



February 27, 2013

Honorable Dave Camp
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

On September 17, 2012, CBO transmitted a cost estimate for House Joint Resolution 118. In response to your request for more information, we are providing the following additional explanation of the basis of that cost estimate.

We estimated that enacting House Joint Resolution 118 would reduce direct spending by \$59 million over the 2013-2022 period. Additionally, we estimated the resolution would have no effect on revenues, no significant effect on spending subject to appropriation, and no intergovernmental or private-sector mandates (as defined by the Unfunded Mandates Reform Act).

CBO estimated a reduction in direct spending because the resolution would prevent a new rule announced by the Department of Health and Human Services (HHS) from being implemented. That rule would probably lower the potential penalties assessed by the federal government for states' failure to meet work requirements in the Temporary Assistance for Needy Families (TANF) program. Thus, legislation blocking the rule would eliminate that possible reduction in assessed penalties. Maintaining penalty assessments (in the absence of the announced rule) would therefore lead to lower net outlays for TANF. (The penalties would be assessed by lowering the TANF grant to the penalized states.)

Honorable Dave Camp

Page 2

On July 12, 2012, HHS issued an information memorandum regarding its authority under section 1115 of the Social Security Act. The department stated that it could waive the work requirements of states applying for TANF waivers. States that fail to meet the work requirements within TANF are subject to penalties administered by HHS. Those penalties can take the form of a reduced state family assistance grant, though HHS also has the ability to take other actions in response to states not meeting their work requirements.

As of the date of our cost estimate, the department had not issued any penalties against any states. However, the department has put some states into a status known as “corrective compliance.” During corrective compliance, those states are supposed to improve their performance in helping people receiving TANF assistance to find work.

Despite the lack of penalties imposed to date, CBO’s baseline last year assumed some penalties on noncompliant states over the course of the 2013-2022 projection period. That expectation is based on the potentially large amount of penalties and incorporates a very small probability that those penalties are imposed. In other words, we attempt to reflect an average or expected value of penalties in our baseline projections—as opposed to an assumption of either no penalties or the maximum potential.

After the HHS memorandum was released, CBO modified its baseline relative to what it had been earlier in 2012. Given that memorandum, we expect that states on the verge of being penalized for failing to meet the work requirements would apply for a waiver to remove those requirements and that about half of those waivers would be approved. As a result, we lowered the baseline projection of penalties to be imposed by HHS by roughly 50 percent.

Honorable Dave Camp

Page 3

House Joint Resolution 118 would reverse the effects of the information memorandum by stating that HHS would not have the ability to waive work requirements. We estimated that enacting that resolution would decrease direct spending because of the increased probability of penalties for those states that would no longer be able to receive waivers of the work requirements.

I hope you find this information helpful. If you have additional questions, the CBO staff contact is Jonathan Morancy, who can be reached at 226-2820.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large, sweeping "D" and "E".

Douglas W. Elmendorf
Director

cc: Honorable Sander M. Levin
Ranking Member

Identical letter sent to the Honorable Orrin G. Hatch.