less severe and of a shorter duration than the previous one. Accordingly, most states would have had access to extra funds during most of that period, because unemployment rates rose and fell quickly. By exception, Maine's and Rhode Island's access would have been limited because of their persistently high unemployment rates.

In general, the New England states, like other states, have experienced either extended periods of high but slowly declining unemployment rates or extended periods of high, relatively stable unemployment rates — both situations that deactivate the unemployment trigger, cutting off additional federal funds.

Food Stamp Trigger

Business cycles influence food stamp participation rates as well as welfare caseloads (Charts 1 and 8). Between FY88 and FY94, for example, participation in the food stamp program jumped almost 70 percent. Thus, in a future recession, a state might easily see 10 percent growth in the number of residents using food stamps, the increase necessary to satisfy the food stamp trigger. But the food stamp baseline puts New England states at a disadvantage. The baseline for the food stamp trigger are the years FY94 or FY95. During these years, New England's food stamp participation was at record levels. If participation rates drop significantly in the next few years, as is expected, states' participation rates are less likely to be 10 percent above the baseline in the next economic downturn.

Conclusion

Initially, the region's governors may be pleased at the size of TANF block grants available to New England under the Personal Responsibility and Work Opportunity Reconciliation Act. But these are capped grants, and the immediate gains could disappear in an economic downturn. And governors would not be able to rely heavily on contingency funds, since the unemployment and food stamp triggers limit states' access to additional funds. Even when available, the additional funding is capped at 20 percent of a state's federal allocation. This amount is far less than the growth observed in most state welfare budgets in previous recessions.

Governors may need to set aside some of the block grant money specifically for a potential welfare budget gap at a later date. Otherwise, they may find themselves short of cash in a recession and limited to less viable options, such as denying benefits, cutting programs, or restricting eligibility. FF

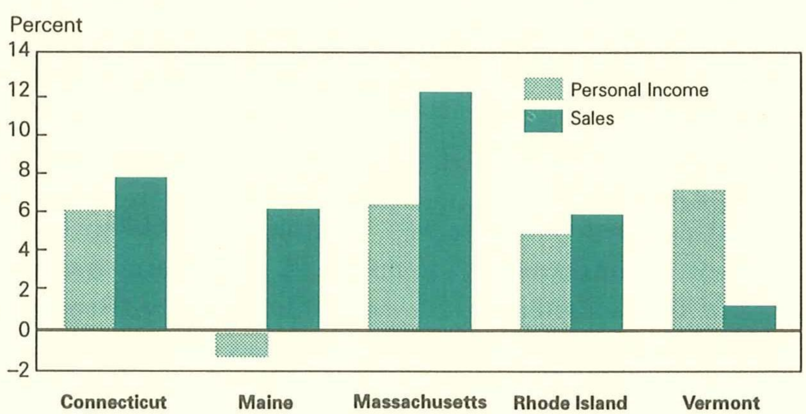
Across *the* Region

New England states enjoyed robust revenues in the first four months of fiscal year 1997 (FY97), with income and sales tax collections exceeding projections in most states (see the chart). In New Hampshire, a state with no broad-based income or sales tax, receipts from the business profits tax were almost 11 percent over estimates.

November's national and local elections slowed legislative action across the region. Taxes are likely to dominate upcoming legislative sessions. Vermont's Governor Howard Dean, elected to another four years, has pledged to reform the state's property tax and funding of public schools. Connecticut lawmakers hope to reduce the state's exceptionally high gasoline tax. **FF**

Income and Sales Tax Revenues Show Large Gains

Growth in Personal Income and Sales Tax Revenues
First 4 months of FY 97 Compared with First 4 Months of FY 96



Note: New Hampshire has no sales or personal income tax. Maine's income tax revenues show a year-over-year loss because of a change in accounting procedures.
Source: Official budget documents, state financial statements, and conversations with state budget officials.

Six-State Review

Connecticut

Four months into this fiscal year, strong revenues enabled Connecticut officials to forecast an end-of-year general fund surplus of $63 million to $120 million, between 0.7 percent and 1.3 percent of projected spending. Receipts from personal income and sales taxes surpassed year-ago levels by over 6 percent.

Given the healthy fiscal situation, lawmakers are likely to consider reducing the state's gasoline tax in the upcoming legislative session. Connecticut's gasoline tax, the highest in the nation at 39 cents per gallon, has increased by one cent every three months since October 1995, with the most recent increase effective January 1, 1997. Gasoline tax receipts are earmarked for the transportation fund, which, like the general fund, is expected to show a hefty end-of-year surplus, 13 percent of projected fund spending.

One new tax cut is under way. October 1, 1996, marked the first phase of a 4-year gradual reduction in the state's tax on the gross receipts of hospitals, which will cost the state an estimated $26 million in revenues.

Christine Gagliardi

Maine

Higher than expected revenues may allow Maine, like Connecticut, to end its fiscal year with a budget surplus — in the case of Maine, roughly $4 million (0.2 percent of projected spending). As of November 1, total revenues were 4 percent above official projections and exceeded year-ago levels by nearly 5 percent. State tax officials reported that all general fund receipts were strong with no underlying concerns. Four months into FY97, personal income tax receipts were 3 percent above projections. A year-over-year decline of just over 1 percent in personal income tax receipts is due to an accounting procedure that attributed nearly $17.5 million of FY97 receipts to FY96.

Although this year's revenue picture looks rosy, Governor King may have a more difficult time balancing the FY98-99 biennium budget. Total revenues are expected to fall by $353 million. One-third of the decline is due to the personal income tax cap, which will limit income tax receipts to their forecasted FY97 level of $676 million. (See *Fiscal Facts,* Fall 1995.) The remaining revenue loss is a result of lawmakers' repeal of the 6 percent tax on hospitals' gross receipts, set for July 1, 1997, and the 7 percent gross receipts tax on nursing homes, effective January 1, 1997. The taxes were part of an arrangement to garner more federal Medicaid dollars; new regulations make such arrangements far less attractive to states. (See *Fiscal Facts,* Spring 1996.)

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Massachusetts

Rising receipts from taxes on income, sales, and corporate profits have boosted Massachusetts' revenues, enhancing its already solid fiscal footing. As of November 1, total tax revenues were 8 percent above their year-ago levels and 2 percent above the mid-point of the Commonwealth's official predicted range. Collections from sales taxes were especially strong.

Year-to-date cigarette tax revenues were down 3.6 percent as of October 31 despite an October 1 increase of 25 cents per pack in the cigarette excise tax. According to official projections, FY97 revenues from the tax will exceed FY96 collections by $71 million, or 31 percent.

A court challenge to the state's current capital gains tax law has been turned back. The law, effective since 1995, imposes a variable tax rate on income from realized capital gains depending on how long the asset is held. The longer the holding period, the lower the tax rate; gains on assets held six years or more are not taxed at all. The Tax Equity Alliance for Massachusetts challenged the law in the Commonwealth's Supreme Judicial Court, arguing that it violated a provision of the state constitution requiring that all income derived from the same class of property be taxed at the same rate. In mid-November, the Court concluded that the Alliance did not have legal standing in the case because it had not been harmed by the capital gains tax law.

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New Hampshire

Like those of other New England states, New Hampshire's revenues were strong four months into fiscal year 1997. Receipts from the business profits tax and meals and rooms tax were 10 percent and 5 percent above year-earlier levels, respectively. Total tax collections exceeded last year's levels by 8 percent; however, they were slightly below projections. Officials had anticipated stronger rooms and meals tax receipts, which came in 5 percent below estimates.

Governor-elect Jeanne Shaheen, the Granite State's first woman governor, pledged to veto any proposals for a statewide property tax or a broad-based sales or income tax. In addition, she promised to lower electric rates, make health care more affordable and accessible, and expand the state's new $5 million kindergarten incentive program passed last May.

Wei Sun

Rhode Island

Rhode Island's revenues performed well during the first four months of FY97, with collections from personal income and sales taxes up 5 percent and 6 percent, respectively, compared with year-earlier levels. In December, state revenue estimators revised their projections for FY97 upward by $32.6 million, or 2 percent for the current fiscal year.

Some of the growth in revenues is attributable to the state's recent 75-day amnesty, which raised nearly $7.9 million by allowing delinquent taxpayers to pay taxes and interest owed without penalties. Payments for delinquent sales and use taxes and personal income taxes including interest each accounted for roughly two-fifths of the total revenue raised.

In November, Rhode Island's voters approved five out of seven bond issues, whose value totaled $230.6 million. The largest authorized projects involve the repair of highways and bridges, modernization of telecommunication systems and renovation and expansion of higher education facilities.

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Vermont

Unlike this time last year, Vermont's revenues in FY97 are ahead of projections, with total revenues as of November 1 almost 9 percent above year-ago levels. The boost in revenues is largely due to a one-time estate tax receipt of $10 million and robust personal income tax receipts, which grew 7 percent compared with year-earlier levels. Clouding the bright revenue picture slightly were sluggish collections from rooms and meals and sales taxes, attributable to a slow summer tourist season.

A long-standing controversy over funding for a program that eases the property tax burden on farm and forest property remains unresolved. The governor has argued that the state can no longer afford to bear the full cost of this program. Last year lawmakers passed legislation that shifted the program's entire cost to municipalities. (See *Fiscal Facts,* Fall 1996.) After continued acrimony over this shift, the governor appointed a task force, which in November recommended, by a 6-to-5 vote, that the state fund the program entirely.

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