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APPROPRIATIONS BILLS WOULD CUT WELFARE REFORM BLOCK GRANT FUNDING FOR 16 STATES, UNDOING COMPROMISE IN WELFARE LAW

Cuts Would Hit Poorer States that Already Receive Much Less Federal Block Grant Funding Per Poor Child than Other States

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Overview and Summary

Both the Labor-HHS appropriations bill that the House of Representatives approved June 14 and the companion bill that the Senate approved June 30 would reduce welfare-reform block grant funding for 16 states. These funding reductions, which would total $240 million,[1] would come from the so-called "supplemental grants" that were included in the 1996 welfare law as part of the formula for allocating welfare block grant funds among states. Sixteen of the 17 states that receive a supplemental grant would face a cut under these bills.[2]

The supplemental grants are provided to relatively poor states, which generally receive lower levels of block-grant funding per poor child than do more affluent states, and to states with rapidly growing populations. For a number of the states that receive these grants, they are an essential part of welfare reform block grant funding.

The proposed reduction of $240 million, or 75 percent, in TANF supplemental grants included in the appropriations bills is difficult to justify on substantive grounds. It also poses serious equity problems.

- The proposed reduction in the welfare reform block grant — known as the Temporary Assistance for Needy Families block grant, or TANF — would take resources away from states that have high rates of child poverty relative to other states and a lesser ability to raise state funds. Under current law, the 17 states receiving these "supplemental grants" in fiscal year 2000 are being provided an average of *$679 in federal TANF funds per poor child*, including their supplemental grants. By contrast, the other states are receiving an

Table 1

Reduction in TANF Block Grant for States Affected by the Proposal in FY 2001 (In millions of dollars)	
Alabama	-8.4
Alaska	-5.2
Arizona	-18.2
Arkansas	-4.7
Colorado	-10.3
Florida	-45.9
Georgia	-28.3
Idaho	-2.7
Louisiana	-12.9
Mississippi	-6.9
Nevada	-2.8
New Mexico	-3.3
North Carolina	-27.4
Tennessee	-16.4
Texas	-40.0
Utah	-6.6

average of *$1,576 in TANF funds per poor child*. Under the funding reductions that the appropriations bills contain, the 17 states that receive the supplemental grants would get an average of $630 in TANF funds per poor child in fiscal year 2001, or 40 percent of the average amount that other states receive per poor child.

- Furthermore, the states that receive the supplemental grants used a *higher* portion of their TANF funds in fiscal year 1999 than did the states that do not receive these grants. In 1999, the states receiving supplemental grants used an amount equal to 97.5 percent of their TANF block grants for the year, including their supplemental grants. By comparison, the states that did not receive the supplemental grants used an amount equal to 93.4 percent of their fiscal year 1999 TANF grants.

Table 2

Impact of the Proposed Reduction In TANF Block Grant on TANF Dollars per Poor Child in Selected States

	FY 2001 TANF dollars per poor child **(current law)**	FY2001 TANF dollars per poor child **(if cut is enacted)**
States Affected by Proposed Reduction in TANF Block Grant		
Alabama	422	388
Alaska	3,040	2,815
Arizona	639	592
Arkansas	384	355
Colorado	1,230	1,145
Florida	891	826
Georgia	768	709
Idaho	492	455
Louisiana	567	527
Mississippi	493	457
Nevada	725	682
New Mexico	744	725
North Carolina	985	905
Tennessee	701	647
Texas	408	378
Utah	1,070	987
The Five Largest States Not Affected by the Reduction		
California	1,635	1,635
Michigan	1,803	1,803
New York	2,055	2,055
Ohio	1,400	1,400
Pennsylvania	1,436	1,436

This reduction in TANF supplemental grants was originally proposed 18 months ago by the Administration, which included the reduction in its budget as an "offset" used to help finance other Administration proposals. At the time that the Administration first proposed this cut, the states that receive the supplemental grants were using a much smaller percentage of their TANF grants. In fiscal years 1997 and 1998, these 17 states spent an amount equal to only 73.9 percent of their block grant allocations, a smaller proportion of TANF funds than other states were spending. That apparently led the Administration to conclude that most of the supplemental grants would not be needed. But as the state expenditure figures for fiscal year 1999 show, the use of TANF funds by these states has increased markedly since then. With the passage of time, it has become clear that the

Table 2

Comparison of Child Poverty and Resources Under TANF					
	Number of Children (in thousands)	Official Child Poverty Rate (1998)	Personal Income per Capita (1998)	FY 2001 TANF Dollars per Poor Child Including Supplemental Grant	FY 2001 TANF Dollars per Poor Child If Supplemental Grant is Reduced
Non-Supplemental States	48,586	17.6%	$28,352	$1,576	$1,576
Supplemental States	22,752	21.6%	$24,832	$679	$630

low expenditure figures in 1997 and 1998 reflected an early phase of welfare reform in many of these states and that the supplemental funds are quite important to these states.

The latest Congressional Budget Office estimates are consistent with this conclusion. In the last year or two, CBO has sharply increased its estimates of the degree to which states will use their TANF allocations.[3]

These figures demonstrate that there is no basis for singling out states that receive supplemental grants for funding cuts. These funding reductions in the TANF supplemental grants would exacerbate the serious equity problems the current TANF funding formula already poses and would shrink funding in many of the states in which child poverty is most widespread and per capita income — a key measure of a state's capacity to raise revenues — is significantly below average.

Furthermore, these funding reductions could engender problems for welfare reform efforts in many states, including states that do *not* receive supplemental grants. These cuts in the TANF supplemental grants are likely to be seen by states as sending the message that the TANF block grant is a target for budget reductions and that states cannot rely on the federal government to provide the levels of TANF funding it promised when the welfare law was enacted. This is likely to discourage a number of states from mounting new initiatives to help families that remain on welfare to surmount employment barriers that they face, or to assist struggling working poor families trying to make ends meet and stay off welfare. Many of these states are likely to fear that if they mount new welfare reform initiatives, federal TANF funding could subsequently be cut back, leaving them with the choice of abandoning these initiatives in midstream or coughing up enough state funds to sustain the initiatives.

Why the TANF Supplemental Grants Were Created

During deliberations over welfare reform in 1995 and 1996, Congress debated how TANF block grant resources should be allocated among states. Under the former AFDC program, federal expenditures per poor child varied significantly, from approximately $400 per poor child in some states to more than $2,000 per poor child in others.[4]

Congress ultimately decided to allocate TANF funds under a formula fashioned by a group led by Senators Kay Bailey Hutchison and Bob Dole. Their formula was based primarily on states' prior expenditure levels under AFDC, but recognized that steps were needed to moderate the vast disparities among states in federal dollars provided per poor child. In addition to providing basic TANF grants totaling $16.5 billion annually and based on prior state expenditure levels, the Hutchison-Dole formula established "supplemental grants" to provide a total of $800 million for fiscal years 1998 through 2001 to states with low federal welfare expenditures per poor person and to states with rapidly growing populations.[5]

The term "supplemental grants" was something of a misnomer, since these grants are not supplemental in the sense of being add-ons. They were designed as an integral part of the formula used to determine each state's block grant allocation. Senator Connie Mack made that 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.[6]

Senator Hutchison also spoke of the fundamental role of the supplemental grants in helping to reduce the degree of inequity in the TANF block grant formula.

> We would like to be at parity right now. But even after 5 years, our States will not be at parity. But we know that we have to make accommodations....So we are willing

to move slowly toward parity, which should be the goal for this country — for every poor person to have the same basic general grant in welfare.[7]

That this component of the formula was crucial to the passage of the welfare law was stressed by Senator Pete Domenici, one of the formula's architects.

> Essentially, to just give an example, California and New York each start off with more Federal spending per poor person than New Mexico, Texas, Alabama, and Virginia combined...Now, if we are going to have a formula that perpetuates this disparity, then why would we from States like New Mexico, Texas, Alabama, and Virginia, and many others, want to be part of this change in our Federal Government's approach to the welfare system? Why would we want to join and put our States and our poor people in a

The Reduction in the Supplemental Grants Could Still be Removed

Despite passing the Senate and House floors and being included in the Administration's budget, the reduction in TANF supplemental grants could still be removed from the appropriations bill before it is signed into law. During Senate floor debate on the Labor HHS-Education appropriations bill in late June, Senator Ted Stevens, chairman of the Senate Appropriations Committee, pledged to Senator William Roth, chairman of the Senate Finance Committee, that he would drop this cut — as well as three others to which Senator Roth objected — in the conference between the House and Senate on this legislation. This promise ended a threat from Senator Roth to take action that would have jeopardized Senate passage of the appropriations bill.

Whether the TANF cut actually will come out in conference, however, remains unclear. The TANF reduction did pass the House, and it is in the Administration's budget. By contrast, none of the other three cuts to which Senator Roth objected were either approved by the House or included in the Administration's budget. Senator Stevens may have more ability to deliver on his promise to drop the other three cuts (which include funding reductions in the Child Health Insurance Program and the Social Services Block Grant) than to drop the cut in the TANF supplemental grants.

The fate of the cut in the TANF supplemental grants is uncertain. It is neither clear that this cut will become law nor clear that it will be dropped.

perpetual inferiority position — not a little bit, but a dramatic difference.[8]

Many of the 16 States Have Been Planning to Increase TANF Expenditures to Promote Welfare Reform Goals

Like other states, many of the states that receive a supplemental grant as part of their TANF allocation have been fashioning plans to expend more of their TANF funds to enhance the effectiveness of their welfare reform programs. By 1999, TANF expenditures in two states that receive supplemental grants — *Texas and New Mexico* — already exceeded the TANF allocations these states will receive in fiscal year 2001 if the proposed cut in the supplemental grants becomes law. Many other states have developed or implemented plans since 1999 to strengthen their welfare reform programs, often by intensifying efforts to move families remaining on the welfare rolls to employment or by providing more adequate support to families that have worked their way off the rolls but remain poor (and, in some cases, to other working poor families with children that are attempting to avoid going on welfare in the first place).

This means that the reduction in the supplemental grants could leave a number of these states with TANF allocations for fiscal year 2001 that are insufficient to cover their planned expenditures for 2001. These states could draw on unspent funds from prior years to help meet their TANF needs in 2001, but that would almost certainly appear to many states to be a risky fiscal strategy to pursue. States cannot continue to spend more than their annual TANF allocation on an ongoing basis, since they would ultimately deplete all prior-year unspent balances. As a result, it is likely that states would scale back planned TANF expenditures in 2001 to fit within their annual TANF grants.

Tennessee is an example of a state that could be forced to scale back its efforts to help families moving from welfare to work if its TANF funding is cut as a result of the pending reductions in supplemental grants. Since July 1, 1999, Tennessee has substantially improved and expanded its TANF program. Tennessee is now projecting that it will use most or all of its available TANF funds, including its supplemental grant, by state fiscal year 2001-2002. Measures that Tennessee has recently instituted include:

> *Cutting the TANF grants that these 16 states receive would shrink funding in many of the states in which child poverty is most widespread, leaving these states with only 40 percent as much in federal TANF funding per poor child as the other states.*

- An increase in the child care reimbursement rate and the number of available child care slots to enable more parents to work;
- A family services counseling program developed to work intensively with families affected by mental disabilities, domestic violence, or substance abuse problems, to help these families identify and overcome barriers to work;
- A revolving car loan fund and other transportation assistance to ease transportation barriers to work;
- An increase in cash grants from $185 a month to $232 a month for families of three headed by a parent who is disabled or a non-parent relative. This is the first grant increase in Tennessee for any families in 10 years; and
- A new kinship care program to provide supportive services and counseling and to meet the emergency needs of children cared for by a non-parent.

While impressive, these developments in Tennessee are not unique. These are the types of actions that states increasingly are finding they need to undertake to enable more families to move from welfare to work and to retain employment after initially securing it.

For example, *Alabama* announced plans in March to improve its TANF-funded programs; Alabama is expanding child care services by $24 million and devoting $6 million to programs to prevent out-of-wedlock pregnancies. (These figures cover the period through September 2002.). Alabama also is increasing by between $1 million and $3 million each the TANF funding it provides for transportation assistance to families moving to work, programs to reduce substance-abuse-related barriers to employment, assistance to kinship caretakers for child care and other costs, domestic violence services, work with non-custodial fathers, and family resource centers.

Similarly, *Arizona* acted this year to expand transportation assistance for working poor families, programs to promote marriage, domestic violence services, and substance abuse treatment to TANF parents for whom substance abuse is a barrier to work or family unity. In addition, *New Mexico* is implementing new measures to assist TANF parents with disabilities by providing services to enable these parents to go to work.

Florida is another example. In its recent legislative session, Florida substantially expanded its "diversion program," which is designed to help needy families stay off the welfare rolls through the provision of child care, transportation, and a one-time cash assistance payment. Florida also expanded its "early exit" program, which encourages families on welfare to leave the rolls in return for a one-time payment of $1,000. In addition, the state increased the income ceilings for child care and transportation assistance for working families from 150 percent to 200 percent of the poverty line.

Mississippi is of particular note because it is one of the poorest states in the nation. The child poverty rate in Mississippi averaged 25 percent between 1996 and 1998. Yet Mississippi receives a remarkably low level of TANF funding per poor child — just $493 per poor child, counting the supplemental grant. This would fall to $457 per poor child under the appropriations bills. That is less than one-third the national average TANF grant per child.

> *The basis for creating the TANF supplemental grants — the wide disparity in federal welfare funding per poor child between more affluent states and poor states — remains as valid today as when the welfare law was enacted.*

Although Mississippi has used a smaller proportion of its TANF grant than other states in the past, this is now changing dramatically. Efforts to assist working poor families have expanded, and the state has committed to use all of its TANF resources. The state plans to use a large portion of these dollars to help low-income working families secure child care. Resources also will be increased for such purposes as providing grants to community-based organizations to reduce out-of-wedlock births and other at-risk behaviors such as substance abuse.

These states all receive supplemental grants. Cutting their supplemental grants could compromise these efforts, as well as the welfare reform efforts of other states that are moving in similar directions.

Conclusion

The TANF funding reductions included in the Labor-HHS appropriations bills are highly problematic. The basis for creating the TANF supplemental grants — the wide disparity in federal welfare funding per poor child between more affluent states and poorer states — remains just as valid today. As Senator Mack explained in 1995, the term "supplemental grant" is a misnomer. Congress provided the supplemental grant funds to help address large funding inequities among states. Cutting these funds would unravel an important part of the TANF legislation and be injurious both to the states affected and to the low-income children and families they serve.

In an era of federal budgetary surpluses, there should be no need to reduce the TANF block grant. Cutting funds for states that have higher child poverty rates, lower federal TANF grants relative to need, and less state capacity to generate revenues would constitute a significant step in the wrong direction.

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1. Both bills reduce the supplemental grants from $320 million to $80 million.

2. Montana's supplemental TANF grant would not be reduced.

3. As recently as 1999, CBO projected that states would use only 77 percent of their TANF funds in 2001. CBO now projects that states as a whole will use an amount equal to 96 percent of their annual TANF grants, including the supplemental grants, in 2001 and an amount equal to 100 percent of their TANF grants in 2002.

4. See *State by State Welfare Allocations* in the Congressional Record, p. S13364 -13365, September 12, 1995.

5. The law makes a state eligible for a supplemental grant each year from fiscal year 1998 through fiscal year 2001 if: (1) the state's fiscal year 1994 federal expenditures for AFDC and related programs per poor in the state were 35 percent below the national average of federal spending on these programs per poor person; or (2) the state's population grew by more than 10 percent between April 1, 1990 and July 1, 1994. Alabama, Arkansas, Louisiana, Mississippi, and Texas meet the criterion of low federal welfare spending per poor person. Alaska, Arizona, Colorado, Idaho, Nevada, and Utah meet the criterion of high population growth. A state also can qualify for the supplemental grant in a given year between fiscal year 1998 and fiscal year 2001 if it met *both* of the following conditions as of fiscal year 1998: (1) the state's fiscal year 1994 federal spending per poor person was less than the national average, and (2) the state's population growth rate for the most recent fiscal year for which data were available was greater than that of the nation as a whole. Florida, Georgia, Montana, New Mexico, North Carolina, and Tennessee met both of these conditions.

6. Congressional Record at S13204, September 11, 1995.

7. Congressional Record at S13201, September 11, 1995.

8. *Ibid.*