CBO MEMORANDUM

FEDERAL BUDGETARY IMPLICATIONS OF THE PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY RECONCILIATION ACT OF 1996

December 1996

CONGRESSIONAL BUDGET OFFICE

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SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

NOTES

Unless otherwise indicated, all years are fiscal years.

Numbers in the text and tables of this memorandum may not add to totals because of rounding.

This Congressional Budget Office (CBO) memorandum describes the budgetary effects of Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. It is part of CBO's ongoing efforts to explain and document its cost estimates.

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SUMMARY AND INTRODUCTION

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) makes major changes in federal welfare programs. The act replaces federal payments under the current Aid to Families with Dependent Children program with a block grant to states, restricts the eligibility of legal aliens for welfare benefits, modifies the benefits and eligibility requirements in the Food Stamp and child nutrition programs, changes the operation and financing of the federal and state child support enforcement system, increases funding for child care programs, and tightens the eligibility requirements for disabled children under the Supplemental Security Income program. In this memorandum, the Congressional Budget Office (CBO) assesses the effects of welfare reform on the federal budget.

Although the act was signed by the President on August 22, 1996, its impact on direct spending and revenues in 1996 is negligible. The act reduces federal spending by an estimated $2.9 billion in 1997 and by $54.2 billion over the 1997-2002 period; it increases revenues by $60 million and $394 million, respectively. Summary Tables 1 and 2 present estimates of the act's budgetary effects by program and title.

TITLE I: TEMPORARY ASSISTANCE FOR NEEDY FAMILIES BLOCK GRANT

Title I alters the method by which the federal government shares the cost of providing cash and training assistance to low-income families with children. It combines several current entitlement programs—Aid to Families with Dependent Children (AFDC), emergency assistance, and the Job Opportunities and Basic Skills Training (JOBS) program—into a single block grant with a fixed funding level. Title I also repeals current child care funding for low-income families. (Title VI establishes a new program to fund those activities.) Finally, it extends through 2001 an existing Medicaid benefit for families leaving public assistance and provides new funding for determining eligibility for Medicaid.

CBO projects that under prior law, 4.7 million families (13.1 million individuals) would have received AFDC cash benefits in 1997. By 2002, 5 million families (14 million individuals) would have been on the benefit rolls. The federal government would have spent an estimated $15.9 billion on AFDC benefits, AFDC administration, AFDC emergency assistance, and the JOBS program in 1997—$0.7 billion less than under title I (excluding child care and Medicaid). By

SUMMARY TABLE 1. FEDERAL BUDGETARY EFFECTS OF P.L. 104-193, THE PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY RECONCILIATION ACT OF 1996, BY PROGRAM (By fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Projected Direct Spending Under Prior Law									
Family support payments a/	18,086	18,371	18,805	19,307	19,935	20,557	21,245	21,937	n.a.
Food Stamp program b/	25,554	26,220	27,749	29,702	31,092	32,476	33,847	35,283	n.a.
Supplemental Security Income	24,510	24,017	27,904	30,210	32,576	37,995	34,515	40,348	n.a.
Medicaid	89,070	95,786	105,081	115,438	126,366	138,154	151,512	166,444	n.a.
Child nutrition c/	7,899	8,428	8,898	9,450	10,012	10,580	11,166	11,767	n.a.
Old-Age, Survivors, and Disability Insurance	333,273	348,186	365,403	383,402	402,351	422,412	444,081	466,767	n.a.
Foster care d/	3,282	3,840	4,285	4,687	5,083	5,506	5,960	6,433	n.a.
Social Services Block Grant	2,797	2,880	3,010	3,050	3,000	2,920	2,870	2,840	n.a.
Earned income tax credit	15,244	18,440	20,191	20,894	21,691	22,586	23,412	24,157	n.a.
Maternal and child health	0	0	0	0	0	0	0	0	n.a.
Total	519,715	546,168	581,326	616,140	652,106	693,186	728,608	775,976	n.a.
Changes									
Family support payments a/	0	e	875	900	907	777	471	-131	3,800
Food Stamp program b/	0	e	-2,098	-3,949	-4,139	-4,209	-4,349	-4,583	-23,330
Supplemental Security Income	0	e	-793	-3,526	-4,280	-4,824	-4,344	-4,958	-22,725
Medicaid	0	0	-38	-514	-567	-581	-948	-1,433	-4,082
Child nutrition c/	0	e	-128	-403	-494	-553	-605	-670	-2,853
Old-Age, Survivors, and Disability Insurance	0	0	-5	-10	-15	-15	-20	-20	-85
Foster care d/	0	e	68	25	16	31	41	51	232
Social Services Block Grant	0	0	-375	-420	-420	-420	-420	-420	-2,475
Earned income tax credit	0	0	-445	-456	-463	-480	-493	-515	-2,852
Maternal and child health	0	0	0	18	35	50	50	50	203
Total	0	e	-2,939	-8,335	-9,419	-10,224	-10,618	-12,630	-54,167
Revenues									
Earned income tax credit	0	e	60	61	62	65	68	78	394
Net Deficit Effect	0	e	-2,999	-8,396	-9,481	-10,289	-10,686	-12,708	-54,561
Projected Direct Spending Under P.L. 104-193									
Family support payments a/	18,086	18,371	19,680	20,207	20,842	21,334	21,716	21,806	n.a.
Food Stamp program b/	25,554	26,220	25,651	25,753	26,953	28,267	29,498	30,700	n.a.
Supplemental Security Income	24,510	24,017	27,111	26,684	28,296	33,171	30,171	35,390	n.a.
Medicaid	89,070	95,786	105,043	114,924	125,799	137,573	150,564	165,011	n.a.
Child nutrition c/	7,899	8,428	8,770	9,047	9,518	10,027	10,561	11,097	n.a.
Old-Age, Survivors, and Disability Insurance	333,273	348,186	365,398	383,392	402,336	422,397	444,061	466,747	n.a.
Foster care d/	3,282	3,840	4,353	4,712	5,099	5,537	6,001	6,484	n.a.
Social Services Block Grant	2,797	2,880	2,635	2,630	2,580	2,500	2,450	2,420	n.a.
Earned income tax credit	15,244	18,440	19,746	20,438	21,228	22,106	22,919	23,642	n.a.
Maternal and child health	0	0	0	18	35	50	50	50	n.a.
Total	519,715	546,168	578,387	607,805	642,686	682,962	717,991	763,347	n.a.

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTE: n.a. = not applicable.

a. Under prior law, family support payments include spending on Aid to Families with Dependent Children (AFDC), AFDC-related child care, administrative costs for child support enforcement, net federal savings from child support collections, and the Job Opportunities and Basic Skills Training program (JOBS). Under P.L. 104-193, family support payments include spending on the Temporary Assistance for Needy Families Block Grant, administrative costs for child support enforcement, the Child Care Block Grant, and net federal savings from child support collections.

b. The Food Stamp program includes Nutrition Assistance for Puerto Rico and the new Emergency Food Assistance program.

c. Child nutrition refers to direct spending authorized by the National School Lunch Act and the Child Nutrition Act.

d. Under prior law, foster care includes the foster care program, adoption assistance, Independent Living, and Family Preservation and Support. Under P.L. 104-193, foster care includes those programs plus the National Random Sample Study of Child Welfare.

e. Less than $500,000.

SUMMARY TABLE 2. FEDERAL BUDGETARY EFFECTS OF P.L. 104-193, THE PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY RECONCILIATION ACT OF 1996, BY PROGRAM (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Title I: Temporary Assistance For Needy Families Block Grant								
Budget authority	10	-212	-1,125	-989	-837	-1,109	-1,839	-6,100
Outlays	a	-569	-937	-819	-667	-1,054	-1,814	-5,859
Title II: Supplemental Security Income								
Budget authority	a	-408	-1,031	-1,525	-1,869	-1,729	-2,048	-8,610
Outlays	a	-408	-1,031	-1,525	-1,869	-1,729	-2,048	-8,610
Title III: Child Support Enforcement								
Budget authority	88	-21	144	168	183	110	74	746
Outlays	a	25	148	172	184	110	74	712
Title IV: Restricting Welfare and Public Benefits for Aliens								
Budget authority	a	-1,174	-3,947	-4,311	-4,662	-4,525	-5,036	-23,655
Outlays	a	-1,174	-3,947	-4,311	-4,662	-4,525	-5,036	-23,655
Title V: Child Protection								
Budget authority	6	86	6	6	6	6	6	122
Outlays	a	68	25	6	6	6	6	117
Title VI: Child Care								
Budget authority	a	1,967	2,067	2,167	2,367	2,567	2,717	13,852
Outlays	a	1,635	1,975	2,082	2,227	2,377	2,482	12,778
Title VII: Child Nutrition Programs								
Budget authority	a	-151	-449	-505	-563	-615	-680	-2,963
Outlays	a	-128	-403	-494	-553	-605	-670	-2,853
Title VIII: Food Stamps and Commodity Distribution								
Budget authority	a	-1,792	-3,539	-3,918	-4,282	-4,580	-4,990	-23,103
Outlays	a	-1,792	-3,539	-3,918	-4,282	-4,580	-4,990	-23,103
Title IX: Miscellaneous								
Budget authority	0	-641	-594	-597	-608	-618	-634	-3,692
Outlays	0	-596	-626	-612	-608	-618	-634	-3,694
Total								
Budget authority	104	-2,346	-8,468	-9,504	-10,265	-10,493	-12,430	-53,403
Outlays	a	-2,939	-8,335	-9,419	-10,224	-10,618	-12,630	-54,167

SOURCE: Congressional Budget Office.

a. Less than $500,000.

2002, projected spending under prior law ($18.3 billion) would have exceeded projected spending under title I (excluding child care and Medicaid) by $0.3 billion (see Table 1).

Effect of the Block Grant on Cash Benefits and Training Assistance

The Temporary Assistance for Needy Families (TANF) block grant replaces federal participation for AFDC benefit payments, AFDC administrative costs, AFDC emergency assistance benefits, and the JOBS program. The act sets the base level of the block grant at $16.4 billion annually through 2002. Each state is entitled to a portion of the grant based on its recent spending in the AFDC and JOBS programs. States can operate under the AFDC and JOBS programs until July 1, 1997. States will not use the entire $16.4 billion block grant in 1997 because most states will operate under the AFDC and JOBS programs for part of the year. A state's 1997 block grant will be reduced by the greater of (1) the amount the state receives under the AFDC and JOBS programs in 1997 or (2) the percentage of the year the state operates under the old program times the amount of the state's block grant.

A state can qualify to receive more than the amount of the basic block grant in four ways. First, a state that meets specified criteria related to its poverty level and population growth will receive a supplemental grant in 1998 equal to 2.5 percent of 1994 federal payments to the state for AFDC, emergency assistance, and JOBS. In each successive year that the state meets the criteria, the supplemental grant will increase. Supplemental grants will be available from 1998 through 2001, and the total amount of additional funding for those grants is capped at $800 million. A state that does not meet the qualifying criteria in 1998 will not be eligible to qualify in any later year. CBO estimates that 20 states will receive supplemental grants totaling $87 million in 1998, rising to $278 million by 2001 (see Table 1).

Second, up to five states can receive bonuses of $20 million to $25 million each year from 1999 through 2002 if the number of out-of-wedlock births in the state for the prior two years decreases compared with the number of out-of-wedlock births in the two-year period before that. A state will not be eligible for such a grant in a year in which its abortion rate is higher than its 1995 rate. Because there is no good basis for projecting the effect of the act on out-of-wedlock births, CBO relied on historical data. If the policy had been in place in a recent five-year period, an average of two states a year would have qualified for grants. Therefore, the estimate assumes that, on average, two states will qualify each year at an annual federal cost of $50 million. Even if more states reduce the number of out-of-wedlock births, the cost cannot exceed $100 million a year.

TABLE 1. FEDERAL BUDGETARY EFFECTS OF THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES BLOCK GRANT IN TITLE I OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
				By Provision				
Repeal of AFDC, Emergency Assistance, and JOBS Programs								
Family support payments								
Budget authority	a	-8,021	-16,550	-17,003	-17,439	-17,893	-18,342	-95,247
Outlays	a	-7,925	-16,510	-16,973	-17,409	-17,863	-18,322	-95,001
Repeal of Child Care Programs b/								
Family support payments								
Budget authority	0	-1,405	-1,480	-1,540	-1,595	-1,655	-1,715	-9,390
Outlays	0	-1,345	-1,475	-1,535	-1,590	-1,650	-1,710	-9,305
Authorize Temporary Family Assistance Block Grant								
Family support payments								
Budget authority	a	8,368	16,389	16,389	16,389	16,389	16,389	90,314
Outlays	a	8,300	16,389	16,389	16,389	16,389	16,389	90,246
Supplemental Grants Related to Population Growth and Poverty Level								
Family support payments								
Budget authority	0	0	87	174	261	278	0	800
Outlays	0	0	87	174	261	278	0	800
Food Stamp program								
Budget authority	0	0	-5	-10	-15	-15	0	-45
Outlays	0	0	-5	-10	-15	-15	0	-45
Grants to States that Reduce Out-of-Wedlock Births								
Family support payments								
Budget authority	0	0	0	50	50	50	50	200
Outlays	0	0	0	50	50	50	50	200
Bonus to Reward High-Performance States								
Family support payments								
Budget authority	0	0	0	200	200	200	200	800
Outlays	0	0	0	200	200	200	200	800
Contingency Fund c/								
Family support payments								
Budget authority	0	107	210	313	393	473	565	2,061
Outlays	0	107	210	313	393	473	565	2,061
Food Stamp program								
Budget authority	0	-5	-15	-20	-25	-30	-35	-130
Outlays	0	-5	-15	-20	-25	-30	-35	-130
Study by the Bureau of the Census								
Family support payments								
Budget authority	10	10	10	10	10	10	10	70
Outlays	a	4	18	10	10	10	10	62

(Continued)

TABLE 1. Continued

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Research, Evaluations, and National Studies								
Family support payments								
Budget authority	0	15	15	15	15	15	15	90
Outlays	0	3	15	15	15	15	15	78
Grants to Indian Tribes that Received JOBS Funds in 1995								
Family support payments								
Budget authority	0	8	8	8	8	8	8	46
Outlays	0	6	8	8	8	8	8	44
Hold States Harmless for Cost-Neutrality Liabilities								
Family support payments								
Budget authority	0	50	0	0	0	0	0	50
Outlays	0	50	0	0	0	0	0	50
Penalties for States' Failure to Meet Work Requirements								
Family support payments								
Budget authority	0	0	0	-50	-50	-50	-50	-200
Outlays	0	0	0	-50	-50	-50	-50	-200
Grants to Territories								
Family support payments								
Budget authority	0	116	116	116	116	116	116	696
Outlays	0	116	116	116	116	116	116	696
Extension of Transitional Medicaid Benefits								
Medicaid								
Budget authority	0	0	0	180	390	400	210	1,180
Outlays	0	0	0	180	390	400	210	1,180
Increased Medicaid Administrative Payment								
Medicaid								
Budget authority	0	500	0	0	0	0	0	500
Outlays	0	75	135	135	135	20	0	500
Effect of the Block Grant on Other Programs								
Food Stamp program								
Budget authority	0	45	90	170	430	560	695	1,990
Outlays	0	45	90	170	430	560	695	1,990
Foster care program								
Budget authority	0	0	0	10	25	35	45	115
Outlays	0	0	0	10	25	35	45	115

(Continued)

TABLE 1. Continued

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
By Account								
Family Support Payments								
Budget authority	10	-752	-1,195	-1,319	-1,642	-2,059	-2,754	-9,710
Outlays	0	-684	-1,142	-1,284	-1,607	-2,024	-2,729	-9,469
Food Stamp Program								
Budget authority	0	40	70	140	390	515	660	1,815
Outlays	0	40	70	140	390	515	660	1,815
Foster Care Program								
Budget authority	0	0	0	10	25	35	45	115
Outlays	0	0	0	10	25	35	45	115
Medicaid								
Budget authority	0	500	0	180	390	400	210	1,680
Outlays	0	75	135	315	525	420	210	1,680
Total								
All Provisions/ All Accounts								
Budget authority	10	-212	-1,125	-989	-837	-1,109	-1,839	-6,100
Outlays	0	-569	-937	-819	-667	-1,054	-1,814	-5,859
Excluding Child Care and Medicaid								
Budget authority	10	693	355	371	368	146	-334	1,610
Outlays	0	701	403	401	398	176	-314	1,766

SOURCE: Congressional Budget Office.

NOTE: AFDC = Aid to Familes with Dependent Children; JOBS = Job Opportunities and Basic Skills Training.

a. Less than $500,000.

b. Funds for previous child care programs are repealed by this title, but equal or greater funding for similar activities is restored in title VI.

c. The act appropriates $2 billion for the contingency fund for use in years 1997 through 2001. The estimate shows costs of the contingency fund in 2002 because section 257(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985 requires that the baseline assume that mandatory programs greater than $50 million are continued.

Third, a state that meets criteria set by the Secretary of Health and Human Services (HHS) for high performance in meeting the goals of the act can receive a bonus of up to 5 percent of its block grant each year. High-performance bonuses are capped at $200 million each year for the 1999-2003 period.

Fourth, the act establishes the Contingency Fund for State Welfare Programs for use by states in the 1997-2001 period. The $2 billion in the fund will be available to states with high and increasing unemployment rates or growth in Food Stamp caseloads.[1] CBO assumes that the contingency fund will continue in 2002 under the same terms. (The Balanced Budget and Emergency Deficit Control Act of 1985 requires that mandatory programs greater than $50 million be continued in the baseline.) A state that is eligible in each month of the year can receive an annual maximum of 20 percent of its block grant amount. States are required to continue at least their historical level of spending and to match federal payments at the rate used in the Medicaid program. CBO estimates that states will draw down about $100 million from the contingency fund in 1997 and will use a little more than $2 billion from the fund over the 1997-2002 period. Use of the contingency fund will grow from year to year as an increasing number of states register significant growth in the Food Stamp program since 1994 or 1995.

The act authorizes the Secretary of HHS to make loans to states to use for welfare programs. States may borrow up to 10 percent of their family assistance grants and will have to repay borrowed amounts, with interest, within three years. Any state may borrow from the loan fund in any year regardless of its economic circumstances. CBO estimates that the new authority to make loans will not generate additional outlays. Although up to $1.7 billion will be made available to states for loans, CBO assumes that every state that borrows funds will repay its loans with interest. Since the Secretary has the authority to withhold any unpaid loan amount from future payments under the TANF block grant, the program involves no long-run loss to the federal government, and under the credit reform provisions of the Congressional Budget Act, it has no cost.

The act makes several other changes affecting family support payments. It provides additional federal funds for a study by the Bureau of the Census ($10 million per year); research, evaluations, and national studies ($15 million per year); and grants for Indian tribes that received JOBS funds in 1995 ($7.6 million per

1. A state whose unemployment rate for the most recent quarter is greater than or equal to 6.5 percent and at least 10 percent higher than the unemployment rate for either of the corresponding quarters in the two previous years will be eligible to draw from the contingency fund. Also, a state whose participation in the Food Stamp program increases by at least 10 percent over its participation for 1994 or 1995 (adjusted for the impact of this act had it been in effect in those years) will be eligible. A state will be eligible in any month it meets one of those criteria and in the following month.

year).[2] States that were operating demonstration projects under waivers are allowed to discontinue those projects. The states are not required to pay the federal government for any federal costs accrued under those waivers. That provision will cost the federal government $50 million in 1997. In addition, states that fail to meet the act's work participation requirements will be subject to penalties totaling an estimated $50 million annually from 1999 through 2002. Finally, the act makes more money available to territories for assistance programs and provides greater flexibility in how the money is spent. The new $116 million cap on payments to the territories represents an increase of about $10 million over prior-law amounts, which comprised a part of the family support payments repealed by this act.

In the Medicaid program, the act maintains the current-law transitional benefits for people who would otherwise lose coverage because of increased child support or increased earnings from employment. The act extends the sunset date for that benefit from 1998 to 2001 at a cost of up to $400 million each year. In general, the act retains categorical eligibility for Medicaid families who meet the eligibility criteria for AFDC—that is, such families are not affected by changes in eligibility for welfare resulting from the new block grant program. The act provides up to $500 million over the 1997-2000 period for additional administrative expenses incurred in determining eligibility.

Criteria for State Participation in the Block Grant

To participate in the block grant program, states must present an assistance plan to the Department of Health and Human Services and must ensure that block grant funds are spent only on needy families with minor children. States are required to continue to spend some of their own resources in order to receive their full allotment from the block grant. The federal grant will be reduced one dollar for every dollar that a state's spending falls below 80 percent of its historical spending level (75 percent of the historical level for any state that meets the act's work participation requirements).

States must also satisfy other conditions. Notably, they are prohibited from providing federal dollars to most families who receive cash assistance for more than five years after the effective date of the block grant program (July 1, 1997, or earlier at state option). States may choose a shorter time limit and may grant hardship exemptions for up to 20 percent of all families. Although no family can encounter a five-year time limit until October 1, 2001, the limit's effect on welfare participation may be noticed sooner if recipients shorten their stays on welfare or delay

2. Public Law 104-208, the Omnibus Consolidated Appropriations Act, subsequently rescinded the appropriation for research, evaluations, and national studies in 1997.

childbearing in order to preserve access to the system in future years. The full effect of such a limit will probably not be realized until 2004 or later. Under current demographic assumptions, this provision could eventually reduce cash assistance rolls by 30 percent to 40 percent. The actual effect of the time limit on families is uncertain, however, because states and localities may provide cash assistance to such groups using their own resources. The inclusion of the time limit in the legislation does not affect the estimate of federal costs through 2002 because it does not directly change the amount of block grant funds disbursed to the states and will not yet have a significant effect on caseloads. After 2002, when the full effect of the time limit is realized, reductions in TANF caseloads and benefits will increase costs in the Food Stamp and Child Support Enforcement programs.

Work and Training Requirements Under the Block Grant

Title I requires states to provide work and training activities for a growing percentage of recipients of Temporary Assistance to Needy Families or face penalties. States will face three separate requirements, each becoming increasingly difficult to satisfy over time.

First, the act requires that states have 25 percent of certain families receiving cash assistance in work activities in 1997. The required participation rates will rise by 5 percentage points a year through 2002. In general, the required participation rate is reduced by 1 percentage point for each percentage point that a state's caseload is below its 1995 level. Reductions in caseload stemming from changes in federal or state eligibility rules are not counted. Participants will be required to work 20 hours a week through 1998, 25 hours in 1999, and 30 hours in 2000 and after. Families with no adult recipient or with a recipient experiencing a sanction for nonparticipation (for up to three months) are not included in the participation calculation. Families in which the youngest child is less than a year old will be exempt for up to one year at the state's option.

Starting in 2002, states will have to show on a monthly basis that individuals in up to 50 percent of all nonexempt families are participating in work activities. At this time, without knowing how states will respond to the act, it is difficult to estimate the effect of the act on welfare caseloads. Taking account of reductions in projected caseload and the number of families in the exempt categories, CBO estimates that meeting that goal will require the participation of as many as 1.7 million recipients nationwide. By contrast, program data for 1994 indicate that, in an average month, only about 450,000 individuals participated at least 20 hours per week in the JOBS program. (The act limits the number of individuals in education and training programs who can be counted as participants, so many current JOBS participants will not qualify as participants under the new program.)

Most states will be unlikely to satisfy this requirement for several reasons. The costs of administering such a large-scale work and training program will be high, and federal funding will be frozen at historical levels. CBO estimates that states will need to invest an additional $13 billion in 1997 through 2002 in order to administer programs that satisfy the requirements (see Box 1). Because employment programs have had only modest success in reducing the welfare caseload, states may be reluctant to commit their own funds to such programs. Some states may technically meet the required participation requirement without increasing the number of recipients working. For example, if a state simply transfers a large share of its current cases to a state-funded assistance program while nominally maintaining their eligibility for TANF, it can significantly reduce its caseload in the TANF program and consequently reduce its required participation rate. If several states take that approach, or if TANF caseloads decline more rapidly for other reasons, fewer than 1.7 million recipients will be required to participate in work activities.

Second, while tracking the work requirement for all families, states must simultaneously track a separate guideline for the smaller number of nonexempt families with two parents participating in the AFDC-Unemployed Parent (AFDC-UP) program. About 300,000 two-parent families currently participate in the AFDC-UP program. The act requires that by 2002, 90 percent of such families include an adult who participates in work-related activities at least 35 hours per week. In addition, if the family uses federal funds to pay for child care, the spouse must participate in work activities at least 20 hours per week. In 1994, states attempted to implement a requirement that 40 percent of AFDC-UP families participate, but roughly 40 states failed to meet that level of participation.

Third, states must ensure that all parents who have received cash assistance for more than two years engage in work activities. Approximately 70 percent of all parents on the cash assistance rolls in 2002 will have received such assistance for two years or more since the act's effective date of August 1996. The experience of the JOBS program to date suggests that implementing such a requirement is well outside the states' abilities.

In sum, each work requirement will represent a significant challenge to states. Given the costs and administrative complexities involved, CBO assumes that most states will simply accept penalties rather than try to meet the requirements. The act authorizes penalties of up to 5 percent of the block grant amount for the first failure to meet the requirements and increasing penalties for each subsequent failure. However, CBO assumes—consistent with current practice—that the Secretary of Health and Human Services will impose small penalties (less than one-half of one percent of the block grant) on noncomplying states. No penalty is specified for states that fail to require parents who have received cash assistance for more than two years to engage in work activities.

BOX 1.
COST OF MEETING THE WORK REQUIREMENTS

The welfare reform legislation requires that a large and increasing percentage of welfare recipients participate in work or training programs. The Congressional Budget Office (CBO) estimates that the cost of a work program that meets those requirements could involve as many as 1.7 million participants by 2002 and could cost as much as $21.2 billion over the 1997-2002 period (see the accompanying table). The estimate assumes that states maintain a level of quality in their work programs similar to the level that exists today, and that states do not attempt to avoid meeting the work requirements by transferring a large share of their current caseload in the Aid to Families with Dependent Children (AFDC) program to state-funded general assistance programs. Because the costs of meeting the work requirements are high, CBO's federal cost estimate assumes that states are more likely to accept penalties than to meet the requirements.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) does not specifically earmark any funding for work programs. Instead, the costs of work programs are one of the allowed expenditures under the Temporary Assistance for Needy Families (TANF) block grant. The block grant is set at $16.4 billion a year—a level similar to recent federal spending on the AFDC, Job Opportunities and Basic Skills Training (JOBS), and emergency assistance programs. In 1994, federal and state spending on JOBS amounted to $1.4 billion. If states continued to spend that amount on work programs, they would be underfunded by $13.1 billion over the 1997-2002 period. States could spend a larger share of the block grant on work programs, however, if they reduced other services.

The act prohibits a state from cutting off assistance for refusal to work if an individual is the single parent of a child under age 6 and if suitable and affordable child care is not available. As a result, a state must assist TANF recipients in obtaining child care if it is to meet the law's work requirements. The law provides $13.9 billion in federal funds for that purpose; together with the states' matching share, $24.0 billion would be available for child care over the 1997-2002 period. In comparison, CBO estimates that if states met the work requirements, the cost of providing work-related child care would total only $18.9 billion over the same period. However, if states provided child care to participants in work programs and maintained spending on the Transitional and At-Risk Child Care programs, which the new law repeals, they would have to spend a cumulative total of $25.4 billion.[1] CBO's estimate assumes that in order to meet the work requirements of the law, states would have to pay all the costs of caring for children under age 6 and most of the costs for older children.

1. The Transitional Child Care program guaranteed child care for up to 12 months for families

ESTIMATED COST OF THE WORK PROGRAM AND RELATED CHILD CARE
(By fiscal year, in millions of dollars)

	1997	1998	1999	2000	2001	2002	Total 1997-2002
Work Program							
Estimated Cost of the Work Program	1,730	2,200	2,980	3,985	4,740	5,595	21,230
Spending for the JOBS Program in 1994	1,360	1,360	1,360	1,360	1,360	1,360	8,160
Shortfall	-370	-840	-1,620	-2,625	-3,380	-4,235	-13,070
Work-Related Child Care							
Estimated Cost of Child Care if States Meet the Work Requirements	1,510	1,990	2,690	3,550	4,230	4,970	18,940
Funding for Child Care Under P.L. 104-193	3,410	3,580	3,750	4,090	4,430	4,690	23,950
Excess or Shortfall (-)	1,900	1,590	1,060	540	200	-280	5,010
Work-Related, At-Risk, and Transitional Child Care							
Estimated Cost of Child Care if States Meet the Work Requirements	1,510	1,990	2,690	3,550	4,230	4,970	18,940
Spending for At-Risk and Transitional Child Care Under Prior Law	980	1,030	1,060	1,090	1,110	1,140	6,410
Total	2,490	3,020	3,750	4,640	5,340	6,110	25,350
Funding for Child Care Under P.L. 104-193	3,410	3,580	3,750	4,090	4,430	4,690	23,950
Excess or Shortfall (-)	920	560	0	-550	-910	-1,420	-1,400

SOURCE: Congressional Budget Office.

NOTE: Amounts include both federal and state shares.

Effect of the Block Grant on Other Programs

Replacing AFDC with a block grant may affect receipt of other federal benefits, including food stamps, foster care, and Medicaid.

Food Stamp Program. CBO estimates that enacting the block grant for family support will result in families receiving lower average cash payments and, consequently, higher Food Stamp benefits. Each dollar a participating family loses in cash increases its Food Stamp benefits by about 30 cents. CBO estimates that the new law will reduce the income of AFDC families by $2.3 billion in 2002, generating a cost in the Food Stamp program in that year of nearly $700 million. By 2002, the block grant amount will be 10 percent lower than projected federal spending on AFDC and related programs. Therefore, for purposes of determining the costs of the Food Stamp program, CBO assumes that by 2002, cash benefits funded by the block grant will be 10 percent lower than under prior law. CBO also assumes that by 2002, states will spend, on average, 15 percent less of their own funds on cash benefits than they would have spent under prior law. Should states decide to spend more or less than that amount, the costs of the Food Stamp program will be smaller or greater than the estimate.

Foster Care Program. Although the act does not directly amend foster care maintenance payments, which will remain an open-ended entitlement with state expenditures matched by the federal government, the act could affect the amount of spending on the foster care program. By retaining the foster care benefits as a matched entitlement, the act creates an incentive for states to shift AFDC children who are also eligible for foster care benefits into the foster care program. AFDC administrative data for 1993 suggest that roughly 500,000 children, or 5 percent of all children on AFDC, fall into that category because they live in a household without a parent. CBO assumes that a number of legal and financial barriers will prevent states from transferring a large share of such children and estimates that states will collect an additional $10 million in foster care payments in 1999, rising to $45 million in 2002.

Medicaid Program. Under the act, categorical eligibility for Medicaid families that meet the eligibility criteria for AFDC is generally the same as under prior law with some modifications. States must use AFDC income and resource standards and methodologies in effect on July 16, 1996, to determine Medicaid eligibility. As under prior law, states have the option to lower income standards to the May 1, 1988, levels or to increase income standards; however, those increases are limited to the annual increase in the consumer price index (CPI). In a departure from prior law, states may increase resource standards (by no more than the annual increase in the

CPI) and link eligibility to compliance with work requirements under the block grant. Overall, the block grant will have no significant budgetary effect on the Medicaid program.

TITLE II: SUPPLEMENTAL SECURITY INCOME

The bulk of the savings in title II stems from imposing tighter eligibility criteria for children seeking disability benefits under the Supplemental Security Income (SSI) program. Title II also makes a variety of other changes. It reduces the amount of the benefit in the first month for new SSI applicants, requires the disbursement of large retroactive payments in installments rather than in a single lump, and offers payments to prison officials who help to identify ineligible SSI recipients in their institution. Net savings, which reflect additional spending in the Food Stamp program, are estimated to equal \$2.0 billion in 2002 and \$8.6 billion over the 1997-2002 period (see Table 2).

Disabled Children

The SSI program, which is run by the Social Security Administration (SSA), pays benefits to certain low-income aged and disabled people. The maximum benefit for an individual will be \$484 a month in 1997. The act revamps the SSI program for disabled children.

Previously, low-income children could qualify for SSI benefits in two ways: their condition could match one of the medical listings (a catalog of specific impairments with accompanying clinical findings); or they could be evaluated under an individualized functional assessment (IFA) that determined whether an unlisted impairment seriously limited a child's ability to perform activities normal for his or her age. Both methods were spelled out in the regulations. Until the Supreme Court's 1990 decision in *Sullivan v. Zebley*, the medical listings were the sole path to eligibility for children. Adults, in contrast, could receive an assessment of their functional and vocational capacities even if they did not meet the listings. The Court ruled that sole reliance on the listings did not satisfy the law's requirement to gauge whether children's disorders were of "comparable severity" to impairments that would disable adults.

The act eliminates childhood IFAs and their statutory underpinning—the "comparable severity" rule—as a basis for receiving benefits. Many children on the rolls as a result of an IFA (roughly a quarter of the children now on SSI) will have their benefits terminated, and future awards based on an IFA will be barred. Thus, the program will be restricted to those who meet or equal the listings. The act also

TABLE 2. FEDERAL BUDGETARY EFFECTS OF CHANGES IN THE SUPPLEMENTAL SECURITY INCOME PROGRAM IN TITLE II OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
By Provision								
SSI Benefits to Certain Children								
Supplemental Security Income								
Budget authority	a	-125	-925	-1,450	-1,800	-1,675	-2,000	-7,975
Outlays	a	-125	-925	-1,450	-1,800	-1,675	-2,000	-7,975
Food Stamp program b/								
Budget authority	a	20	130	210	240	265	290	1,155
Outlays	a	20	130	210	240	265	290	1,155
Medicaid								
Budget authority	a	-5	-25	-40	-45	-55	-60	-230
Outlays	a	-5	-25	-40	-45	-55	-60	-230
Subtotal								
Budget authority	a	-110	-820	-1,280	-1,605	-1,465	-1,770	-7,050
Outlays	a	-110	-820	-1,280	-1,605	-1,465	-1,770	-7,050
Reduction in SSI Benefits to Certain Hospitalized Children with Private Insurance								
Supplemental Security Income								
Budget authority	0	-40	-55	-60	-70	-60	-65	-350
Outlays	0	-40	-55	-60	-70	-60	-65	-350
End Payment of Prorated Benefits in the Month of Application								
Supplemental Security Income								
Budget authority	a	-55	-130	-150	-160	-165	-175	-835
Outlays	a	-55	-130	-150	-160	-165	-175	-835
Pay Large Retroactive Benefit Amounts in Installments								
Supplemental Security Income								
Budget authority	0	-200	-15	-15	-15	-15	-15	-275
Outlays	0	-200	-15	-15	-15	-15	-15	-275
Make Payments to Penal Institutions That Report Ineligible SSI Recipients								
OASDI (Benefits saved)								
Budget authority	0	-5	-10	-15	-15	-20	-20	-85
Outlays	0	-5	-10	-15	-15	-20	-20	-85
SSI (Benefits saved)								
Budget authority	0	a	-5	-10	-10	-10	-10	-45
Outlays	0	a	-5	-10	-10	-10	-10	-45
SSI (Payments to prison officials)								
Budget authority	0	2	4	5	6	6	7	30
Outlays	0	2	4	5	6	6	7	30
Subtotal								
Budget authority	0	-3	-11	-20	-19	-24	-23	-100
Outlays	0	-3	-11	-20	-19	-24	-23	-100

(Continued)

TABLE 2. Continued

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
			By Account					
Supplemental Security Income								
Budget authority	a	-418	-1,126	-1,680	-2,049	-1,919	-2,258	-9,450
Outlays	a	-418	-1,126	-1,680	-2,049	-1,919	-2,258	-9,450
Food Stamp Program b/								
Budget authority	a	20	130	210	240	265	290	1,155
Outlays	a	20	130	210	240	265	290	1,155
Medicaid								
Budget authority	a	-5	-25	-40	-45	-55	-60	-230
Outlays	a	-5	-25	-40	-45	-55	-60	-230
Old-Age, Survivors, and Disability Insurance								
Budget authority	0	-5	-10	-15	-15	-20	-20	-85
Outlays	0	-5	-10	-15	-15	-20	-20	-85
			Total					
All Provisions/ All Accounts								
Budget authority	a	-408	-1,031	-1,525	-1,869	-1,729	-2,048	-8,610
Outlays	a	-408	-1,031	-1,525	-1,869	-1,729	-2,048	-8,610

SOURCE: Congressional Budget Office.

NOTE: SSI = Supplemental Security Income; OASDI = Old-Age, Survivors, and Disability Insurance.

a. Less than $500,000.
b. Includes interactions with other provisions pertaining to the Food Stamp program.

removes the reference to maladaptive behavior—behavior that is destructive to oneself, others, property, or animals—from the personal/behavioral domain of the medical regulations, thereby barring its consideration as a basis for award.

Even as it repeals the "comparable severity" language, the act creates a new statutory definition of childhood disability. Section 211 states that a child is considered disabled if he or she has "a medically determinable physical or mental impairment, which results in marked and severe functional limitations, and which can be expected to result in death or which has lasted or can be expected to last for . . . 12 months." That language is intended to preserve SSI eligibility for some of the most severely impaired children who previously qualified by way of an IFA because they did not happen to match one of the medical listings.

CBO estimated the savings from these changes by judging how many child recipients would be likely to qualify under the old and new criteria. CBO relied extensively on SSA program data and on analyses conducted by the General Accounting Office and the Inspector General of the Department of Health and Human Services. Approximately 1.0 million children now collect SSI benefits, and CBO projects that the number would have reached 1.4 million in 2002 under prior law. CBO assumed that most children who qualify through an IFA will be rendered ineligible under the new criteria—specifically, those who fail to rate a "marked" or "severe" impairment in at least two areas of functioning. CBO also assumed that the provisions on maladaptive behavior will bar a small percentage of children from eligibility for benefits. Overall, an estimated 22 percent of children who would have collected benefits under prior law will be rendered ineligible.

To estimate the savings in cash benefits relative to prior law, CBO multiplied the number of children assumed to lose benefits by the average benefit. That average benefit was about $430 a month in December 1995 and, because it is indexed to inflation, will grow to an estimated $528 in 2002. New awards will be affected immediately. Children already on the rolls are to be reviewed under the new criteria by September 1997. Savings in cash benefits total $0.1 billion in 1997 and $2.0 billion in 2002.

The cutbacks in children's SSI benefits will affect spending in two other federal programs. Food Stamp outlays will automatically increase to replace a portion of the cash income that the children's families will lose. The extra Food Stamp costs exceed $0.2 billion a year after 1998. Eligibility for SSI benefits generally confers eligibility for Medicaid as well. Once the reviews of children currently on the SSI rolls are finished, the tighter SSI criteria will yield savings in Medicaid of roughly $40 million to $60 million a year. The reason those savings are relatively small is that most of the children dropped from SSI will still qualify for Medicaid based on meeting AFDC criteria or because of their poverty status. About half of the disabled children losing SSI benefits will probably seek TANF benefits. Because TANF is a fixed block grant to the states, however, no extra federal spending would result in that program.

The act makes several other changes to the SSI program for disabled children. One provision sets the benefit at $30 a month for children who are hospitalized and whose bills are partly or fully covered by private insurance. (A similar provision already applied to SSI recipients who were hospitalized and whose care was covered by Medicaid.) CBO assumes that the provision will trim benefits for about 10,000 children in a typical month, with savings of $55 million to $70 million a year after 1997. The act also makes a number of changes in the responsibility of representative payees (people who administer benefits for children or other recipients who are incapable of managing funds), but no significant budgetary effects will result from any of those changes. The act also mandates several studies of disability issues.

The Social Security Administration will face very heavy one-time costs for reviewing its current caseload of disabled children under the new, tighter criteria. According to CBO estimates, SSA will have to collect detailed medical and functional information for 300,000 to 400,000 disabled children on the rolls at enactment, at a total cost of about $300 million. In addition, under restrictions contained in title IV, SSA will have to review the continued eligibility of about 1.4 million recipients who are recorded as aliens or whose citizenship is unknown. Most of the cost will be incurred in 1997 and early 1998. For that reason, the act allows an adjustment to the discretionary spending caps in the Balanced Budget Act to cover SSA's one-time costs. Specifically, the caps will be increased by up to $150 million in 1997 and $100 million in 1998 if the Congress passes appropriations earmarked for those reviews. Because that total adjustment of $250 million hinges on future appropriation action, CBO does not include it as a cost in this act.

Prorated Benefits in the Month of Application

More than 800,000 people are newly awarded SSI benefits every year. Under prior law, they eventually received a prorated benefit for the month in which they applied. A person who applied on the 15th of the month, for example, could receive two weeks of benefits for that month. (The typical applicant did not get that money immediately because SSA might take several months to process the application.) Under the act, benefits will begin on the first day of the month following the date of application. CBO estimated the savings by multiplying the annual volume of awards by an assumed loss of two weeks of benefits for the average person affected. The provision affects only applications filed after enactment, and savings will equal $150 million a year or more when it is fully effective.

Installment Payments of Retroactive Benefits

Another provision of the act changes the method for disbursing large amounts of retroactive benefits. Those benefits occasionally amount to thousands of dollars if the period they cover is a long one. Under prior law, retroactive benefits were paid all at once. Under the act, any retroactive payment that exceeds 12 times the maximum monthly benefit—about $5,600, in 1996 dollars—will be paid in installments at six-month intervals, with each installment equaling up to 12 times the maximum benefit. Exemptions will be granted to recipients suffering from terminal illnesses or other special hardships. The vast majority of recipients will still get their retroactive benefits in a single check, but some (chiefly those whose awards are decided after long appeals) will get them in two or three installments. Most of the savings from this shift will occur in the first year. Based on the relatively small number of people who receive very large retroactive payments, CBO estimates that about $200 million of those payments will shift from 1997 into 1998. Savings after that will be much smaller.

Enforcement of Restrictions on Prisoners' Benefits

The law sets strict limits on payment of SSI benefits to incarcerated people and somewhat milder limits on such payments in the Old-Age, Survivors, and Disability Insurance (OASDI) program. SSI recipients who are in prison for a full month—regardless of whether they are convicted—and OASDI recipients who have been convicted of an offense carrying a maximum sentence of one year or more are to have their benefits suspended. Those who are convicted of lesser crimes, and those who are in jail while awaiting trial, may still collect OASDI benefits. Up to now, those provisions have been enforced chiefly by an exchange of computerized data between the Social Security Administration and the Federal Bureau of Prisons, state prisons, and some county jails. According to SSA's Office of the Inspector General, such agreements cover roughly 73 percent of inmates—all federal and state prisoners but only about 15 percent of county prisoners. Those agreements were voluntary and involved no payments to the institutions.

This act provides for compensation to correctional institutions that report data to SSA. Correctional institutions will receive $400 for reporting information to SSA that leads to identifying an ineligible SSI recipient within 30 days of incarceration, and $200 for reporting within 30 to 90 days.

Information on prisoners who collect benefits is poor. Inmates may know or suspect that their benefits are illegal and thus hide them; they may misreport such crucial identifying information as Social Security numbers. Based on a recent report by SSA's Inspector General, CBO assumed that between 4 percent and 5 percent of inmates are collecting OASDI or SSI when they enter prison.[3] CBO assumed that the recipient population includes roughly equal numbers of OASDI and SSI recipients. At any one time, about 70 percent of prisoners are in state or federal prisons; the rest are in county jails, where spells of incarceration are much shorter and turnover rates are very high.

The provision will have two principal budgetary effects. First, the payments to prison officials will spark greater participation in matching agreements. CBO assumed that state prison officials, who now often let matching agreements lapse for several months at renewal, will renew them more promptly; that a majority of counties will sign up; and that data will be submitted with a shorter lag. From a budgetary standpoint, those changes will lead to savings in benefit payments and offsetting costs for the payments to penal institutions. The act provides that payments be made only to institutions that assist in tagging ineligible SSI recipients. Nevertheless, in the course of matching Social Security numbers and other identifying information, SSA will find that some of the inmates collect OASDI. Therefore, benefit savings will occur in both SSI and OASDI. Second, the provision will add to the workload of SSA. Even if data are submitted electronically, SSA must follow up manually when it appears that an inmate may be receiving benefits. In many cases, SSA may find that the Social Security number is inaccurate or the inmate has already left the jail, leading to little or no savings in benefits from that particular investigation.

Because the provision first applies to prisoners whose period of incarceration begins seven months after enactment, CBO estimates that the provision will yield little benefit savings in 1997. Thereafter, benefit savings will take another year or two to be fully realized as word spreads among state and local correctional officials and as the officials become more attuned to the specific information (such as accurate Social Security numbers) they need to provide. CBO assumed that SSA will start making payments (averaging $300) fairly soon to jurisdictions that already have matching agreements, and later to new jurisdictions that sign up. Over the 1997-2002 period, CBO estimated that benefit savings will equal $130 million and that payments to jurisdictions will cost $30 million, for a net savings of $100 million; OASDI accounts for $85 million of those savings. SSA's extra administrative costs, which in contrast to those two items require a Congressional appropriation, will be about $70 million.

3. Social Security Administration, Office of the Inspector General, *Effectiveness in Obtaining Records to Identify Prisoners* (May 1996), Appendix A.

TITLE III: CHILD SUPPORT ENFORCEMENT

Title III changes many aspects of the operation and financing of the federal and state child support enforcement system. Relative to prior law, those changes cost an estimated $25 million in 1997 and $74 million in 2002 (see Table 3). The key provisions of title III mandate the use of new enforcement techniques with a potential to increase collections, eliminate a $50 payment to welfare recipients for whom child support is collected, allow former recipients of public assistance to keep a greater share of their child support collections, and authorize new spending on automated systems.

New Enforcement Techniques

Based on reports on the performance of various enforcement strategies at the state level, CBO estimates that child support collections received for families on cash assistance in 2002 will increase under the act by roughly 18 percent over previous projections (from $3.6 billion to $4.2 billion). Most of the improvement will result from creating a new-hire registry (designed to speed the receipt of earnings information on noncustodial parents) and provisions that will expedite the process by which states seize the assets of noncustodial parents who are delinquent in their child support payments. Some states have already applied the proposed enforcement techniques, thereby reducing the potential for further improving collections. The additional collections will result in federal savings of roughly $320 million in 2002 through shared child support collections and reduced spending in the Food Stamp and Medicaid programs.

Lost AFDC Collections

In a provision that is similar to prior law, the act requires that states share with the federal government any child support collected on behalf of families who receive cash assistance through the Temporary Assistance for Needy Families block grant. CBO assumed that by 2002, 20 percent of states will have significantly reduced the number of families served under the block grant. That reduction will decrease the federal share of child support collections by an estimated $224 million in 2002. States that reduce the number of families served under the block grant may still provide benefits to those families using their own resources.

Elimination of the $50 Pass-through

Additional federal savings will be generated by eliminating the current $50 pass-through. Under prior law, amounts up to the first $50 in monthly child support collected were paid to the family receiving cash assistance without affecting the level of the welfare benefit. Thus, families for whom noncustodial parents contributed child support received as much as $50 more a month than did otherwise identical families for whom such contributions were not made. Under prior law, eight states paid a supplemental payment ("gap payment") to families on public assistance on whose behalf the state received child support payments. The supplemental payment was based on the amount of the support collected and a standard of need. The act gives those states the option of continuing to provide the additional benefits to families. CBO assumed that states providing half of the supplemental payments will exercise the option. Eliminating the $50 child support pass-through beginning in 1997 but allowing some states to continue making gap payments will increase the federal share of child support collections (net of Food Stamp costs) by $100 million to $165 million annually.

Distribution of Additional Child Support to Former AFDC Recipients

When someone ceases to receive public assistance, states continue to collect and enforce the family's child support order. All amounts of child support collected on time are sent directly to the family. If a state collects past-due child support, however, it may either send the amount to the family or use the collection to reimburse itself and the federal government for past AFDC payments. This provision will require states to share more child support collections with former recipients of public assistance, reducing the amount that the federal and state governments recoup from previous benefit payments. The new distribution rules will phase in starting in 1998, but states can elect to apply them earlier. This provision will cost the federal government an estimated $51 million in 1998 and $150 million in 2002.

Hold States Harmless for Lower Child Support Collections

A hold-harmless provision guarantees each state that its share of child support collections will not fall below the amount it retained in 1995. In general, states will experience increases in child support collections as a result of this act. The new distribution rule that allows former AFDC families to keep more support is the only provision that will reduce the states' share of support collections. However, that share is based on the collections on behalf of families who receive assistance through the TANF block grant. A state in which significantly fewer families are served under

TABLE 3. FEDERAL BUDGETARY EFFECTS OF CHANGES IN THE CHILD SUPPORT ENFORCEMENT PROGRAM IN TITLE III OF P.L. 104-193 (By fiscal year, outlays in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
			By Provision					
New Enforcement Techniques								
State directory of new hires								
Family support payments	0	0	-1	-4	-6	-9	-10	-30
Food Stamp program	0	0	-1	-7	-12	-18	-21	-59
Medicaid	0	0	-3	-11	-20	-31	-38	-102
Subtotal	0	0	-5	-22	-38	-58	-70	-192
State laws providing expedited enforcement of child support								
Family support payments	0	0	0	-17	-35	-55	-77	-185
Food Stamp program	0	0	0	-6	-13	-21	-30	-70
Medicaid	0	0	0	-5	-11	-18	-26	-59
Subtotal	0	0	0	-28	-59	-94	-133	-314
State laws concerning paternity								
Family support payments	0	-16	-18	-20	-22	-24	-26	-127
Food Stamp program	0	-3	-3	-4	-4	-4	-5	-23
Medicaid	0	-2	-2	-2	-3	-3	-3	-15
Subtotal	0	-21	-23	-26	-29	-31	-34	-165
Suspend drivers' licenses								
Family support payments	0	-4	-9	-14	-19	-20	-21	-88
Food Stamp program	0	-2	-5	-8	-12	-12	-13	-52
Medicaid	0	-1	-3	-5	-7	-8	-9	-35
Subtotal	0	-8	-17	-27	-38	-41	-43	-175
Adoption of uniform state laws								
Family support payments	0	10	2	-7	-11	-15	-21	-41
Food Stamp program	0	0	-1	-3	-4	-6	-9	-24
Medicaid	0	0	-2	-3	-6	-8	-11	-30
Subtotal	0	10	-1	-13	-21	-30	-41	-95
Total, New Enforcement	0	-19	-46	-115	-185	-254	-322	-940
AFDC Collections Lost as a Result of Reduced Cases Funded by Block Grant								
Family support payments	0	0	29	63	142	200	224	658
Eliminate $50 Pass-through and Exclude Gap Payments from Distribution Rules at States' Option								
Family support payments	0	-222	-236	-260	-285	-311	-336	-1,650
Food Stamp program	0	114	122	139	147	164	171	858
Total	0	-108	-114	-121	-139	-147	-165	-793
Distribute Child Support Arrears to Former AFDC Families First								
Family support payments	0	0	62	69	76	148	183	539
Food Stamp program	0	0	-11	-12	-14	-27	-33	-96
Total	0	0	51	57	63	122	150	442
Hold States Harmless for Lower Collections of Child Support								
Family support payments	0	0	17	29	34	39	29	148
Optional Modification of Support Orders								
Family support payments	0	-5	0	10	15	15	20	55

(Continued)

TABLE 3. Continued

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
By Provision (Continued)								
Other Provisions with Budgetary Implications								
Automated data processing development								
Family support payments	a	83	91	129	129	8	0	440
Automated data processing operation and maintenance								
Family support payments	0	12	55	52	52	46	40	257
Technical assistance to state programs								
Family support payments	a	48	51	50	48	47	45	290
State obligation to provide services								
Family support payments	0	0	0	3	11	22	39	75
Federal and state reviews and audits								
Family support payments	0	3	3	3	3	3	3	20
Grants to states for visitation								
Family support payments	a	10	10	10	10	10	10	60
Total, Other Provisions	a	156	210	248	254	136	137	1,142
By Account								
Family Support Payments	a	-81	57	99	142	103	101	421
Food Stamp Program	0	109	100	99	88	76	62	533
Medicaid	0	-3	-9	-27	-46	-68	-88	-242
Total								
All Provisions/ All Accounts	a	25	148	172	184	110	74	712
Memorandum:								
Family Support Payments (Budget authority)								
Automated data processing development	42	42	91	129	129	8	0	440
Technical assistance to state programs	36	44	47	46	48	47	45	314
Grants to states for visitation	10	10	10	10	10	10	10	70
All other provisions	0	-222	-95	-91	-45	38	45	-369
Total	88	-127	53	95	142	103	101	455

SOURCE: Congressional Budget Office.

NOTE: AFDC = Aid to Families with Dependent Children.

a. Less than $500,000.
b. Budget authority is generally equal to the outlays shown in this table. Exceptions are shown in the memorandum.

the block grant than were served under the AFDC program may experience lower collections. CBO assumed that 20 percent of states will reduce caseloads enough to trigger the hold-harmless provision, at a federal cost of $29 million in 2002.

Optional Modification of Support Orders

Under prior law, a state was required to review the child support orders of recipients of public assistance every three years. If a review showed a significant change in the financial circumstances of a parent, the state adjusted the child support order accordingly. Evaluations of pilot programs testing similar review and modification procedures have found that such reviews raise both the average amount of support orders and the average payment received. The act makes review and modification optional for states unless the family requests such a review. CBO assumed that 40 percent fewer reviews would be performed, resulting in administrative savings of $5 million in 1997 and a cost, reflecting lower collections stemming from lower amounts of support orders, of $20 million by 2002.

Other Provisions with Budgetary Implications

The act also increases federal spending on several other activities including development, operation, and maintenance of automated data processing; technical assistance to states; reviews and audits; and grants to states for visitation. Federal spending for those provisions will total $137 million in 2002 and $1.2 billion over the 1997-2002 period.

TITLE IV: NONCITIZENS

Title IV limits the eligibility of legal aliens for public assistance programs. It explicitly makes most immigrants ineligible for SSI and Food Stamp benefits. Significant savings are also realized in two other programs—Medicaid and the earned income tax credit. Overall, the provisions of title IV are estimated to reduce the deficit by $1.2 billion in 1997 and by $5.1 billion in 2002 (see Table 4).

TABLE 4. FEDERAL BUDGETARY EFFECTS OF RESTRICTING WELFARE AND PUBLIC BENEFITS FOR ALIENS IN TITLE IV OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Direct Spending								
Supplemental Security Income								
Budget authority	a	-375	-2,400	-2,600	-2,775	-2,425	-2,700	-13,275
Outlays	a	-375	-2,400	-2,600	-2,775	-2,425	-2,700	-13,275
Food Stamp program b/								
Budget authority	a	-470	-700	-660	-630	-610	-590	-3,660
Outlays	a	-470	-700	-660	-630	-610	-590	-3,660
Medicaid								
Budget authority	a	-105	-615	-815	-1,015	-1,245	-1,495	-5,290
Outlays	a	-105	-615	-815	-1,015	-1,245	-1,495	-5,290
Earned income tax credit								
Budget authority	0	-224	-232	-236	-242	-245	-251	-1,430
Outlays	0	-224	-232	-236	-242	-245	-251	-1,430
Total								
Budget authority	0	-1,174	-3,947	-4,311	-4,662	-4,525	-5,036	-23,655
Outlays	0	-1,174	-3,947	-4,311	-4,662	-4,525	-5,036	-23,655
Revenues								
Earned income tax credit	0	28	29	29	30	30	31	177
Deficit Effect	a	-1,202	-3,976	-4,340	-4,692	-4,555	-5,067	-23,832

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTE: The estimates assume that the proposed exemption for public health programs that provide immunizations will be interpreted to permit continued Medicaid funding for pediatric vaccines.

a. Less than $500,000.

b. Includes interactions with other provisions pertaining to the Food Stamp program.

Supplemental Security Income

In general, legal aliens have been eligible for SSI and other benefits administered by the federal government. Few aliens other than refugees, however, have collected SSI during their first few years in the United States because of a practice known as deeming. Under that practice—which was mandated by law in SSI, the Food Stamp program, and AFDC—the income and resources of a sponsor (usually a relative) who signs an affidavit of financial support on the alien's behalf are treated as if they belong to the alien. Under prior law, the deeming period generally lasted for three years after the alien's arrival; in SSI, it temporarily stood at five years. After the deeming period ended, legal aliens could collect benefits so long as they met the programs' other eligibility criteria.

The act eliminates SSI benefits for most legal aliens. Exceptions are made for groups that together make up about one-quarter of aliens on the SSI rolls: refugees who have been in the country for less than five years, aliens who have a solid work history in the United States (as evidenced by 40 or more quarters of employment covered by Social Security), and veterans or active-duty members of the U.S. military. All other legal aliens now on SSI will be reviewed within a year and removed from the rolls.

CBO based its estimate of savings on administrative records from the SSI program. Those data suggested that noncitizen beneficiaries totaled about 785,000 in December 1995, or 13 percent of all recipients of federal SSI payments in that month, and that their numbers might be expected to climb in the absence of a change in policy. Those records, though, are of uncertain quality. They rarely reflect changes in citizenship status (such as naturalization) that may have occurred since the recipient first began collecting benefits. Keeping citizenship status up to date has not been important for government agencies as long as they have verified that the recipient is legally eligible. That problem is thought to be common to all programs but is particularly acute for SSI, where some beneficiaries identified as aliens have been on the rolls for many years. Recognizing that problem, CBO assumed that 15 percent of SSI beneficiaries recorded as aliens are in fact naturalized citizens.

CBO estimated the number of noncitizen recipients who will be removed from the SSI rolls by projecting the future caseload in the absence of policy change and subtracting the groups (chiefly certain refugees and Social Security recipients) exempted under the act. CBO then assumed that the legislation will prompt some of the remainder to become naturalized. The rest, estimated by CBO at approximately one-half million legal aliens, will be cut from the SSI rolls. Multiplying that number by the average benefit paid to such aliens—assumed to equal nearly $400 a month in 1997, with subsequent cost-of-living adjustments—yields annual federal budgetary savings of between $2 billion and $3 billion a year after 1997.

These estimates, and other CBO estimates concerning legal aliens, are rife with uncertainties. First, administrative data in all programs are of uncertain quality. Citizenship status is not recorded at all for about 8 percent of SSI recipients, and—as previously noted—some people coded as aliens have certainly become naturalized citizens by now. Second, judging how many more noncitizens will react to the legislation by becoming citizens is difficult. At least 80 percent of legal aliens on SSI have been in the United States for five years or more—the minimum period before they can apply for naturalization. The fact that they have not already become U.S. citizens may stem, in part, from the lack of a strong financial incentive. After all, noncitizens were not barred from most jobs, from most privileges besides voting, or—until now—from eligibility for benefits.

Before they can become U.S. citizens, however, applicants face several hurdles. In particular, they must be able to pass examinations in written and spoken English and in U.S. history and government. The language test is waived for some elderly aliens who have been in the United States for 15 years or more, and a simpler version of the civics test is given to aged immigrants who have been here for at least 20 years; many of the aliens who will be cut from the SSI rolls, however, have not been here that long. The federal government recently issued proposed regulations to exempt certain disabled applicants from parts of the English and civics examinations, as required in a 1994 law; it remains to be seen how important that exemption may prove in practice. Even then, applicants for naturalization may wait a year or two before they are sworn in as citizens—a lag that the Immigration and Naturalization Service is seeking to trim to six months.

The pace of naturalization has recently quickened. More than 1 million petitions for naturalization were filed in both 1995 and 1996, double or triple the pace of earlier years, and approved applications are following with a lag. The reasons for the surge are complicated. Some of the increase might be the result of perceived anti-immigrant sentiment (such as Proposition 187 in California and the restrictions in federal welfare reform on aliens' eligibility for benefits); some is occurring because hundreds of thousands of aliens who benefited from an amnesty in the late 1980s are just now becoming eligible to naturalize; and some probably stems from the fact that many legal aliens were recently required to replace their so-called green cards (at a fee of $75) and found it only slightly more expensive to apply for naturalization ($95). Naturalizations also respond to developments in other countries; Mexico, for example, is contemplating allowing dual citizenship—a change that might encourage many of the estimated 2 million to 3 million Mexican nationals who are legally in the United States to become naturalized. In sum, the number of naturalizations is one of the biggest uncertainties that CBO faced in developing its estimates of welfare reform. Because the naturalization process takes time and effort, CBO assumes that only about one-third of those whose benefits would otherwise be eliminated will become citizens by 2000.

Food Stamps

The act imposes the same curbs on Food Stamp payments to legal aliens as on SSI. Therefore, aliens will not be able to receive food stamps unless they fall into one of the exempted groups—chiefly refugees who have been here for less than five years or aliens with substantial work (defined as 40 quarters) in the United States.

According to Food Stamp Quality Control data, about 1.8 million legal aliens receive Food Stamp benefits. Under prior law, that number would have climbed gradually to 2.0 million in 2002. Around 800,000 fall into one of the exempt categories. The rest will lose benefits unless they become naturalized. Again, CBO assumed that some of the aliens targeted for the cutoff will opt to become citizens, so that by 2002 only 780,000 will lose benefits. Savings of about $0.6 billion to $0.7 billion a year after 1997 will result.[4]

Medicaid

The act does not call for a mass cutoff of aliens from the Medicaid program as it does in the SSI and the Food Stamp programs. Instead, it calls for tight restrictions on the eligibility of future immigrants for Medicaid for at least their first five years in the United States, but it leaves the coverage of most aliens already here to the option of the states.

The act forbids states to provide regular Medicaid coverage to future entrants (except refugees) for their first five years. New deeming requirements in all means-tested programs will bar most future immigrants with financial sponsors from Medicaid for even longer—until they work for 40 quarters or are naturalized. Medicaid coverage for aliens currently residing in the United States will be at the states' option. CBO assumed that states will continue to cover many of those immigrants because the states otherwise lose federal Medicaid matching dollars for the aliens' care. The act preserves Medicaid coverage for emergency medical services for all legal immigrants.

A number of legal immigrants currently residing in the United States will lose Medicaid under the act because they have been eliminated from receiving SSI cash benefits and cannot qualify for Medicaid under any other eligibility category. However, CBO assumed that most aliens who are disabled and about half of the aged will retain Medicaid under states' medically needy programs. In total, CBO assumed

4. The Omnibus Consolidated Appropriations Act delayed until April 1, 1997, the cutoff of Food Stamp benefits for aliens who were participating at the time of enactment.

that nearly 300,000 aliens will lose their eligibility for Medicaid in 1998 (when the reviews of aliens on the SSI program have been completed) and that the number will more than double by 2002. CBO estimated the resulting savings by multiplying the number of people losing benefits times the assumed average benefit times the federal share. That per capita federal cost was assumed to be more than $5,000 in 2002 for an average aged or disabled alien, and between $1,000 and $2,000 for a child or a nondisabled adult. CBO reduced the resulting savings by one-third because the act explicitly continues coverage for emergency medical care for legal aliens and because other services for aliens may be covered through increases in Medicaid's payments for uncompensated care. Total savings in federal Medicaid costs are estimated at $0.1 billion in 1997 and $1.5 billion in 2002.

Other Direct Spending Programs

The foster care program, student loans for postsecondary students, and the child nutrition programs are exempt from any of the restrictions on benefits to legal aliens. Title IV is silent on whether schoolchildren who are illegal aliens are eligible for child nutrition programs. However, section 742 specifically states that the School Breakfast and School Lunch Programs shall continue to be administered without regard to students' immigration or citizenship status. Therefore, no savings will result from restricting aliens' eligibility in any of those programs.

Earned Income Tax Credit

The act denies eligibility for the earned income tax credit (EITC) to workers who are not authorized to be employed in the United States. In practice, that provision will require valid Social Security numbers to be filed for the primary and secondary taxpayers on returns that claim the EITC; it will also permit the Internal Revenue Service to apply the streamlined rules it already uses for mathematical or clerical errors to claims that lack valid Social Security numbers. A similar provision was contained in President Clinton's 1997 budget proposal and in last fall's reconciliation bill. The Joint Committee on Taxation estimates that the provision will reduce the deficit by approximately $0.3 billion a year.

TITLE V: CHILD PROTECTION

Title V extends the enhanced match for purchasing computer equipment to collect data on foster care. The federal match for such purchases was 75 percent through the end of 1996 and was scheduled to decrease to 50 percent beginning in 1997. This provision continues the 75 percent match for one more year, through the end of

1997. CBO estimates that this change increases budget authority by $80 million in 1997 and outlays by $66 million in 1997 and $14 million in 1998 (see Table 5). CBO developed this estimate in consultation with analysts at the Department of Health and Human Services using states' estimates of their expenditures under prior law and expectations of increased spending if the higher match rate was extended.

Title V also appropriates $6 million a year for 1996 through 2002 for a national random sample study of child welfare, increasing direct spending by $37 million over that period.[5] The study will be conducted by the Department of Health and Human Services and will track abused or neglected children as they move through states' child welfare systems.

TITLE VI: CHILD CARE

Title VI creates a new mandatory block grant to states for providing child care to low-income people. Individual states are entitled to the amount they received for AFDC work-related child care, transitional child care, and at-risk child care in 1994, 1995, or the average of 1992-1994, whichever is greatest. States that maintain the higher of their 1994 or 1995 spending on those programs will be able to draw down an additional amount at the Medicaid match rate.

The budget authority for the block grant, as stated in the act, is $2.0 billion in 1997 and $13.9 billion over the 1997-2002 period. Based on discussions with state officials and experts in the field, CBO concluded that states will use most, but not all, of the block grant. CBO estimates that outlays through 2002 will total $12.8 billion (see Table 6).

Although the block grant is more than $4 billion, or nearly 50 percent, higher than what would have been spent on the child care programs it replaced, CBO estimates that states will draw down most of the money. Because federal spending on Temporary Assistance to Needy Families will be capped, states will try to make greater use of the remaining federal programs where additional funding is available. Also, because spending on child care has been popular, many states will have the support needed to increase spending. Finally, the title allows funds to be redistributed to states that have greater needs for child care. Under prior law, several states spent state funds on child care for the working poor that were not matched with federal funds.

5. The Omnibus Consolidated Appropriations Act rescinded the 1996 and 1997 appropriations for this study.

TABLE 5. FEDERAL BUDGETARY EFFECTS OF CHANGES IN CHILD PROTECTION (FOSTER CARE) IN TITLE V OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Extend Enhanced Match Rate for Computer Purchases for Foster Care Data Collection								
Budget authority	0	80	0	0	0	0	0	80
Outlays	0	66	14	0	0	0	0	80
National Random Sample Study of Child Welfare								
Budget authority	6	6	6	6	6	6	6	42
Outlays	a	2	11	6	6	6	6	37
Total								
Budget authority	6	86	6	6	6	6	6	122
Outlays	a	68	25	6	6	6	6	117

SOURCE: Congressional Budget Office.

a. Less than $500,000.

TABLE 6. FEDERAL BUDGETARY EFFECTS OF CHANGES IN CHILD CARE PROGRAMS IN TITLE VI OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
New Child Care Block Grant								
Budget authority	0	1,967	2,067	2,167	2,367	2,567	2,717	13,852
Outlays	0	1,635	1,975	2,082	2,227	2,377	2,482	12,778
Memorandum:								
Repeal of Child Care Programs in Title I								
Budget authority	0	-1,405	-1,480	-1,540	-1,595	-1,655	-1,715	-9,390
Outlays	0	-1,345	-1,475	-1,535	-1,590	-1,650	-1,710	-9,305
Total Spending on Child Care								
Budget authority	0	562	587	627	772	912	1,002	4,462
Outlays	0	290	500	547	637	727	772	3,473

SOURCE: Congressional Budget Office.

On balance, repealing former child care programs (in title I) and creating a new block grant under this title will increase federal outlays by $0.3 billion in 1997 and $3.5 billion over the 1997-2002 period.

TITLE VII: CHILD NUTRITION PROGRAMS

Provisions in title VII that affect child nutrition programs will lower federal outlays by an estimated $128 million in 1997, $670 million in 2002, and $2.9 billion over the 1997-2002 period relative to prior law (see Table 7).

Child and Adult Care Food Program

Section 708 makes several changes in the Child and Adult Care Food Program. Those changes will save $90 million in 1997 and $585 million in 2002. The act restructures the family day care home component of the program to introduce an income test. Under prior law, all meals served in family day care homes would have had the same reimbursement rates from July 1996 to June 1997: $1.575 for lunches, $0.8625 for breakfasts, and $0.470 for supplements. The act creates two tiers of reimbursement rates, a change that saves $80 million in 1997 and $565 million in 2002.

The first tier applies to two groups of homes: those that are located in an area in which at least half of the children are from households whose income is below 185 percent of poverty, and those that are operated by a provider whose household income is less than 185 percent of poverty. Rates for tier I homes are the same as under prior law, except the rates will be rounded down each year to the nearest whole cent, rather than to the nearest quarter cent. All other homes will receive a lower, tier II rate—$0.95 for lunches, $0.27 for breakfasts, and $0.13 for supplements. Those rates will be adjusted annually (beginning July 1, 1997) and rounded down to the nearest whole cent. Homes in tier II will be able to claim the tier I rates for any children whose family income is below 185 percent of poverty.

Studies of the Child Care Food Program have shown that most of the children served in family day care homes are not from low-income households.[6] Based on that research, and using the rate of receipt of free and reduced-price meals in the School Lunch program as an indicator of the fraction of low-income children in an

6. Department of Agriculture, Food and Nutrition Service, *Study of the Child Care Food Program* (prepared by Abt Associates, August 1988); Mathematica Policy Research, *Participation in the Child and Adult Care Food Program: New Estimates and Prospects for Growth* (prepared for the Department of Agriculture, April 1993).

TABLE 7. FEDERAL BUDGETARY EFFECTS OF CHANGES IN CHILD NUTRITION PROGRAMS IN TITLE VII OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
Child and Adult Care Food Program								
Budget Authority	0	-105	-380	-430	-480	-535	-595	-2,525
Outlays	0	-90	-340	-420	-470	-525	-585	-2,430
Extension of Payment Period								
Budget Authority	0	a	a	1	1	1	1	4
Outlays	0	a	a	1	1	1	1	4
Rounding Rules								
Budget Authority	0	-2	-15	-15	-15	-15	-15	-77
Outlays	0	-1	-10	-15	-15	-15	-15	-71
Summer Food Service Program for Children								
Budget Authority	0	-24	-29	-29	-34	-34	-39	-189
Outlays	0	-19	-29	-29	-34	-34	-39	-184
School Breakfast Program Authorization								
Budget Authority	0	-10	-15	-22	-25	-22	-22	-116
Outlays	0	-8	-14	-21	-25	-22	-22	-112
Nutrition Education and Training								
Budget Authority	0	-10	-10	-10	-10	-10	-10	-60
Outlays	0	-10	-10	-10	-10	-10	-10	-60
Total								
Budget authority	0	-151	-449	-505	-563	-615	-680	-2,963
Outlays	0	-128	-403	-494	-553	-605	-670	-2,853

SOURCE: Congressional Budget Office.

a. Less than $500,000.

area, CBO estimates that 35 percent of meals will be reimbursed at the higher tier I rates. CBO also assumes that paying lower rates for the remaining 65 percent of meals will modestly reduce the number of homes that participate in the program and will slow the growth in the number of meals served.

Section 708 also limits to three the number of meals that can be reimbursed in a given day in eligible child care centers. CBO estimates savings of $10 million in 1997 and $20 million in 2002 from that change.

Extension of Payment Period

A provision of the National School Lunch Act known as provision 2 allows schools to offer all meals free and to collect applications less frequently if the school agrees to pay the cost of providing free meals to students who would otherwise pay. Until the 1994 reauthorization of the National School Lunch Act, a school participating under provision 2 was required to collect applications every three years. The 1994 reauthorization allowed schools participating under provision 2 at that time to participate for five years without collecting applications. Public Law 104-193 extends that policy to all schools participating under provision 2. CBO assumed that this change makes provision 2 marginally more attractive to schools and will cost $1 million a year in 1999 through 2002.

Rounding Rules

The act changes the rounding rules for annual inflation adjustments in the reimbursement rates for meals served to those who pay full price in schools and day care centers. Under prior law, the rates were rounded to the nearest quarter cent. Under the act, the rates for paying children and adults are rounded down to the nearest whole cent. The change is effective on July 1, 1997. The provision will lower federal outlays for child nutrition programs by $1 million in 1997 and $15 million in 2002.

Summer Food Service Program for Children

Section 706 reduces reimbursement rates for the Summer Food Service program to $1.97 for lunches, $1.13 for breakfasts, and $0.46 for supplements. Those rates will be adjusted for inflation on January 1, 1997, and will first become effective in the summer of 1997. Rates will be rounded down to the nearest whole cent, rather than to the nearest quarter cent, in calculating the annual adjustment for inflation. CBO projects that under prior law, the summer 1997 rates would have been $2.22 for lunches, $1.24 for breakfasts, and $0.58 for supplements. The new rates will save $19 million in 1997 and $39 million in 2002.

School Breakfast Program Authorization

Section 723 eliminates funding for school breakfast startup grants under the Child Nutrition Act starting in 1997. Previously, startup grants were funded at $5 million a year through 1997, $6 million in 1998, and $7 million in 1999. Funds were used for assisting schools and other institutions in initiating and expanding the School Breakfast and Summer Food Service programs. In addition, CBO estimates that repealing the money for startup grants will result in fewer meals being served over the period. The savings from fewer meals amount to $3 million in 1997 and $22 million in 2002.

Nutrition Education and Training

Under section 731, funding for nutrition education and training will become a discretionary appropriation rather than mandatory spending. Savings in direct spending amount to $10 million each year starting in 1997.

Noncitizens Served in Child Nutrition Programs

Section 742 provides that if an individual is eligible to receive public education in a state, assistance under the National School Lunch Act and the Child Nutrition Act shall not be contingent on citizenship or immigration status. That section conflicts with a provision in title IV that could render undocumented noncitizens ineligible for means-tested child nutrition programs. No savings result from the provision in title IV because section 742 supersedes it.

TITLE VIII: FOOD STAMPS AND COMMODITY DISTRIBUTION

CBO estimates that changes to the Food Stamp program in title VIII of the act will reduce federal outlays by $1.8 billion in 1997, $5.0 billion in 2002, and $23.1 billion over the 1997-2002 period relative to prior law (see Table 8). The bulk of the savings will stem from imposing a work requirement for childless individuals ($5.1 billion), changing the treatment of young parents living at home ($1.4 billion), reducing the maximum level of benefits ($6.3 billion), counting nonfederal energy assistance as income ($1.0 billion), limiting deductions from income ($8.5 billion), and freezing the vehicle allowance ($1.0 billion).

CBO uses a number of data sources and models to estimate the effects of proposals on Food Stamp spending. CBO also examines studies of specific policy issues and conducts interviews with state officials and others to determine the level of interest in provisions that are left to the states' discretion.

CBO relies heavily on the Food Stamp Quality Control (QC) data, which are constructed from each state's quality control reviews. In compliance with the Food Stamp Act, states draw monthly samples of their Food Stamp cases to measure the accuracy of eligibility and benefit determinations. The result is detailed information on household characteristics, income, expenses, and deductions that is used in determining Food Stamp benefits for participating households.

The Survey of Income and Program Participation (SIPP), a nationally representative household survey conducted by the Census Bureau, also provides information on Food Stamp eligibility and participation. SIPP contains less detail on the Food Stamp program but includes information on households and individuals who do not currently receive Food Stamp benefits but are potential recipients. The survey follows the same households for several years, and it contains information on labor force participation of household members.

The Food and Consumer Service, which administers the Food Stamp program, has developed microsimulation models of Food Stamp eligibility and participation using both QC and SIPP data. Those models replicate the determination of Food Stamp eligibility and benefits at the household level under current law and under alternative scenarios. CBO used output from those models in preparing estimates of the fiscal effects of several of the changes in the Food Stamp program.

Finally, in constructing the projections of spending under prior law, CBO uses two regression models. One projects the number of individuals who will participate in the program based on CBO's forecast of unemployment and other factors. The other projects the average individual benefit based on the statutory levels of the maximum benefit and deductions from income, including the standard deduction. CBO employed the latter model to estimate the effect of provisions changing the maximum benefit or standard deduction. CBO projects that under prior law, 10.7 million households (26.8 million individuals) would have received Food Stamp benefits in an average month in 1997. By 2002, 11.6 million households (29.0 million individuals) would have been on the benefit rolls. The average monthly benefit would have increased from $78 per person in 1997 to $92 per person in 2002.

TABLE 8. FEDERAL BUDGETARY EFFECTS OF CHANGES IN FOOD STAMPS AND COMMODITY DISTRIBUTION IN TITLE VIII OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
			By Provision					
Work Requirement	0	-160	-830	-960	-1,010	-1,050	-1,100	-5,110
Treatment of Children Living at Home	0	-115	-245	-255	-265	-280	-290	-1,450
Reduce Maximum Benefit	0	-935	-980	-1,025	-1,070	-1,115	-1,155	-6,280
Energy Assistance	0	-125	-170	-175	-175	-180	-180	-1,005
Deductions from Income								
Freeze standard deduction	0	0	-555	-770	-990	-1,220	-1,465	-5,000
Cap deduction for excess shelter expenses	0	-350	-570	-505	-565	-490	-550	-3,030
State option for mandatory standard utility allowance	0	-35	-70	-75	-80	-80	-85	-425
Homeless shelter allowance	0	-1	-1	-2	-3	-3	-5	-15
Freeze Vehicle Allowance	0	-45	-140	-175	-200	-225	-245	-1,030
Noncompliance with Public Assistance Requirements								
Periods of disqualification	0	-5	-5	-5	-5	-5	-5	-30
Disqualification from another program	0	-20	-20	-20	-20	-20	-25	-125
Disqualification for receipt of multiple benefits	0	-5	-5	-5	-5	-5	-5	-30
Failure to comply with other programs	0	-25	-25	-25	-25	-25	-25	-150
Earnings of Older Students	0	-10	-10	-10	-10	-15	-15	-70
Vendor Payments for Transitional Housing	0	-10	-10	-10	-10	-10	-10	-60
Employment and Training	0	2	6	9	11	13	15	56
Food Stamp Eligibility	0	-15	-21	-27	-27	-27	-27	-145
Option to Require Custodial Parents' Cooperation with Child Support Agencies								
Food Stamp program	0	-5	-10	-15	-20	-20	-20	-90
Family support payments	0	5	10	10	15	15	15	70
Disqualification Relating to Child Support Arrears	0	-5	-15	-25	-25	-30	-30	-130
Minimum Allotment	0	0	-30	-30	-30	-35	-35	-160
Benefits on Recertification	0	-25	-25	-25	-25	-30	-30	-160

(Continued)

TABLE 8. Continued

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
			By Provision (Continued)					
Income, Eligibility, and Immigration Status Verification Systems	0	-5	-5	-5	-5	-5	-5	-30
Collection of Overissuances	0	-25	-30	-30	-25	-25	-30	-165
End Federal Match	0	-2	-2	-2	-2	-2	-2	-12
Work Supplementation or Support Program	0	5	15	20	30	30	30	130
Employment Initiatives Program	0	-1	-2	-2	-2	-2	-2	-11
Simplified Food Stamp Program	0	0	5	10	20	20	25	80
Emergency Food Assistance Program	0	100	100	100	100	100	100	600
Interactions Among Provisions	0	20	101	111	136	141	166	674
			By Program					
Food Stamp Program								
Budget authority	0	-1,797	-3,549	-3,928	-4,297	-4,595	-5,005	-23,173
Outlays	0	-1,797	-3,549	-3,928	-4,297	-4,595	-5,005	-23,173
Family Support Payments								
Budget authority	0	5	10	10	15	15	15	70
Outlays	0	5	10	10	15	15	15	70
			Total					
All Provisions/ All Programs								
Budget authority	0	-1,792	-3,539	-3,918	-4,282	-4,580	-4,990	-23,103
Outlays	0	-1,792	-3,539	-3,918	-4,282	-4,580	-4,990	-23,103

SOURCE: Congressional Budget Office.

Work Requirement

Section 824 limits receipt of Food Stamp benefits to a period of three months in any 36-month period for able-bodied individuals who do not have dependent children and who are not working or participating in an appropriate training or work activity. Based on the Food Stamp Quality Control data, the Survey of Income and Program Participation, and studies of caseload dynamics, CBO estimates that approximately 1.1 million people could be subject to disqualification in an average month.

The act allows for waivers and exemptions from the three-month restriction. First, if the Secretary of Agriculture determines that an area has an unemployment rate greater than 10 percent or has insufficient jobs, the area can receive a waiver from the provision. Based on unemployment rates for metropolitan areas, CBO estimates that 30,000 people who would otherwise be disqualified because of the provision live in such areas. Second, an individual can reestablish eligibility for another three-month period after a month of working or participating in an allowable employment or training program. CBO estimates that about 30,000 people in an average month will be in a subsequent period of eligibility within the 36-month period. Furthermore, CBO assumes that states will focus their Food Stamp employment and training on people who would otherwise be disqualified—more than 140,000 people in an average month. After those exclusions, the provision will remove an estimated 900,000 people from the rolls in an average month in 1998 and up to a million individuals in an average month once the provision is fully in place, saving $830 million in Food Stamp benefits in 1998 and $1.1 billion in 2002. (On December 3, 1996, the Food and Consumer Service issued guidance to states for seeking waivers. The guidance suggests that the agency will approve more waivers than assumed in CBO's estimate, primarily for areas with insufficient jobs but with less than 10 percent unemployment.)

Treatment of Children Living at Home

Members of households who purchase food and prepare meals together must generally participate in the program as part of the same Food Stamp unit. In addition, certain people, such as spouses who live together, are required to participate in the same unit. The act changes the definition of household by removing the exception that allows people age 21 and under, who are themselves parents or married and who live with a parent, to participate as a separate household. That change lowers Food Stamp benefits because it counts the income and resources of the household members who are not now in the Food Stamp unit. Based on output from the QC microsimulation model, CBO estimates that the change will affect about 150,000 households and will reduce outlays by $115 million in 1997 and $290 million in 2002.

Reduction of Maximum Benefit

Section 804 reduces the maximum Food Stamp benefit. Under prior law, maximum benefits were set each October at 103 percent of the cost of the Thrifty Food Plan—a specific low-cost diet for a family of four. Maximum benefits were $397 a month for a family of four in 1996 and would have risen to $412 in 1997. The act sets maximum benefits at 100 percent of the Thrifty Food Plan—$400 a month in 1997. Based on CBO's model of the average benefit, a decrease of $1 in the maximum monthly benefit for a family of four leads to a 25 cent decrease in average monthly benefits per person. As a result, the average monthly Food Stamp benefit (compared with prior law) will be about $3 per person lower in 1997. Food Stamp outlays will decrease by an estimated $935 million in 1997 and $1.2 billion in 2002.

Energy Assistance

Under prior law, energy assistance was not counted as income in determining Food Stamp benefits. Public Law 104-193, however, requires that energy assistance from nonfederal sources be counted as income in such calculations.

Nine states currently provide part of their AFDC or general assistance benefit as a separate energy assistance payment to about 1.1 million Food Stamp households. Those payments range from about $15 to $120 a month and average about $42 a month. CBO estimates that a $1 increase in a household's countable income results in about a 30 cent reduction in Food Stamp benefits. Counting the energy assistance payments in the nine states as income will save $125 million in Food Stamp benefits in 1997 and $180 million in 2002.

Deductions from Income

Section 809 lowers the amounts that can be deducted from income in calculating Food Stamp benefits. It freezes the standard deduction, extends the limit on the deduction for excess shelter expenses, and allows states to require a standard utility allowance.

The act sets the standard deduction in most states at $134 for 1997 and later years. Under prior law, the standard deduction was adjusted annually to reflect changes in the consumer price index. CBO estimates that the level of the standard deduction will be $8 below prior law in 1997 and $30 below in 2002. Based on CBO's model of the average benefit, a decrease of $1 in the standard deduction leads to a 14 cent decrease in average monthly benefits per person. The savings from the lower standard deduction amount to $555 million in 1998 and $1.5 billion in 2002. Those savings correspond to an average decrease in monthly benefits, relative to prior law, of about $2 per person in 1998 and $4 per person by 2002.

The Agriculture Appropriations Act of 1997 froze the standard deduction in the Food Stamp program for 1997 at $134, the same level that is set by Public Law 104-193. Because the appropriation bill passed both Houses of Congress before Public Law 104-193, the CBO estimate does not include any savings for 1997 from the freeze on the standard deduction.

The act also extends the cap on the deduction for excess shelter expenses. In determining Food Stamp benefits, a household can deduct shelter costs that exceed 50 percent of net income after all other deductions. Prior law capped the excess shelter deduction at $247 through December 1996, when the cap expired. Public Law 104-193 extends the cap at $250 for the remainder of 1997 and 1998, $275 for 1999 and 2000, and $300 for each year thereafter. Based on the distribution of shelter expenses in the QC data, CBO estimates savings of $350 million in 1997 and $490 million to $570 million in later years. An estimated 2 million households will lose, on average, about $20 a month.

Another provision of the act changes the amount of utility costs that can be applied toward the shelter deduction. Under prior law, recipients could use a standard allowance for utilities or their actual utility costs, whichever was higher. The act, however, allows states to require recipients to use the standard allowance rather than the actual utility costs. Households in states that do not require such an allowance will be permitted to switch from the standard allowance to actual costs only at recertification, rather than at one additional time during a certification period. CBO assumes that half of the households receiving Food Stamp benefits will be subject to a mandatory standard utility allowance. Based on the QC microsimulation model, CBO estimates that these provisions will lower Food Stamp outlays by $35 million in 1997 and $85 million in 2002.

Under Public Law 104-193, states must establish a standard deduction of $143 or less per month for homeless households that do not receive free shelter throughout the month. Previously, homeless households could claim either a standard amount for shelter expenses set by the state or actual shelter expenses, if higher. CBO estimates that the provision will save $5 million a year by 2002.

Freeze Vehicle Allowance

The fair market value of vehicles is counted as an asset in determining Food Stamp eligibility when the value is more than a specified amount. That figure was scheduled to increase from $4,600 in 1996 to an estimated $5,150 in 1997 and to rise with inflation in each succeeding year. Section 810 freezes the vehicle allowance at $4,650 beginning in 1997, reducing Food Stamp outlays by $45 million in 1997 and $245 million in 2002. Based on data from SIPP, CBO estimates that in 1997, this provision will make ineligible 17,000 households that would have received Food Stamp benefits under prior law. By 2002, an estimated 75,000 households will be rendered ineligible.

Other Provisions

Several other changes in law will have only small effects on the budget.

Noncompliance with Public Assistance Requirements. Four sections of the act change the penalties for noncompliance with public assistance requirements. Section 815 establishes new mandatory minimum periods of disqualification for individuals and households that fail to comply with work rules. During those periods, the individual and—at state option—the entire household will be ineligible for benefits. This change will save $5 million a year.

Section 819 allows states to disqualify an individual from receiving food stamps if the individual is disqualified from another public assistance program for failing to perform a required action under that program. For example, an individual who is disqualified from AFDC for failing to have a child immunized under a state's welfare program can also be disqualified from receiving food stamps. This provision will save $20 million a year from 1997 through 2001 and $25 million in 2002.

Section 820 permanently bars from receiving food stamps any individual who participates fraudulently in the Food Stamp program simultaneously in two or more states. Under prior law, an individual was disqualified from the Food Stamp program permanently only after the third violation and faced periods of ineligibility for the first and second violation. This provision saves approximately $5 million a year.

Section 829 prohibits Food Stamp benefits from increasing if an individual's benefits under another public assistance program are reduced because he or she failed to perform an action required under that program. In addition, the state agency can reduce the Food Stamp allotment by up to 25 percent. CBO estimates that this provision will save $25 million a year.

Earnings of Older Students. Under prior law, the earned income of household members who were elementary or secondary school students and were 21 years old or younger was disregarded in determining Food Stamp benefits. Section 807 lowers the cutoff to age 17, reducing spending for the Food Stamp program by $10 million in 1997 and $15 million in 2002.

Vendor Payments for Transitional Housing. Housing assistance payments made to a third party on behalf of a household that resides in transitional housing for the homeless have not been counted as income. Section 811 deletes that exclusion, saving $10 million a year.

Employment and Training. The 1996 farm bill (Public Law 104-127) provided grants to states for Food Stamp employment and training of $75 million annually through 2002. Section 817 funds the program at higher levels in each fiscal year. CBO estimates costs of $2 million in 1997 and $15 million in 2002.

Eligibility for Food Stamps. If a household has a member who is not eligible for food stamps on the basis of his or her citizenship status, the income of that person is prorated, and only a portion of it is counted toward the Food Stamp benefit. Section 818 gives states the option to count all of the ineligible person's income. CBO assumes that one-quarter of the states will elect this option and that Food Stamp spending will be lowered by $15 million in 1997 and $27 million in 2002.

Cooperation with Child Support Agencies. Section 822 allows states to require custodial parents to cooperate with child support agencies as a condition for Food Stamp eligibility. That requirement affects only custodial parents who receive food stamps but not AFDC, because AFDC recipients are already required to comply with child support enforcement. Based on a recent study published by the Food and Consumer Service, CBO estimates that the Food Stamp program will save money because some recipients will receive more income from child support, a few additional people will choose not to participate in the program, and some participants will have their benefits reduced for noncompliance.[7] Because of the administrative costs of finding noncustodial parents and obtaining and enforcing child support orders, much of the Food Stamp savings will be offset by costs in the child support enforcement system, which are shared by states and the federal government. CBO estimates that in 2000, when the provision will be fully implemented, states with 25 percent of the Food Stamp caseload will opt to implement the provision, outlays for food stamps will be $20 million lower, and federal outlays for child support enforcement will be $15 million higher.

Disqualification Relating to Child Support Arrears. Section 823 allows states to eliminate Food Stamp eligibility for noncustodial parents who are delinquent in

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7. Department of Agriculture, *Participation in the Child Support Enforcement Program Among Non-AFDC Food Stamp Households* (prepared by Abt Associates, February 1995).

paying child support. CBO assumes that half the states will choose to implement the new provision. Drawing on an Urban Institute study of data from SIPP, CBO estimates that the change will eliminate 25,000 people from the program and save $30 million annually by 2002.[8]

Minimum Allotment. Food Stamp households with one or two individuals who are eligible for less than $10 a month receive a minimum allotment of $10. That minimum allotment has been adjusted each October to reflect the change in the cost of the Thrifty Food Plan, with the result rounded to the nearest $5. Under prior law and CBO's economic forecast, the minimum benefit would have risen to $15 in 1998. Section 826 removes the inflation adjustment and keeps the minimum benefit at $10. CBO estimates that retaining a $10 minimum benefit yields annual savings of $30 million in 1998 through 2000 and $35 million in 2001 and 2002.

Benefits on Recertification. Prior law allowed Food Stamp households that failed to complete recertification requirements in the last month of a certification period to receive full benefits in the following month if they were certified eligible by the end of the first month of the next certification period. Section 827 prorates benefits for the first month of the new certification period based on the date on which the household is determined to be eligible. CBO estimates that this change saves $25 million a year in 1997 through 2000 and $30 million in 2001 and 2002.

Income, Eligibility, and Immigration Status Verification Systems. Section 840 grants states a greater degree of flexibility in the types of verification systems they use, resulting in $5 million a year in estimated savings.

Collection of Overissuances. Section 844 amends the procedures to recover benefits that were incorrectly paid and saves money in four ways. First, CBO estimates savings of $5 million a year from mandating that states use the Internal Revenue Service's procedures for offsetting taxes. Second, allowing states to recoup benefits to collect overpayments resulting from errors by state agencies saves another $5 million a year. Third, allowing states to garnish federal pay saves $1 million a year once the provision is fully implemented but $5 million in 1998 and 1999 because it affects a backlog of claims. Fourth, the act allows states to retain 35 percent of all claims collected from overissuances stemming from fraud and 20 percent for other types of collections, except for collections from claims resulting from errors by state agencies. Under this policy, the federal government will receive a larger portion of claims collections and states will retain less. Annual federal savings will be $15 million in 1997 through 2001 and $20 million in 2002.

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8. Elaine Sorenson, *Noncustodial Fathers: Can They Afford to Pay More Child Support?* (Washington, D.C.: Urban Institute, 1993).

End Federal Match for Optional Information Activities. Section 847 ends the federal match of administrative funds spent on informational activities. Based on information from the Food and Consumer Service, CBO estimates that $2 million a year would otherwise be spent on those activities.

Work Supplementation or Support Program. Section 849 allows states to use the amount of Food Stamp benefits that would otherwise be provided to a household to subsidize employers in hiring and employing recipients of public assistance. CBO estimates that the federal government will incur additional costs from this provision, because research has demonstrated that people participating in grant diversion programs receive public assistance for longer periods of time. Based on the interest of states in work supplementation in the JOBS program, CBO estimates that about 20,000 additional people will participate in a work supplementation program in any given month in 2000, when the provision will be fully in place. Food Stamp outlays in that year will be higher by $30 million.

Employment Initiatives Program. Section 852 allows states in which half or more of the Food Stamp households in the summer of 1993 were also AFDC recipients to pay benefits in cash to households that also receive benefits from Temporary Assistance for Needy Families and have a member who is employed. Based on recent studies of cash-out demonstrations, CBO estimates that issuing food stamps as cash saves about a dollar a month relative to issuing coupons. Furthermore, based on Quality Control data, CBO estimates that 10 states will be eligible to participate based on the proportion of their caseload that was also receiving AFDC benefits in the summer of 1993, and that those states will have about 300,000 households eligible for cash benefits under the policy. CBO assumes that half of those households will receive benefits in cash. Total savings will reach $2 million a year once the provision is phased in.

Simplified Food Stamp Program. Section 854 gives states the option of simplifying the rules of the Food Stamp program, within certain limits, for families who receive assistance under TANF. The act stipulates that the Secretary of Agriculture may approve a state plan for a simplified program only if the state documents that the plan will not increase federal costs. CBO cannot determine how many states will apply to use simplified rules or what the Secretary's criteria for approving such plans will be. Because there is no mechanism for states to reimburse the federal government if costs rise, and because there is a lag between when such costs occur and when corrective action is taken, CBO estimates that the provision will entail some costs. CBO assumes that 10 percent of states will ultimately choose to operate a simplified program and that benefits in those programs will average 3 percent higher, resulting in higher Food Stamp outlays of $5 million in 1998 and $25 million in 2002.

Emergency Food Assistance Program. The Emergency Food Assistance program provides commodities and cash grants to states for distributing food to needy families. The program has been subject to annual appropriation and in 1997 will receive about $40 million in discretionary funds. Section 871 creates an entitlement to states to an additional $100 million a year in commodities.

Interactions Among Provisions

The estimates of individual provisions shown in Table 8 do not reflect the effects of other provisions in the title. Total savings, however, will be less than the sum of the estimates of individual provisions. For example, savings attributed to lower maximum benefits, a lower standard deduction, and reinstating the cap on the excess shelter deduction—which were estimated based on Food Stamp participation under prior law—will not be achieved for people who lose their benefits because of the work requirements. The interactions among overlapping provisions in title VIII reduce savings relative to the sum of the independent estimates by $20 million in 1997 and $166 million in 2002.

TITLE IX: MISCELLANEOUS

This title includes reductions in the Social Services Block Grant and the earned income tax credit. Budgetary savings (including the revenue effect) total $0.6 billion in 1997 and $3.9 billion during the 1997-2002 period (see Table 9).

Reduction in the Social Services Block Grant

Under title XX of the Social Security Act, funds in the form of a block grant are made available to states for providing a variety of social services to low-income families and individuals. Among the services covered are home-based services (such as homemaker, home health, and home maintenance services), day care for children and adults, special services for the disabled, social support, prevention and intervention services, and family planning. The Social Services Block Grant has had a permanent authorization of $2.8 billion. Title IX reduces that amount by 15 percent, saving $375 million in 1997 and $2.5 billion over six years.[9]

9. The Omnibus Consolidated Appropriations Act restored $120 million of budget authority to the Social Services Block Grant in 1997.

TABLE 9. FEDERAL BUDGETARY EFFECTS OF TITLE IX OF P.L. 104-193 (By fiscal year, in millions of dollars)

	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
				By Provision				
Reduction in Block Grants to States for Social Services								
Budget authority	0	-420	-420	-420	-420	-420	-420	-2,520
Outlays	0	-375	-420	-420	-420	-420	-420	-2,475
Denial of Earned Income Tax Credit on Basis of Disqualified Income								
Budget authority	0	-170	-168	-151	-146	-152	-160	-947
Outlays	0	-170	-168	-151	-146	-152	-160	-947
Revenues	0	26	27	27	23	23	25	151
Deficit	0	-196	-195	-178	-169	-175	-185	-1,098
Modified Definition of Adjusted Gross Income for Earned Income Tax Credit								
Budget authority	0	-98	-106	-112	-120	-129	-138	-704
Outlays	0	-98	-106	-112	-120	-129	-138	-704
Revenues	0	15	18	20	22	25	28	128
Deficit	0	-113	-125	-133	-141	-154	-166	-832
Abstinence Education								
Budget authority	0	0	50	50	50	50	50	250
Outlays	0	0	18	35	50	50	50	203
Interactions Among Revenue Provisions								
Budget authority	0	47	50	36	28	33	34	229
Outlays	0	47	50	36	28	33	34	229
Revenues	0	-9	-13	-14	-10	-10	-6	-62
Deficit	0	56	63	50	38	43	40	291
				By Account				
Social Services Block Grant								
Budget authority	0	-420	-420	-420	-420	-420	-420	-2,520
Outlays	0	-375	-420	-420	-420	-420	-420	-2,475
Earned Income Tax Credit								
Budget authority	0	-221	-224	-227	-238	-248	-264	-1,422
Outlays	0	-221	-224	-227	-238	-248	-264	-1,422
Maternal and Child Health Services Block Grant								
Budget authority	0	0	50	50	50	50	50	250
Outlays	0	0	18	35	50	50	50	203
				Total				
All Provisions/ All Accounts								
Budget authority	0	-641	-594	-597	-608	-618	-634	-3,692
Outlays	0	-596	-626	-612	-608	-618	-634	-3,694
Revenues	0	32	32	33	35	38	47	217
Deficit	0	-628	-658	-645	-643	-656	-681	-3,911

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

Earned Income Tax Credit

The earned income tax credit is a refundable tax credit directed toward low-income workers. Outlays for the refundable portion of the credit are estimated to be $20 billion in 1997. Income tax filers with two or more children are eligible for an EITC of 40 percent of earnings in 1996, with a maximum credit of $3,556. The credit is phased out based on the maximum of earnings or adjusted gross income (AGI) over the range from $11,610 to $28,495. The maximum credit for a filer with one child is $2,152, and it is phased out at income between $11,610 and $25,078. Finally, a maximum credit of $323 is available for filers without children and is phased out between $5,280 and $9,500.

Title IX contains two changes to the EITC. Section 909 denies the credit in cases in which the tax filer has any disqualified income. Previously, tax filers with more than $2,350 in taxable investment income were not allowed to use the EITC. The act lowers the limit to $2,200 and expands the definition of investment income to include positive capital gains and passive income. That change, which is effective for tax years beginning after December 31, 1995, reduces outlays by $170 million in 1997 and $947 million over the 1997-2002 period. The corresponding revenue increases are $26 million and $151 million, respectively.

Section 910 modifies the definition of adjusted gross income for calculating the EITC. Certain losses—such as losses from nonbusiness rent and royalties, capital losses, and other business or investment losses—will not be allowed in modified AGI for those calculations. Outlays for the refundable component of the EITC will be lower by $98 million in 1997 and $704 million over six years. Revenues will be higher by $15 million in 1997 and by $128 million over the 1997-2002 period.

Because of interactions between the various EITC provisions, including those in title IV and title IX, the total estimated effect of the changes to the EITC differs from the sum of the individual estimates over six years.

Funding for Abstinence Education

Subtitle D of title IX amends the Social Security Act to authorize grants to states for providing abstinence education, which is defined as an educational or motivational program that "has as its exclusive purpose, teaching the social, psychological, and health gains to be realized by abstaining from sexual activity." The act provides $50 million in budget authority annually for those activities from 1998 through 2002. The funds will be distributed among the states according to the proportion of children in each state. CBO estimates that outlays of $18 million in 1998 and $203 million through 2002 will result.