CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas Holtz-Eakin, Director

March 30, 2004

Honorable Wally Herger
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am pleased to respond to your letter dated March 19, 2004, regarding spending for the Temporary Assistance for Needy Families (TANF) program and CBO's projections of the costs of raising the work participation rates in that program. You asked four specific questions. Please find our responses attached.

If you would like additional details on this topic, we will be pleased to provide them. The CBO staff contact is Sheila Dacey, who can be reached at 226-2820.

Sincerely,

Douglas Holtz-Eakin

Enclosure

cc: Honorable Benjamin L. Cardin
Ranking Member

Honorable William "Bill" M. Thomas
Chairman
Committee on Ways and Means

Honorable Charles B. Rangel
Ranking Member

Q. Did CBO project that the 1996 welfare reform law would result in shortfalls in the amount of work and child care funds states would need to achieve federal work participation rate requirements? How much was that projected shortfall, through 2002?

A. The 1996 welfare reform law, Public Law 104-193, set new requirements for the percentage of welfare recipients working or participating in training programs in order for a state to receive its full TANF grant. In 1996, CBO estimated that the average annual cost of state work programs that would meet those requirements would exceed the amount the federal and state governments spent on such programs in 1994. That excess would total $13 billion over the 1997-2002 period. CBO expected that states would accept penalties or avoid the requirements by moving welfare recipients to separate state programs, rather than establish large work programs.

States were generally able to meet the requirements and avoid establishing large work programs or accepting penalties because declines in caseloads substantially reduced the effective requirements on states. A provision of the law, the caseload reduction credit, reduces a state's required percentage of recipients that must be in work by 1 percentage point for each percent decline in the state's caseload since 1995. By 2002, the caseload reduction credit reduced the required work participation rate in all states, and in 21 states the required rate was reduced to zero.

In 1996, CBO also estimated that Public Law 104-193 would have provided $5 billion more in child care funding than was required to meet the work requirements of that act from 1997 through 2002. However, we estimated that if states also wanted to maintain the child care funding that they provided to families that did not receive welfare benefits, the funds provided by that act would be $1.4 billion less than the amounts needed over the 1997-2002 period.

Q. How many states satisfied federal work participation rate requirements through 2002?

A. There are two types of federal work participation rate requirements—those that apply to all families and those that apply to only families with two parents. Over the 1997-2002 period, all states met the required work participation rates that apply to all families. Two territories failed to meet those required rates. Nearly half of the states failed in at least one year to meet the federal work participation rate that applies only to families with two parents.

Q. What was the total amount of obligated and unobligated federal TANF and child care funds that remained unspent by the states at the end of fiscal year 2002.

A. At the end of fiscal year 2002, the Department of Health and Human Services reported that $5.8 billion in unspent TANF funds was available to states, of which $3.1 billion was obligated and $2.7 billion was unobligated.

Q. How much have states collectively been required to spend to receive federal TANF funds, through 2002, compared to the amount of state spending required pre-welfare reform (under the Aid to Families with Dependent Children (AFDC) Program)? In essence, how much did states' collective "maintenance of effort" (MOE) spending drop under the TANF program during fiscal years 1997-2002, compared to their prior spending under the AFDC program?

A. States have been required to spend about $10.5 billion each year over the 1998-2002 period in order to receive their federal TANF grants. The spending requirement was less than $9 billion in 1997 because it was pro-rated to reflect the portion of the year each state operated a TANF program. The spending requirement fluctuates slightly from year to year, depending on whether states meet the work participation rates. On average, states have spent above the required MOE level, spending about $9 billion in 1997 and $11 billion annually over the 1998-2002 period.

Unlike the TANF program, the AFDC program did not have a maintenance of effort requirement. Under AFDC, the federal government provided a federal match for every dollar that the states spent; states could raise and lower their spending. (There were some restrictions on how much states could lower their monthly benefit payments and still receive Medicaid funding.)

In 1996, states spent approximately $14 billion on the programs that were combined to form the TANF and child care entitlement grants. Those programs were AFDC, emergency assistance, the Job Opportunities and Basic Skills Training program, AFDC work-related child care, transitional child care, and at-risk child care.