JOINT ECONOMIC COMMITTEE DEMOCRATS

SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

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GETTING REAL ABOUT WELFARE FUNDING

THE COSTS OF SUSTAINING CURRENT POLICY ARE NOT PROGRAM EXPANSIONS

The budget scorekeeping rules used for welfare and related programs have colored the debate over welfare reauthorization, making it appear as though those programs are being significantly expanded. In fact, however, total welfare expenditures in either the current Senate welfare reauthorization bill or the likely House bill fall well short of the real costs of simply extending current welfare policy and maintaining current services.

Background

The 1996 welfare reform law (P.L. 104-193) replaced the federal entitlement to cash assistance for poor families with the Temporary Assistance for Needy Families (TANF) block grant.[1] TANF funding has been fixed at $16.6 billion per year since then.[2] Following the expiration of funding authority at the end of FY 2002, attempts to reauthorize funding have resulted only in temporary, stop-gap extensions, the latest of which will expire on June 30, 2005.

A number of other programs for low-income families were also amended as part of the 1996 welfare reform law. Funding for the Child Care and Development Block Grant (CCDBG)—the primary source of federal funding for subsidized child care for low-income families, including current and former welfare recipients—was increased substantially. Like TANF, CCDBG has been operating under temporary extensions since the end of FY 2002, and funding levels have remained frozen since then at $2.7 billion per year. The 1996 law and subsequent legislation significantly reduced funding for the Social Services Block Grant (SSBG), a permanently authorized program that funds services to low-income families. SSBG funding is $1.7 billion per year.

The Transitional Medical Assistance (TMA) program provides Medicaid coverage to families transitioning off of welfare. As part of the Family Support Act of 1988, the transitional coverage period was expanded for families that lose coverage specifically as a result of increased earnings, and states currently must provide up to 12 months of work-related TMA. The expanded program is currently scheduled to expire at the same time as TANF on June 30, 2005.

Since the enactment of the original welfare reform legislation in 1996, the emphasis of welfare has changed from providing cash assistance to helping recipients find employment and achieve economic self-sufficiency. Welfare spending by states reflects this shift: today, states spend nearly as much on employment activities and child care as they do on cash assistance.[3] Welfare caseloads have fallen dramatically since 1996, but those caseload figures count only those families still receiving cash assistance and not the many additional families receiving only child care or other non-cash services. Thus, federal welfare caseload figures underestimate the number of people now served by TANF and related programs.

The CBO Baseline

For most discretionary programs, the Congressional Budget Office (CBO) baseline budget estimate includes adjustments for inflation. For most mandatory programs, the CBO baseline includes adjustments not only for inflation but also for caseload growth resulting from demographic and economic changes. For block grants, however, including TANF and related programs, the CBO baseline assumes that funding is fixed irrespective of changing needs.

By law, the CBO baseline generally assumes that funding for mandatory programs will continue after authorization expires. However, the 1996 law made an exception to that scorekeeping convention for the TANF supplemental grants (for states with large population increases or lower-than-average welfare spending per poor person) and for the expanded TMA program. (However, because TMA is authorized under Medicaid, an entitlement program, once funding is authorized the CBO baseline would assume adjustments for both inflation and caseload growth.) Together, these baseline conventions mean that reauthorizing TANF and related programs and extending welfare policy at current service levels is scored as incurring new costs.

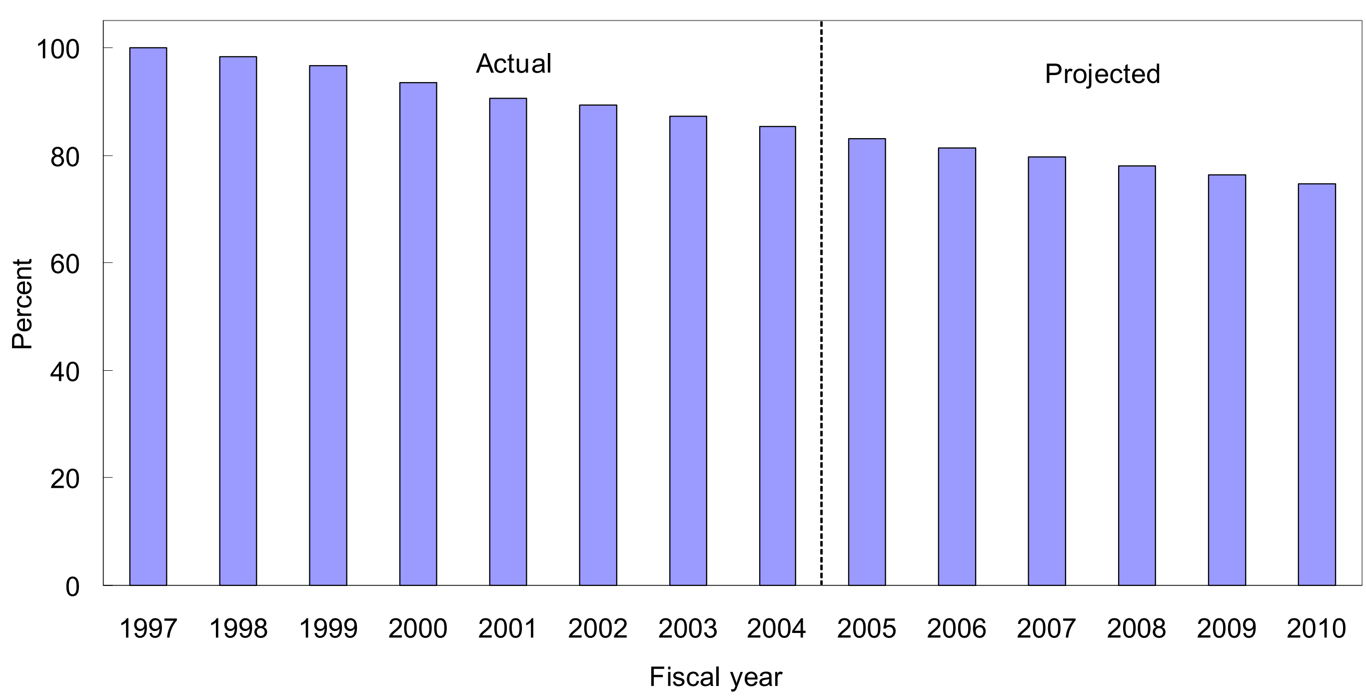
Welfare Funding Shortfalls Are Built into Current Law

Funding for the basic TANF block grant has remained fixed at $16.6 billion since it was first created in the 1996 welfare reform law. However, inflation has eroded the purchasing power of that block grant. Last year, the real value of the basic TANF block grant was only 85 percent of its fiscal year (FY) 1997 level (Chart 1). If funding remains fixed in nominal terms, the purchasing power of the TANF block grant will continue to erode, falling to just 75 percent of its original value by FY 2010 under current CBO inflation

Chart 1

Inflation Has Eroded the Real Value of the TANF Block Grant

Inflation-Adjusted Value of the Basic TANF Block Grant as a Fraction of the Original 1997 Value



Sources: JEC Democratic staff calculations using data from the Congressional Budget Office and Bureau of Labor Statistics.
Notes: The TANF block grant includes the state Family Assistance Grants and the grants to tribes and territories. Inflation adjustment is done using the CPI-U and CBO projections of the CPI-U for fiscal years 2005-2010.

projections. The erosion of real spending on welfare is even more substantial when the loss of purchasing power in other welfare-related block grant programs such as CCDBG and SSBG is taken into account.

Spending above the baseline level would be necessary to prevent further erosion of the real value of the basic TANF grant and other important welfare-related programs. Table 1 compares total funding for TANF and related programs under the current law baseline with what the funding levels would be if the expiring programs were reauthorized through FY 2010 and the block-granted programs were adjusted for inflation beginning in FY 2006.

The difference between the two funding levels is the increase in spending that would be required simply to maintain real services at their FY 2005 levels. Table 1 shows that if the baseline for TANF and related programs included inflation and the likely reauthorization of expiring programs, it would be $3.6 billion higher in FY 2010 and $12.1 billion higher over the entire FY 2006-FY 2010 period.

House and Senate Welfare Reauthorization Legislation

Both the House and the Senate are considering legislation to reauthorize and amend TANF and related programs. On March 17, 2005, the Senate Finance Committee reported out its welfare reauthorization bill, S. 667. A bill introduced in the House, H.R. 240, has been sent to the full Ways and Means Committee by the Subcommittee on Human Resources.

Both S. 667 and H.R. 240 would extend basic TANF funding at current levels through FY 2010 and extend the supplemental grants through FY 2009. Both bills would raise TANF work participation standards. The Senate bill would increase mandatory child care funding by $6 billion over five years, while the House bill would increase funding by only $1 billion over five years. Nearly half of the increase in child care funding in the Senate bill is offset by changes to the earned income and child care tax credits.[4] The Senate bill would also increase SSBG funding by $1 billion over five years. The Senate bill would extend the expanded TMA program through FY 2010, while the House version would extend the program through FY 2006.

Both bills also address various other programs, including child support, child welfare, Supplemental Security Income, and abstinence education.[5]

CBO estimates that S. 667 would cost $10.2 billion through FY 2010.[6] H.R. 240 has not yet been officially scored, but according to CBO's unofficial estimate, it would cost $3 billion through FY 2010.[7] Table 2 breaks down the cost of each bill by program area. It also includes JEC Democratic Staff estimates separating the costs associated with new spending under each bill from the costs of simply extending current policy. The majority of the costs in both bills represent the continuation of current policy.[8]

House and Senate Bills Fail to Cover Costs of Sustaining Current Policy

As shown in Table 1, simply extending the primary welfare-related programs through FY 2010 and adjusting the block-granted programs for inflation beginning in FY 2006 would cost $12.1 billion relative to the baseline. That is $1.9 billion more than the total cost of S. 667, and $9.1 billion more than the total cost of H.R. 240. Thus, despite the net increases in spending over the CBO baseline in both bills, they would still fall short of the total amount needed to extend current welfare policy.

The funding shortfalls under both bills are even greater when the increased child care funding needs associated with the bills' higher work participation requirements are taken into account. Although both bills would increase work participation standards, the House bill would likely require greater participation from more families. Based on CBO estimates, the Congressional Research Service reports that from FY 2006 through FY 2010, the increase in child care funding needed to offset inflation and higher work participation requirements would total $8.3 billion under H.R. 240 and $5.4 billion under S. 667.[9] When these increased funding needs are taken into account, both bills would

Table 1

Funding for Primary TANF-Related Programs Under Current-Law Baseline Compared with Levels Needed to Sustain Current Policy

Billions of dollars

	Fiscal Years						
	2005	2006	2007	2008	2009	2010	Total, 2005-2010
TANF and Related Programs							
Baseline projection							
TANF basic grant[a]	16.6	16.6	16.6	16.6	16.6	16.6	99.5
TANF supplemental grants[b]	0.3	0.0	0.0	0.0	0.0	0.0	0.3
CCDBG[c]	2.7	2.7	2.7	2.7	2.7	2.7	16.3
SSBG[d]	1.7	1.7	1.7	1.7	1.7	1.7	10.2
TMA[e]	0.5	0.2	0.0	0.0	0.0	0.0	0.8
Total	21.8	21.2	21.0	21.0	21.0	21.0	127.1
Funding extended through FY 2010 and adjusted for inflation beginning in FY 2006							
TANF basic grant[a]	16.6	16.9	17.3	17.6	18.0	18.4	104.8
TANF supplemental grants[b]	0.3	0.3	0.3	0.3	0.3	0.4	2.0
CCDBG[c]	2.7	2.8	2.8	2.9	3.0	3.0	17.2
SSBG[d]	1.7	1.7	1.8	1.8	1.8	1.9	10.7
TMA[e,f]	0.5	0.6	0.7	0.8	0.8	0.9	4.3
Total	21.9	22.4	22.9	23.4	24.0	24.6	139.1
Spending above baseline needed to sustain current policy	0.1	1.1	1.9	2.4	3.0	3.6	12.1

Sources: Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2006 to 2015, January 2005, for TANF and CCDBG funding; SSBG funding baseline from Melinda Gish, Social Service Block Grant, Congressional Research Service, updated March 18, 2005; TMA funding baseline from CBO, "S. 667: Personal Responsibility and Individual Development for Everyone Act, As Reported by the Senate Committee on Finance on March 17, 2005," March 25, 2005 and telephone conversation with CBO analyst on April 22, 2005. Inflation adjustments by JEC Democratic staff using the CPI-U and CBO projections of the CPI-U for fiscal years 2005-2010.

Notes: Figures shown reflect annual adjustments for changes in the CPI-U beginning in FY 2006. Components may not sum to total due to rounding.

[a] Includes the state Family Assistance Grants ($16.5 billion) and the grants to tribes and territories ($101 million).

[b] The supplemental grants are currently authorized through June 30, 2005, at $255 million, consistent with currently authorized annual funding levels of $319 million. By law, the CBO baseline does not assume that funding will continue past the date through which it is authorized.

[c] Child Care and Development Block Grant (mandatory component).

[d] Social Services Block Grant. Because SSBG is a permanently authorized program, funding does not need to be reauthorized.

[e] Transitional Medical Assistance. TMA is currently authorized through June 30, 2005, under Medicaid, an entitlement program. By law, the CBO baseline does not assume that funding will continue past the date through which it is authorized.

[f] Includes adjustments for inflation and caseload growth.

Table 2

Costs Under Senate and House Welfare Reauthorization Bills

Billions of dollars

Program	Total Cost, FY 2005-2010 S. 667	H.R. 240
TANF[a]	1.5	1.5
CCDBG[b]	2.6	0.9
SSBG[c]	1.0	0.0
TMA[d]	4.2	0.6
Other programs[e]	0.9	0.0
Total	10.2	3.0
Net new spending[f]	5.0	0.9
Net costs of extending current policy[f]	5.2	2.2
Total	10.2	3.0

Sources: CBO, "S. 667: Personal Responsibility and Individual Development for Everyone Act, As Reported by the Senate Committee on Finance on March 17, 2005," March 25, 2005 and "Preliminary CBO Estimate of H.R. 240, The Personal Responsibility, Work, and Family Promotion Act of 2005," April 13, 2005; and Joint Economic Committee Democratic Staff.

Notes: Components may not sum to total due to rounding.
[a] Includes the basic TANF block grant, the TANF Supplemental Grants, and various smaller TANF bonus and research funds.
[b] Child Care and Development Block Grant (mandatory component). Costs for S. 667 include costs of a new supplemental grant as well as offsetting revenues and reductions in tax expenditures.
[c] Social Services Block Grant.
[d] Transitional Medical Assistance. Costs for H.R. 240 reflect authorization through FY 2006, while costs for S. 667 reflect authorization through FY 2010 as well as optional administrative simplifications for states.
[e] Includes child welfare, child support, Supplemental Security Income, and abstinence education.
[f] See endnote 8.

meet even less of the total cost of extending current policy and sustaining current service levels.

Conclusion

The baseline budgeting rules applied to TANF and related programs mean that simply extending current welfare policy would be scored as costing money and adding to the budget deficit. Under these rules, the Senate and House welfare reauthorization bills are scored as costing money, yet only a fraction of the total costs actually represent new welfare spending. Moreover, the proposed funding levels fall well short of what would be required simply to sustain current service levels. The funding shortfalls are even greater after accounting for the significantly higher child care funding needs that would result from the increased work participation requirements under both bills.

Endnotes

[1]In addition to the basic TANF block grant, the 1996 law also created various smaller grants, including the TANF supplemental grants for states with large population increases or lower-than-average welfare spending per poor person.
[2]The $16.6 billion figure includes the state Family Assistance Grants ($16.5 billion) and the grants to tribes and territories ($101 million).
[3]Prior to welfare reform, the majority of welfare funds were spent on cash assistance, while only a small fraction was spent on employment services. In contrast, in FY 2003, spending on cash assistance represented only 35 percent of total federal and state welfare spending. Child care accounted for a full 18 percent of total spending, while work-related

activities, including transportation and support services, accounted for an additional 11 percent. See Mark Greenberg and Hedieh Rahmanou, "TANF Spending in 2003," Washington, DC: Center for Law and Social Policy, February 2, 2005.

[4] According to the CBO cost estimate, the five-year outlays associated with funding increases for child care would total $5.4 billion. The combined revenue offsets would total $2.9 billion, resulting in a net spending increase of $2.6 billion.

[5] Both bills also include changes to the out-of-wedlock and high performance bonuses, the TANF contingency fund, and other changes.

[6] Congressional Budget Office, "S. 667: Personal Responsibility and Individual Development for Everyone Act; As Reported by the Senate Committee on Finance on March 17, 2005," March 25, 2005. Because funding authority for TANF and related programs is due to expire on June 30, 2005, the estimate includes funding for the last quarter of FY 2005.

[7] Congressional Budget Office, "Preliminary CBO Estimate of H.R. 240, The Personal Responsibility, Work, and Family Promotion Act of 2005," April 13, 2005.

[8] New spending under S. 667 includes a net increase of $2.6 billion for child care, $0.9 billion for SSBG, $0.6 billion for allowing states to distribute more child support collections to current and former TANF families, $0.6 billion for optional TMA administrative simplifications, $0.1 billion for tribal child welfare assistance, and other, smaller changes. The costs associated with extending current policy under S. 667 include $3.6 billion to reauthorize TMA through FY 2010; $1.4 billion to reauthorize the TANF supplemental grants and TANF studies and demonstrations; and $0.2 billion to reauthorize abstinence education grants. New spending under H.R. 240 includes $0.9 billion for child care, $0.1 billion for child support distributions, and other changes, all of which are partially offset by savings in the Supplemental Security Income program. The bill's costs to extend current policy include $1.4 billion to reauthorize the TANF supplemental grants and studies and demonstrations; $0.6 billion to reauthorize TMA through FY 2006; and $0.2 billion to reauthorize abstinence education grants.

[9] Gene Falk, Melinda Gish and Carmen Solomon-Fears, "Welfare Reauthorization: Overview of the Issues," Washington, DC: Congressional Research Service, updated March 31, 2005. The $1 billion increase in child care funding under the House bill would fall $7.3 billion short of the estimated $8.3 billion increase in child care funding needs. By contrast, the estimated increase in child care outlays under the Senate bill is approximately equal to the $5.4 billion estimated increase in child care funding needs under that bill. However, the costs of the Senate bill's non-child care provisions are still well below the total costs of extending current policy outside of child care.

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