CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org http://www.cbpp.org

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THE COST OF THE SENATE FINANCE COMMITTEE WELFARE BILL

Analysis Belies Claims that the Legislation Would be Costly

by Zoë Neuberger, Richard Kogan, and Wendell Primus

Summary

The Senate Finance Committee approved bipartisan welfare reauthorization legislation on June 26, 2002. The Congressional Budget Office estimates that this legislation would cost $11.5 billion over five years, relative to current law.[1]

Some Members of Congress and the Administration have criticized the bill as being too costly. For example, a White House press statement issued the day the Finance Committee passed the measure declared that the bill "abandons fiscal responsibility."[2] Similarly, Senate minority leader Trent Lott has said in reference to the legislation, "I thought we would take the next step [in welfare reform] without a huge increase in the costs."[3]

Analysis of the bill, however, yields a different conclusion. Over the next five years, the bill's $11.5 billion overall federal "cost," as estimated by CBO, is slightly *below* the level of federal funding needed for the low-income programs that the bill covers simply to keep pace with inflation. Moreover, the bill allows *state* funding for the programs to fall well behind inflation, so that combined federal and state funding for these programs is likely to decline in inflation-adjusted terms under the bill. As a result, under the legislation, there would be some overall reduction in the level of services these programs provide.

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[1] Estimates in this paper reflect budget authority rather than outlays. Public debates over the level of federal resources for the programs that the Senate Finance Committee bill covers generally focus on annual funding levels (or "budget authority") for these programs rather than annual expenditure levels (or "outlays"). Another reason to focus on funding levels rather than outlays is that as a result of TANF expenditure patterns over the past few years and the economic downturn, states spent nearly $2 billion more in fiscal year 2001 than the annual TANF block grant funding level. (States were able to do this by drawing down unused TANF funds from earlier years.) This analysis examines the level of resources needed to maintain current *funding* levels for the TANF block grant and other programs, after adjustment for inflation, not the amounts of resources needed to maintain current state *expenditure* levels for TANF, which are affected in part by the business cycle.

[2] White House Statement by the Press Secretary, June 26, 2002, http://www.whitehouse.gov/news/releases/2002/06/20020626-6.html. In addition, on July 29, President Bush described the bill as "weak on the budget" and the Senate Finance Committee as spending "a bunch more money in order to make us feel better." President Bush's remarks in Charleston, South Carolina, July 29, 2002, http://www.whitehouse.gov/news/releases/2002/07/20020729-6.html.

[3] "Panel OKs new spending in welfare-reform bill," Cheryl Wetzstein, *The Washington Times*, June 27, 2002.

1. *CBO's estimate that the bill would cost $11.5 billion over five years is very similar to, and in fact is slightly smaller than, the $11.7 billion needed for the programs that the bill covers simply to be reauthorized and keep pace with inflation.*

- The $11.5 billion cost estimate represents the legislation's net cost as compared to CBO's "baseline"; the baseline is CBO's estimate of future federal funding if no changes in programs are enacted. In constructing its baseline, CBO generally follows standard rules. Because of statutory language in the 1996 welfare law, however, CBO is required to depart from these rules in setting the baseline for the programs that the welfare law covers, and to set the baseline for these programs in an anomalous fashion. This results in the baseline containing much lower levels of funding for these programs than would be the case if CBO used its standard baseline approach.

- Specifically, when constructing the part of the baseline that covers the TANF block grant, the "mandatory" portion of the child care block grant,[4] and the Social Services Block Grant, CBO must depart from its normal practice and assume that the funding levels for these programs will be *frozen indefinitely* at the 2002 level — and that the level of services these programs provide consequently will decline each year. For nearly all other federal programs, the CBO baseline assumes that funding will rise each year to keep pace with inflation.

  Thus, CBO normally considers a specified level of funding for a program to constitute a cost increase only if that funding level exceeds the program's current funding level, adjusted for inflation. Language in the 1996 welfare law, however, requires CBO to depart from this practice with respect to the three programs noted above. CBO must consider any funding for these programs above a "freeze level" — including funding that simply keeps these programs even with inflation — to be a "cost."

- In addition, CBO must assume in its baseline that certain basic elements of the 1996 law will expire at the end of 2002 and not be continued, even though this is a highly unrealistic assumption. As a result, when these components of the welfare law are extended, CBO must count the *entire annual cost* of these components as a new cost attributable to the welfare reauthorization legislation, rather than following the normal practice of counting as a new cost only those *increases* in cost that are due to *changes* Congress is making in these programs.

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[4] Federal child care funds are distributed to states through a block grant that includes both a mandatory funding stream and a discretionary funding stream. The funding level for the discretionary portion of the block grant is determined through the annual appropriations process. The funding level for the mandatory portion of the block grant was set in the 1996 welfare legislation through fiscal year 2002 and must be set for coming years in the TANF reauthorization legislation. The Senate Finance Committee has jurisdiction over the mandatory funding stream but not the discretionary one, which falls under the jurisdiction of the Senate Health, Education, Labor and Pensions Committee. Thus, this paper focuses on the mandatory portion of the block grant.

For example, the baseline reflects the assumption that Transitional Medical Assistance — a well-regarded program established under President Reagan that provides up to a year of Medicaid coverage to families that work their way off welfare — will cease to exist after September 30. As a result, CBO must count the entire cost of extending this program as a cost of the Finance Committee bill.

- Due to these baseline anomalies, simply extending the current programs that the 1996 welfare law covers and keeping their funding levels even with inflation would "cost" $11.7 billion over five years, compared to the CBO baseline (see Table 1 on page 7). While the Finance Committee bill does not allocate funds so as to adjust each program the bill covers to stay even with inflation, comparing the $11.5 billion net "cost" of the bill to the cost of simply extending the welfare law and keeping funding for its programs at today's levels, adjusted for inflation, is an instructive way to assess the bill's fiscal impact. Under such a measure, the bill represents a net *reduction* of $200 million in cost. (The bill entails costs of $11.5 billion above the CBO baseline, compared to the $11.7 billion above the baseline that are needed for these programs simply to stay even with inflation).

2. *The overall level of federal funding the Finance Committee bill provides for the programs it covers, exclusive of offsetting savings provisions contained in the bill, is $1.9 billion above what is needed to keep the programs even with inflation. Funding for some programs would rise by more than inflation; funding for others, such as the TANF block grant, would decline significantly in inflation-adjusted terms.*

- The bill's $11.5 billion official "cost" consists of $13.7 billion in funding "increases" for the low-income programs that the legislation covers and $2.2 billion in offsetting savings from customs user fees and changes in the Supplemental Security Income program. If only the $13.7 billion in funding "increases" for the low-income programs are considered, the bill provides $1.9 billion over five years above the level needed to reauthorize these programs and maintain their purchasing power. This $1.9 billion represents an average increase of 1.4 percent in "real" (i.e., inflation-adjusted) terms over the five year period covered by the bill.

- While the bill thus contains sufficient funding over the five years as a whole to extend the programs it covers and adjust them for inflation, the bill does not distribute funds among its various programs in this manner. The bill provides funding increases above the level of inflation in some areas, such as child care, while holding funding well below the inflation-adjusted level in others areas, such as TANF. In addition, the overall $1.9 billion increase occurs entirely in the bill's early years and then erodes significantly. By fiscal years 2006 and 2007, the total funding the bill provides for the low-income programs it covers is insufficient to keep pace with inflation.

3. *States would be able to reduce their own expenditures for low-income programs significantly in real terms and still obtain the full amount of available federal funds.*

- The Finance Committee bill would allow significant reductions in *state* expenditures for the low-income programs it covers. State expenditures for these programs are driven largely by the expenditure levels that states are required to make to draw down their full allotments of federal funds.

- Under the Finance Committee bill, states would be able to reduce their expenditures for these programs in inflation-adjusted terms by $2.6 billion over five years and still obtain the full amount of available federal funds.

4. *When the bill's increase for the low-income programs that it covers of $1.9 billion above the level needed to keep up with inflation (not counting the offsetting savings) is considered in conjunction with the decrease in state expenditures required to draw down the federal funds, the total level of federal and state funding for these low-income programs would fall in real terms — and would be below what is needed to maintain the levels of service that these programs currently provide.*

As these findings indicate, rhetorical charges that the legislation abdicates fiscal responsibility and contains huge increases in cost do not stand up under scrutiny. To the contrary, a more valid criticism of the legislation is that its funding levels are not sufficient in areas such as child care and TANF, given the large unmet need for child care and the desirability of avoiding service cuts in coming years in TANF-funded welfare-to-work programs.

Finally, even if the official (albeit misleading) $11.5 billion estimate of the bill's cost is taken at face value, that figure is dwarfed by the cost of other proposed or enacted legislation, including legislation promoted by policymakers who have criticized the Senate Finance Committee bill as being too costly. For example, the annual cost of permanently repealing the estate tax (rather than maintaining it at the generous parameters the estate tax will reach in 2009, the year before it is repealed) is seven times the annual cost of the Finance Committee bill when fully implemented.[5] Yet estate tax repeal would reduce taxes on the estates of fewer than 10,000 very wealthy individuals each year, while the welfare reauthorization bill would affect millions of the nation's lowest-income families and children. Similarly, the recently enacted farm bill will cost more than four times as much as the Finance Committee welfare bill. The prescription drug proposal offered on the Senate floor by Senator Graham on behalf of the Senate Democratic Leadership in July would cost 15 times as much as the welfare bill, while the prescription drug proposal the House of Representatives passed in June would cost 10 times as much.

A more detailed analysis of the costs of the Finance Committee bill follows.

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[5] The pieces of legislation to which the Senate Finance Committee bill is compared in this analysis phase in over different periods of time. For comparability, the annual cost of each piece of legislation, including the Finance Committee welfare bill, is calculated based on its cost when phased in fully. The fully phased-in cost is estimated as though that cost were being incurred in 2003.

The Bill's Cost Compared to the Cost of Maintaining Current Service Levels

The Congressional Budget Office determines the cost of pending legislation by comparing it to a "baseline" level, which represents the future level of funding for a given program if no new legislation is enacted. When CBO develops its baselines, it generally assumes that program funding will grow over time to keep pace with inflation, since the CBO baseline attempts to reflect the cost of maintaining the current levels of service that programs provide and doing so generally entails that program funding keep pace with inflation.

As a result, when CBO calculates the increase in cost that will result from a piece of legislation, the increase generally represents the degree to which the legislation will result in a cost that *exceeds* the level of funding needed for the program to keep pace with inflation. Thus, a proposal to freeze funding for a program — so that funding falls below what is needed to stay even with inflation — is generally considered a reduction in federal spending. This is how CBO develops the baselines for nearly all federal programs, including education, defense, health, Social Security, federal retirement, and transportation programs. (Note: For most entitlement programs, such as Social Security, federal retirement programs, Medicare and Medicaid, and the school lunch program, inflation is built into the baseline automatically because these programs either have cost-of living adjustments as part of their basic benefit formulas or, as in the case of the health care programs, their costs rise as the cost of providing health care services increases.)

In contrast, as a result of specific statutory language written into the 1996 welfare law, the CBO baselines for most programs the TANF reauthorization legislation covers — including the TANF block grant, the mandatory portion of the child care block grant, and the Social Services Block Grant — are frozen and do not keep pace with inflation.[6] As a result, CBO must treat proposals as having a cost if those proposals would simply set funding for these block grants at the levels needed to keep pace with inflation, even though identical proposals for most other programs would be considered to have no cost. This is particularly problematic because the cost of the programs and services that these block grants support — such as employment and training services, child care, pregnancy prevention, and other social services — consists largely of the salaries and benefits of the staff who provide the services. Since salaries tend to grow over time with inflation, the cost of providing the same services to the same number of low-income families and children grows with inflation as well. As a result, if program funding levels are frozen, the level of services provided must be cut back.

Adding to the anomalous nature of the CBO baseline for the programs the welfare law covers, the baseline assumes that several of these programs — most notably, Transitional Medical Assistance — will terminate after fiscal year 2002. The standard CBO rule is that if a program with a cost of at least $50 million a year is scheduled to come up for reauthorization, the

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[6] A more detailed discussion of the TANF, Child Care, Social Services Block Grant, and Transitional Medical Assistance baselines appears in the Appendix. The programs that the TANF reauthorization legislation covers account for the majority of all funding in the federal budget that is affected by anomalous baseline assumptions of this nature.

baseline assumes that the program will continue. This rule helps to avoid budget gimmickery: it prevents Congress from extending a popular program for only a year or two at a time while ignoring the inevitable costs of maintaining the program in years after that and then acting as through there is room for more tax cuts or spending increases as a result. However, the CBO rules also say that when a *provision* within a larger program is scheduled to expire before the rest of the program does, the baseline assumes that the provision will *not* be extended. Technically, Transitional Medical Assistance is not a separate program but a part of Medicaid — and Medicaid has a "permanent authorization" (that is, it does not need periodic reauthorization to continue operating). Thus, in accordance with standard rules, but for this technical reason, CBO's baseline assumes that Transitional Medical Assistance is not extended. If a piece of legislation reauthorizes Transitional Medical Assistance for five years, as the Finance Committee bill does, CBO counts the entire annual cost of the program for each of the five years as being an increase in federal spending. In addition, under these standard rules, the TANF supplemental grants — provided to 17 states that either have historically low welfare spending per poor child or have experienced rapid population growth — would be extended in the baseline, but statutory language in the 1996 law directs CBO not to include the TANF supplemental grants in the TANF baseline. As a result, CBO counts the full cost of the supplemental grants when estimating the cost of the Finance Committee bill.

Because of the anomalous way in which the CBO baseline treats these programs, the baseline over the next five years is set a level $11.7 billion *below* the cost of simply extending these programs with no changes and keeping their funding levels even with inflation. Stated another way, CBO would assign a "cost" of $11.7 billion to proposals simply to continue Transitional Medical Assistance and to maintain the current purchasing power of the TANF block grant, TANF supplemental grants (which go primarily to poorer states), the mandatory portion of the child care block grant, and the Social Services Block Grant. (See table on the next page.)

The net cost of the Senate Finance Committee bill, as compared to the official CBO baseline, is $11.5 billion over five years. As this analysis suggests, however, the"cost" of the bill is $200 million *less* than the amount needed just to maintain current service levels in TANF, the mandatory portion of the child care block grant, the Social Services Block Grant, and Transitional Medical Assistance.

Table 1: Cost of Maintaining Current Services in Programs Covered by TANF Reauthorization Legislation	
Program extension	**Five-year cost of extending 2002 law and reflecting inflation, relative to official CBO baseline[7]**
Extend TANF block grant and performance bonuses and keep them even with inflation[8,9]	$6.7 billion
Extend TANF supplemental grants and keep them even with inflation	$1.7 billion
Extend mandatory portion of child care block grant and keep it even with inflation[10,11]	$1.0 billion
Maintain funding for Social Services Block Grant, adjusted for inflation	$0.7 billion
Extend Transitional Medical Assistance under current policies	$1.6 billion
Total	**$11.7 billion**

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7 The estimates in this table are derived using CBO's projections of changes in the Consumer Price Index for All Urban Consumers to adjust the fiscal year 2002 budget authority for each grant or program.

8 This table shows the cost of adjusting the value of the TANF block grant to keep pace with inflation. Such an adjustment would not be sufficient to allow states to maintain the level of services they currently provide with TANF funds, because total state TANF expenditures in fiscal year 2001 exceeded the annual TANF block grant by nearly $2 billion. States that spent more than their annual grant made up the difference by drawing on unspent TANF funds from prior years. Those unspent funds are now running out.

9 Extending in its current form the TANF contingency fund, which was established to provide additional funding to states during recessions, would have a very small cost ($8 million over five years according to CBO). Because this cost is so small, it is not included in this table.

10 CBO has estimated that $4.6 billion is needed over the next five years to maintain the purchasing power of federal and state funds currently devoted to child care. CBO's estimate is based on the following sources of child care funding: mandatory federal child care funds, TANF funds devoted to child care, and state child care spending. This CBO estimate does *not* include discretionary federal child care funds. The $1.0 billion figure in this table represents only the funds needed to adjust the mandatory component of the federal child care block grant for inflation. (TANF funds that are devoted to child care are included in the part of the table that shows the funding necessary to adjust the TANF block grant for inflation. Issues related to state child care spending are addressed in the next section of this paper, while the role of discretionary federal child care funding is discussed in the box on page 8.)

11 This estimate may understate the funds needed to maintain child care services currently funded with the mandatory portion of the child care block grant. The $1.0 billion estimate in this table was calculated using the Consumer Price Index for All Urban Consumers in order to be consistent with the other calculations in the table. When CBO estimates how much funding is needed to maintain current child care services, however, a higher inflation adjustor is used to reflect the facts that wages grow faster than consumer prices and the cost of providing child care services is largely driven by wages. Using CBO's inflation adjustor, $1.4 billion would be needed over five years to compensate for the effects of inflation on the mandatory portion of the child care block grant. Since the cost of many of the services provided with TANF and SSBG funds is also driven by wages, the other estimates in this table also may understate the total funding needed over the next five years to maintain current service levels.

Bill Contains Real Reductions for TANF and Some Other Programs

The Finance Committee bill contains $13.7 billion in funding "increases" above the CBO baseline for the low-income programs that the bill covers and $2.2 billion in offsetting savings from customs user fees and changes in the Supplemental Security Income. This produces a net "cost" of $11.5 billion. The $13.7 billion in "increases" modestly exceeds the overall amount that would be needed to extend Transitional Medical Assistance and adjust the TANF block grant, the mandatory portion of the child care block grant, and the Social Services Block Grant to compensate for inflation.

The bill does not, however, distribute funds among these programs in a way that enables each block grant to maintain its purchasing power. Instead, the bill provides funding increases above the level of inflation in some areas, while holding funding below the current inflation-adjusted level in other programs. In addition, by fiscal years 2006 and 2007, the level of funding the bill provides for all programs combined is less than the amount needed to maintain current services in these programs.

The major provisions of the bill and their costs are as follows:

- **TANF:** Funding for the basic TANF block grant would be frozen for five years at the fiscal year 2002 level of $16.5 billion. While CBO officially estimates that this is neither a cost increase nor a cost decrease, funding for the TANF block grant over the next five years would be $6.7 billion below what would be needed to maintain the block grant's fiscal year 2002 purchasing power. The bill also provides new funding in some TANF-related areas and discontinues funding in others.
    - The TANF supplemental grants, provided to 17 states that either have historically low welfare spending per poor child or have experienced rapid population growth, would be extended, provided to some additional states, and increased from their current overall level of $319 million annually to $441 million. Since the CBO baseline assumes these grants all terminate after 2002, extending these grants and increasing their funding level by

Maintaining Child Care Services

The table on the preceding page does not include the discretionary portion of the child care block grant, because that portion of the block grant does not fall under the Senate Finance Committee's jurisdiction. To enable states to continue providing the current level of child care services over the next five years, the discretionary portion of the block grant (which in fiscal year 2002 was $2.1 billion) would need to keep pace with inflation as well. There is no guarantee this will happen. The fiscal year 2003 appropriation bill for the Departments of Labor, Health and Human Services, and Education (Labor/HHS) that the Senate Appropriations Committee approved in July freezes discretionary child care funding with no inflation adjustment. The only Labor/HHS appropriations bill introduced in the House thus far, H.R. 5320, reflects the President's budget request, which also freezes discretionary child care funding with no inflation adjustment.

$610 million over five years is officially estimated by CBO to cost $2.2 billion over five years. (If the CBO baseline assumed these grants would be reauthorized and keep pace with inflation, the cost of this provision would be estimated at less than $500 million over five years.)

- Under current law, $100 million a year is dedicated to a bonus for states that show reductions in non-marital births. The Finance Committee bill would redirect these funds to a new competitive grants program for marriage promotion activities and make an additional $100 million a year ($500 million over five years) available for this purpose.

- The TANF contingency fund, which is supposed to provide additional federal funding to states during a recession, would be extended, and the criteria for obtaining contingency funds would be modified to ensure that states with rising numbers of needy families during recessions actually receive additional resources. (The existing contingency fund criteria have not functioned well in the current downturn and are widely regarded as flawed.) This change is estimated to cost $400 million over five years, relative to the CBO baseline.

- Under the 1996 welfare law, $200 million a year has been used for a "high performance" bonus to states meeting certain criteria. These funds would, under the Finance Committee bill, be redirected to a competitive grants program to states to promote transitional jobs programs for the hard-to-employ and business linkages to increase the earnings of low-income parents. Since the overall level of funding provided would not change, this has no cost.

- A total of $120 million over four years would be provided to help states implement a new "universal engagement" requirement, which would require states to establish Individual Responsibility Plans for all parents and caretakers receiving TANF assistance.

- A $75 million fund would be created for grants to improve tribal TANF programs, with an additional $25 million provided to create a tribal contingency fund.

Together, these changes increase TANF funding by $3.3 billion over five years, compared to the official CBO baseline. Nonetheless, total TANF funding over the next five years would be $5.1 billion *below* the amount needed to maintain the 2002 funding level, adjusted for inflation.

- **Social Services Block Grant:** SSBG funding would be frozen in every year except 2005, when the block grant would receive an additional $252 million. The official CBO cost estimate shows this as a $252 million increase. Yet even with the funding increment in fiscal year 2005, SSBG funding over the next five years would be $402 million below the level needed to keep pace with inflation.

- **Child Care Block Grant:** Funding for the mandatory portion of the child care block grant would be increased by $5.5 billion over five years. CBO counts all $5.5 billion of this as an increase. It is $4.5 billion above what is needed to keep pace with inflation.

- **Transitional Medical Assistance:** The bill extends Transitional Medical Assistance for five years. It also offers states new options to simplify the program and extend coverage for longer periods of time, which cost $470 million over five years above the cost of simply extending Transitional Medical Assistance under current policies.

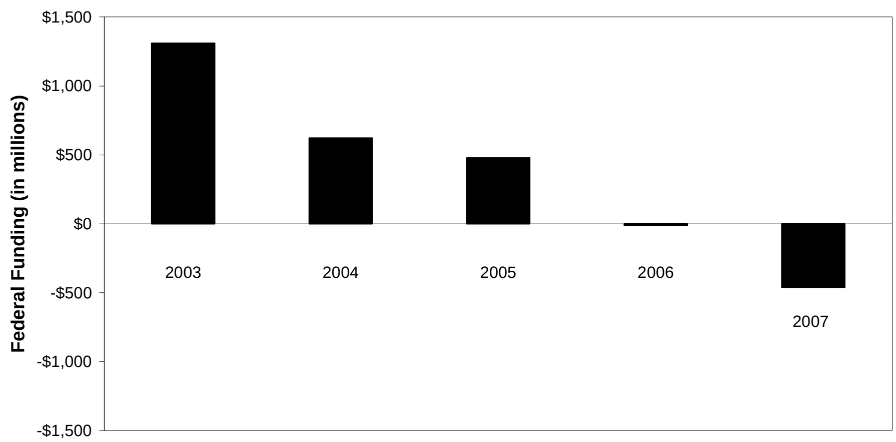
  As noted above, the CBO baseline assumes that Transitional Medical Assistance will expire after fiscal year 2002 and have no cost whatsoever. As a result, CBO estimates that extending and simplifying the Transitional Medical Assistance program will cost the federal government $2.1 billion over five years, compared to the official CBO baseline, rather than the $470 million cost that the *changes* in Transitional Medical Assistance would entail.

- **Medicaid and the State Children's Health Insurance Program:** The bill gives states the option of providing Medicaid and SCHIP coverage to pregnant women and children who are legal immigrants during their first five years in the country. This option is estimated to cost $620 million in federal funds over five years.

- **Child Support:** The bill provides that if a state opts to distribute a greater portion of child support payments to current or former TANF recipients (rather than retaining these payments as reimbursement to the state for welfare payments provided to those recipients), the federal government will share the cost. This provision, combined with other initiatives in the bill to strengthen the child support enforcement system, is projected to cost the federal government $953 million over five years.

Figure 1 compares the annual funding the bill provides for all affected programs (excluding the offsetting savings in customs user fees and the SSI program) to the funding levels that would be needed to maintain current services in TANF, the mandatory portion of the child care block grant, the Social Services Block Grant, and Transitional Medical Assistance. The chart shows that by the fourth year, the overall level of funding in the bill is insufficient to maintain current service levels for these programs.

Figure 1
Federal Funding for Low-Income Programs Under the Senate Finance Committee Bill Compared to the Level Needed to Maintain Current Services



The Bill Would Permit *State* Expenditures for Low-Income Programs to Decline in Purchasing Power

The Senate Finance Committee bill would allow state expenditures for the affected low-income programs to fall significantly in purchasing power over the next five years. Under current law, states are required to spend certain amounts of their own funds to draw down federal TANF and child care funds. The Senate Finance Committee bill does not require any state TANF and child care spending above the current requirements through fiscal year 2005. In 2006 and 2007, it requires that states match a small portion of the increase in federal child care funding the bill would provide.

If states spend what is required to draw down all of the available federal funds (but do not spend more than that), state TANF and child care expenditures will erode over time in purchasing power. By fiscal year 2007, state expenditures would be $881 million below the current level adjusted for inflation. Over the five-year period that the bill covers, state expenditures would fall $2.6 billion below the amount needed to maintain current services. While state expenditures for Medicaid, SCHIP, and child support distribution are likely to increase modestly under the bill if states take advantage of new options the bill makes available to them, these increases are unlikely to offset the declines the bill permits in state TANF and child care expenditures in real terms. Total state expenditures for the low-income programs affected by the bill thus would be likely to fall in purchasing power.

The House TANF Reauthorization Bill Would Lead to Large Reductions In Programs for Low-Income Families

In contrast to the Senate Finance Committee bill, the TANF reauthorization bill that the House of Representatives passed on May 16, 2002 does not come close to keeping pace with inflation in the low-income programs covered by the bill. Total funding under the House bill would fall short *by more than $9 billion over five years* of the amount needed to extend Transitional Medical Assistance and keep the TANF block grant, the mandatory portion of the child care block grant, and the Social Services Block Grant even with inflation.

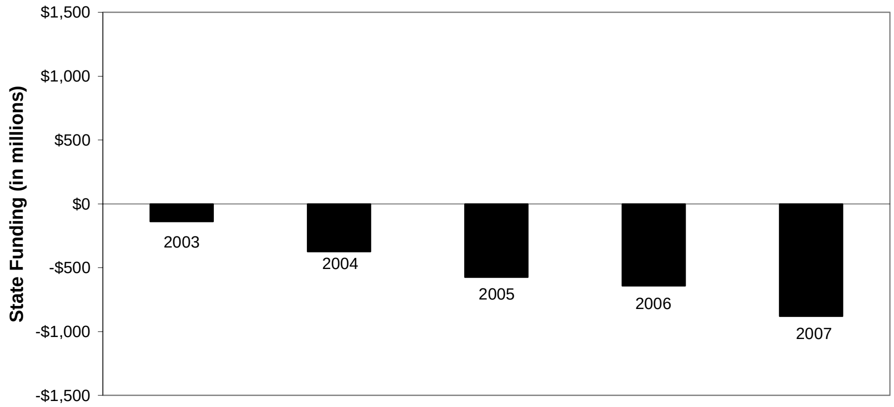
The only funding increases in the House bill, relative to the official CBO baseline, are an extension of the TANF supplemental grants at the current level, a $200 million annual increase in funding for the mandatory portion of the child care block grant, and an $82 million net increase over five years in the child support enforcement program. The bill also extends Transitional Medical Assistance for one year but does not include any program simplifications and offsets nearly all the costs of that extension with a temporary reduction in federal Medicaid matching payments to states for administrative costs.

Furthermore, the House bill makes changes in the TANF work requirements. CBO estimates that states will need to expend an additional $8 billion to $11 billion over five years on new employment services and child care to meet the revised requirements. Unless states can find new resources to cover these expenses, which seems unlikely in the current fiscal climate, they will have to scale back other TANF-funded programs to comply with the stiffer work requirements. Since states are unlikely to reduce already low cash benefit levels and will need to increase spending on employment services and child care for cash assistance recipients to comply with the bill's work requirements, their options for reducing expenditures will be limited. Many states likely will be forced to reduce funding for child care and other TANF-funded supports for low-income *working* families that do not receive cash welfare payments.

When the lower level of additional funding for low-income programs relative to the Senate Finance Committee bill is considered together with the higher cost of complying with the House bill's work requirements, states would have substantially fewer resources available and far less flexibility regarding how to use those resources under the House bill.

Figure 2 compares estimated state expenditure levels for TANF, child care, Transitional Medical Assistance, and child support programs under the Senate Finance Committee bill with current state expenditure levels for these programs, adjusted for inflation. The estimates of expenditures under the Finance Committee bill assume that states will spend on TANF and child care the amounts required to draw down all available federal TANF and child care funds (but not more than that) and that state TANF and child care spending consequently will decline in real terms. These estimates also assume that state expenditures for Transitional Medical Assistance and child support will increase in tandem with projected increases in federal expenditures in these areas as a result of the new state options the legislation provides. States are required to pay a fixed portion of total expenses in these programs; the amounts of these projected state expenditure increases are derived from CBO's estimates of the level of the federal expenditure increases in these areas.

Figure 2
State Funding for Low-Income Programs
Under the Senate Finance Committee Bill
Compared to the Level Needed to Maintain Current Services



- **TANF and Child Care:** In fiscal year 2002, states must spend $11.6 billion to draw down all available federal TANF and child care funds.[12] States would need to spend an additional $4.4 billion over the next five years (an average of about an additional $900 million a year) to maintain the purchasing power of their contributions to TANF and child care. The Senate Finance Committee bill requires no additional state TANF expenditures for the entire five-year period and no additional state child care expenditures for the first three years.

  In each of fiscal years 2006 and 2007, states would have to spend an additional $194 million under the bill to draw down all federal child care funds. The bill also requires entities (states or non-profit organizations) electing to apply for marriage promotion grants to contribute at least $50 million annually in non-federal resources (cash or in-kind). As a result, required state TANF and child care spending under the Senate Finance Committee bill would, over five years, fall $3.8 billion short of the amount needed to maintain current services.

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[12] To draw down its federal TANF block grant allocation, each state must meet a maintenance-of-effort requirement by expending each year an amount equal to 75 percent of its expenditures for AFDC-related programs in fiscal year 1994. States that do not meet federal TANF work requirements must spend 80 percent of their 1994 AFDC expenditure levels.

For all states to meet these TANF maintenance-of-effort requirements, states must spend at least $10.4 billion annually. States need to spend another $1.1 billion in fiscal year 2002 to draw down all available federal child care funds. When TANF and child care are considered together, states thus need to spend $11.6 billion in fiscal year 2002 to draw down all available federal funds.

- **Transitional Medical Assistance:** CBO estimates that the Transitional Medical Assistance simplifications, along with another provision in the Finance Committee bill that would prevent states from using child support programs to recover Medicaid costs incurred for childbirth expenses, would lead to a $574 million increase in federal Medicaid expenditures over five years.[13] Based on this estimate, state Medicaid expenditures are estimated to increase by $433 million during this period.

  This estimate does not include the effect on state Medicaid expenditures if some states decide to provide Medicaid coverage to legal immigrant pregnant women and children because it is difficult to project what the precise effect would be on *state* expenditures. Twenty states currently offer coverage to these immigrants using state funds. In these states, which include New York and California, state spending would decrease if the state replaced some state funds with federal matching funds. In states that do not currently provide such coverage using state funds, extending coverage to these immigrants would increase state Medicaid spending. CBO estimates that under the Senate Finance Committee bill, states that account for 90 percent of potential Medicaid costs nationally would cover legal immigrant pregnant women and children by 2007.

- **Child Support:** CBO estimates that the child support provisions in the Finance Committee bill would lead to an increase in federal child support funding of $958 million over five years.[14] Based on this estimate, state child support funding is estimated to rise by $771 million over five years.

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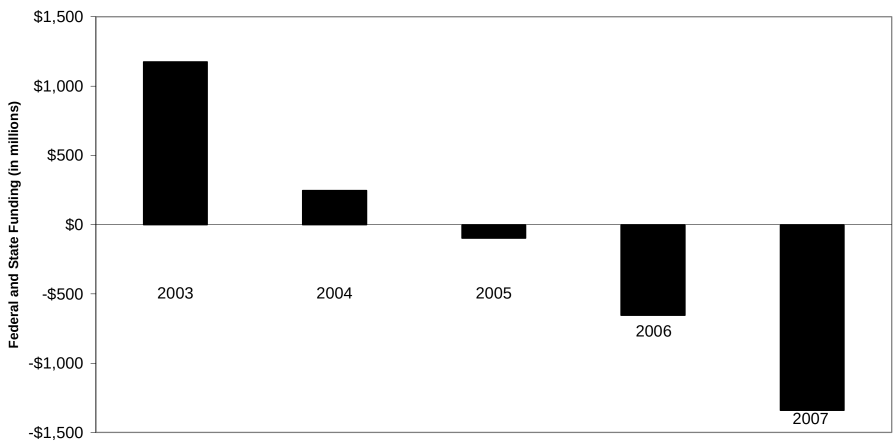
[13] To be consistent with the rest of this analysis, these estimates are based on CBO's estimates of the impact on budget authority (rather than outlays) of the Transitional Medical Assistance simplifications and the ban on using child support programs to recover Medicaid costs incurred for childbirth expenses. In Medicaid, the budget authority and outlay effects of the Transitional Medical Assistance simplifications are identical. Because the Transitional Medical Assistance simplifications would render some children who are now covered by SCHIP eligible for Medicaid instead, the simplifications would result in small SCHIP outlay savings but have no effect on SCHIP budget authority, since SCHIP is a block grant with a fixed funding level. The ban on using child support programs to recover Medicaid childbirth costs would have identical effects on Medicaid budget authority and outlays and no effect on SCHIP budget authority or outlays.

[14] The increase in federal funding for child support primarily results from the federal government retaining a smaller amount of child support collections rather than from increased spending on child support enforcement activities. To be consistent with the rest of this analysis, these estimates are based on budget authority rather than outlays, but the budget authority and outlay effects of these provisions of the bill are identical.

Combined Federal and State Spending on Low-Income Programs Would Fall in Real Terms

The decline in the inflation-adjusted value of *state* expenditures in the programs affected by the Finance Committee bill would more than cancel out the modest increase in the inflation-adjusted value of *federal* funds for these programs. Figure 3 shows that beginning in fiscal year 2005, combined federal and state funding for the low-income programs affected by the bill would fall below the current level adjusted for inflation. Over the five-year period, combined federal and state funding would fall $672 million below the level needed to maintain current services.

Figure 3
Federal and State Funding for Low-Income Programs
Under the Senate Finance Committee Bill
Compared to the Level Needed to Maintain Current Services



Comparing the Senate Finance Committee Bill to Other Legislation

To evaluate whether the Senate Finance Committee bill "abandons fiscal responsibility," as the White House has claimed, it also is instructive to compare its cost to the cost of other bills that are being considered or recently have been enacted. Relative to other recent legislation, the federal cost increases in the Finance Committee bill are quite small even when the official CBO cost estimate for the bill is used. Figure 4 and the analysis below compare the annual cost increases under the Finance Committee bill, as measured against the official CBO baseline, to the annual costs of other enacted or proposed legislation. These comparisons use the annual cost of each measure as if all provisions of the measure were fully in effect in 2003.

Based on the CBO estimate that the Senate Finance Committee bill would cost $11.5 billion over five years:

- The recently enacted farm bill costs more than four times as much as the Finance Committee bill.

- The cost of the proposed permanent repeal of the estate tax, when compared to the cost of extending the estate tax in its 2009 form, is seven times the cost of the Senate TANF bill. Fewer than 10,000 families will face the estate tax in the final year before its repeal in 2010; the Finance Committee welfare reauthorization bill, by contrast, affects millions of low-income families with children.

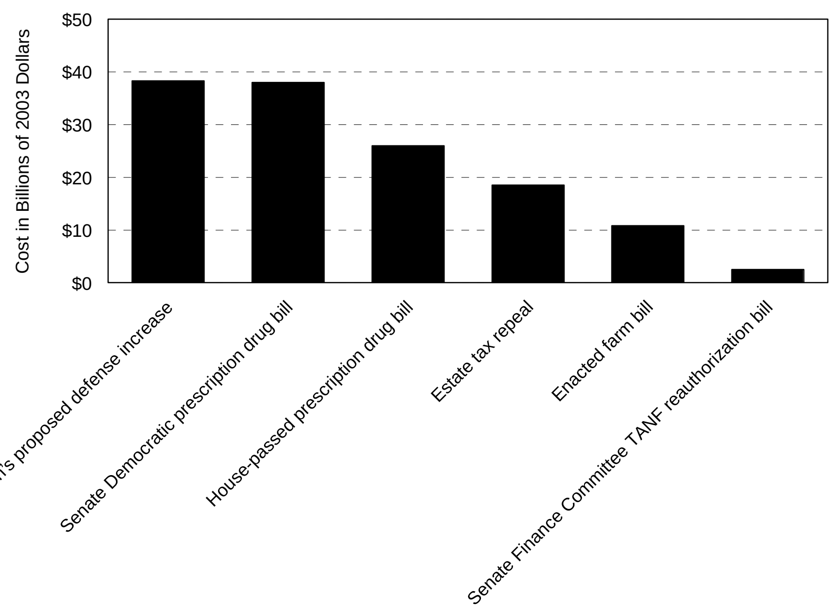
- The prescription drug proposal the House passed in June, with White House support, would cost 10 times as much as the Finance Committee bill.

- The prescription drug bill brought to the Senate floor by Senator Graham on behalf of the Senate Democratic Leadership in July would carry more than 15 times the cost of the Finance Committee bill.

- The Administration's proposed defense appropriations increase is 15 times the cost of the Finance Committee bill.

The cost of the Finance Committee bill also is very small when compared to various tax-reduction measures that have been enacted or are under consideration. For example, the cost of the tax bill enacted last year is more than 77 times the cost of the Finance Committee bill, with the portion of that tax cut that benefits taxpayers in the top one percent of the income spectrum costing more than 28 times as much as the Finance Committee bill.

Figure 4
Annual Costs of Provisions When Fully in Effect



Appendix: An Explanation of the CBO Baseline

TANF: The baseline assumes that the base TANF block grant will be frozen for five years at the fiscal year 2002 level and that the TANF supplemental grants will terminate after fiscal year 2002.[15] The welfare law requires CBO to treat the supplemental grants differently from other expiring grants and to exclude them from the TANF baseline after the current authorization expires.[16] As a result of the exclusion of the supplemental grants, the total federal TANF funding level assumed in the baseline is frozen at a level *below* the fiscal year 2002 level. The baseline level is $8.4 billion lower over the next five years than the level that would result simply from adjusting the fiscal year 2002 funding level for inflation.

Child Care and the Social Services Block Grant: The 1996 welfare law consolidated four federal child care funding streams into a single block grant known as the Child Care and Development Fund (CCDF). CCDF consists of a discretionary funding stream and a mandatory funding stream. Funding for the mandatory portion of the block grant was set by the welfare legislation and grew from $1.97 billion in fiscal year 1997 to $2.72 billion in fiscal year 2002. Although mandatory child care funding increased faster than inflation during this period in order to reduce the shortage of affordable child care for low-income working families, the CBO baseline assumes that mandatory child care funding will remain frozen at the fiscal year 2002 level for the next five years. Similarly, the baseline for the Social Services Block Grant assumes that funding will remain frozen at the fiscal year 2002 level of $1.7 billion.[17] (The baseline is constructed in this manner because of statutory language in the 1996 welfare law.)

The CBO baseline thus assumes that mandatory child care and Social Services Block Grant funding will fall in inflation-adjusted terms each year and as a result will be able to fund fewer services each year. It would "cost" $1.7 billion over five years simply to maintain the value of the mandatory portion of the child care block grant and the Social Services Block Grant.

Transitional Medical Assistance: Transitional Medical Assistance provides Medicaid coverage for up to a year for families whose increased earnings (or child support receipt) would otherwise make them ineligible for Medicaid, including many families leaving welfare for work. Transitional Medical Assistance has been available in its current form since 1988, and was extended in the 1996 welfare law through the end of fiscal year 2001. Congress later extended

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[15] The TANF supplemental grants provide additional funds to 17 states that had low block grant allocations relative to their needy population or high population growth. The supplemental grants totaled $80 million in fiscal year 1997 and grew by about $80 million each year to a level of $319 million in fiscal years 2001 and 2002.

[16] The TANF contingency fund, which was established to provide additional funding to states during recessions, was scheduled to expire at the end of fiscal year 2001 under the 1996 legislation. The stimulus bill extended the contingency fund for a year, just as it extended the TANF supplemental grants. Because the contingency fund provision of the welfare law does not include language directing CBO to exclude the fund from the baseline, the contingency fund is extended in the TANF baseline.

[17] The Social Services Block Grant received $2.8 billion each fiscal year between 1990 and 1995. The 1996 welfare law reduced its funding level to $2.4 billion annually through fiscal year 2002, with SSBG funding scheduled to return to the $2.8 billion level starting in fiscal year 2003. In 1998 the Transportation Equity Act further reduced the SSBG funding level gradually each year to $1.7 billion in fiscal year 2001.

Transitional Medical Assistance through fiscal year 2002 so Transitional Medical Assistance would come up for renewal at the same time as the TANF block grant.

No funding for Transitional Medical Assistance is included in CBO's baseline beyond fiscal year 2002. Under CBO rules, when an entire program that costs more than $50 million is scheduled to expire, the baseline assumes it will be extended, but when a "provision" within a larger program is scheduled to expire before the rest of the program, the baseline does *not* assume it will be extended. Since Transitional Medical Assistance is a provision within Medicaid, which is not expiring, the baseline does not assume that Transitional Medical Assistance will be extended. Thus, extending Transitional Medical Assistance in its current form is estimated by CBO to "cost" an amount equal to the entire cost of the program.