

CBO TESTIMONY

Statement of
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on
CBO's Spending Projections for the
Temporary Assistance for Needy Families Program
and Federal Child Care Programs

before the
Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives

March 16, 1999

NOTICE

This statement is not available for public release until it is delivered at 1:00 p.m. (EST), Tuesday, March 16, 1999.



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Madame Chairman and Members of the Subcommittee, thank you for the opportunity to discuss the Congressional Budget Office's (CBO's) spending projections for the Temporary Assistance for Needy Families (TANF) program and for the federal child care programs. The projections, which have been revised slightly since the release of CBO's budget outlook in January, will be published in a forthcoming report on CBO's reestimate of the President's fiscal year 2000 budget.

PROJECTED SPENDING FOR TANF

As you know, TANF funding was established as a block grant to states under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), replacing the open-ended funding for Aid to Families with Dependent Children (AFDC). The basic block grant totaled \$16.5 billion annually through 2002, with the amount allocated to each state based on the state's spending history. The grant provided additional funding for several other purposes such as bonuses for good performance and reduced illegitimacy, grants to the territories and Indian tribes, supplemental grants, and a contingency reserve. Funds allocated to states remain available to the states until spent.

The block grant amounts for most states have proved to be more than the states could spend in the near term as AFDC and TANF caseloads dropped by 40 percent from 1994 to 1998. Consequently, many states have accumulated sizable

unspent balances that are expected to grow in the next several years, although more slowly than in the past. As of the end of 1998, states had not spent about 25 percent of the overall TANF grants. States' unspent balances varied widely. For example, Illinois, Connecticut, and Maine had spent all or almost all of their TANF funds, but Wyoming and Idaho had spent less than 20 percent of theirs.

PRWORA gave states much flexibility in determining how to use the block grant funds. In addition to funding traditional cash welfare benefits, states received the authority to transfer up to 10 percent of their TANF grant to the Social Services Block Grant and up to 30 percent for child care programs (no more than 30 percent of the total for both programs can be transferred). In addition, states could use TANF funds for providing child care services under the TANF program activities.

According to preliminary reports from the Department of Health and Human Services, in 1998 states transferred 4 percent of their TANF grant to the Child Care and Development Block Grant and 7 percent to their Social Services Block Grant. In addition, states spent 1.5 percent of overall TANF funding directly on child care, with individual states spending between 0 and 30 percent of their 1998 TANF grant on child care.

CBO projects that TANF outlays will total \$12.6 billion in fiscal years 1999 and 2000, grow to \$14.2 billion by 2002, and reach \$19.4 billion by 2009. As

indicated in Table 1, annual federal outlays for TANF are not expected to exceed annual funding until 2006, at which time the states as a whole will begin to spend portions of their balances accumulated from 1997 to 2005. CBO estimates that total unspent balances will grow from \$7.1 billion at the end of 1998 to \$25.4 billion at the end of 2005.

Of course, any spending projection involves considerable uncertainty. CBO and other forecasters did not anticipate the rapid escalation of spending in programs such as AFDC, Food Stamps, and Medicaid from 1989 to 1992 nor the speed at

TABLE 1. TEMPORARY ASSISTANCE FOR NEEDY FAMILIES, CBO MARCH 1999 BASELINE (By fiscal year, in billions of dollars)

Year	Budget Authority	Outlays	Annual Unspent Balance	Cumulative Unspent Balance
1997 ^a	13.4	9.7	3.7	3.7
1998 ^a	16.7	13.3	3.4	7.1
1999	17.1	12.6	4.5	11.6
2000	17.1	12.6	4.5	16.1
2001	17.2	13.2	4.0	20.1
2002	16.8	14.2	2.7	22.8
2003	16.8	15.3	1.6	24.3
2004	16.8	16.0	0.9	25.2
2005	16.8	16.6	0.2	25.4
2006	16.8	17.3	-0.4	25.0
2007	16.8	18.0	-1.1	23.9
2008	16.8	18.7	-1.8	22.1
2009	16.8	19.4	-2.6	19.5

SOURCE: Congressional Budget Office.

a. Actual.

which spending in those programs (or their successors) would decelerate or even decline from 1994 to 1998. Given that history, policymakers should weigh any particular forecast cautiously before acting. Sharp changes in economic conditions like those of the early 1980s and 1990s can quickly render any spending projections obsolete because unemployment can increase application rates for such programs and the rate at which recipients leave the programs. Most states have large unspent TANF balances; therefore, a sharp turnaround in the number of caseloads would, in all likelihood, initially show up almost entirely as additional federal spending.

PROJECTED SPENDING FOR CHILD CARE PROGRAMS

Deliberations about welfare reform in 1995 and 1996 raised concern about the adequacy of funding for the child care services required by welfare recipients and other low-income families as welfare programs focused increasingly on work activities. Consequently, PRWORA included a substantial increase—\$4.5 billion—in mandatory funding for child care services during the 1997-2002 period. Although child care outlays in 1997 fell \$237 million short of CBO's original estimates, spending in 1998 slightly exceeded the PRWORA estimates. CBO now projects that the states will fully absorb all of the budgetary resources provided explicitly for child care services beginning in 1999 (see Table 2).

In addition to the Child Care Entitlement to States program, the federal government annually provides states with \$1 billion in discretionary child care funding through the Child Care and Development Block Grant. The block grant funds, originally authorized in 1990, are directed toward providing services to low-income families and supporting quality child care activities. Although spending under the block grant grew slowly in the early 1990s, in more recent years the states have essentially drawn the entire amount of the block grant—a pattern that CBO expects will continue.

TABLE 2. CHILD CARE ENTITLEMENT TO STATES, CBO MARCH 1999 BASELINE
(By fiscal year, in billions of dollars)

Year	Budget Authority	Outlays
1999	2.2	2.4
2000	2.4	2.4
2001	2.6	2.5
2002	2.7	2.7
2003	2.7	2.7
2004	2.7	2.7
2005	2.7	2.7
2006	2.7	2.7
2007	2.7	2.7
2008	2.7	2.7
2009	2.7	2.7

SOURCE: Congressional Budget Office.

The President's fiscal year 2000 budget includes several proposals to expand child care funding. One proposal would provide supplemental matching funds under the Child Care Entitlement to States program, allowing states to offer additional child care subsidies and activities to improve the quality of child care. Another proposal would create an early-learning fund that would provide grants to communities for activities aimed at improving the quality of child care for children under age 6. Assuming that the states would have to contribute 20 percent of the total funding for each program, CBO estimates that outlays would be \$1.0 billion in 2000 and \$9.4 billion from 2000 to 2004.

CONCLUDING REMARKS

CBO projects that under current law, states will continue to accumulate sizable surpluses under the TANF program overall. Meanwhile, the states will exhaust federal funds provided exclusively for child care services. Although states have great latitude in directing TANF surpluses toward child care, so far they are not doing so on a wide scale. Whether state priorities concerning TANF funds will change now that the federal child care funding has been fully tapped is unknown.