



# Short Takes on Welfare Policy

## Should States Receive More Equal TANF Funding?

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Each year, all states and the District of Columbia receive a block grant from the federal government through the Temporary Assistance for Needy Families (TANF) program. But not all grants are the same size: 18 states receive grants of less than \$2,000 per poor family, 19 states receive \$2,000 to \$4,000 per poor family, and 14 states get more than \$4,000 per family (see table).

*Large funding differences reflect the realities of the old welfare system and unfairly disadvantage many states.*

Some interstate differences are extreme. For example, Connecticut receives about \$7,000 in TANF funds for every poor family—seven times the \$1,000 allotment for Arkansas. Smaller disparities in public school funding have embroiled many states in vigorous legal challenges.

Why are some states less well funded? On TANF's inception, Congress based 98 percent of the federal allocation on states' historical expenditures under Aid to Families with Dependent Children (AFDC) and other smaller pre-TANF programs. The new distribution formula locked in preexisting differences in federal funding.

Under pre-1996 programs, expenditures per poor family varied because states' benefit levels, eligibility criteria, and population characteristics differed. The federal government's share of the AFDC bill also varied according to state median income. Low-income states and southern states generally had lower benefit levels and enrolled smaller shares of their poor families than other states. Thus, today, many of these higher-poverty states receive lower-than-average grants for each poor family.

The 2 percent of the TANF distribution formula not based on historical expenditures is too small to offset state funding differences. Congress allocated 1 percent of TANF funds to supplemental grants for states with historically low AFDC spending levels or high population growth. It allocated another 1 percent of TANF funds to performance bonuses rewarding states that had the greatest success in lowering non-marital births (without increasing abortions) and raising employment among welfare clients. These supplemental and

performance grants account for a small fraction of TANF funding. Thus, without legislative change, interstate inequities will persist.

### WHY DO DISPARITIES MATTER?

TANF fundamentally altered the goals of the welfare system and states' spending priorities within the program. States now spend a much smaller share of welfare funds on cash assistance. In 1996, 76 percent of federal and state welfare spending financed cash benefits. By 2000, that share had dropped to 41 percent (Zedlewski et al. 2002). The rules and goals of TANF have required states to undertake new initiatives promoting employment and family stability.

Accordingly, states have shifted spending into job search and preparation activities, child care services, transportation, and other priorities. Recently, they have also begun directing limited funds to services targeting hard-to-serve individuals, including substance abusers, domestic violence victims, and non-English speakers. Although the decline in cash assistance payments has freed up funds for some programs, pressure to find additional resources is high, especially among states that receive the fewest TANF dollars. Without increased TANF allocations, these states' employment-related achievements and service delivery improvements could fail to keep pace with TANF requirements.

### RECOMMENDATIONS

No one with experience in the legislative process looks forward to a "formula fight," with states arguing over how to divvy up the federal pie. But reauthorizing the current distribution formula would again lock in state funding disadvantages. To ensure that all states can meet their TANF goals, Congress should consider the following options:

1. *Providing additional TANF funding to states with the smallest grants per poor family would help many high-need states.* This simple funding measure would leave states' maintenance-of-effort (MOE) requirements unchanged. The additional expenditures, though not insignificant, would represent a small share of TANF's overall costs. To bring the 10 states that receive the least funding per poor family to the U.S. median in 2000 (\$2,296), TANF would require another \$1.4 billion annually (about 8 percent of the program's total costs). An additional half-billion dollars (about 3 percent of funding) would bring all lagging states to the current median level.

2. *Reallocating TANF funds from states with above-average grants per poor family to states with the least funding would reduce interstate differences without increasing federal spending.* While more politically fraught than option 1, this approach is less costly. Gradually phasing in funding changes over several years might make the option more palatable to currently well-funded states.
3. *Offering to match spending initiatives in high-need, less-funded states with increased TANF funds would provide poorly funded states with an incentive to increase their spending.* For example, Congress could permanently increase federal grants to high-need states that agree to a permanent increase in their MOE requirements. This option would entail a smaller increase in federal funding than option 1, but it would require more state resources.

*Reference*

Zedlewski, Sheila R., David Merriman, Sarah Staveteig, and Kenneth Finegold. 2002. "TANF Funding and Spending across the States." In *Welfare Reform: The Next Act*, edited by Alan Weil and Kenneth Finegold (225-46). Washington, D.C.: Urban Institute Press.

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**FEDERAL TANF FUNDING  
PER POOR FAMILY, BY STATE,  
FY 2000**

FUNDS PER POOR FAMILY	STATES
\$1,000 to \$1,999	Alabama, Arkansas, Georgia, Idaho, Kansas, Kentucky, Louisiana, Mississippi, Missouri, Montana, Nebraska, Nevada, North Carolina, North Dakota, South Carolina, Tennessee, Texas, and Virginia
\$2,000 to \$2,999 <b>U.S. median = \$2,296</b>	Arizona, Colorado, Delaware, Florida, Indiana, Iowa, New Hampshire, New Mexico, Ohio, Oklahoma, Oregon, South Dakota, West Virginia, and Wyoming
\$3,000 to \$3,999	Illinois, Maine, New Jersey, Pennsylvania, and Utah
\$4,000 to \$4,999	California, Hawaii, Massachusetts, Michigan, Minnesota, New York, Vermont, and Wisconsin
\$5,000 and up	Alaska, Connecticut, District of Columbia, Maryland, Rhode Island, and Washington

Sources: Author's calculations using financial data from the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Financial Services, <http://www.acf.dhhs.gov/programs/ofs/data/index.html> and data from the Current Population Survey.