CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 13, 2002

H.R. 4090
Personal Responsibility, Work, and Family Promotion Act of 2002

As ordered reported by the House Committee on Ways and Means on May 2, 2002

SUMMARY

H.R. 4090 would reauthorize the Temporary Assistance for Needy Families (TANF) and child care entitlement to state programs at current funding levels. It would increase funding for some grants related to TANF and establish two new grants, but also would reduce funding for other related grants. It would make several changes to the child support enforcement program, including allowing the distribution to families of more collections from child support payments and establishing a new program of fees. Another provision would require the Social Security Administration (SSA) to change its system of reviewing awards to certain disabled adults in the Supplemental Security Income (SSI) program. Finally, it would provide states with new authority to run demonstration projects, providing that the projects may not increase federal spending.

CBO estimates that H.R. 4090 would increase federal spending by $320 million in 2003 and by $1.2 billion over the 2003-2007 period. It also would reduce revenues by $20 million over the 2005-2007 period. Because the bill would affect direct spending and revenues, pay-as-you-go procedures would apply.

The bill would authorize $20 million in 2003 and $100 million over the 2003-2007 period for a new program of grants promoting fatherhood. CBO estimates that appropriations of the authorized levels would result in insignificant outlays in 2003 and $70 million over the 2003-2007 period.

The TANF grant program affords states broad flexibility to determine eligibility for benefits and to structure the programs offered as part of a state's family assistance program. Consequently, any new requirements to the program as proposed by H.R. 4090 would not be intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). However, the bill could significantly affect the way states administer the program and provide benefits to beneficiaries and thus could increase costs in some areas relative to what

states would have spent if current law were to be continued unchanged. H.R. 4090 contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4090 is shown in Table 1. The costs of this legislation fall within budget functions 600 (income security) and 550 (health).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 4090, THE PERSONAL RESPONSIBILITY, WORK, AND FAMILY PROMOTION ACT OF 2002

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Title I: TANF					
Authorization Level	20	20	20	20	20
Estimated Outlays	*	6	15	25	24
CHANGES IN DIRECT SPENDING					
Title I: TANF					
Estimated Budget Authority	335	730	228	229	-84
Estimated Outlays	324	347	262	220	94
Title III: Child Support					
Estimated Budget Authority	-1	-60	20	45	78
Estimated Outlays	-1	-60	25	54	78
Title V: Supplemental Security Income					
Estimated Budget Authority	-3	-14	-30	-48	-65
Estimated Outlays	-3	-14	-30	-48	-65
Total, Direct Spending					
Estimated Budget Authority	331	656	218	226	-71
Estimated Outlays	320	273	257	226	107
CHANGES IN REVENUES					
Title III: Child Support					
Estimated Revenues	0	0	-2	-6	-12

Note: * = Less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by the end of fiscal year 2002, and that the amounts authorized in title I will be appropriated for each year. Most of the bill's budgetary effects, however, would come from changes in direct spending. In addition, enacting the bill would reduce revenues (beginning in 2005).

Spending Subject to Appropriation

Section 119 would establish several new programs designed to promote fatherhood including activities to improve parenting skills, promote marriage, and improve outcomes for children. It would authorize $20 million to be appropriated in each of fiscal years 2003 through 2007, and at least 85 percent of the funds would have to be used for a program of competitive grants.

Section 119 would establish a program of competitive grants to public and nonprofit community entities for projects designed to promote fatherhood. Grantees would be required to put up 10 percent or 20 percent of the costs of the program, although exceptions would be made for certain smaller grants. In addition, it would allow the Secretary of Health and Human Services to carry out projects to promote fatherhood including collecting and disseminating information, developing promoting and distributing media campaigns, providing technical assistance, and conducting research; to make grants to national fatherhood promotion organizations to establish two multicity, multistate projects; and to conduct evaluations of fatherhood projects.

CBO estimates that spending would initially be slow until programs are established, but would speed up gradually in succeeding years. We estimate that outlays would total $70 million over the 2003-2007 period.

Direct Spending and Revenues

Title I: Temporary Assistance for Needy Families. H.R. 4090 would reauthorize TANF through 2007 at the current level of funding of $16.6 billion. The bill would not alter current requirements on states to spend at a certain percentage of their historic spending level (80 percent, or 75 percent if the state meets the work participation requirements) and to limit assistance paid with federal funds to five years. It would significantly alter the work participation requirements and the funding of some grants related to TANF. In addition, it would make several other changes to program rules and reporting requirements (see Table 2).

TABLE 2. DETAILED EFFECTS OF H.R. 4090, THE PERSONAL RESPONSIBILITY, WORK, AND FAMILY PROMOTION ACT OF 2002, TITLE I

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2003-2007
DIRECT SPENDING						
Section 103						
Eliminate Out-of-Wedlock Grants						
Estimated Budget Authority	-100	-100	-100	-100	-100	-500
Estimated Outlays	0	-42	-57	-94	-103	-296
Healthy Marriage Promotion Grant						
Budget Authority	100	100	100	100	100	500
Estimated Outlays	1	28	74	124	122	349
Section 104						
Continue Supplemental Grant at $319 million through 2006						
Budget Authority	319	319	319	319	0	1,276
Estimated Outlays	128	191	287	351	144	1,101
Section 105						
Reduce Bonuses for High-Performing States						
Estimated Budget Authority	-100	300	-200	-200	-200	-400
Estimated Outlays	0	-42	-57	-94	-103	-296
Section 106						
Modify Contingency Fund						
Estimated Budget Authority	16	10	9	10	13	58
Estimated Outlays	6	7	9	11	14	47
Section 107						
Increase Transfer Authority to SSBG						
Budget Authority	0	0	0	0	0	0
Estimated Outlays	181	145	89	-172	-96	146
Section 115						
Secretary's Fund for Research, Demonstration, and National Studies						
Budget Authority	102	102	102	102	102	510
Estimated Outlays	10	61	110	117	111	410
Effect of Title I on Food Stamps						
Estimated Budget Authority	-2	-1	-2	-2	1	-6
Estimated Outlays	-2	-1	-2	-2	1	-6
Interactions, Title I						
Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	0	-190	-21	4	-207

Continued

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2003-2007
Total, Title I						
Temporary Assistance for Needy Families						
Estimated Budget Authority	337	731	230	231	-85	1,444
Estimated Outlays	326	348	264	222	93	1,254
Effect on Food Stamps						
Estimated Budget Authority	-2	-1	-2	-2	1	-6
Estimated Outlays	-2	-1	-2	-2	1	-6
Net Effect, Title I						
Estimated Budget Authority	335	730	228	229	-84	1,438
Estimated Outlays	324	347	262	220	94	1,248

Note: Components may not sum to totals because of rounding.

State Family Assistance Grant. Section 102 would extend the state family assistance grant through 2007 at the current funding level of $16.6 billion. CBO already assumes funding at that level in its baseline in accordance with rules for constructing baseline projections, as set forth in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Deficit Control Act).

Promotion of Family Formation and Healthy Marriage. Section 103 would eliminate one grant program related to out-of-wedlock birth rates and replace it with another directed at promoting marriage. CBO projects funding for out-of-wedlock birth grants at $100 million annually in accordance with section 257 of the Deficit Control Act. CBO estimates that eliminating the grant program would reduce outlays by $296 million over the 2004-2007 period. The impact of the reduction in funding on outlays is delayed (no effect in 2003) because the grants are awarded in the last days of the fiscal year.

Section 103 also would establish a new competitive grant to states, territories, and tribes for the development and implementation of programs to promote and support married, two-parent families. The bill appropriates $100 million annually for grants that could be used for a variety of activities including public advertising campaigns, education programs on topics related to marriage, and programs to reduce disincentives to marriage in means-tested assistance programs. The grants could be used to cover up to half the cost of the new programs. CBO expects grants would be spent slowly in the first few years because the Department of Health and Human Services would need to set up a system for awarding grants and states would need to set up programs to use the funds. CBO estimates states would spend $1 million in 2003 and $349 million over the 2003-2007 period.

Supplemental Grants. Section 104 would extend the supplemental grants for population increases through 2006 at the 2002 funding level of $319 million. Current law specifies that these grants should not be assumed to continue in baseline projections after 2002, overriding the continuation rules specified in section 257 of the Deficit Control Act. Seventeen states that had lower-than-average TANF grants per poor person or had increasing populations would be eligible for supplemental grants. Because many states have unspent balances from prior-year TANF grants, CBO assumes that states would not spend the new funds quickly. CBO estimates that states would spend $128 million in 2003 and $1.1 billion over the 2003-2007 period.

Bonuses for High-Performing States. Section 105 would reduce funding for a bonus to high-performing states in 2003 and refocus the bonus toward rewarding performance in improving job outcomes in 2004. The bonus in current law rewards states for moving TANF recipients into jobs, providing support for low-income working families, and increasing the percentage of children who reside in married-couple families. Current law provides $1 billion for bonuses, averaging $200 million annually, over the 1999-2003 period. CBO assumes in its baseline projections that funding will continue at $200 million annually in accordance with section 257 of the Deficit Control Act. The revised bonus—the Bonus to Reward Employment Achievement—would be focused on rewarding success in employment entry, job retention, and increased earnings for families receiving assistance.

Section 105 would lower projected budget authority by $100 million in 2003 and $200 million each year from 2004 through 2007, but provide $500 million in new budget authority in 2004, for a net reduction of $400 million over the five-year period. Because the bonuses are usually granted in the following fiscal year and many states have prior-year balances of TANF funds that they can use to replace any grant reductions, TANF spending would fall by only $296 million over the 2005-2007 period.

Contingency Fund. Section 106 would expand the Contingency Fund for State Welfare Programs. The contingency fund provides additional federal funds to states with high and increasing unemployment rates or significant growth in Food Stamp caseloads. States are required to maintain state spending at 100 percent of their historical level and to match federal payments. The bill would allow states to count more of their spending toward meeting the state spending requirement and lower the matching requirements of states that qualify for the fund for only part of a year. Based on CBO's projections of unemployment, Food Stamp participation, and state TANF spending, CBO estimates that states would use an additional $6 million from the contingency fund for 2003 and $47 million over the 2003-2007 period.

Increased Transfer Authority to Social Services Block Grant (SSBG). Section 107 would raise the percentage of the TANF grant that states could transfer to SSBG from 4.25 percent to 10 percent. States have had the authority to transfer up to 10 percent from 1996 to 2002, but that is assumed to fall to 4.25 percent in 2003 and after. In recent years, states have transferred about $1 billion annually. Maintaining the transfer authority at the higher level would make it easier for states to spend their TANF grants and would speed up spending relative to current law. Based on recent state transfers, CBO expects that states would transfer an additional $600 million under the provision, but because some of this money would have been spent within the TANF program anyway, only $181 million of additional spending would occur in 2003. The accelerated spending would be offset by reduced spending in later years, starting in 2006. Overall, we estimate that the provision would increase spending by $146 million over the 2003-2007 period.

Work Participation Requirements. Section 110 would require states to have an increasing percentage of TANF recipients participate in work activities while receiving cash assistance. The bill would maintain current penalties for the failure to meet those requirements. These penalties can total up to 5 percent of the TANF block grant amount for the first failure to meet work requirements and increase for each subsequent failure. CBO assumes that no state would be subject to financial penalty for failing to meet the new requirements.

The bill would require states to engage an increasing share of families receiving TANF in activities for 40 hours a week with at least 24 of those hours in a work activity. Work activities would be limited to employment (subsidized or unsubsidized), on-the-job training, supervised work experience (including entrepreneurship or microenterprise activities), or supervised community service. The required participation rate would rise by 5 percentage points a year from 50 percent in 2003 to 70 percent in 2007. Certain families would not be included in the calculation: families without an adult or teen head of household, under sanction for three months or less, with a child under age one (at state option), or in the first month of assistance (at state option). The bill would eliminate a requirement in current law that sets even higher participation rates for two-parent families and would allow a broader range of activities to count as work for up to three or four months. Finally, the bill would alter a provision that reduces the participation rates of states that have experienced caseload reductions since 1995.

Because the new requirements would be difficult for states to meet, CBO expects states would need to employ strategies such as moving nonworking families into separate state programs to effectively reduce the new requirements. For example, under current law, states that fail to meet work requirements, particularly the higher requirements applying to two-parent families, set up separate state programs to serve those families. States can count funds they spend in separate state programs toward their maintenance of effort requirement in TANF, but families served under those programs do not count in the work participation rate.

Secretary's Fund for Research, Demonstration, and National Studies. Section 115 would make funds available to the Secretary of Health and Human Services to conduct and support research and demonstration projects and provide technical assistance. The funds would be primarily spent on activities to promote marriage. The program would be funded at \$102 million annually over the 2003-2007 period with \$2 million set aside each year to fund demonstration projects on child welfare services to tribal families. Based on rates of spending in similar programs, CBO estimates that spending would increase by \$10 million in 2003 and \$410 million over the 2003-2007 period.

Effect of title 1 provisions on the Food Stamp Program. Four provisions of title I would affect the level of funding for the TANF program, which in turn could affect the level of cash benefits provided under that program. Provisions to eliminate the out-of-wedlock birth bonus and reduce the bonus for high-performing states would lower funding while provisions to extend the supplemental grant and expand the contingency fund would increase funding. On balance, those provisions would increase funding from 2003 through 2006 and decrease funding in 2007. CBO expects some of the additional (or reduced) funding provided would be used to increase (or decrease) benefits to families that also receive food stamps. Additional TANF income would reduce Food Stamp benefits, so we expect small savings in the Food Stamp program during the 2003-2006 period and small costs in 2007, with total savings of \$6 million over the five years.

Title II: Child Care. H.R. 4090 would amend the child care entitlements to states program by appropriating \$2.717 billion each year over the 2003-2007 period. CBO already assumes funding at that level in its baseline, as required by section 257 of the Deficit Control Act.

The child care entitlements to states program provides funding to states for child care subsidies to low-income families and other activities. This is one of the two federal funding programs for child care subsidies within a program grouping often referred to as the Child Care and Development Fund. Spending for the child care entitlements to states program is categorized as mandatory spending. The other program, the child care development block grant program, is classified as discretionary spending (i.e., subject to annual appropriation), but that program is not affected by H.R. 4090.

Title III: Child Support. H.R. 4090 would change many aspects of the operation and financing of the child support program (see Table 3). It would allow the distribution to families of more collections from child support payments and establish a new program of fees. It also would require states to periodically update child support orders and expand the use of certain enforcement tools.

Distribution of More Child Support to Families. Sections 301 and 302 would allow states to share more child support collections with current and former recipients of TANF, reducing the amount the federal and state governments would recoup from previous TANF benefit payments. The bill would allow states to implement the new policies beginning in October 2004.

Collections for Current TANF Recipients. When a family applies for TANF, it assigns to the state any rights the family has to child support collections. While the family receives assistance, the state uses any collections it receives to reimburse itself and the federal government for TANF payments. States may choose to give some of the child support collected to families, but states must finance those payments out of their share of collections.

Section 301 would allow states to increase the amount of child support they pay to families receiving assistance and would not require the state to pay the federal government share on the increased payments. The payments would be in addition to any payments the state was making as of December 31, 2001. The bill limits the new payments to the greater of $100 or $50 more than the state shares with families now. The state could not count the child support as income in determining the families' benefit under the TANF program.

States with about 60 percent of child support collections shared some of those collections with the family as of December 31, 2001. Based on conversations with state child support officials and other policy experts, CBO expects that about 20 percent of those states would choose to increase the amount of child support they share with families on assistance. In addition, we expect about half of states that currently share nothing would institute a policy of sharing the first $50 collected. Those changes would be instituted slowly and would not be fully effective until 2007. Based on administrative data for child support, CBO expects that states eventually would share about $100 million more with families annually. Using an estimated federal share of collections of 55 percent, CBO estimates that federal offsetting receipts would fall by $30 million in 2005 and $135 million over the 2005-2007 period.

TABLE 3. DETAILED EFFECTS OF H.R. 4090, THE PERSONAL RESPONSIBILITY, WORK, AND FAMILY PROMOTION ACT OF 2002, TITLE III

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2003-2007
DIRECT SPENDING						
Section 301						
Distribute More Support to Current TANF Families						
Estimated Budget Authority	0	0	30	45	60	135
Estimated Outlays	0	0	30	45	60	135
Effect on Food Stamps						
Estimated Budget Authority	0	0	-15	-20	-25	-60
Estimated Outlays	0	0	-15	-20	-25	-60
Effect on TANF						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	0	5	9	0	14
Subtotal, Section 301						
Estimated Budget Authority	0	0	15	25	35	75
Estimated Outlays	0	0	20	34	35	89
Section 302						
Distribute More Support to Former TANF Famlies						
Estimated Budget Authority	0	0	75	115	160	350
Estimated Outlays	0	0	75	115	160	350
Effect on Food Stamps						
Estimated Budget Authority	0	0	-5	-10	-15	-30
Estimated Outlays	0	0	-5	-10	-15	-30
Subtotal, Section 302						
Estimated Budget Authority	0	0	70	105	145	320
Estimated Outlays	0	0	70	105	145	320
Section 303						
Mandatory 3-Year Update of Child Support Orders						
Estimated Budget Authority	0	2	14	14	12	42
Estimated Outlays	0	2	14	14	12	42
Child Support Collections						
Estimated Budget Authority	0	0	-6	-14	-20	-40
Estimated Outlays	0	0	-6	-14	-20	-40
Effect on Food Stamps						
Estimated Budget Authority	0	0	-1	-2	-3	-6
Estimated Outlays	0	0	-1	-2	-3	-6

Continued

TABLE 3. Continued

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2003-2007
Effect on Medicaid						
Estimated Budget Authority	0	0	-3	-8	-13	-24
Estimated Outlays	0	0	-3	-8	-13	-24
Subtotal, Section 303						
Estimated Budget Authority	0	2	4	-10	-24	-28
Estimated Outlays	0	2	4	-10	-24	-28
Section 304						
$25 Annual Fee for Never-TANF Cases with a Collection						
Estimated Budget Authority	2	-42	-45	-47	-48	-180
Estimated Outlays	2	-42	-45	-47	-48	-180
Section 306						
Use of New Hire Directory for Unemployment Compensation						
Estimated Budget Authority	0	-12	-15	-19	-20	-66
Estimated Outlays	0	-12	-15	-19	-20	-66
Section 308						
Reduced Threshold for Passport Denial Collections						
Estimated Budget Authority	0	-2	-2	-2	-2	-8
Estimated Outlays	0	-2	-2	-2	-2	-8
Section 311						
SSA Benefit Match						
Estimated Budget Authority	-3	-6	-7	-7	-8	-31
Estimated Outlays	-3	-6	-7	-7	-8	-31
Title III Total, Direct Spending						
Estimated Budget Authority	-1	-60	20	45	78	82
Estimated Outlays	-1	-60	25	54	78	96
REVENUES						
Use of New Hire Directory for Unemployment Compensation Program						
Estimated Revenues	0	0	-2	-6	-12	-20

Because additional child support income would reduce Food Stamp benefits, CBO estimates savings in the Food Stamp program totaling $15 million in 2005 and $60 million over the 2005-2007 period. In addition, the provision would have a small effect on the rate of TANF spending. States could count new payments of child support to families toward their maintenance of effort requirement in TANF enabling them to accelerate their use of federal TANF funds. Overall, the provision would increase estimated TANF outlays by $14 million over the 2003-2007 period.

Collections for Former TANF Recipients. When a family ceases to receive public assistance, states continue to enforce the family's child support order. All amounts of child support collected on time are sent directly to the family. However, both the government and the family have a claim on collections of past-due child support: the government claims the support owed for the period when the family was on assistance, up to the amount of the assistance paid, and the family claims the remainder.

Under section 302, the state would have the option of renouncing its claim on any support collected on behalf of a former recipient of TANF. Based on conversations with state child support officials and other policy experts, CBO expects states with 20 percent of child support collections would be interested in sharing all collections with former TANF recipients. Those changes would be instituted slowly and would not be fully effective until 2007. Based on administrative data for child support, CBO expects that states would eventually share about $300 million more with families annually. CBO estimates that federal offsetting receipts would fall by $75 million in 2005 and $350 million over the 2005-2007 period. CBO expects that one-third of the former TANF recipients with increased child support income would participate in the Food Stamp program, and that Food Stamp savings would be $5 million in 2005 and $30 million over the 2005-2007 period.

Adjustment of Child Support Orders. Section 303 would require states to adjust child support orders of families on TANF every three years. States could use one of three methods to adjust orders: full review and adjustment, cost-of-living adjustment (COLA), or automated adjustment. Under current law, nearly half of states perform periodic adjustments. Most perform a full review and the remainder apply a COLA. No state currently makes automated adjustments.

CBO estimates that there are 700,000 TANF recipients with child support orders in states that do not periodically adjust orders and one-third of those orders would be adjusted each year. CBO assumes half the states not already adjusting orders would choose to perform full reviews and half would apply a COLA.

Full Review and Adjustment. When a state performs a full review of a child support order, it obtains current financial information from the custodial and noncustodial parents and determines whether any adjustment in the amount of ordered child support is indicated. The state also may revise an order to require the noncustodial parent to provide health insurance.

Based on evaluations of review and modification programs, CBO estimates the average cost of a review would be about $180 with the federal government paying 66 percent of such administrative costs. The average adjustment to a child support order of a family on TANF would be $90 a month and about 18 percent of the orders reviewed would be adjusted.

In addition, CBO expects some children would receive health insurance coverage from the noncustodial parent as a result of the new reviews. CBO estimates 40 percent of orders with a monetary adjustment would also be adjusted to include a requirement that the noncustodial parent provide health insurance for their child and that, in about half of those cases, such insurance would be provided. After the first few years, we assume newly provided medical insurance would decline by half, because many families would have already had such insurance recently added to their order.

Cost-of-Living Adjustment. When a state makes a cost-of-living adjustment it applies a percentage increase reflecting the rise in the cost of living to every order, regardless of how the financial circumstances of the individuals may have changed. The process is considerably less cumbersome and expensive than a full review but also results in smaller adjustments on average. Based on recent research on COLA programs, CBO estimates that the average cost would be $11 per case modified, and the average adjustment to a support order would be $6 per month. There would be no additional health insurance coverage.

Summary. Under either method of adjustment, CBO expects any increased collections for a family would continue for up to three years. While a family remains on TANF, the state would keep all the increased collections to reimburse itself and the federal government for welfare payments. The states would pay any increased collections stemming from reviews of child support orders to families once they leave assistance. That additional child support income for former recipients would result in savings in the Food Stamp program.

Overall, CBO expects the federal share of child support administrative costs to rise by $2 million in 2004, $14 million in 2005, and $42 million over the 2004-2007 period. Federal collections would increase by $6 million in 2005 and $40 million over the 2005-2007 period. Finally Food Stamp and Medicaid savings would total $6 million and $24 million respectively over the 2005-2007 period.

Fee for Never-TANF Cases. Section 304 would establish a $25 annual fee for individuals who receive child support services and who had at least $500 of collections in a year. The fee would be imposed only if the family had never received TANF and would be retained out of the child support collected. The provision would be effective beginning October 1, 2003.

Based on administrative data and information from state child support officials, CBO assumes three million cases could be subject to a fee in 2004 resulting in collections of $75 million, with the federal government retaining 66 percent. CBO reduced those expected collections by 15 percent to account for small administrative inefficiencies and fees that are already being collected. Based on recent growth levels and trends in the program, CBO estimates the federal share of collections would total $42 million in 2004 and $182 million over the 2004-2007 period. In addition, CBO estimates the administrative costs to implement a fee system would be $3 million in 2003 and the federal government would pay $2 million.

Use of New Hire Information. Section 306 would allow states, beginning in fiscal year 2004, to access information in the national database of new hires to help detect fraud in the unemployment compensation system. Currently, most states may access the information that they send to the national registry. However, without access to the national information, a state may not receive important data regarding recent hires by national corporations that may report in other states. Only a few states have examined potential savings that could be realized if they had access to the national data, and their estimates are small—less than 0.1 percent of total outlays. Nevertheless, states generally believe that access to the national data would be a valuable tool in detecting fraud earlier, as the information on new hires is more current than that contained in quarterly wage reports on which many states now rely.

Based on information provided by the National Association of State Workforce Agencies, CBO estimates that about 40 percent of the states would make use of the national information in the year that it became available, and that another 40 percent would take advantage the national information within the next few years. CBO estimates that this proposal would result in a reduction of $66 million in spending for unemployment compensation over the 2004-2007 period. CBO assumes this reduction in spending would lead states to reduce their unemployment taxes. CBO estimates that such revenues would fall by $20 million over the 2004-2007 period, so the net deficit reduction would amount to $46 million over that period.

Denial of Passports. Under current law, the State Department denies a request for a passport for a non-custodial parent if he or she owes more than $5,000 in past-due child support. Section 307 would lower that threshold and deny a passport to a noncustodial parent owing $2,500 or more. Generally, when a noncustodial parent seeks to restore eligibility for a passport, he or she will arrange to pay the past-due amount down to the threshold level.

The State Department currently denies about 15,000 passport requests annually. Data from the Department of Health and Human Services shows there are 4.2 million noncustodial parents owing more than $5,000 in past-due child support and an additional 1.0 million owing between $2,500 and $5,000. If noncustodial parents owing between $2,500 and $5,000 apply for passports at the same rate as those owing more than $5,000, then the proposal would generate an additional 3,400 denials annually.

CBO assumes that 20 percent of noncustodial parents who have a passport request denied would make a payment to get their passport rather than just doing without one. (In a study by the State Department, for 85 percent of applications that were denied due to child support arrears, passports were not issued within the next three months.) A noncustodial parent owing more than $5,000 would have to pay an additional $2,500 to receive a passport. On average, a noncustodial parent owing between $2,500 and $5,000 would have to pay $1,250 to receive a passport. As a result, CBO estimates the policy would result in new payments of child support of about $8 million annually. About one-third of those payments would be on behalf of current and former welfare families and would be retained by the government as reimbursement for welfare benefits. The federal share of such collections would be $2 million a year, beginning in fiscal year 2004, and $8 million over the 2004-2007 period.

Improved Debt Collection: SSA Benefit Match. Section 310 would allow states to collect past-due child support by withholding Social Security, Black Lung, and Railroad Retirement payments. Because parents affected by the legislation are generally younger than 62, we assume that most of them receive benefits under the Disability Insurance (DI) program rather than the retirement or survivors programs. The Debt Collection Improvement Act of 1996 limits the amount that can be withheld annually from an individual's Social Security check to the lesser of any amount over $9,000 or 15 percent of benefits.

Based on an analysis done by the Treasury Department, CBO estimates that 50,000 beneficiaries a month could be subject to an offset. Based on states' current use of administrative offsets of other federal programs, we estimate two-thirds of those beneficiaries would potentially have their checks offset. On average, CBO estimates that the offsets would amount annually to $1,700 by 2007 and could potentially yield an estimated $57 million in collections for child support from Social Security payments.

CBO estimates that the additional collections under section 310 would be only 40 percent of the potential collections because of several factors. First, some of this money may have been collected anyway through other enforcement tools, such as offsets currently applied to federal tax refunds. Second, noncustodial parents are younger than average DI recipients, and younger men receive lower DI benefits than older men. Third, children of DI recipients are entitled to a benefit from Social Security that averages more than $2,000 annually, and some states consider those benefits in determining the amount of child support owed by the noncustodial parent. Fourth, in some cases, the estimated offset will exceed the amount of arrears owed. Finally, CBO expects a small percentage of all noncustodial parents owing past-due support would slip through the administrative process.

The estimated $23 million in child support in 2007 would result in a net increase in federal offsetting receipts of about $8 million. The estimate assumes 60 percent of collections would be on behalf of families that received or formerly received cash assistance from TANF. The federal share of TANF collections is 55 percent.

The provision would be effective October 1, 2002, but CBO assumes that the program would take several months to establish. Increases in DI benefits would result in higher offsetting receipts over time, rising from $6 million in 2004 to $8 million in 2007, totaling $31 million over the 2003-2007 period. Receipts from offsets of Black Lung and Railroad Retirement benefits would be insignificant.

Title V: Supplemental Security Income. Title V would require the Social Security Administration to conduct reviews of initial decisions to award SSI benefits to certain disabled adults. The legislation mandates that the agency review at least 20 percent of all favorable adult disability determinations made by state-level Disability Determination Service (DDS) offices in 2003. Under the legislation, the agency must review at least of 40 percent of the adult disability awards made in 2004 and at least half of the awards granted in 2005 and beyond.

CBO anticipates state DDS offices will approve between 350,000 and 400,000 adult disability applications for SSI benefits annually between 2003 and 2007. Based on recent data for comparable reviews in the Social Security Disability Insurance program. CBO projects that, by 2007, nearly 6,000 DDS awards will have been ultimately overturned, resulting in lower outlays for SSI and Medicaid (in most states, SSI eligibility automatically confers entitlement to Medicaid benefits). CBO estimates that title V would reduce SSI benefits by $1 million and Medicaid outlays by $2 million in 2003. Over the 2003-2007 period, CBO estimates this provision would lower outlays by $53 million and $107 million for SSI and Medicaid, respectively.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through fiscal year 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	320	273	257	226	107	16	31	29	-1	-12
Changes in receipts	0	0	0	-2	-6	-12	-15	-17	-20	-20	-21

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Generally, conditions of federal assistance are not considered intergovernmental mandates as defined in the Unfunded Mandates Reform Act. However, UMRA makes special provisions for identifying intergovernmental mandates in large entitlement grant programs (those that provide more than $500 million annually to state, local, or tribal governments), including TANF. Specifically, if a legislative proposal would increase the stringency of conditions of assistance, or cap or decrease the amount of federal funding for the program, such a change would be considered an intergovernmental mandate only if the state, local or tribal government lacks authority to amend its financial or programmatic responsibilities to continue providing required services.

The TANF program affords states broad flexibility to determine eligibility for benefits and to structure the programs offered as part of the state's family assistance program. Changes to the program as embodied in H.R. 4090 could alter the way in which states administer the program and provide benefits. However, states would continue to be able to make changes, for example adjusting eligibility criteria or the structure of programs, to avoid or offset any additional costs. Because the TANF program affords states such broad flexibility, new requirements would not be considered intergovernmental mandates as defined by UMRA.

The bill would provide additional funding and flexibility to states and tribes, but it also would impose stricter requirements and decrease grants in some areas. The bill would maintain TANF funding at the fiscal year 2002 level through fiscal year 2007 and increase the amount of TANF funding that could be used for other social services and child care and broaden the ability of states and tribes to spend unused TANF funds in future years. At the same time, however, it would increase work participation requirements, change the basis for caseload reduction credits, and reduce bonus grants.

TANF Grants and Program Flexibility. The bill would continue TANF funding at the 2002 level. It also would continue a supplemental grant totaling $319 million annually through fiscal year 2006 for states with relatively low welfare spending per poor person and relatively high population growth.

The bill would make it easier for states to qualify for assistance from the TANF Contingency fund during recessions and allow them to receive reimbursement for certain child care expenditures. The bill also would increase from 30 percent to 50 percent the amount of TANF funds that could be transferred for Social Services Block Grant or Child Care and Development Block Grant purposes and would increase the limit of funds that may be specifically used for SSBG purposes from 4.25 percent to 10 percent. Finally, the bill would allow states and tribes to use excess TANF funds for services, not just benefits, provided under the TANF program in future years.

Child Support. The bill would require states to conduct a mandatory review of child support cases every three years, resulting in some level of net savings to states as a result of identifying noncustodial parents who owe child support. If states distribute to families the portion of child support collections that they otherwise would retain as reimbursement for benefits and services, this bill would allow them to similarly distribute the federal portion.

Demonstration Projects and Waivers. The bill would extend demonstration projects related to children and family services and foster care, and it also would eliminate the limit on the number of states that may receive grants for such demonstration projects. The bill would authorize state demonstration projects for integrating TANF and other social service programs and allow waivers to be granted by the appropriate Secretary and the Director of the Office of Management and Budget.

Work Participation. The bill would increase the minimum work participation rate from 50 percent to 70 percent over a five-year period. To meet those requirements, 70 percent of families would have to be engaged in work activities for at least 24 hours a week by 2007. Current law requires a recipient to be engaged in work activities for at least 20 hours per week, and there is a 50 percent participation requirement. The increase of 4 hours per week could require a modest increase in spending by states and tribes for administration, worker support activities, and child care. As the participation rates increase, states and tribes would have to direct more resources toward programs such as administrative support, transportation assistance, child care, and worker supervision to comply with the 70 percent requirement. CBO estimates that the costs of the work participation requirements would total about $3 billion in 2007 (and about $8 billion over the 2003-2007 period), assuming that caseloads remain around the current level.

While the bill would require a participant to engage in work activities for an average of 24 hours per week, it also would require 16 additional hours of participation in other qualified activities. The bill does not specify the activities that could count for the final 16 hours, but the Secretary could limit these allowed activities in future regulation. If states were required to support activities in the 16 hours that are comparable in intensity to those in the first 24 hours, the estimated cost would rise to about $4 billion in 2007 (and about

$10 billion over the 2003-2007 period), assuming that caseloads remain around the current level.

Costs of this magnitude would result if states do not act to avoid the tougher requirements by moving families to separate state programs or averting the requirements by some other means. In fact, CBO expects that states will move many nonworking families into separate state programs to reduce the work requirements and avoid financial penalties.

The bill also would change the calculation of worker participation credits for states whose caseload levels have declined significantly, assuming the reduction is not the result of changing eligibility requirements. The base year for comparison of caseloads would shift forward over time, rather than remaining static at the 1995 level. States that have experienced caseload reductions of 60 percent or more between 1995 and 2001 may qualify for a superachiever state credit that would further reduce their minimum participation levels. This credit could offset the impact of stricter work requirements for qualified states.

Bonus Grants. The bill would eliminate an authorization for bonus grants to states that decrease out-of-wedlock births (up to $100 million authorized through 2002), but it also would appropriate $100 million annually for Healthy Marriage Promotion grants. The bill would reduce by half (from $200 million to $100 million annually) bonus performance grants and refocus the basis of their award after 2003 to employment entry, retention, and increased earnings.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 4090 contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On May 9, 2002, CBO transmitted a cost estimate for H.R. 4092, as ordered reported by the House Committee on Education and the Workforce on May 2, 2002. That bill contains similar provisions on work participation requirements in TANF and the Bonus to Reward Employment Achievement. The difference in CBO's estimates of those provisions reflect slight differences in the two bills.

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