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TANF Supplemental Grants Should be Extended For Fiscal Year 2002

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The Temporary Assistance to Needy Families (TANF) block grant established in the 1996 welfare law included modest supplemental grants for 17 relatively poor or rapidly growing states. The grants were intended to reduce the very large disparity between poorer and wealthier states in TANF funding per poor child that otherwise would result from the basic TANF funding formula and to afford the poorer states a more adequate opportunity to achieve TANF goals.

The supplemental grants included in the 1996 law were authorized only through fiscal year 2001, while the law generally was authorized through fiscal year 2002. This means that under current law, the 17 states will face a reduction in their TANF funding of as much as 10 percent of their block grant starting on October 1 of this year, while the other, wealthier, states will experience no reduction.

The elimination of the supplemental TANF grants would widen disparities among states in TANF funding per poor child. It also could lead several states to scale back their welfare reform efforts, which have shifted in recent years to include support services for low-income working families and efforts to address the multiple barriers to employment that face a substantial share of the families that remain on welfare. Nine of the 17 states receiving supplemental grants expended more TANF funds last year than they will receive in fiscal year 2002 if the supplemental grants are eliminated.

Table 1

	Loss of TANF Funding if Supplemental Grants are Eliminated in FY 2002		
	FY 2001 Supplemental TANF Grant	FY 2001 Total TANF Grant	Supplemental as Percent of Total
<i>(\$ in millions)</i>			
Alabama	\$11.1	\$109.1	10.2%
Alaska	\$6.9	467.5	10.2%
Arizona	\$23.9	\$248.5	9.6%
Arkansas	\$6.2	\$65.8	9.5%
Colorado	\$13.6	\$149.6	9.1%
Florida	\$60.4	\$643.6	9.4%
Georgia	\$37.3	\$368.0	10.1%
Idaho	\$3.5	\$35.7	9.8%
Louisiana	\$17.0	\$181.0	9.4%
Mississippi	\$9.0	\$98.2	9.2%
Montana	\$1.1	\$45.1	2.4%
Nevada	\$3.7	\$47.3	7.5%
New Mexico	\$6.6	\$132.7	4.9%
North Carolina	\$36.1	\$346.6	10.4%
Tennessee	\$21.6	\$222.7	9.7%
Texas	\$52.7	\$563.3	9.4%
Utah	\$8.7	\$87.0	10.0%

For these reasons, it is important that the TANF supplemental block grants be continued through 2002, the end of the full TANF authorization period. This step, which would cost \$400 million in fiscal year 2002 — or about two percent of the basic TANF block grant amount — would help to ensure that poorer states can continue their welfare reform efforts and would enable the supplemental grants to be considered as part of overall TANF reauthorization..

In addition to funding the supplemental grants in fiscal year 2002, language from the 1996 welfare law that specifically excludes the TANF supplemental from the federal budget “baseline” should be dropped. Without such a step, a continuation of the supplemental grants beyond 2002 when TANF is reauthorized would be considered new spending (i.e., a spending increase) rather than an extension of current policy. Dropping this language and thereby including the supplemental grants in the budget baseline once they are funded for fiscal year 2002 would be more consistent with federal budgeting practices, under which continuing an existing policy is not considered a cost increase. This would better preserve Congress’ ability to consider some continuation of the important role that TANF supplemental grants play when it reauthorizes TANF.

Supplemental Grants Address Large Disparities in Basic TANF Funding

The supplemental grant funds are allocated to poorer states — which generally receive lower levels of block grant funding per poor child than other states — and to states with rapidly growing populations.

- In fiscal year 2001, the federal TANF grants to the states receiving supplemental grants average \$733 per poor child, *including* the supplemental grants.
- By contrast, the other states receive an average of \$1,778 in TANF funds per poor child. Even with the supplemental grants, the TANF funding per poor child in the 17 states that receive these grants is just 41 percent of the TANF funding per poor child in other states.
- If the supplemental grants are not continued, the TANF funding per poor child in the 17 affected states will fall to \$663, just 37 percent of the average in the other states.

The elimination of the supplemental TANF grants would reduce TANF funding by close to 10 percent in most of the 17 states currently receiving these grants. These states continue to have a greater need for resources, as evidenced in their child poverty rates and per capita income.

- The child poverty rate in the states receiving supplemental grants was 19.5 percent in 1999 – one-quarter above the child poverty rate in the other states. (The child poverty rate in the other states was 15.6 percent.)

- The per capita income of the states receiving supplemental grants is about \$24,800, or 13 percent below the \$28,400 per capita income in states that do not receive supplemental grants.

Elimination of TANF Supplemental Grants Could Compromise Welfare Reform Efforts

TANF spending in the nation as a whole has increased substantially in recent years, as states reinvest savings from reduced welfare caseloads in supportive services for low-income working families, such as child care and transportation, including supports for working families not on the welfare rolls. Many states also are undertaking efforts to address the multiple barriers to stable employment faced by many families that remain on welfare and are approaching time limits. These services help ensure that working parents can support their families and remain off welfare. Nationally, only 43 percent of spending under the TANF block grant is used for cash assistance.

As TANF becomes less a program providing cash assistance and more a program that provides services and supports to move families from welfare to employment and to help them stay employed, the disparities among states in TANF funding per poor child become even more problematic. Employment services, child care, and other work supports are not inexpensive. As noted, total TANF funding per poor child in the states that get TANF supplemental grants is about 40 percent of the funding per poor child in other states, even when the supplemental grants are included. These differences largely stem from differences in former AFDC cash benefit levels — which ranged from as little as \$120 per month for a family of three in some states to more than \$600 in other states. Yet the costs of operating work programs and providing child care and other work supports — the endeavors that reflect the new TANF focus — do not vary as much as welfare benefits. The costs of child care and other services largely reflect the wages paid to the people providing these services. These wage costs vary somewhat from state to state, but not by anything close to a factor of 2 ½. This means that funding an adequate work support program is much harder in the states that receive supplemental TANF grants than in other states.

Given the significant costs of work supports, many of the 17 states that receive supplemental TANF grants are now spending more TANF funds each year than they receive from their basic TANF grant. In fiscal year 2000, for example, TANF expenditures in nine of the 17 states that receive a supplemental TANF grant exceeded 100 percent of their basic TANF allocation. (See Table 2.) These states are Alaska, Arizona, Arkansas, Florida, Idaho, New Mexico, North Carolina, Tennessee, and Texas.

Table 2

	Use of TANF Funds in FY2000	Basic TANF Grant*
<i>(\$ in millions)</i>		
Alaska	\$62.9	\$60.6
Arizona	249.1	218.2
Arkansas	79.7	56.7
Florida	570.6	562.3
Idaho	43.7	30.6
New Mexico	131.8	126.1
North Carolina	344.6	302.2
Tennessee	209.4	191.5
Texas	534.4	486.3

This means that the supplemental TANF grants have become an integral part of welfare reform efforts. It also signifies that a loss of supplemental TANF grants could lead a number of the poorer states to scale back the range of services they now provide to promote and sustain employment among low-income families. Most of the states that receive supplemental TANF grants could draw on unspent TANF funds from prior years if TANF expenditures in fiscal year 2002 exceed their fiscal year basic TANF grant for 2002 (i.e., their allocation without the supplemental grant), but this could not continue for long. The states ultimately would deplete their TANF reserves and be forced to scale back TANF services.

Why the TANF Supplemental Grants Were Created

When welfare reform was enacted in 1996, the size of a state's block grant was determined primarily by that state's spending under the Aid to Families with Dependent Children (AFDC) program in prior years. This funding structure reinforced the existing significant disparities in funding per poor child, which varied from as low as \$400 in some states to more than \$2,000 in other states, in large part reflecting differences in AFDC cash benefit levels.

To address these disparities, Congress decided to supplement the \$16.5 billion in basic TANF funding with supplemental grants for states with low federal AFDC spending per poor child and to states with rapidly growing populations. The supplemental TANF grants, fashioned by a group led by Senators Kay Bailey Hutchison and Bob Dole, were funded at roughly \$80 million in fiscal year 1998, \$160 million in fiscal year 1999, \$240 million in fiscal year 2000, and \$320 million in fiscal year 2001.

The term "supplemental grants" is something of a misnomer. These grants are not supplemental in the sense of being add-ons; they were designed as an integral part of the TANF allocation formula. Senator Connie Mack made this point during the Senate floor debate:

The Hutchison formula has been inappropriately referred to as a 'supplemental' grant to states. This is a misleading characterization of the additional moneys provided in this legislation. In reality the Hutchison formula in the underlying legislation begins to chip away at historical inequities between States due to the Federal Government's present system of awarding AFDC moneys. The debate is and should be about equity.¹

Senator Hutchison underscored the point that the supplemental grants are integral to state TANF programs in debate on the Senate floor last summer on the fiscal year 2001 appropriations bill for the departments of Labor, Health and Human Services, and Education.

Many states that receive these supplemental grants are presently planning to expand their welfare and related programs, to include a broader range of services to enable all welfare recipients to become self-sufficient. Many single mothers, for example, have child care and transportation needs that make it all but impossible to find and keep a job. Others

¹Congressional Record at S13204, September 11, 1995.

simply lack basic education and job skills that preclude them from holding virtually any employment....As states seek to bring these so-called 'hard-core' welfare recipients into the economic mainstream, they will need all the TANF and other forms of federal assistance they can get to break the cycle of poverty.²

Funding Supplemental Grants in Fiscal Year 2002

Extending the supplemental TANF grants through fiscal year 2002 would maintain efforts to reduce the disparity in TANF funding per poor child between poorer and wealthier states and would ensure that states receiving supplemental TANF grants can continue supporting existing welfare reform efforts. In addition, continuing supplemental TANF grants through 2002 would bring discussion of the future of these grants into the overall TANF reauthorization debate, since the 1996 welfare law is authorized through 2002, and the discussions related to next steps and reauthorization will occur in 2002.

As noted, the TANF supplemental grants increased from approximately \$80 million in fiscal year 1998 to about \$320 million in fiscal year 2001. The formula included in the 1996 welfare law set the FY 1998 grants at 2.5 percent of each affected state's basic TANF grant and called for the grants to increase each year by an amount equal to 2.5 percent of the state's prior year TANF grant. Under this formula, the supplemental grants for fiscal year 2002 would total about \$400 million.

Dropping Statutory Language that Keeps TANF Supplemental Grants Out of the "Baseline"

As is the case for many federal programs, the TANF block grant is authorized for a limited period of time. The block grant expires under current law after fiscal year 2002, which means Congress will review and reauthorize TANF in 2002. Under federal budget rules, when a program that is set to expire is reauthorized, Congress can maintain the program's funding level without the continued funding being considered a new expense. In budget terms, the existing funding is considered part of the budget "baseline." By contrast, to increase funding above the baseline amount, the increase in funding must be accommodated within the figures in the annual Congressional budget resolution.³

The 1996 welfare law that authorized the TANF block grant included language that specifically excluded the supplemental grants from the baseline. If this language were not part of the 1996 law, providing funding for the supplemental grants for fiscal year 2002 would have the effect of making the supplemental grants part of the budget baseline. It may be noted that the supplemental grants are the only element of TANF funding excluded from the baseline. The

²Congressional Record at S5871, June 27, 2000.

³The rules cited here regarding the baseline apply to "mandatory" programs, as distinguished from "discretionary" programs. TANF is a "mandatory" program.

basic TANF allocation and the two annual TANF bonuses to states — the bonus for high-performing states and the bonus for states with the best record in reducing out-of-wedlock births — are included in the TANF baseline. In other words, the language of the welfare law singles out the portion of the TANF block grant that is intended to reduce state disparities in funding per poor child in a way that makes it more difficult to continue such efforts.

For these reasons, the language in the 1996 welfare law that excludes the TANF supplemental grants from the baseline should be dropped. Instead, the budget baseline should assume the continuation of the current TANF policy which defines the amount of the supplemental grants. This would allow the supplemental grants to be treated the same as the remainder of the TANF block grant when the law is reauthorized in 2002.⁴ It thus would help to ensure that continued efforts to reduce disparities in TANF funding between poorer and wealthier states can be considered fully in the TANF reauthorization debate.

⁴For the supplemental to be included in the baseline for 2003 and beyond, Congress must both continue the supplemental grants in fiscal year 2002 and eliminate the discriminatory language.