CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 9, 2002

H.R. 4092
Working Toward Independence Act of 2002

As ordered reported by the House Committee on Education and the Workforce on May 2, 2002

SUMMARY

H.R. 4092 would make changes to the Temporary Assistance for Needy Families (TANF) program including establishing tougher work participation requirements and reducing and refocusing a bonus grant. It would reauthorize—through 2007—the Child Care and Development Block Grant (CCDBG) Act of 1990, which currently expires at the end of 2002. Finally, it provides states with new authority to run demonstration projects, provided that the projects would not increase federal spending.

The bill would lower funding levels for bonus grants to high-performing states under TANF, and CBO estimates the reduction would lower direct spending by $47 million in 2005 and $209 million over the 2003-2007 period. Because H.R. 4092 would affect direct spending, pay-as-you-go procedures would apply.

CBO estimates that authorizations under the bill would total $2.3 billion in 2003 and about $12 billion over the 2003-2007 period, assuming that annual levels are adjusted to keep pace with inflation. (Without such inflation adjustments, the authorizations would total about $11.5 billion over the 2003-2007 period.) CBO estimates that appropriations of the authorized levels would result in additional outlays of $10.5 billion over the 2003-2007 period, if inflation adjustments are included (and about $10.1 billion without inflation adjustments).

The TANF grant program affords states broad flexibility to determine eligibility for benefits and to structure the programs offered as part of a state's family assistance program. Consequently, any new requirements to the program as proposed by H.R. 4092 would not be intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill could significantly affect the way states administer the program and provide benefits to beneficiaries, and thus could increase costs in some areas relative to what states would have spent if current law were to be continued unchanged. However, CBO anticipates that

states will undertake strategies that will mitigate most, if not all, of these costs. H.R. 4092 contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4092 is shown in the following table. The costs of this legislation fall within budget function 600 (income security). The table shows two alternative funding paths for the CCDBG program: one showing the authorized amount for 2003 with that amount inflated in later years, and one without inflation adjustments. The estimated outlays reflect CBO's current assumptions about spending patterns in the authorized program.

Title I - TANF Program

Title I would require states to establish self-sufficiency plans for all families receiving assistance and to have more TANF recipients participate in work activities. Further, it would increase some administrative and reporting requirements. Finally, it would reduce by $100 million annually a bonus to reward high-performing states and would refocus the bonus on employment achievement.

Work Participation Requirements. Section 101 would require states to have an increasing percentage of TANF recipients participate in work activities while receiving cash assistance. The bill would maintain current penalties for the failure to meet those requirements. These penalties can total up to 5 percent of the TANF block grant amount for the first failure to meet work requirements and increase for each subsequent failure. CBO assumes that no state would be subject to financial penalty for failing to meet the new requirements.

The bill would require states to engage an increasing share of families receiving TANF in activities for 40 hours a week with at least 24 of those hours in a work activity. These activities would be limited to employment (subsidized or unsubsidized), on-the-job training, supervised work experience (including entrepreneurship or microenterprise activities), or supervised community service. The required participation rate would rise by 5 percentage points a year from 50 percent in 2003 to 70 percent in 2007. Certain families would not be included in the calculation: families without an adult or teen head of household, under sanction for three months or less, with a child under age one (at state option), or in the first month of assistance (at state option). The bill would eliminate a requirement in current law that sets even higher participation rates for two-parent families and would allow a broader range of activities to count as work for up to three or four months. Finally, the bill would alter a provision that reduces the participation rates of states that have experienced caseload reductions since 1995.

ESTIMATED BUDGETARY EFFECTS OF H.R. 4092, THE WORKING TOWARD INDEPENDENCE ACT OF 2002

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING						
Reduce TANF Bonus for High-Performing States						
Budget Authority	0	0	300	-200	-200	-200
Estimated Outlays	0	0	0	-47	-73	-92
Effects on Food Stamp Program						
Estimated Budget Authority	0	0	0	1	1	1
Estimated Outlays	0	0	0	1	1	1
Net Effect						
Estimated Budget Authority	0	0	300	-199	-199	-199
Estimated Outlays	0	0	0	-46	-72	-91
SPENDING SUBJECT TO APPROPRIATION						
With Adjustments For Inflation						
Spending Under Current Law						
Budget Authority [a]	2,100	0	0	0	0	0
Estimated Outlays	1,197	483	231	189	0	0
Proposed Changes—Child Care and Development Block Grant:						
Estimated Authorization Level	0	2,300	2,347	2,395	2,442	2,492
Estimated Outlays	0	1,403	1,961	2,231	2,413	2,462
Total Spending Under H.R. 4092						
Estimated Authorization Level [a]	2,100	2,300	2,347	2,395	2,442	2,492
Estimated Outlays	1,197	1,886	2,192	2,420	2,413	2,462
Without Adjustments For Inflation						
Spending Under Current Law						
Budget Authority [a]	2,100	0	0	0	0	0
Estimated Outlays	1,197	483	231	189	0	0
Proposed Changes—Child Care and Development Block Grant:						
Estimated Authorization Level	0	2,300	2,300	2,300	2,300	2,300
Estimated Outlays	0	1,403	1,932	2,162	2,300	2,300
Total Spending Under H.R. 4092						
Estimated Authorization Level [a]	2,100	2,300	2,300	2,300	2,300	2,300
Estimated Outlays	1,197	1,886	2,163	2,351	2,300	2,300

a. The 2002 level is the amount appropriated for that year for the Child Care and Development Block Grant program.

Because the new requirements would be difficult for states to meet, CBO expects states would need to employ strategies such as moving nonworking families into separate state programs to effectively reduce the new requirements. For example, under current law, states that fail to meet work requirements, particularly higher requirements applying to two-parent families, set up separate state programs to serve those families. States can count funds they spend in a separate state program toward their maintenance of effort requirement in TANF, but families served under those programs do not count in the work participation rate.

Bonuses for High-Performing States. Section 104 would reduce funding for a bonus to high-performing states and refocus the bonus toward rewarding performance in employment outcomes. The bonus in current law rewards states for moving TANF recipients into jobs, providing support for low-income working families, and increasing the percentage of children who reside in married couple families. Current law provides $1 billion for bonuses, averaging $200 million annually, over the 1999-2003 period. CBO assumes that funding will continue at $200 million annually in accordance with rules for constructing baseline projections, as set forth in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985.

The revised bonus—the Bonus to Reward Employment Achievement—would be focused on rewarding success in employment entry, job retention, and increased earnings for families receiving assistance. Section 101 would make $500 million available for bonuses averaging $100 million annually over the 2004-2008 period.

Section 101 would lower projected budget authority by $200 million each year from 2004 to 2007, but provide $500 million in new budget authority in 2004, for a net reduction of $300 million over the five-year period. Because the bonuses are usually granted in the following fiscal year and many states have prior-year balances of TANF funds that they can use to replace any grant reductions, TANF spending would fall by only $212 million over the 2005-2007 period. That reduction in spending would result in small increases in spending in the Food Stamp program, because TANF cash benefits count as income in determining a family's Food Stamp benefits. Those increased costs would total $3 million over the 2005-2007 period.

Title II - Amendments to the Child Care and Development Block Grant Act of 1990

H.R. 4092 would authorize $2.3 billion in 2003 for the Child Care and Development Block Grant program and such sums as may be necessary for 2004 through 2007. Total funding for the 2003-2007 period would be $12 billion, assuming adjustments for inflation, with resulting outlays of $10.5 billion over those five years. Funding in 2002 was $2.1 billion.

The CCDBG program provides funding to states for child care subsidies to low-income families and other activities. This is one of the two federal funding programs for child care subsidies within a program grouping often referred to as the Child Care and Development Fund. Spending for CCDBG is classified as discretionary (i.e., spending subject to annual appropriations). The other program is entitled the Child Care Entitlements to States, which is categorized as mandatory spending, but that program is not affected by H.R. 4092.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through fiscal year 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	0	0	-46	-72	-91	-156	-128	-99	-99	-99
Changes in receipts	Not applicable										

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Generally, conditions of federal assistance are not considered intergovernmental mandates as defined in the Unfunded Mandates Reform Act. However, UMRA makes special provisions for identifying intergovernmental mandates in large entitlement grant programs (those that provide more than $500 million annually to state, local, or tribal governments), including TANF. Specifically, if a legislative proposal would increase the stringency of conditions of assistance, or cap or decrease the amount of federal funding for the program, such a change would be considered an intergovernmental mandate only if the state, local, or tribal government lacks authority to amend its financial or programmatic responsibilities to continue providing required services.

The TANF program affords states broad flexibility to determine eligibility for benefits and to structure the programs offered as part of the state's family assistance program. Changes to the program as embodied in H.R. 4092 could alter the way in which states administer the program and provide benefits. However, states would continue to be able to make changes, for example adjusting eligibility criteria or the structure of programs, to avoid or offset any additional costs. Because the TANF program affords states such broad flexibility, new requirements would not be considered intergovernmental mandates as defined by UMRA.

The bill would authorize additional funding for the Child Care and Development Block Grant program, but it also would impose stricter requirements and decrease grants in some other areas. Specifically, the bill would increase worker participation requirements, change the basis for caseload reduction credits, and reduce bonus grants.

Child Care and Development Block Grant

The bill would reauthorize CCDBG through 2007 and increase the authorized amount from $2.1 billion in 2002 to $2.3 billion in 2003. (After 2003, the bill would authorize "such sums as maybe necessary.") At the same time, the bill would add some new requirements that would increase costs and offset a portion of this additional funding; the bill also would require states to provide additional information on quality child care and increase the proportion of spending for improving the quality of child care services. The bill also would allow states to determine income eligibility requirements for CCDBG.

Work Participation

The bill would increase the minimum work participation rate from 50 percent to 70 percent over a five-year period. To meet those requirements, 70 percent of families would have to be engaged in work activities for at least 24 hours a week by 2007. Current law requires a recipient to be engaged in work activities for at least 20 hours per week, and there is a 50 percent participation requirement. This increase of 4 hours per week could require a modest increase in spending by states and tribes for administration, worker support activities, and child care. As the participation rates increase, states and tribes would have to direct more resources toward programs such as administrative support, transportation assistance, child care, and worker supervision to comply with the 70 percent requirement. CBO estimates that the costs of the work participation requirements would total $3 billion in 2007 (and about $8 billion over the 2003-2007 period), assuming that caseloads remain at the current level.

While the bill would require a participant to engage in work activities for an average of 24 hours per week, it also would require 16 additional hours of participation in other qualified activities. The bill does not specify the activities that could count for the final 16 hours, but the Secretary could limit these allowed activities in future regulation. If states were required to support activities in the 16 hours that are comparable in intensity to those in the first 24 hours, the estimated cost would rise to nearly $4 billion in 2007 (and $11 billion over the 2003-2007 period), assuming that caseloads remain at the current level.

Costs of this magnitude would result if states do not act to avoid the tougher requirements by moving families to separate state programs or averting the requirements by some other means. In fact, CBO expects that states will move many nonworking families into separate state programs to reduce the work requirements and avoid financial penalties.

The bill also would change the calculation of worker participation credits for states whose caseload levels have declined significantly, assuming the reduction is not the result of changing eligibility requirements. The base year for comparison of caseloads would shift forward over time, rather than remaining static at the 1995 level.

Bonus Performance Grants

The bill would reduce by half (from $200 million to $100 million annually) bonus performance grants and refocus the basis of their award after 2003 to employment entry, retention, and increased earnings.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 4092 contains no private-sector mandates as defined in UMRA.

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