

TALKING POINTS ON DIFFERENCES WITH CBO

- It is very difficult to estimate behavioral changes on the part of states and welfare recipients under a system that has never been tried before. However, even given this uncertainty, we feel that our estimates are very defensible and are supported by existing data and discussions with states.
- Due to the complexity of the bill and the cost estimates, we have not had a chance to fully analyze the differences between us and CBO. We do, however, plan to work with CBO to understand these differences over the next few months. The Administration is committed to submitting a budget neutral proposal early next year.
- The major differences in outlays appear to be in the areas of child care, JOBS/WORK savings, and child support enforcement. Some of the differences (especially those on the revenue side) were expected; for instance, CBO could not score the money for DA and A because the language was not in the legislation and there has always been a difference between CBO's EA baseline and that of HHS.

Child Care

- The Administration's estimates are generally consistent with JOBS administrative data reported by the states.
- The Administration has used data from the Profiles in Child Care Settings and National Child Care Survey to develop their unit costs. These are well-known and widely-used surveys of child care data.
- The Administration used information from the Teenage Parent Demonstration program to develop their utilization rates for paid child care. This population is very similar to the one we will be serving in terms of their age, hours of participation, and ages of their children.

Child Support

- For the majority of Child Support provisions contained in the Work and Responsibility Act of 1994, we understand that CBO and HHS estimates are very close. These differences are attributable primarily to difference in three areas: savings resulting from paternity establishments, savings resulting from Medicaid caseload reductions and lost revenue due to the Federal Income Tax Offset provisions.
- HHS estimates assumed that the paternity incentives and the outreach mandates would increase in-hospital based paternity establishment by 10 percentage points (FY 1999) over current law efforts. Additionally HHS estimates assumed that the new cooperation requirements would lead to an increase of 10 percent in AFDC collections (by FY 1999). The HHS assumptions were based on actual and anticipated increases reported by program managers and evaluators in the field.

- HHS estimated AFDC caseload reductions due to child support from a TRIM2 microsimulation and applied those caseload reductions to HCFA provided Medicaid per capita expenditures. These Medicaid per capita expenditures were used to formulate the President's budget and therefore are the official Department estimates.
- HHS estimates did not assume any major decrease in offset revenues due to the specific change in the federal tax-offset priorities. Rather it assumed that the changes in tax offset priorities were consistent with other changes made to the distribution of child support collections to AFDC and non-AFDC recipients. The estimate also did not anticipate any change to the AFDC lump-sum rules, a change which was made late in the legislative development process and which dramatically affected the treatment of child support collections through the annual tax offset process.

JOBS/WORK

- The Administration used data from the SWIM program to estimate the effects of our welfare reform initiative on the AFDC caseload. We believe that we have created a program with participation standards and rules that will enable it to achieve results comparable to those seen in SWIM. These caseload reductions will lead to savings in Food Stamps and Medicaid as well as AFDC.
- Our unit costs for JOBS and WORK come from the JOBS administrative data and various work-welfare demonstrations.
- Our estimates assume that states will be able to serve the Basic AFDC recipients who are phased-in to the reform, AFDC-Basic volunteers in the non-phased-in population, and the mandatory UP population with the caps we have set for JOBS. In addition, states will be able to fund enhanced teen case management and JOBS and WORK programs for non-custodial parents.

WR-CBO

CBO

MEMORANDUM

**THE ADMINISTRATION'S
WELFARE REFORM PROPOSALS:
A PRELIMINARY COST ESTIMATE**

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CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

This memorandum was prepared by John Tapogna, Julia Isaacs, and Dorothy Rosenbaum of the Congressional Budget Office's Budget Analysis Division, under the supervision of C.G. Nuckols and Paul Cullinan. Other analysts made important contributions to the memorandum, including Janice Peskin, Karen Smith, and Ralph Smith. Sherwood Kohn edited the manuscript, and Christian Spoor proofread it. Emma Tuerk prepared the memorandum for publication.

Questions about the memorandum or requests for a detailed table of costs, by provision, may be addressed to John Tapogna (titles I, II, IV, VI, and IX), Julia Isaacs (titles III and VII-Food Stamps), and Dorothy Rosenbaum (titles V, VII, and VIII) at 202-226-2820.

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INTRODUCTION AND SUMMARY

The Clinton Administration's welfare reform proposal, the Work and Responsibility Act of 1994, was introduced on June 21, 1994, as H.R. 4605 in the House and S. 2224 in the Senate. It was one of more than two dozen proposals introduced in the 103rd Congress to change the Aid to Families with Dependent Children (AFDC) program and its related training and work programs. Several committees held hearings on the bill during the summer of 1994, but the Congress adjourned before taking action on it. Discussion of welfare reform was prominent during the fall political campaigns, and the issue is likely to be a priority of the 104th Congress.

This memorandum presents the Congressional Budget Office's (CBO's) preliminary analysis of the Administration's proposal and the issues surrounding welfare reform. The methodology underlying this estimate will serve as the groundwork for future analyses of other proposals for welfare reform. It incorporates economic and technical assumptions from CBO's February 1994 baseline, so the estimates will change when the baseline is updated in early 1995 to incorporate new information about the economy and the AFDC population.

Provisions in titles I through VIII of the Work and Responsibility Act would expand training and work programs for recipients of Aid to Families

with Dependent Children, impose a two-year limit on AFDC benefits for certain young mothers, liberalize the treatment of earnings and resources in calculating benefits for AFDC families, increase child support enforcement efforts, and extend child care subsidies to families whose incomes are near the poverty level. Title IX is designed to finance the spending in the first eight titles through a number of spending cuts and revenue measures, including capping expenditures in the AFDC-Emergency Assistance program and reducing welfare payments to legal aliens.

CBO estimates that if the first eight titles of the bill had been enacted by October 1, 1994, they would have increased mandatory federal outlays by \$0.2 billion in fiscal year 1995 and \$11.8 billion through 1999. The combination of spending cuts and revenue increases in title IX would have amounted to \$0.2 billion in 1995 and \$6.9 billion over the five-year period. Overall, CBO estimates that the enactment of H.R. 4605 would have generated a net federal cost of \$4.8 billion during the 1995-1999 period (see Appendix Table 1). The bill would also authorize an additional \$0.1 billion in spending between 1995 and 1999, subject to annual appropriations. CBO estimates that titles I to VIII of H.R. 4605 would have increased state and local government spending by \$2.6 billion over the 1995-1999 period (see Appendix Table 2).

Much uncertainty surrounds these estimated fiscal effects. H.R. 4605 gives states considerable flexibility in determining when and how to carry out mandated provisions and leaves the adoption of other key provisions entirely up to the states. CBO assumed that all states would spend sufficient resources to meet the bill's required participation rates for training and work programs. For other provisions, CBO projected states' behavior by examining their interest in pilot programs operated under federal waivers and discussing the provisions with numerous state and local officials. For some provisions, CBO may need to revise its assumptions about state behavior because of changes in the political leadership of many states after the 1994 elections.

Unless specified otherwise in the legislation, CBO assumed that the states would carry out major reforms, including the time limit on benefits, beginning on October 1, 1995. Although some states would not be ready to initiate these programs within one year, other states, which have experimented with similar reforms through federal waivers, could accelerate their application. CBO assumed that the effect would be as if all states carried out the programs on October 1, 1995. Given the delay, CBO's estimates represent the costs and savings over the initial four years of the reform.

CBO's estimate of \$11.8 billion for the welfare reform proposals in titles I to VIII is higher than the \$9.3 billion estimate released by the

Department of Health and Human Services (HHS) in June 1994. CBO's estimates of child care and child support enforcement costs, welfare savings, and some other expenses differ from those of HHS.

FEDERAL GOVERNMENT COSTS AND SAVINGS

Titles I and II: JOBS and WORK

Titles I and II would expand federal spending for training and work-experience programs for AFDC recipients, resulting in increases in net outlays of \$340 million in 1996 and \$2.5 billion through 1999. These figures include the costs of expanding the existing Job Opportunities and Basic Skills (JOBS) training program and of creating a new work-experience program called WORK. The net outlay totals also incorporate estimated savings that would accrue in AFDC and other programs as recipients, through training and work experience, acquire job skills and reduce their reliance on welfare. This \$2.5 billion estimate does not include associated child care costs, which are shown under title III.

H.R. 4605 would make three changes in the way states train AFDC recipients. First, the bill would concentrate on moving recipients through the

JOBS program within two years. Second, for recipients who exceed their time limits, states would provide jobs; typically, entry-level positions in public or nonprofit agencies, where participants would perform clerical, park service, or maintenance work. Third, the bill would initially require states to focus their efforts on younger recipients, specifically those born after 1971, but would not limit states to that group. Single parents with very young children, disabled individuals, and part-time workers, as well as families that live in remote areas, would be exempt from training and the time limit.

The bill funds additional training slots by raising the existing federal spending cap for the JOBS program. The cap would increase in 1996 from \$1 billion to \$1.75 billion and in 1999 to \$1.9 billion. Although the bill would raise the cap to \$1.75 billion in 1996, \$0.3 billion of this amount would be appropriated to the Secretary of Health and Human Services for use in 1996 and subsequent years. The Secretary would use this \$0.3 billion to match spending in states that had exceeded their individual spending caps.

In addition, the bill would create the WORK program, a new capped entitlement that would provide jobs for people who exceed their two-year limits. Federal spending would be capped at \$0.2 billion in 1998 and \$0.7 billion in 1999. The funding of wages for WORK participants would be matched at the state's regular AFDC rate (a national average of 55 percent)

and would not be capped. The federal share of total spending in JOBS would be increased from about 61 percent to an estimated average of 67 percent in 1996, rising to 71 percent by 1999. In addition to raising federal caps and matching rates, amendments to current law would raise participation rates, tighten exemption categories, and require states to enroll more AFDC recipients in training or work activities.

CBO uses data on AFDC recipients collected by the Census Bureau through the Survey of Income and Program Participation to model the movement of individuals through the JOBS and WORK programs and various exemption categories. CBO estimates that in 1999, 1.83 million AFDC families will be headed by an adult born after 1971 (these represent families that would be phased into the new time-limited program). Families not included in the time-limited program by 1999 would include 2.74 million headed by adults born in 1971 or before and 0.8 million cases without an adult recipient. Of the phased-in families, about 670,000, or 37 percent, would be exempt from the time limit and participation in the JOBS program in an average month. The remaining 1.16 million families would be deemed "mandatory," which means that, if asked, they would have to participate in either the JOBS or WORK program or face a reduction in or suspension of their AFDC payments.

Most participants in the JOBS and WORK programs would come from this population of mandatory workers. But states would also have to serve volunteers interested in enrolling in training or education programs, depending upon the availability of state resources. Incorporating the standards of participation outlined in the bill, CBO estimates that the average number of monthly JOBS participants would increase from current projections of about 600,000 to approximately 760,000 in 1999. Participation in the WORK program would begin in 1998; that is, two years after states establish their time-limited programs. The average monthly participation in WORK would start at an estimated 100,000 in 1998, increase to 240,000 in 1999, and continue to rise in subsequent years, as more families enter the time-limited program.

Estimates of costs for titles I and II depend on average costs for JOBS and WORK programs, as well as the number of participants in each program. CBO derives average participant costs using administrative data from the JOBS program and evaluations from demonstration projects of similar programs operated in the 1980s. By 1999, the average combined federal and state cost of keeping a JOBS training slot filled with participants for one year is estimated to be \$3,000. A comparable slot in the WORK program would cost nearly \$4,000 annually (\$2,600 in operational costs and \$1,400 in wages). The cost of providing transportation services is included in the \$3,000 estimate

for JOBS but not in the \$2,600 estimate for WORK because participants in the WORK program would be expected to cover their own transportation expenses. States would spend more on a typical WORK position because--unlike JOBS activities--it would involve costs for wages and Federal Insurance Contribution Act (FICA) payments. In addition to wage and FICA expenses, these averages represent the costs of creating the education, training, or work positions; monitoring attendance; imposing penalties; and providing support services other than child care.

In 1999, average monthly JOBS participation (760,000) multiplied by average costs (\$3,000) yields total federal and state spending of \$2.3 billion. Other provisions in titles I and II would raise the JOBS total to \$2.4 billion in 1999, and the federal share would be \$1.7 billion (that is, 71 percent). Subtracting the \$1 billion in expected federal JOBS expenditures under current law yields an estimated increase in JOBS program outlays of \$0.7 billion in 1999.

The WORK expenditures, subject to the new amount of the cap in federal spending, can be derived similarly. Average monthly participation (240,000) multiplied by the operational costs subject to the cap (\$2,600) produces total 1999 spending of \$0.6 billion, with the federal share totaling \$0.4 billion. Welfare agencies would also incur about \$0.3 billion in costs for

providing WORK-related wages. The federal government would match such payments at the regular AFDC rate (that is, an average of 55 percent), which yields a federal estimate of slightly less than \$0.2 billion.

CBO's estimate of average costs indicates that it should be possible to attain the projected monthly average of 1 million participants without exceeding caps on federal spending, which would be set for each state. In fact, as is the case with the current JOBS program, CBO's estimates assume that some states would meet the requirements for participation without drawing down their entire share of the capped entitlement.

Empirical analyses consistently show that training and work programs for AFDC recipients help some leave welfare faster than they would have without the programs, generating savings in AFDC, Food Stamps, and Medicaid. As families move from welfare to work, however, they become eligible for the earned income tax credit (EITC), which would increase federal costs. Incorporating the findings by the Manpower Demonstration Research Corporation from several welfare-to-work programs operated in the 1980s and early 1990s, CBO estimates that \$1 invested in training activities would produce AFDC savings of about 70 cents during the following five years.¹

1. The 70 cent return was used only for estimated increases in traditional JOBS program spending. For WORK program expenditures, CBO used a lower estimate because the experience with such programs is limited.

These findings also suggest that Food Stamp and Medicaid outlays would be reduced, but such savings would be partially offset by higher EITC costs.

CBO estimates that H.R. 4605's investment in training and work experience would generate savings of more than \$0.6 billion between 1996 and 1999, reducing federal costs of titles I and II from about \$3.2 billion to a net of \$2.5 billion. Most of these savings would be attributable to reductions in AFDC caseloads. An estimated 70,000 fewer families would receive cash assistance in 1999. This figure represents a net caseload reduction by 1999 and accounts for people who would leave AFDC and return shortly thereafter. Additional savings would be generated when families find part-time work (and remain on AFDC) or are penalized for not participating.

These reductions in caseloads (1.3 percent) may seem relatively minor when compared with the 5.5 million families that are expected to receive AFDC in 1999. But because the reform would affect only a fraction of the AFDC caseload in 1999, it may be more appropriate to compare the figure with the average 1 million families a month that are expected to participate in JOBS or WORK--a comparison that yields a 7 percent reduction.

Title III: Child Care

CBO estimates that title III would increase federal outlays by \$5.5 billion between 1996 and 1999, including \$3.8 billion in child care costs associated with the expansion of the JOBS and WORK programs, \$1.3 billion in increased funding for the "At-Risk" Child Care Block Grant, and \$0.3 billion resulting from various policy changes in child care. Under H.R. 4605, costs for child care related to JOBS and WORK programs would increase more rapidly than the direct costs for training and work supervision. In 1999, child care costs associated with titles I and II are expected to total nearly \$1.5 billion, compared with \$1.1 billion in direct costs of the JOBS and WORK programs.

Several factors explain the expected \$1.5 billion increase in child care costs in 1999. First, more AFDC recipients would be enrolled in the JOBS or WORK programs under the bill. By 1999, about 1 million AFDC recipients would be enrolled in either JOBS or WORK programs in an average month (760,000 in JOBS; 240,000 in WORK), compared with 600,000 people under current law.

Second, the average participant in the JOBS and WORK programs would be more likely to have young children than current JOBS participants.

Parents would be exempt from mandatory participation if they were caring for a child under a year old. Current law exempts caretakers of children under 3. Moreover, the program primarily would serve women born after 1971, who, because of their age, would tend to have young children. Young children are more likely to be placed in paid child care arrangements than school-age children and are more costly in those situations.

Third, the \$1.5 billion figure for child care costs under titles I and II includes the effects of the JOBS and WORK program expansions on child care administrative costs; the Child Nutrition program, which subsidizes meals for low-income children in child care; and Transitional Child Care, which subsidizes child care for families leaving the AFDC program because their earnings increased. Finally, the federal match rate for child care expenditures would be brought up to the match rates for the JOBS and WORK programs, increasing from an average of 58 percent under current law to an estimated average of 71 percent in 1999 under the proposed Work and Responsibility Act.

Given CBO's assumptions, about 1.7 million children 12 years old or younger would be eligible for child care subsidies in an average month in 1999 because their parents participate in the JOBS or WORK program. Slightly under 40 percent of these children would be placed in subsidized child care

arrangements, with subsidy utilization rates ranging from more than 50 percent for preschool children in single-parent families to less than 10 percent for school-age children in two-parent families. Costs for those in care are expected to average \$310 a month (\$3,710 annually). Average costs would range from more than \$360 for children under 2 (\$4,340 annually), to \$310 for children 2 to 5 years old (\$3,710 annually), to \$220 for children who are 6 years old and older (\$2,590 annually). The federal government would pay an average of 71 percent of those costs. These utilization rates and costs are based on analyses of data from the Survey on Income and Program Participation, the National Day Care Survey, and a multistate database of records of JOBS participants in 1992.

Title III would also significantly increase the "At-Risk" Child Care Block Grant, which subsidizes child care for poor working parents who are thought to be "at risk" of being on AFDC if they had no child care assistance. Currently a capped entitlement with a \$0.3 billion federal cap and federal matching rates that average 57 percent among states, the program would expand substantially under section 306 of H.R. 4605. The federal cap would double to \$0.6 billion in 1997 and quadruple to \$1.2 billion by fiscal year 2003. Federal matching rates would increase to the same rates used for JOBS, WORK, and associated child care programs, averaging 67 percent in 1996 and increasing to 71 percent in 1999 and 72 percent in 2000 and

subsequent years. On the basis of a telephone survey of 20 states, CBO assumes that three-fourths of the states would spend all of their allotted funds. The remaining one-fourth would be unable to do so because of difficulties in raising state matching funds. These assumptions, combined with previous outlay patterns, result in outlay estimates of \$160 million in 1996, \$260 million in 1997, \$350 million in 1998, and \$570 million in 1999, or \$1.3 billion between 1996 and 1999.

Amendments in sections 301-305 and section 307 of the Work and Responsibility Act would make several changes in child care policies that would increase federal outlays by a total of \$0.3 billion between 1996 and 1999. The changes include continuing child care during temporary interruptions in a parent's training, requiring children to be immunized, and providing funding for licensing activities. The bill also would require states to increase child care assistance for employed AFDC recipients. Under current law, expenses for child care can be deducted from countable income when calculating a family's AFDC benefit. The amount of income that can be disregarded, however, is capped at \$175 per child (or \$200 if the child is under 2 years old). The bill would require states to provide a supplemental payment if costs exceed the income that can be disregarded or to give the family the option to use JOBS child care subsidies, which are typically higher

than the disregarded amounts. The costs of these amendments are limited by the fact that such policies are already in place in many states.

Title IV: Provisions with Multiprogram Applicability

Title IV would provide federal funds to create a registry containing key information on every AFDC and WORK participant in the country. In addition, the title would provide a four-year total of \$0.1 billion to evaluate the performance of the new time-limited program. Title IV would increase federal outlays by a total of \$0.7 billion between 1995 and 1999.

The registry would help states keep track of AFDC recipients' accumulated time on the program even though they may move across state or county lines. The bill would provide \$0.8 billion in federal funding over the next five years to assist states in developing the registry. Once placed in effect, the registry would reduce fraud in the AFDC and Food Stamp programs (particularly among recipients who are receiving benefits in more than one jurisdiction simultaneously), thereby reducing federal spending in those programs by nearly \$0.3 billion through 1999.

Title V: Prevention of Dependency

This set of proposals is designed to reduce the number of pregnancies among teenagers, as well as improve the parenting and employment skills of those who already have children. Enactment of the title would increase federal outlays by \$0.4 billion over the next five years.

The majority of new federal spending would fund two grant programs that would develop pregnancy-prevention programs based in schools and related demonstration projects. Additionally, federal funding would be made available to improve case management services for teenage recipients of AFDC. Combined, these initiatives, authorized in sections 503-506, would cost slightly less than \$0.5 billion over the 1995-1999 period.

This additional spending would be partially offset by two AFDC initiatives (sections 501 and 502). The first proposal would require certain teenage parents who are 17 years old or younger to live with their parents or other responsible adults in order to receive AFDC. The experience of states that have already adopted similar proposals suggests that the caseload and fiscal effects of the proposal would be minimal. In these states, most young teenagers who choose to live apart from their families have been granted exemptions because welfare agencies have been concerned about potential

abuse in the parents' home. CBO estimates five-year savings of less than \$50 million.

The second proposal would allow states to eliminate benefits for children who were conceived while their mother was receiving AFDC (hereafter called the family cap proposal). A 1994 survey of state AFDC administrators suggests that only a small number of states would be interested in adopting that provision. Based on this survey, CBO assumes that states with only 15 percent of the AFDC caseload would adopt the family cap provision, resulting in savings of less than \$50 million over the 1995-1999 period. The family cap proposal has attracted more attention in recent months, however, and more states could adopt the provision if the political climate changes. If all states were to adopt the family cap provision, CBO estimates that the savings through 1999 would be \$300 million.

Title VI: Child Support Enforcement

Title VI would change many aspects of the operation and financing of the federal and state child support enforcement system. CBO estimates that title VI would increase federal spending by less than \$0.1 billion in 1995 and about \$0.9 billion over the 1995-1999 period. Three factors explain why this

child support package results in net costs rather than net savings. First, the bill proposes a significant investment in automated systems, which would increase administrative costs through 1999. Second, a number of the proposed collection techniques, which would be capable of producing welfare savings, rely on the enhanced computer system and thus would be effective only in the long run. Finally, the package would reduce the amount of child support that governments retain as reimbursement for past welfare payments, which generates a direct cost.

Using reports on the performance of various enforcement strategies at the state level, CBO estimates that child support collections received by families on AFDC in 1999 would increase under the bill by roughly 15 percent over current expectations (from \$3.8 billion to \$4.3 billion). Nearly two-thirds of the improvement would result from the creation of a new hire registry (designed to expedite receipt of earnings information on noncustodial parents); measures to revoke professional and driver's licenses of noncustodial parents who fail to pay child support; and an improved process of establishing paternity. The package also would increase child support payments to families who benefit from governmental enforcement services but do not receive AFDC. Collections for such families would rise by an estimated 9 percent in 1999 (from \$11 billion to \$12 billion). Some states have already

applied one or more of the proposed techniques, thereby reducing the potential of improving collections further.

Increasing child support payments by noncustodial parents to AFDC recipients would directly reduce the recipients' reliance on AFDC and related welfare programs. Moreover, child support payments to families that are not on AFDC would allow some to avoid receiving public assistance in the future. In both cases, federal and state governments would save on welfare outlays.

Given the collections estimates described above, CBO projects that the enforcement proposals in H.R. 4605 would reduce federal spending on AFDC, Food Stamps, and Medicaid by more than \$0.6 billion over the next five years. These savings would be more than offset, however, by increased spending generated by the remaining child support proposals.

Computer enhancements, financing changes, service expansions, and demonstration projects would increase federal outlays by \$1.5 billion through 1999. First, H.R. 4605 (section 614) would authorize further improvements in states' automated computer systems at an estimated cost of \$0.4 billion over five years. Second, the bill would change federal cost sharing in enforcing child support. Although the new funding formula (sections 611 and 612) would be approximately cost neutral in the long run, it would be more

generous to states in the early years, generating a net cost of \$0.2 billion between 1995 and 1999. Third, sections 603 and 662 would limit the amount of collected child support that the state and federal governments would retain to reimburse themselves for past welfare payments made to custodial families. Together, the two sections would cost the federal government \$0.3 billion. Finally, the remaining set of proposals, which would expand the number of families served by the enforcement program and begin demonstration projects, would increase federal outlays by nearly \$0.5 billion.

Title VII: Improving Governmental Assistance and Preventing Fraud, and
Title VIII: Self-Employment Demonstrations

Titles VII and VIII comprise numerous changes in the AFDC and Food Stamp programs, some of which are designed to make the rules for determining eligibility consistent between the two programs. Adoption of a number of the key proposals in these titles would be optional for the states, making an estimate of budgetary effects uncertain. When assumptions about future state spending and policy behavior on a provision-by-provision basis are incorporated, CBO estimates that titles VII and VIII would increase mandatory federal spending by \$0.3 billion in 1996 and \$1.8 billion between 1996 and 1999. Most of the new spending would be generated by three

proposals that would liberalize the treatment of recipient earnings, resources, and work activity in the AFDC program.

Section 705 would require states to change the method by which they reduce AFDC benefits for families with earned income. Currently, benefits are determined by a state's maximum payment less the family's countable income. Almost all unearned income is counted; however, earned income is reduced by a number of monthly deductions--a flat \$90 for work expenses, \$30 for the first 12 months the family has earnings, 33 percent of the remaining earnings for the first four months that the family has earnings, and actual child care expenses up to \$175 per child (\$200 for children under age 2). These factors are commonly referred to as income disregards.

The proposal would require states to disregard at least the first \$90 in monthly earnings (to cover the family's work expenses) plus an additional \$30 before reducing a family's grant. (Earnings in excess of \$120 could reduce the AFDC grant dollar for dollar.) States could select policies, however, that would be more favorable to families, allowing them to keep additional earnings without lowering their benefits. More liberal policies would allow some families to remain on AFDC longer while making other families eligible for the program, thus increasing AFDC caseloads and costs.

A recent national survey indicated that 30 states are interested in experimenting with more generous policies through the federal waiver process.² CBO assumes that states with half of the AFDC caseload would choose to carry out disregard policies beyond the \$120 required by H.R. 4605. CBO also assumes that, on average, those states would disregard \$90 for work expenses, plus \$30 (as required) and an additional one-third of a family's earnings. (This policy is similar to the AFDC law before 1982.) Given this assumption, CBO estimates that the earnings disregard (along with several smaller income-related provisions in section 705) would increase federal spending by more than \$0.6 billion during the 1996-1999 period.

H.R. 4605 would also require states to change their treatment of liquid assets held by families. Under current law, states allow families to have up to \$1,000 in liquid assets (homes are excluded, and the equity value of one automobile is excluded to \$1,500).³ Section 707 would raise the general asset limit to \$2,000 for most families and \$3,000 for families with a recipient over age 60. As with the earnings disregard policy, the change in the limit would increase caseloads by making some families newly eligible and allowing current participants to remain on the program longer. CBO estimates that the

2. Julie Strawn and others, *Final Report: The National Governors' Association Survey of State Welfare Reforms* (Washington, D.C.: National Governors' Association, 1994).

3. The Secretary of Health and Human Services has indicated an interest in raising the automobile asset limit, but the proposal is not included in H.R. 4605.

more liberal treatment of assets would increase federal outlays by \$0.4 billion between 1996 and 1999.

The third major change in these two titles would allow states to drop special rules designed to limit eligibility in the AFDC-Unemployed Parent (UP) program. The program serves two-parent families whose principal wage earner is unemployed. Current law defines unemployment as working less than 100 hours a month. Section 702 would allow states to eliminate the 100-hour rule; working families in the UP program would be treated as other AFDC families, losing eligibility only if their earnings, unearned income, or resources exceeded specified levels. In addition, states could eliminate eligibility rules that require UP applicants to prove a recent work history. States with a sizable proportion of the UP caseload have already placed in effect versions of these proposals through federal pilot programs. Based on a recent survey of state welfare reform initiatives, CBO assumes that states with 60 percent of the UP caseload would eventually remove the 100-hour rule.⁴ In addition, a subset of these states, representing a quarter of the total caseload, would no longer require a recent work history. This would result in increased federal spending of \$0.1 billion in 1997 and nearly \$0.6 billion through 1999.

4. Strawn and others, *Final Report: The National Governors' Association Survey of State Welfare Reforms*.

Title IX: Financing

Title IX is made up of a mix of spending cuts and revenue increases designed to offset the spending associated with the bill's other eight titles. Together the spending cuts and revenue increases would amount to more than \$0.2 billion in 1995 and \$6.9 billion over the next five years.

Two-fifths of these reductions come from section 903, which would tighten sponsorship rules for legal immigrants applying for Supplemental Security Income (SSI), Food Stamps, Medicaid, and AFDC. Many legal immigrants enter the country under the sponsorship of a U.S. resident, who signs an affidavit stating that the sponsored alien will not become a public charge. Current eligibility rules in welfare programs require that portions of the sponsor's income be considered available to the new immigrant for a limited period of time after the immigrant's entry into the United States. This so-called deeming of sponsor's income typically makes the immigrant ineligible for aid or eligible for a reduced benefit. H.R. 4605 would extend the deeming period, which would limit access to the programs and reduce costs. CBO estimates that enactment of section 903 would reduce federal outlays by \$0.1 billion in 1995 and by nearly \$2.9 billion over the next five years. More than 80 percent of these savings would be in the SSI program, which serves the elderly and disabled. The rules regarding deeming of

sponsor's income do not appear, based on the limited data available, to have much effect on families applying for AFDC, Food Stamps, or Medicaid.

Two other provisions would also affect aliens. Section 902 would save more than \$0.4 billion over five years by tightening the eligibility standards for aliens for SSI, Medicaid, and AFDC in order to conform with the current standards of the Food Stamp program. Section 910 would increase revenues by \$0.2 billion over the same period by making nonresident aliens ineligible for the earned income tax credit.

Section 907 of H.R. 4605 would extend the corporate environmental income tax, a broad-based environmental charge known as the Superfund tax. This tax is currently set to expire at the end of 1995. A preliminary estimate by the Joint Committee on Taxation indicates that an extension would increase revenues by \$1.3 billion over the period estimated.

Another \$0.8 billion in federal savings would be generated by capping the AFDC-Emergency Assistance (EA) program. The program is designed to meet short-term emergency needs and prevent reliance on the regular AFDC program. States recently widened the scope of their EA programs to fund a range of additional services to low-income families. Consequently, the program, which had cost the federal government about \$0.2 billion a year in

recent years, is expected to grow and cost \$0.8 billion by 1999. The program would be capped at about \$0.5 billion in 1995; the cap would be adjusted for inflation in subsequent years. CBO expects savings to rise from less than \$0.1 billion in 1995 to more than \$0.2 billion in 1999.

The remaining financing provisions would:

- o Target meal subsidies in family day care homes toward low-income areas or providers by introducing an income test, thus saving an estimated \$0.5 billion over the period projected.
- o Eliminate Commodity Credit Corporation crop subsidies for farmers and producers who earn more than \$100,000 in nonfarm income. CBO estimates that eliminating these subsidies will save \$0.3 billion over the period projected.
- o Extend railroad safety inspection fees, which are due to expire in 1996. This would raise an estimated \$0.2 billion during the five years.
- o Require the Department of Defense to report the nontaxable earned income of military employees on Form W-2 to increase

their compliance with EITC rules, and extend the EITC to families of active military personnel who live overseas. CBO estimates that this provision will result in net savings of about \$0.2 billion over five years.

- o Extend a temporary reduction in the portion of food stamp overpayment recoveries that states may retain as incentive payments. The change expires in fiscal year 1995. CBO estimates that extending it will raise about \$0.1 billion over five years.

Overall, title IX would increase revenues by \$1.6 billion through 1999 and reduce outlays by \$5.3 billion. The revenue estimates for title IX are preliminary ones provided by the Joint Committee on Taxation.

STATE AND LOCAL GOVERNMENT COSTS

CBO estimates that provisions in titles I through VIII of H.R. 4605 would increase state and local government spending by \$0.2 billion in 1996 and \$2.6 billion over the 1995-1999 period (see Appendix Table 2). Almost half

of these estimated costs are attributed to programs that would be adopted voluntarily by states.

CBO estimates that under titles I and II, which involve training and work experience programs for AFDC recipients, state spending will increase by \$0.3 billion over the five-year period. The increase in state spending would be small in the first few years because the expansion of the JOBS program then would be accompanied by a rise in the federal matching rate. Beginning in 1998, however, the new WORK program would increase state spending more rapidly. The \$0.3 billion in increased state spending takes into account estimated savings, primarily in AFDC and Medicaid, that would result as recipients acquire job skills and reduce their dependency on welfare through participation in the JOBS and WORK programs.

CBO estimates that the child care provisions in title III of the bill would raise state spending by \$1.0 billion between 1995 and 1999. This figure includes the state share of child care spending under the JOBS, WORK, and "At-Risk" child care programs, adjusted downward under the assumption that some of the state share would be drawn from existing state-funded child care programs.

Under provisions of title VI that increase federal funding of child support enforcement, states would save an estimated \$0.5 billion in the 1995-1999 period. CBO projects that the additional federal activities would increase child support payments, which would help single-parent families reduce their reliance on the AFDC program and thereby lower state AFDC and Medicaid costs.

CBO estimates that three provisions in title VII that liberalize AFDC program rules would increase state and local government expenditures by \$1.7 billion. These provisions, which were discussed earlier, would allow states to eliminate two special-eligibility requirements that apply to two-parent families, allow states to expand income disregard policies, and raise the resource limit for all AFDC recipients. These more generous policies would allow some families to remain on AFDC longer while making other families newly eligible for the program. As a result, AFDC and Medicaid caseloads and costs would increase. Unlike the expansions in titles I and II, there would be no increase in the federal matching rate for these provisions, so the states would bear a larger proportion of the total cost increase. Two of the three provisions--those liberalizing two-parent family eligibility and income disregards--would be optional to states. CBO has estimated costs for these provisions on the basis of recent surveys of state interest in various welfare

revisions.⁵ But because the provisions would be invoked at state option, a state would incur costs only if it adopted one of the measures. These two provisions would cost more than \$1.2 billion of the \$1.7 billion estimated for the title.

CBO estimates that titles IV and V have small, mostly offsetting costs and savings to state and local governments and that title VIII involves no cost to state and local governments.

Two provisions in title IX--the limitations on alien eligibility for federal welfare benefits and the cap on emergency assistance--are expected to have uncertain and possibly adverse effects on state budgets. Ending the eligibility of some aliens for AFDC and Medicaid would reduce state spending for these programs. Likewise, state supplements for SSI could be reduced by eliminating certain aliens from the federal SSI program. The state and local savings on the Medicaid program, however, may be partly offset by higher costs for health care services provided to uninsured aliens at public hospitals. States have also expressed concern that denying federal welfare benefits to lawfully admitted aliens may induce greater numbers of these people to apply for state and county general assistance payments. This concern is addressed by a provision in H.R. 4605 that would allow states to deny state and local

5. Strawn and others, *Final Report: The National Governors' Association Survey of State Welfare Reforms*.

cash assistance to individuals who are ineligible for federal welfare benefits on the basis of citizenship. Such a provision may be subject to legal challenges on constitutional grounds, further contributing to the uncertainty of costs or savings to state and local governments.

The impact of the cap on federal spending for Emergency Assistance (section 901) is also uncertain. Much of the projected baseline growth in this program is caused by states' reclassifying existing state-funded programs as emergency assistance programs in order to obtain federal funds. States are also projecting future expansions in emergency assistance services.

A federal cap could have several effects. If states continue to provide an expanding level of emergency assistance services with state funds, the loss of federal funding above the cap would represent a cost to the states. But if states decide to cut services by the amount that corresponds to the lost federal funding, they could minimize the effect on state and local budgets. If states respond to the federal cap with a sufficiently large reduction in services, the proposal could even generate some state savings. Given the significant changes in the way states have applied the Emergency Assistance program in recent months, CBO has not attempted to anticipate future state behavior or estimate state costs at this time.

COMPARISON OF CBO AND HHS FEDERAL ESTIMATES

One of the Administration's objectives was to design a welfare reform proposal that would be budget neutral over the five-year period between 1995 and 1999. Preliminary estimates by the Department of Health and Human Services, which showed costs of \$9.3 billion for the first eight titles of the bill offset by \$9.3 billion in various revenue and savings provisions, indicated that the Administration had succeeded.

CBO's estimates suggest that enactment of H.R. 4605 would increase the federal deficit by \$4.8 billion over the period projected. CBO's estimate of \$11.8 billion for increased spending from titles I through VIII exceeds the HHS estimate by \$2.5 billion. Furthermore, the \$6.9 billion estimate of financing under title IX falls \$2.4 billion below the level reported by HHS.

Most of the \$2.5 billion difference in estimates of spending provisions (titles I through VIII) is concentrated in projections for the JOBS and WORK programs. The CBO and HHS analyses largely agree on the numbers of participants in both programs through 1999 and on the estimated operational costs for the JOBS and WORK programs. The two estimates diverge, however, on the cost of providing child care for JOBS and WORK participants and the savings resulting from training and work experience.

CBO's estimate for child care costs associated with titles I, II and III in the 1995-1999 period exceeds the HHS estimate by \$1.4 billion (\$5.5 billion compared with \$4.1 billion). One difference is that CBO assumes that the provisions of H.R. 4605 would affect the demographic characteristics of the mothers and children who would fill the estimated 600,000 training slots that are currently available under the JOBS program. CBO assumes that the typical participant would have younger children--and therefore more expensive child care--than under current law. The HHS estimate did not reflect any change in this composition. Another difference is that CBO estimates higher unit costs for children in care, particularly children under 2. A third difference is that HHS expects the policy changes in sections 301-305 and 307 to have an insignificant effect on costs, whereas CBO estimates that these changes would add \$0.3 billion over the period projected.

The CBO and HHS estimates also differ on the expected level of welfare savings (through caseload and benefit reductions) that would be generated by the investment in training and work positions. The HHS estimates implicitly assume that the JOBS and WORK programs authorized under H.R. 4605 would outperform welfare-to-work programs of the 1980s and early 1990s. In addition to incorporating estimated welfare savings from published studies, HHS assumed that the existence of the two-year limit would induce additional AFDC recipients to obtain part-time jobs, thus lowering

their AFDC benefit payments. Months in which a member of a family is working would not count toward the time limit. Consequently, part-time work in an unsubsidized job would help families avoid the time limit and future participation in the WORK program. CBO believes that such an effect is unlikely in the program's initial years, when AFDC recipients would not be sure that the states could enforce the time limit and would be unclear about the nature of WORK positions. The differing assumptions partially explain a \$0.9 billion difference between the CBO and HHS estimates of welfare savings (that is, CBO estimates \$0.6 billion in savings through 1999 and HHS estimates \$1.5 billion in savings during the same period).

When combined, the \$1.4 billion child care and \$0.9 billion welfare savings differences explain almost all of the \$2.5 billion gap for titles I through VIII. There are other differences between the estimates (for example, CBO's estimates of the net costs of child support enforcement provisions exceed HHS's estimates by \$0.5 billion over the period projected), but they are smaller and offsetting. The \$2.5 billion difference should be considered small in view of the great uncertainty surrounding states' abilities to apply new program rules such as time limits and their interest in the bill's numerous optional provisions.

Further, CBO and the Joint Committee on Taxation estimate that the financing provisions in title IX would total \$6.9 billion over five years, which is \$1.6 billion short of the \$8.5 billion estimate reported by the Administration. The principal difference is that CBO estimates \$0.8 billion less in savings from capping the AFDC-Emergency Assistance program, reflecting CBO's lower projection of baseline spending than that of the Office of Management and Budget. In addition, CBO estimates \$0.4 billion less in savings from the three provisions affecting aliens (sections 902, 903, and 910), primarily because enforcement of sponsorship rules in the Food Stamp program could result in lower savings. The remaining \$0.4 billion difference is split between lower estimated revenues from the Superfund tax extension and lower savings from making certain farmers ineligible for crop subsidies.

Finally, the Administration attributes savings of \$0.8 billion through 1999 to a provision to restrict SSI benefits paid to drug addicts and alcoholics, recently enacted under separate legislation. Because that provision was not included in H.R. 4605 and is already current law, CBO did not include those savings in its estimate.

APPENDIX TABLES

**TABLE A-1 SUMMARY OF FEDERAL GOVERNMENT COSTS OF H.R. 4605,
THE WORK AND RESPONSIBILITY ACT OF 1994: A PRELIMINARY
STAFF ESTIMATE (By fiscal year, in millions of dollars)**

Title	1995	1996	1997	1998	1999	Five-Year Total
Titles I-VIII						
I and II: JOBS and WORK						
Direct spending						
Estimated budget authority	0	705	585	820	1,390	3,500
Estimated outlays	0	340	515	715	950	2,520
III: Child Care						
Direct spending						
Estimated budget authority	0	830	1,105	1,565	2,240	5,740
Estimated outlays	0	790	1,065	1,515	2,110	5,480
IV: Provisions with Multiprogram Applicability						
Direct spending						
Estimated budget authority	115	260	295	75	-60	685
Estimated outlays	115	260	295	75	-60	685
Amounts subject to appropriations						
Authorization level	15	13	5	5	5	43
Estimated outlays	13	13	6	5	5	42
V: Prevention of Dependency						
Direct spending						
Estimated budget authority	40	59	98	130	165	492
Estimated outlays	10	44	83	115	150	402
VI: Child Support Enforcement						
Direct spending						
Estimated budget authority	40	175	377	155	121	868
Estimated outlays	40	175	377	155	121	868
Amounts subject to appropriations						
Authorization level	1	1	10	10	10	32
Estimated outlays	0	1	2	12	12	27
VII: Improving Government Assistance and Preventing Fraud						
Direct spending						
Estimated budget authority	7	276	355	563	606	1,807
Estimated outlays	7	276	355	563	606	1,807
Amounts subject to appropriations						
Authorization level	0	0	10	20	20	50
Estimated outlays	0	0	10	20	20	50

TABLE A-1 CONTINUED

Title	1995	1996	1997	1998	1999	Five-Year
						Total
VIII: Self-Employment and Microenterprise Demonstrations						
Amounts subject to appropriations						
Authorization level	0	0	4	8	8	20
Estimated outlays	0	0	4	8	8	20
Subtotals: Titles I-VIII						
Direct spending						
Estimated budget authority	202	2,305	2,815	3,308	4,462	13,092
Estimated outlays	172	1,885	2,690	3,138	3,877	11,762
Amounts subject to appropriations						
Authorization level	16	14	29	43	43	145
Estimated outlays	13	14	22	45	45	139
Title IX						
IX: Financing						
Revenues ^a	2	345	550	506	234	1,637
Direct spending						
Estimated budget authority	-245	-619	-1,223	-1,478	-1,747	-5,312
Estimated outlays	-245	-609	-1,203	-1,478	-1,742	-5,277
Totals: Titles I-IX						
Revenues	2	345	550	506	234	1,637
Direct spending						
Estimated budget authority	-43	1,686	1,592	1,830	2,715	7,780
Estimated outlays	-73	1,276	1,487	1,660	2,135	6,485
Amounts subject to appropriations						
Estimated authorization level	16	14	29	43	43	145
Estimated outlays	13	14	22	45	45	139
Memorandum:						
Net effect on the deficit (Direct spending outlays minus revenues)	-75	931	937	1,154	1,901	4,848

SOURCE: Congressional Budget Office.

a. Positive revenues reduce the deficit. Revenue estimates are provided by the Joint Committee on Taxation.

TABLE A-2 SUMMARY OF STATE AND LOCAL COSTS OF H.R. 4605, THE WORK AND RESPONSIBILITY ACT OF 1994: A PRELIMINARY STAFF ESTIMATE
(By fiscal year, in millions of dollars)

Title	1995	1996	1997	1998	1999	Five-Year
						Total
I and II: JOBS and WORK	0	44	75	99	130	348
III: Child Care	0	120	200	290	420	1,030
IV: Provisions with Multiprogram Applicability	29	57	59	-21	-58	66
V: Prevention of Dependency	0	0	0	0	-10	-10
VI: Child Support Enforcement	2	-93	-198	-49	-147	-485
VII: Improving Government Assistance and Preventing Fraud	0	70	320	520	740	1,650
VIII: Self-Employment and Microenterprise Demonstrations	0	0	0	0	0	0
IX: Financing	a	a	a	a	a	a
Total	31	198	456	839	1,075	2,599

SOURCE: Congressional Budget Office.

- a. The net effect of the limitations on alien eligibility for federal welfare benefits and the cap on the Emergency Assistance program on state and local spending is uncertain. CBO has not attempted to anticipate future state behavior or estimate state costs at this time.