

Toughening TANF How Much? And How Attainable?

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Executive Summary

“Toughening TANF: How Much? And How Attainable?” analyzes the participation requirements in the House and Senate bills to reauthorize the Temporary Assistance for Needy Families (TANF) Program, and likely state responses to them.

To estimate the size of the new participation requirements that each bill would place on states, we created a “Participation Rate Estimator,” essentially a spreadsheet that models the impacts of the various policy choices imbedded in both bills. We find that, after the application of the steps outlined in the attached paper:

- *Under H.R. 4* (as a result of the caseload reduction credits, full-family sanction, first-month exclusion, child-under-one exclusion, job search as a three-month activity, other three-month activities, and separate state programs) *only about four states would not meet H.R. 4’s participation requirements.* (The states would be Georgia, Maryland, Nebraska, and Pennsylvania, and, collectively, they would fall about 1,340 recipients short of the required level of participation.)
- *Under S. XXX* (as a result of the employment credit, proportional credit for hours of participation, post-sanction exclusion, first-month exclusion, child-under-one exclusion, job search as a direct work activity and as a three-month activity, other three-month activities, and separate state programs) *all states would meet S. XXX’s participation requirements.*

We refer to the Senate reauthorization bill as “S. XXX.” Its formal name is the “Personal Responsibility and Individual Development for Everyone (PRIDE) Act. It was reported out of the Finance Committee on September 10, 2003. As of this writing, it has been reported as a substitute for H.R. 4 and does not have a bill number, so we refer to it as S. XXX.

Our estimator is a static model, in which we examine the characteristics of the caseload to determine the percentage affected by both bills. Nevertheless, we think that it accurately describes the most likely path of state implementation.

As our analysis illustrates, even without the addition of either bill’s provisions, TANF’s participation requirements are complex, difficult to understand, and easily circumvented. Both bills would accentuate these problems, S. XXX substantially more than H.R. 4.

The complexity of TANF's participation requirements stems largely from the politics of how the original law described participation requirements. The drafters wanted to show they were serious about reform, so they set a high putative requirement (eventually 50 percent). But they compromised on the real requirements through a slew of exclusions and exemptions that substantially watered down the 50 percent requirement (even before the impact of the caseload reduction credit).

Both H.R. 4 and S. XXX take the same approach. They assert a required participation rate of 70 percent, presumably to show that they are raising participation requirements from current law. And then, like current TANF, they create one exclusion, exception, and credit after another that sharply reduce the formal increase in participation requirements. How else to interpret S. XXX's employment credit which essentially lowers the required participation rate by 20 percentage points, back down to current TANF's 50 percent—without states having to do anything new or additional?

The same is true for H.R. 4's putative requirement that all single mothers participate for forty hours a week. It is now clear that participation will be defined so broadly that nearly any activity will count for the hours beyond the basic twenty-four-hour requirement. These seemingly high participation requirements became an easy target for criticism: a 70 percent participation rate would be unattainable and forty hours of participation would be difficult to achieve and could be a heavy burden on some families. They also created an exaggerated impression of how much more child care would be needed, thereby strengthening the arguments of those pushing for additional federal child care aid—even though the key actors understood that the actual requirements were much lower.

We recommend developing a common ground between H.R. 4 and S. XXX that would simplify administration processes while making participation requirements more realistic, more enforceable, and more closely focused on activities that encourage work and build human capital. Our Common Ground proposal would establish a middle road in participation requirements between the two bills. With one exception, we would impose a *real and enforceable requirement that at least 10 percent of the adult caseload be in a work experience or education and training activity.*

None of the credits and exclusions embedded in current law and either bill are needed to give states an incentive to reduce caseloads, and neither are needed to reward state success in reducing their caseloads. (H.R. 4's superachiever credit has no apparent programmatic justification.) The additional block grant funds that are freed up as a consequence of the caseload declines should be sufficient on both accounts. Here are our *Common Ground* recommendations:

Establish genuine participation requirements. The complexity of TANF's participation requirements stems largely from the politics of how the original law described participation requirements. The drafters wanted to show they were serious about reform, so they set a high putative requirement (eventually 50 percent). But they compromised on the real requirements

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- *Drop all participation rate credits, including H.R. 4's caseload reduction credit (or at least prevent its application to caseload declines due to separate state programs) and superachiever credit and S. XXX's employment credit—because they are too generous and might easily be gamed, and, instead, rely on the incentives built into the block grant to encourage states to reduce caseloads. (Given the elimination of the additional hours requirement recommended below, S. XXX's proportional credit should also be dropped.)*

If these credits must be kept, they should be modified. First, H.R. 4's recalibration of the caseload reduction credit should not permit states to obtain a credit simply by creating one or more separate state programs. (Separate state programs should still be allowed because they can be a vehicle for program innovation, as in the case of those related to child welfare needs.)¹ Second, S.

¹It may be necessary, however, to give HHS the authority to disallow specific MOE or TANF spending on separate state programs.

XXX's employment credit should not double the benefit of someone leaving welfare for work. (Some version of the president's employment credit might be considered.)²

- *Drop the exclusions for cases in the first month of assistance and with a child under age one—because they add unnecessary administrative complexity and, instead, rely on job search at application to achieve the same goal.*

These exclusions would require additional paperwork, have little substantive merit (because such mothers should be engaged in activities), and would not have as much impact as some might expect (because many families in both groups are already participating). Better to shed these awkward exclusions and make a corresponding liberalization of countable job search activities.

Abandon participation requirements that will become a sham. Current TANF sets the participation requirement for two-parent families at 90 percent. No state could achieve this rate without the help of the caseload reduction credit and, even then, many could not. As a result, about twenty states created separate state programs for two-parent families that effectively negated the provision. Happily, both H.R. 4 and S. XXX shed this unreachable requirement. Unhappily, H.R. 4 and, to a lesser extent, S. XXX add their own.

One troublesome requirement is that families, including those headed by single mothers, “participate” for up to forty hours a week under H.R. 4 and thirty-four hours under S. XXX (twenty-four hours for single mothers with a child under age six). This has been a much-criticized requirement but, instead of simply abandoning it, both bills—coupled with statements of senior administration officials—have other provisions that make it possible to fill the additional hours of participation with meaningless activities, particularly under the broadly defined category of “community service.”

Just about all observers believe that states will fill the hours of required participation after the initial twenty-four hours of direct work activities with easily met requirements only tenuously related to increasing employability or increasing family or child well-being. As described in Appendix A-3, states could count the time that recipients spend volunteering in organized activities with their own children, such as at a Head Start center, school, Girl or Boy Scouts,

²For most states, the Administration's employment credit would be less generous than S. XXX's because it would not double the number of employed leavers counted as participants and would add the number to both the numerator and the denominator of the participation rate calculation. Moreover, the Administration's proposal does not include the state options for extra credit for leavers that obtain relatively high-paying jobs or allow states to count recipients of diversion payments, child care, and transportation assistance.

How much more generous is the S. XXX employment credit? Most analysts expect that all states will have credits in excess of 20 percent, its eventual cap. The Administration's credit would be worth, in 2003, about 12 percent nationally, according to HHS, ranging from a low of 5 percentage points in the District of Columbia, Illinois, and Pennsylvania to a high of 27 percentage points in Oregon. [U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, “How Much Is the Administration Employment Credit Worth – Preliminary Estimates,” April 10, 2003.]

after-school program, or other recreational activities. States could also count time recipients spend in marriage-strengthening activities, parenting classes, or other activities designed to improve child well-being. Some have suggested that a state could even count time parents spend helping their children with homework or taking them to various activities, because such participation could be viewed as strengthening families and promoting child well-being.

Regardless of what the drafters intended, given this reality, these additional hours of required participation are likely to be seen as a sham requirement by administrators, by frontline workers, and by recipients. That would be a catastrophe.

As Senator Charles E. Grassley (R-Iowa), chairman of the Senate Finance Committee, argues: “There’s so much subterfuge involved in how you qualify for the 40 hours that I think it might be more intellectually honest to stick with something less than 40 to make sure that it’s legitimate work.”³ The hours of participation ought to reflect what is needed to leave welfare and what is good for children.

- *Set the required number of hours of participation at twenty-four hours for single mothers with a child under age six and thirty-two hours for all other families (including one-parent families with no children under age six and two-parent families). Drop the requirement of additional hours of participation in direct or nondirect work activities—because it is not needed in all cases and will lead to sham activities. (Given the elimination of the additional hours requirement recommended above, S. XXX’s proportional credit should also be eliminated.)*

If the requirements for additional hours cannot be simply dropped, one could substitute a required “Family Development Plan” in which recipients describe how they will use the rest of the work week to improve their employability, strengthen family ties, and improve their children’s well-being. (This would be a modified version of the “Self-sufficiency Plan” in both bills and of the “Individual Responsibility Plan” in current law.) If properly structured, such plans might have more impact than the easily avoided requirement of additional hours.

TANF currently allows states to set their own sanction policies for noncompliance with participation requirements. H.R. 4 seeks to toughen the enforcement of participation requirements by requiring that states completely remove from TANF assistance families that do not comply with participation requirements for more than one month (called a “full-family sanction” as opposed to a “partial sanction”). However, states wishing to avoid a federal requirement of full-family sanctions could easily do so by, for example, creating separate state programs or child-only cases.

³Shannon Holmes, “House Passes Welfare Reauthorization,” *U.S. Mayor Articles*, June 3, 2002, available from: http://www.usmayors.org/uscm/us_mayor_newspaper/documents/06_03_02/welfare.asp, accessed April 21, 2003.

- *Drop H.R. 4’s requirement of full-family sanctions on the ground that it could be easily avoided—and, instead, rely on the fact that sanctioned cases still count against participation requirements. (Keep S. XXX’s post-sanction exemption because it encourages continued state attention on such families.)*

The post-sanction exclusion should be maintained because families with partial sanctions would remain in the calculation of participation rates (except for the first three months), giving states an incentive to move them into countable activities.

Both H.R. 4 and S. XXX contain lists of relatively specific direct work activities that would be counted toward each bill’s participation rate requirements. But both also allow states to count other, less favored activities for shorter periods of time (generally three months). The existing three-month-activity provisions would make countable just about any activity that a state might want to offer (even those that do not involve an increase in expenditures or actual services), so most observers assume that they merely reduce required participation rates. But if they were used to provide actual services, their arbitrary three-month limit could cut off programs or services that might more effectively be provided for longer periods of time.

- *Drop the various complicated three-month-activity rules in both bills and create one simple provision that allows the counting of nondirect work activities in both bills for **up to six months** in any twelve-month period (and drop S. XXX’s “additional” three-month provision)—to simplify administration and allow programs sufficient time to provide their services.*

Establish realistic required participation rates. We strongly support higher participation rates, but the required 70 percent participation rate in both bills is neither realistic nor real. It is a political artifact resulting from the attempt to raise participation rates without acknowledging that the current TANF’s 50 percent requirement turned out to be meaningless.

What would be a realistic requirement? Under current TANF, less than half a dozen states have participation rates approaching or exceeding 70 percent, and most reach these levels only through waivers. The major exception is Wisconsin, which, over a period of years, has maintained between 70 and 80 percent of its adult caseload in work-oriented activities. (There was some shifting of recipients, primarily the disabled, to a separate state program.) But Wisconsin achieved this by essentially abolishing its cash-welfare system and substituting a system based almost entirely on work.⁴ W-2 participants are assigned to either subsidized or unsubsidized work slots based on their employability. (Current and former recipients are also eligible for a range of

⁴Two types of welfare families were not included in W-2 because the adult caretakers were not considered appropriate for the program’s work requirements. Children whose parents received Supplemental Security Income (SSI) and could not work due to illness or incapacity were converted to the Caretaker-Supplement program. In addition, children living with non-legally responsible relatives such as a grandmother or aunt, and who otherwise might be placed in foster care, were converted to the state’s Kinship Care program.

program services intended to help them find or retain employment, increase their skills or wages, and overcome barriers to employment.)

For states not prepared to undertake such a radical change in their welfare systems, New York City probably represents the high-water mark for participation. As Demetra Nightingale and her colleagues at the Urban Institute point out, “the experiences in New York City in the 1990s as it attempted to revamp the entire welfare system—organizationally and philosophically—offer important lessons about the feasibility and limits of (1) implementing large scale work experience programs; (2) restructuring and modernizing a large, entrenched bureaucracy; and (3) adapting service programs to changing policy and economic conditions and caseload characteristics.”⁵

New York City requires recipients either to work in a paid job while on welfare (“unsubsidized employment”)⁶ or to participate in its Work Experience Program (WEP), which typically combines a structured work assignment for all recipients who can work with education, training, and job search activities designed to increase employability and earnings. The city calls this “engagement,” and, by December 1999, it reached “full engagement.”

But full engagement, as New York City defines it, includes the following activities (our nomenclature) that would not be countable under TANF: “Participating but insufficient hours,” “In engagement process,” “In sanction process,” “Sanctioned” (not eligible for exclusion), and “Unengageable.”⁷ That would translate into a participation rate of only about 40 (if one excluded all exclusions and credits in current TANF, as well as H.R. 4 and S. XXX). In the context of H.R. 4 and S. XXX, if all or most of those with partial sanctions began participating and if all or most of those with insufficient hours increased their hours of participation sufficiently to be counted, the participation rate could rise to as high as 65 percent. But those are two big ifs.

In fact, only about a dozen states have achieved a 50 percent participation rate, and, again, mostly because of waivers. Hence, at this time, a 50 percent or so required participation rate would seem to be the *highest* rate that could be reasonably expected of states, absent adding the

⁵Demetra Smith Nightingale, Nancy Pindus, Frederica D. Kramer, John Trutko, Kelly Mikelson, and Michael Egner, *Work and Welfare Reform in New York City During the Giuliani Administration: A Study of Program Implementation* (Washington, DC: Urban Institute Labor and Social Policy Center, July 2002), p. 3.

⁶TANF calls this “unsubsidized employment,” but that clearly is a misnomer because the families continue to receive welfare payments, which can be a substantial portion of their original grants. First the Clinton Administration and now the Bush Administration have helped muddy the waters by repeatedly reporting that large percentages of welfare recipients were “working,” which suggested to many that they were in work experience programs, when, in fact, the vast majority were taking advantage of expanded earnings disregards to combine work and welfare.

⁷New York City does not include recipients considered “Unengageable” when determining whether “full engagement” has been achieved, but we include this category in our estimate of the city’s participation rate because most families in the category would be counted in the determination of participation rates under H.R. 4 and S. XXX.

kinds of exceptions and exclusions that are in current law, H.R. 4, and S. XXX.

- *Set the required participation rate at 50 percent of the adult caseload.*

A more realistic required participation rate would reduce the pressure on states to seek ways to escape the new requirements entirely, such as through separate state programs.

Even a 50 percent rate, however, might not be reachable unless families unable to participate were excluded from the calculation. Some substantial proportion of the national caseload has a disability or other physical or mental work limitation that might preclude participation in most countable activities. Other families may have a substance abuse problem, a learning disability or limited basic (reading or English-language) skills, be victims of domestic violence, or have a disabled child. For many states, now and for at least the next five years, developing meaningful programs for such families would pose a large and expensive challenge.

- *Establish a disability exclusion (capped at 15 percent of the adult caseload)—to accommodate the need to exempt the disabled from a true 50 percent participation requirement.*

In recommending a 15 percent cap, we assume that another 5 percent of the caseload might be in the process of being assessed for a possible disability or work limitation, which could itself be a countable activity.

Emphasize building human capital. Most of the caseload decline resulted from a strong economy for entry-level workers and the impact of job search and other work first activities on those mothers who could leave welfare for work or had other forms of support. Many of those still on welfare need more help to overcome poor education, low skills, and other barriers to employment. But few states have made a concerted effort to involve these difficult-to-reach mothers in activities that build human capital and specific job skills. Neither bill, in our opinion, is sufficiently supportive of such activities.

Given the loopholes in current law, as well as in H.R. 4 and S. XXX, it seems preferable to give states the maximum flexibility in choosing activities they might require, including education and training activities. The point of participation, after all, is to increase employability while imposing a disincentive to continuing on assistance.

- *Broaden the definition of direct work activities to include education and training activities as well as all TANF's "core" activities and all the direct work activities in H.R. 4 and S. XXX—to give states maximum flexibility in experimenting with different activities.*

To avoid abuse, however, the countability of time doing homework and other nonclassroom activities should be subject to HHS regulation.

Although current TANF provides a small incentive against providing education and training, the fact is that most states have never been eager to provide either to large numbers of recipients. States will continue to place relatively few recipients in work experience programs or education and training unless they are forced to do so (or provided a very large financial incentive). In 2001, about 5 percent of all TANF families with an adult were in work experience, subsidized employment, or an education and training activity and had enough hours to be counted as participating.⁸

Under both H.R. 4 and S. XXX, however, whatever increase in participation that occurs will likely be through broadly defined and largely meaningless community service activities or through more families combining work and welfare (by increasing the state's earnings disregards). Neither activity is likely to make a significant impact on welfare dependency.

- *Establish a separate minimum participation rate for work experience, on-the-job training, and other designated forms of education and training of 10 percent of the adult caseload—to add a needed focus on activities that build human capital. Because of the porousness of the borders between TANF activities, especially since the legislation does not define them, the specific activities counted toward this requirement should be subject to regulation, but might include work experience, on-the-job training, subsidized employment, mandatory community service,⁹ community or public service jobs, supported work, vocational educational training, classroom occupational training, job skills training, education related to employment, education for teen heads of household, remedial education, English as a Second Language, secondary education, and postsecondary education. (Some education activities could be combined with work experience, and, in fact, there might be a mandate to that effect.)¹⁰*

⁸Authors' calculations based on U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fifth Annual Report to Congress* (Washington, DC: Author, February 2003), p. III-106, available from: <http://www.acf.dhhs.gov/programs/ofa/annualreport5/>, accessed March 15, 2003. The 5 percent estimate represents the number of recipients in an education and training activity after adjusting for potential overlap with other activities, as described in Appendix A-5. This estimate, however, may understate the number of recipients in an education and training activity, because participation in some activities, such as postsecondary education, is not countable under current TANF.

⁹Community service activities could be included in the 10 percent but only if their definition were narrowed to include only those activities that provide a benefit to the community and to exclude self-improvement and child rearing activities.

¹⁰In New York City, for example, after an initial period when the city required participation in its work experience program only, the city decided to combine work experience with education and training activities. See Douglas J. Besharov and Peter Germanis, *Work Experience in New York City: Successful Implementation, Uncertain Impact, and Lessons for TANF's Participation Requirements* (Washington, DC: American Enterprise Institute, March 21, 2003).

Because this requirement is applied to all TANF cases with an adult present (that is, there are no exemptions or exclusions), in contrast to the putatively higher required participation rates in H.R. 4 and S. XXX, a 10 percent required rate for narrowly defined activities is actually more difficult to escape.

As much as anything, job search, job readiness, and work first activities have characterized welfare reform since 1994. They seek to encourage applicants (and recipients) to look for work and to give them skills to do so successfully. Specific activities can include classroom instruction on job-seeking skills, help in completing job applications and preparing resumes, access to phone banks, and job clubs or other forms of peer support. Job search and other work first activities also can discourage mothers from seeking or staying on welfare, because they add to the burden of applying for or being on assistance—what welfare professionals often call “smoke out” and “hassle.”

The law should encourage states that have not already done so to establish an application process that contains systematic job search and work first activities that help and encourage applicants to find alternatives to welfare by requiring them to look for a job.

- *Count job search at application for up to six weeks without any special limitations—because the limitations in current TANF, H.R. 4, and S. XXX could be easily avoided and good policy would be for everyone who applies for assistance to go through some form of job search assessment.*

Compared to current TANF (and S. XXX), counting job search at application with none of the special limitations more than doubles the percentage of the caseload that can be counted in the activity, because it includes those returning to welfare after a brief exit who otherwise might not be counted because they had used their six weeks of job search in an earlier spell of assistance.¹¹ (For those states concerned, if configured as “independent” job search, doing so would cost very little.)

Remove marriage penalty. Both bills make provision for \$1.5 billion in marriage promotion and strengthening activities. Although some have criticized this proposal, the connection between family breakdown and welfare dependency is widely appreciated and some version of these provisions is almost certainly to be in any bill that passes. But that is not all a reauthorized law should do.

Under current TANF, a single parent, usually a mother, faces a participation requirement

¹¹Because few recipients exit and apply for assistance more than once in any twelve-month period, this is the equivalent of allowing job search for up to twelve weeks (in two six-week periods) per year for those who leave and return to welfare. (We assume that the number leaving and returning for a third time would be negligible.) According to HHS, about 9 percent of TANF adults are in the first month of assistance, suggesting that as many as 13 percent could be in the first six weeks of assistance and potentially countable if participating in a job search activity.

of twenty or thirty hours per week (depending on whether she has children under age six). Two-parent families, however, are required to participate for thirty-five hours. Thus, under current law, if a single mother marries someone who is not earning enough for the family to leave welfare, the hours of required participation would rise by as much as fifteen hours per week. (Any hours he is working would be counted toward that total.) In addition, TANF imposes a separate and higher required participation rate of 90 percent on two-parent families.

Both bills would eliminate the separate, 90 percent required participation rate for two-parent families, but only H.R. 4 would drop the higher hourly participation requirement for two-parent families. S. XXX would leave the disparity in place by increasing the two-parent-family hourly requirement, from thirty-five to thirty-nine hours. Hence, if she marries, a single mother with a child under age six would see her family's hours of required participation rise from twenty-four to thirty-nine hours. There is no telling whether this is a major impediment to marriage, but it is easy to see it leading some couples to decide against marriage.

Hence, as mentioned above, we would set the required number of hours of participation at twenty-four for single mothers with a child under age six, and thirty-two hours for all other families (including one-parent families with no children under age six and two-parent families).

What about added costs for administration and child care? How much would spending have to increase to cover the added costs for administration and child care? Remember, we believe that almost all states can meet H.R. 4's and S. XXX's participation requirements *without expanding services or spending* because of the broad definitions of countable activities. But if we are incorrect—or if states chose to expand their programming—then annual costs could rise as much as \$1.6 billion by 2008 (in 2002 dollars). Adopting a modified version of CBO scoring,¹² here are the actual ranges:

- For H.R. 4, additional costs for administration of sites, etc., could range from \$0 to \$836

¹²U.S. Congress, Congressional Budget Office, "Potential Cost to States of Meeting Proposed Work Requirements: Based on Senate Finance mark-up documents and clarifications by staff," unpublished cost estimate, September 10, 2003.

- To estimate the additional costs for administration of sites, etc., we multiply the CBO's estimated 2008 cost of \$3,440 per "work program" slot (in 2002 dollars) by the number of additional recipients that would be required to satisfy the participation requirements.
- To estimate the additional costs for child care, we use CBO's assumptions that 85 percent of the adults that would be required to participate have a child under age thirteen (the age cutoff for CCDF eligibility) and that these families, on average, have 1.68 children. This results in an estimate of the maximum number of additional children requiring child care. Of course, not all families eligible for child care will elect to receive a subsidy. Like the CBO, we assume a 50 percent take-up rate to determine the number of children that would require a subsidy. We multiply the resulting number of children by the average cost of a CCDF-subsidized child care slot—\$4,450 per child (in 2002 dollars), based on the average cost per child under the CCDF in 2001.

million, additional costs for child care could range from \$0 to \$772 million, and total additional costs could range from \$0 to \$1.608 billion.

- For S. XXX, additional costs for administration of sites, etc., could range from \$0 to \$249 million, additional costs for child care could range from \$0 to \$230 million, and total additional costs could range from \$0 to \$479 million.
- For Common Ground, additional costs for administration of sites, etc., could range from \$252 million to \$461 million, additional costs for child care could range from \$232 million to \$426 million, and total additional costs could range from \$484 million to \$887 billion.

The lower-bound estimates assume that states could place recipients in “additional job search,” “additional three- or six-month activities,” and “additional needed direct work participation” at no additional cost because participation could be in a broad range of activities, including unsupervised and self-reported activities that involve no additional cost. (Even “additional needed direct work participation” could be in broad community service activities.) The upper-bound estimate assumes that participation in these activities, as well as “additional work experience, and education and training (10% of adult caseload)” would involve real costs for each additional participant.

It is this wide range of possible costs that has complicated the argument about whether both bills’ higher participation requirements are an unfunded mandate. On one hand, analysts like the CBO (and us) think states can avoid all new expenses if they wish to do so. On the other hand are those who either think that the states cannot avoid additional costs or are willing to make that argument to gain more funding for the states. In any event, existing funds under both TANF and the CCDF would be sufficient to cover expansions of these magnitudes, albeit at the cost of other state activities now supported by block grant funds. (The latter is a strong argument, as described below.)

But what if there were a decision to reimburse (or reward) the states for the increased costs of expanding participation? How would the amount of reimbursement be set? Put simply, there is no way to know in advance what the states would do. And, in any event, would it not vary widely from state to state? Hence, the choice is either to rely on the political process to pick an amount or to establish a formula that rewards or reimburses states for *real* expansions in participation. That is what we suggest.

- *Reimburse states for the **added** costs of administration and child care that result from increased participation by means of a predetermined formula that is tied to the additional amount of participation.*

Some will argue that further increases in child care funding are needed for nonTANF families or at least for families that have left TANF for work. There may or may not be a need for more federal child care assistance for such families, but, either way, the argument should not be in

the guise of the need to meet additional needs caused by higher required participation rates.

The basic argument put forward by those seeking additional child care funding is that CCDF funding should be increased to reflect inflation. Sharon Parrott and her colleagues at CLASP, for example, argue that, “the level of child care assistance in the pending TANF reauthorization bills is well *below* the levels needed simply to keep child care services for low-income working families from shrinking in coming years.”¹³ It is arguable, however, that the CCDF should be adjusted for inflation.

First, federal child care aid to the states has increased mightily in the last decade, and there is good evidence that the states do not want to spend at the pace of past increases.

- Between 1997 and 2002, federal funding available through the CCDF increased nearly 120 percent (about \$2.6 billion in 2002 dollars), from about \$2.2 billion to about \$4.8 billion. About \$940 million of CCDF funds remained unobligated as of the end of fiscal year 2002, and another \$2.2 billion had been “committed” but not yet spent.
- Other major programs that provide child care services have also seen their funding increased far faster than inflation. Between 1997 and 2002, child care spending on just five programs—Head Start, Title I (for preschool children), the 21st Century Community Learning Centers Program, the Social Services Block Grant (for child care), and the Child and Adult Care Food Program—increased nearly 50 percent (by more than \$3.2 billion in 2002 dollars), from \$6.870 billion to \$10.109 billion.

Second, the states have enjoyed a financial windfall from the TANF block grant, and again it appears that they do not want to spend all the money available on child care.

- Between 1997 and 2002, the states enjoyed a \$59 billion cash windfall (in 2002 dollars) from the decline in the TANF caseload and the concomitant reduction in spending on assistance and administration.¹⁴ In 2002, alone, the windfall was \$13.4 billion. About \$2.7

¹³Sharon Parrott, Jennifer Mezey, Mark Greenberg, and Shawn Fremstad, *Administration Is Misstating Amount of Child Care Funding in Pending TANF Reauthorization Bills* (Washington, D.C.: Center for Law and Social Policy, December 15, 2003), p. 4, available from: http://www.clasp.org/DMS/Documents/1071588118.09/CC_funds.pdf, accessed February 17, 2004.

¹⁴Authors’ calculations based on U.S. Department of Health and Human Services, Administration for Children and Families, “U.S. Caseloads Information,” various years, (Washington, DC: U.S. Department of Health and Human Services, February 6, 2004), available from: <http://www.acf.dhhs.gov/news/stats/newstat2.shtml>, accessed February 19, 2004; and U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Annual Report to Congress* (Washington, DC: U.S. Department of Health and Human Services, various years). This estimate is derived by multiplying each year’s caseload decline by the average annual benefit for families receiving cash assistance (about \$4,800 per family in 2002 dollars) and associated administrative costs (about \$500 per family in 2002 dollars). The windfall for each year is then summed to derive the cumulative

billion of these TANF funds remained unobligated as of the end of fiscal year 2002, and another \$3.1 billion had been “committed” but not yet spent.

Although these funds go to many programs, child care probably receives the most. However, because there are essentially no limits to how states may use these funds, many billions have been used to “substitute” for preexisting state spending.

Putting aside these considerations, how much would the CCDF have to be increased to reflect projected inflation rates? Some advocates, such as those at CLASP, cite a CBO estimate¹⁵ that an additional \$4.5 billion in child care funding would be needed over five years just to offset “the effects of inflation on child care funding and thereby avert a *reduction* in child care services or child care slots, *even if there were no increase in TANF work requirements.*”¹⁶ Such statements incorrectly leave the impression that *federal spending* should be increased by this amount just to offset the effects of inflation.

- The CBO estimate *includes state expenditures* under the CCDF, which are inappropriate for determining how much additional federal funding is necessary. According to the CBO, between 2004 and 2008, federal CCDF funds will represent just 69 percent of total CCDF expenditures.
- The CBO estimate also *includes state TANF expenditures* on child care and state transfers of TANF funds to the CCDF. According to the CBO, between 2004 and 2008, federal CCDF funds will represent just 43 percent of total CCDF and TANF funding for child care. TANF funds alone represent 38 percent of the total funding assumed in the CBO’s baseline projection. Although TANF funds are one element of child care funding, they come from a separate funding source, one from which states regularly draw on for a wide variety of purposes, including child care.
- The funding deemed necessary is *expressed in “current” dollars*, which reflects the effects of inflation in future years. In 2002 dollars, the \$4.5 billion increase shrinks to about \$4.1 billion.

savings over the 1997-2002 period.

¹⁵Congressional Budget Office, “Preliminary Staff Estimate: Child Care Base Line,” unpublished table provided by Donna Wong to Peter Germanis. February 1, 2004. *See also* Sharon Parrott, Jennifer Mezey, Mark Greenberg, and Shawn Fremstad, *Administration is Misstating Amount of Child Care Funding in Pending TANF Reauthorization Bills* (Washington, DC: Center for Law and Social Policy, December 15, 2003), available from: http://www.clasp.org/DMS/Documents/1071588118.09/CC_funds.pdf, accessed February 17, 2004.

¹⁶Sharon Parrott, Jennifer Mezey, Mark Greenberg, and Shawn Fremstad, *Administration Is Misstating Amount of Child Care Funding in Pending TANF Reauthorization Bills* (Washington, DC: Center for Law and Social Policy, December 15, 2003), p. 3, available from: http://www.clasp.org/DMS/Documents/1071588118.09/CC_funds.pdf, accessed February 17, 2004.

Taking these considerations into account—and starting in 2002, the historic high point of CCDF funding—the inflation-adjusted 2008 figure for the CCDF would be \$550 million, and a total of \$1.808 billion for the period from 2004 to 2008 (both in 2002 dollars).

We make no estimate of an inflation-adjusted figure for the TANF block grant because the states have diverted such a large amount of money from it to other, nonwelfare purposes.