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FOR KIDS, FOR COMMUNITIES, FOR KENTUCKY

A Fiscal and Budget Policy
Research Brief

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Special points of interest:

- Kentucky has a budget problem—fiscal year 2002 saw a \$687 million budget shortfall, fiscal year 2003 has a \$81 million shortfall;
- Kentucky's fiscal problem is impacting its welfare program;
- K-TAP is a national model, allows up to 24 months of post-secondary education;
- Targeted Assessment Program assists K-TAP recipients with multiple barriers to employment—many K-TAP recipients face mental health, substance abuse, and domestic abuse.



KENTUCKY YOUTH ADVOCATES

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Kentucky's Welfare Reform Program: How Kentucky's Fiscal Crisis and Federal TANF Reauthorization Could Impact K-TAP

Summary

Changes included in the TANF reauthorization bill passed by the U.S. House of Representatives in 2003 could severely hamper the progress Kentucky has made helping people move from welfare to work. In particular, higher work participation rates, more restrictive eligible work activities, and limited childcare funding could mean changes to Kentucky's nationally renowned Ready-to-Work program, the Targeted Assessment Program that assists recipients with multiple barriers to employment, and its childcare programs. Coupled with a flailing state economy, these changes, if enacted, could mean greater difficulty for people transitioning from welfare to work.

I. Introduction

The 1990's were good to Kentucky. Major education reforms were enacted. Welfare caseloads dropped. Revenues steadily grew. Poverty shrunk.

As much as the prior decade was good for Kentucky, though, the new decade has presented equally dramatic difficulties. Declining state revenues and rising unemployment each contributed to Kentucky's worst fiscal situation in decades. Coupled with rising welfare caseloads and significant budget cuts to human services, including childcare subsidies and welfare, the situation has become even bleaker.

This paper examines Kentucky's fiscal situation specifically as it affects the state's welfare program. A brief overview of Kentucky's fiscal crisis leads off followed by a closer look at some of the budget cuts already made to the Cabinet for Families and Children,

the state agency responsible for welfare operations. Next, we highlight what the state's fiscal crisis has meant to K-TAP (Kentucky Temporary Assistance Program), which is the state's name for its TANF (Temporary Assistance to Needy Families) program. Lastly, we discuss the implications of the U.S. House-passed TANF reauthorization bill on Kentucky's K-TAP program.

II. Kentucky's Fiscal Crisis

Like most states, Kentucky is in the midst of a fiscal crisis. Revenues have faltered the past few years and the cost of previous tax cuts looms large. In fact, state revenues declined year-over-year in fiscal year 2002 for the first time since 1954. (See Chart 1 below.) Of particular consequence, is the \$687 million budget shortfall in fiscal year 2002. Kentucky balanced that shortfall by completely draining the state's \$240 million rainy day fund, reducing state spending by \$231 million, and realizing \$113 million

Kentucky had a \$687 million budget shortfall in fiscal year 2002, which is about 10 percent of its general fund budget.

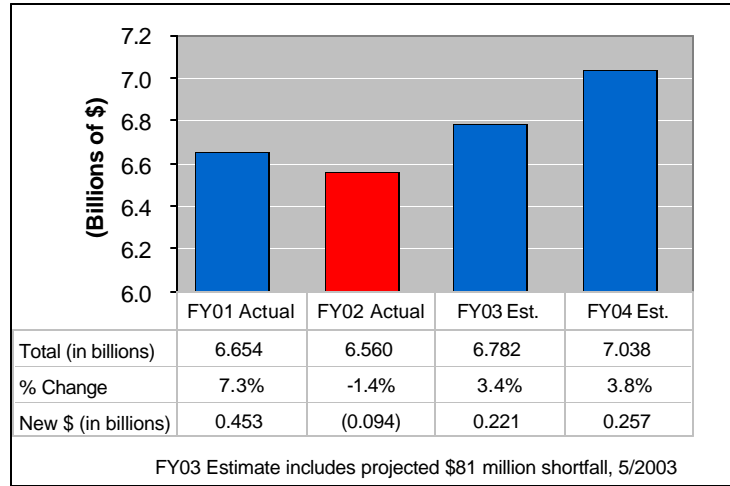


Chart 1

in lower interest costs on the state's long-term debt.

Fiscal year 2003 is not faring much better. On the heels of the \$687 million budget shortfall, the State Budget Director in May projected a budget shortfall of \$81 million in fiscal year 2003. This figure appears much less daunting than last fiscal year's shortfall. However, several special circumstances help mask the size of this shortfall. The true size is much larger.

First, to balance the fiscal year 2003 budget, legislators transferred more than

\$300 million in one-time funds from special accounts (e.g., Kentucky Board of Nursing) to the state's general fund. Funds in these special accounts represent fees paid by, for example, nurses, to ensure that their profession is properly regulated and licensed. Second, Kentucky held what many state officials deemed a very successful tax amnesty program during the summer of 2002. Slightly more than \$100 million was collected. Again, these are one-time funds that were used to balance the fiscal year 2003 budget. They will not be there next year. Third, Kentucky realized an unexpected jump in inheritance tax revenues. All totaled, more than \$400 million in one-time funds were used to balance the fiscal year 2003 budget. If these funds were unavailable, the projected budget shortfall this fiscal year would have been closer to \$500 million.

The state's economy has yet to turn the proverbial corner either, making near-term chances for an economic rebound

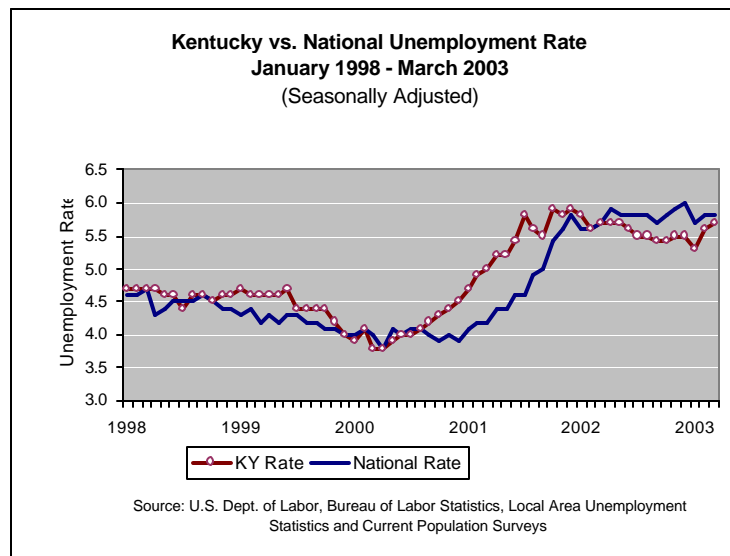


Chart 2

slim. Unemployment in Kentucky rose in March 2003 by 0.1 percent. It now stands at 5.7 percent; its highest rate in the past ten months. (See Chart 2.) Plus, consumer spending, particularly as reflected in sales tax revenues, has been slow to recover. Excluding a one-time boost in sales tax revenues during the beginning of the fiscal year, primarily due to higher

automobile sales, sales tax revenues declined in four of the past six months (November 2002–April 2003) compared to the prior year. This is particularly troubling since this period covers the holiday shopping season—the make or break time for some businesses.

Previous state tax cuts also cloud the revenue picture. (See Chart 3 below.) Enacted when the economy was stronger, these tax cuts now mean the state foregoes hundreds of millions of dollars in general fund revenue each fiscal year. These tax cuts include some that Kentucky passed on its own and ones passed by Congress that impact Kentucky (e.g., repeal of the federal estate tax—See KYA publication “How to Help Balance the Budget—Keep Kentucky’s Estate Tax” for a detailed explanation on how this affects Kentucky and what Kentucky can do to stop this revenue loss.)

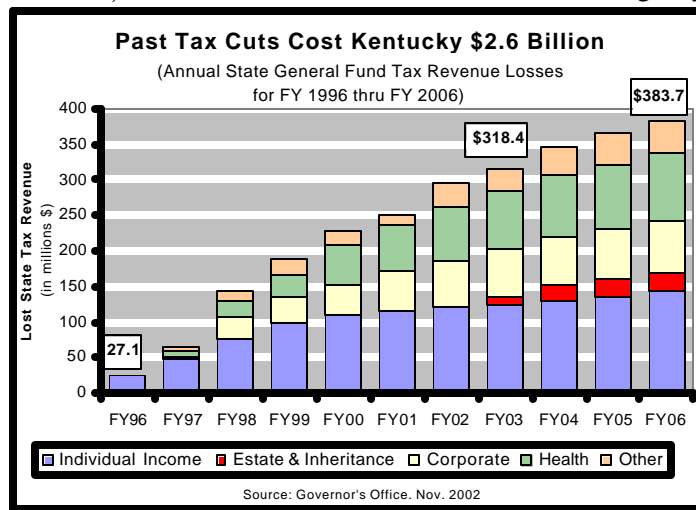


Chart 3

III. Cabinet for Families and Children

In this current environment of shrinking state revenues and rising unemployment, K-TAP has come under increased fiscal pressure. Here is how the Cabinet, in general, and then K-TAP have fared.

The Cabinet for Families and Children

budget has been reduced in recent years. To help balance the fiscal year 2002 state budget, the Cabinet’s budget was cut by 4.6 percent, or \$15.6 million. These cuts were achieved largely by reducing the level of state spending in Kentucky’s TANF program, known as K-TAP. Under federal law, states must meet a “maintenance-of-effort” (MOE) spending requirement in exchange for receiving federal TANF block grant dollars. The minimum required MOE is 75 percent if states meet certain goals; if the goals are unmet, the minimum MOE is 80 percent. Although Kentucky has met these goals in past years, the Cabinet has also consistently budgeted MOE above the minimum 75 percent mark. In 2002, the state’s MOE spending was dropped from 85 percent to 80 percent of the amount the state spent on welfare programs in the baseline year of 1994.

Other agency cuts were also made in fiscal year 2002. The Cabinet discontinued the welfare to work match for local and regional programs and reduced administrative expenses, among other things.

State general fund appropriations declined by 0.6 percent, or -\$1.9 million, in the fiscal year 2003. General fund appropriations in fiscal year 2004 grow by 3.0 percent, or \$9.2 million. Of this amount, \$5 million represents new base funding for childcare services. Another \$4 million corresponds to the re-appropriation of Phase I tobacco dollars from prior fiscal years.

Childcare subsidies, however, are facing severe funding problems. To deal with this problem, the Cabinet has frozen the number of persons receiving these subsidies (except for persons transitioning

Maintenance of Effort (MOE) appropriations have dropped from 85 percent to 80 percent; reflecting, in part, a lack of state funds.

from K-TAP and teen mothers). Further, income eligibility for new entrants has been lowered from 165 percent of poverty to 150 percent of poverty. Persons who enter the program at 150 percent or lower of poverty, however, can remain in the program until their income exceeds 165 percent of poverty.

Rising human service needs coupled with no spending increase may create program difficulties in fiscal year 2004. How realistic is such a scenario? In an appearance before a House budget subcommittee in January 2003, the Secretary of the Cabinet for Families and Children told legislators that the state's fiscal crisis is cause for great concern. She told legislators that flat funding, while technically not a funding reduction, is in fact a budget cut that would mean reductions to welfare programs, such as helping single mothers find suitable employment. In a poignant remark about the state's precarious fiscal situation, the secretary commented:

This is the first time I've ever been really scared about our ability to care for our families and kids.¹

IV. TANF

Since the inception of K-TAP in 1997, significant changes have occurred in how the state spends its TANF funds. In 1997, three-quarters of TANF funds were spent on basic assistance and only three percent on childcare and two percent on work-related activities. By 2001, basic assistance accounted for only 40 percent of total spending, while childcare rose to 21 percent and work activities

Childcare spending in K-TAP accounted for 21 percent of all spending in 2001, up from 3 percent in 1997.

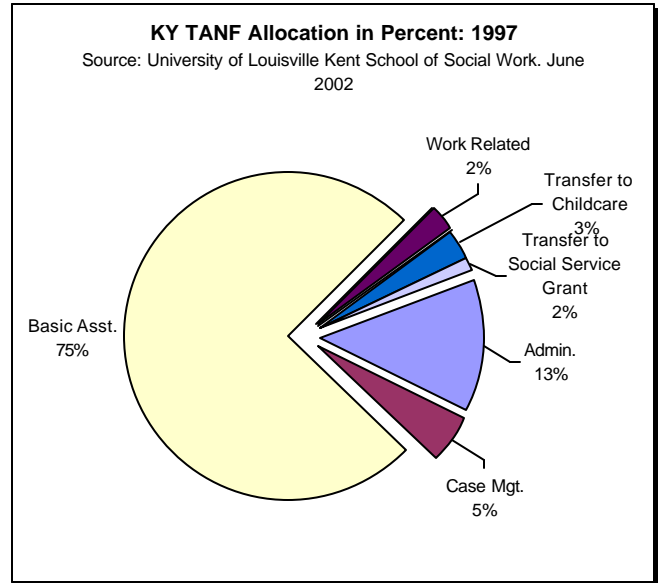


Chart 4

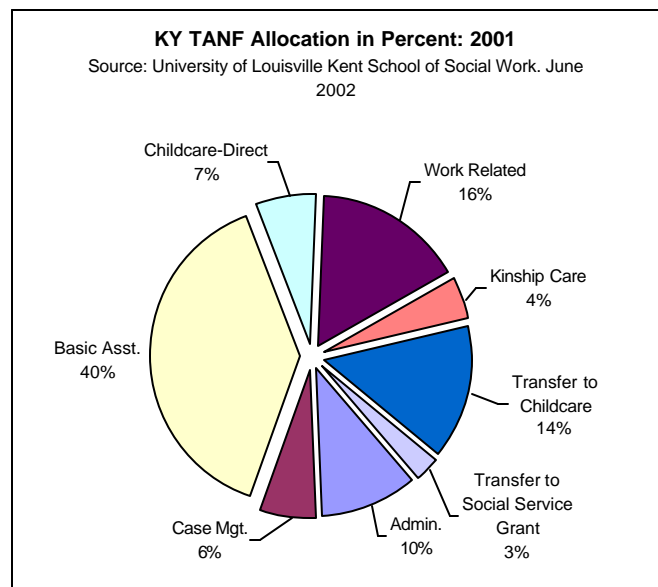


Chart 5

rose to 16 percent.² Administration spending accounted for 13 and 10 percent, respectively, of TANF spending in 1997 and 2001. (See Charts 4 and 5 above.)

Somewhat surprisingly given the recent economic downturn, Kentucky's K-TAP caseload has only grown slightly over the past eighteen months. (See Chart 6 below.) From March 2001 through December 2002 caseloads have actually fallen 7.6 percent.³ Only when looking at

the most recent quarter do caseloads show an increase. Between September 2002 and December 2002, caseloads increased by 0.1 percent.⁴

Part of the reason for the slow growth is likely attributable to recipients nearing or meeting the federally required sixty month time limit. In a University of Louisville study sponsored by the Cabinet for Families and Children, thirteen percent of active K-TAP participants (as of 2001) had twelve months or less of eligibility remaining.⁵ Another twelve percent had between twelve and twenty-four months of eligibility left. Anecdotal evidence in Kentucky suggests that welfare recipients—the ones who can seek work or work-training activities—may voluntarily leave these state programs prior to exhausting their lifetime benefits as a way to avoid the time limit.

V. Potential Negative Effects of House-Passed TANF Reauthorization Bill

Changes included in the TANF reauthorization bill passed by the U.S. House of Representatives could severely hamper the progress Kentucky has made helping people move from welfare to work. In particular, higher work participation rates, more restrictive eligible work activities, and limited childcare funding could mean changes to Kentucky’s nationally renowned Ready-to-Work program, the Targeted Assessment Program that assists recipients with multiple barriers to employment, and its childcare programs.

The Ready-to-Work Program is a partnership between the Kentucky Community and Technical College System (KCTCS) and the Kentucky Cabinet for Families and Children (CFC). It is de-

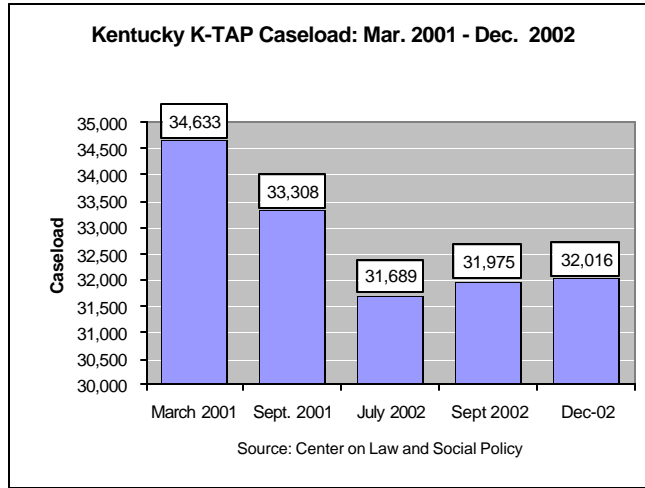


Chart 6

signed to promote the success of K-TAP recipients who attend community and technical colleges. Currently, Kentucky allows up to twenty-four months of vocational education as an allowable work activity. The U.S. House-passed bill would limit vocational education to three months during a twenty-four month period. Clearly, such action would hamper Kentucky’s ability to extend vocational education to as many people as it does now (currently, more than 1,000).

The U.S. House-passed bill also sets higher work participation rates for TANF and restricts the types of eligible work activities. Both actions will hamper Kentucky’s ability to help people transition to employment. By limiting the types of eligible work activities, Kentucky will have a difficult time allowing clients to pursue vocational education for longer than three months.

The impact of this action would be short- and long-term. In the short-term, Kentucky would have to find eligible work activities for those K-TAP clients who no longer participate in the Ready-to-Work program. In the long-term, Kentucky’s former K-TAP clients will have fewer job-related skills than they could have had by attending post-secondary education. Generally, fewer job skills and lower education levels go hand-in-

The Ready-to-Work program is a nationally recognized program that helps K-TAP recipients develop valued work skills through post-secondary degrees.

A majority of TAP clients have at least one barrier—mental health, substance abuse, domestic violence, or learning problems.

hand with lower pay and a slow-growing state economy.

The U.S. House-passed bill could also lead to troubling changes in Kentucky's Targeted Assessment Program (TAP). This program identifies and addresses significant barriers to self-sufficiency faced by some TANF clients. Targeted Assessment Specialists, located on-site at public assistance and child protective services offices in 18 communities, conduct assessments of TANF clients and provide pre-treatment and follow-up services focused on mental health, domestic violence, substance abuse, and learning problems. Clients who participate in TAP often are referred to activities designed to address their barriers to employment but which do not meet the current law definition of "work activities."

The University of Kentucky's Institute on Women and Substance Abuse conducted a study of the TAP program. The study confirmed that TAP participants have serious barriers to employment. The researchers found that two-thirds of TAP participants have a mental health problem, almost one-third have a substance abuse problem, almost one-quarter have a domestic violence problem, and nearly one-in-five have a learning problem or disability. Many recipients experienced more than one of these serious barriers to employment.

The House-passed TANF bill places strict limits on the types of activities that can be counted toward the work participation requirements and increases the participation rates states must meet. Under the House bill, states can count activities designed to address barriers to employment toward the work participation rates for only three months. After the three-month period, barrier-removal activities would only count if the recipient also worked in a subsidized or unsubsidized job at least 24 hours each week. Under this structure, many TAP participants with serious barriers to employ-

ment who are engaged in activities designed to address those barriers would likely not count toward the state's overall participation rates. Because failing to meet the participation requirements carries a stiff fiscal penalty, Kentucky likely would be unable to provide the treatment and other services to recipients with serious problems now provided through the TAP program. K-TAP recipients likely would be forced to leave the TANF system, voluntarily or involuntarily, because their barriers were not treated. The financial assistance of TANF would be lost to vulnerable families and children.

Limited childcare funding could also pose great difficulty. Many K-TAP recipients depend upon childcare assistance so they can work or attend school. Evidence also shows that people living in rural areas have greater difficulty finding quality childcare services near their homes. Since Kentucky is a rural state, limited childcare funding could compound this problem. Based upon comments from current and former K-TAP recipients, childcare assistance was one of their top three issues.

The Senate Finance Committee soon will consider TANF reauthorization legislation. It is unclear how key issues related to work requirements — including the flexibility states will have to place TANF recipients in education, training, and activities designed to address barriers to employment and the hours of participation that will be required — and funding levels will be resolved. Kentucky will be unable to build on its welfare reform successes unless final TANF reauthorization legislation includes reasonable work participation rules, expanded flexibility that will allow Kentucky to continue its innovative and effective education efforts and initiatives to help parents with disabilities and other barriers to employment, and adequate resources for childcare and work programs.

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VIII. Conclusion

Kentucky's state fiscal crisis has begun to undermine its K-TAP program.

To avoid furthering crippling Kentucky's nationally recognized programs to move people from welfare to work, Congress should include the following in its TANF reauthorization legislation:

1. Allow up to 24 months of post-secondary education as an eligible work activity;
2. Provide states with the ability to diagnose TANF recipients with multiple barriers and treat them for longer than 3 months;
3. Provide additional childcare funds—in order for parents to successfully move from welfare to work, childcare is critically important.

Endnotes

¹ "Poor, elderly face aid crisis, legislators told." Courier-Journal newspaper. January 23, 2003.

² Although this may appear to be a contradiction—MOE funding for basic assistance increased while overall basic assistance funding fell—it just means that far fewer federal dollars went to basic assistance than did more MOE dollars for the same purpose.

³ "Welfare Caseloads Increased in Most States in Fourth Quarter." Center on Law and Social Policy. April 2002.

⁴ Ibid.

⁵ "Welfare Reform: Kentucky's Year 2002 Update." University of Louisville Kent School of Social Work. June 2002.