GOVERNORS' ASSOCIATION

Chairman

Thomas R. Carper
Governor of Delaware
Vice Chairman

Hall of the States
444 North Capitol Street
Washington, D.C. 20001-1512
Telephone (202) 624-5300

For 11 am mtg

Facsimile Cover Sheet

NATIONAL GOVERNORS' ASSOCIATION

From:	Gretchen Krumbiegel
Phone:	202-624-5361
Fax:	202-624-5313
TO: FAX #:	Emily Bromberg 456-2889 Cynthia Rice 456-7431
Date:	2/9
Pages including this cover page:	3

Comments: Jeff Viohl with the State of Indiana asked me to fax this to you. Thanks

Please call Shelly Coles (202) 624-5341or Marsha Botts (202) 624-5978 if you have any problems with this transmission.

r/forms/faxcover

FEB 09 '98 04:04PM NAT'L GOVERNORS ASSOCIATION

Cost Allocation

NATIONAL GOVERNORS' ASSOCIATION

George V. Voinovich
Governor of Ohio
Chairman

Thomas R. Carper
Governor of Delaware
Vice Chairman

Raymond C. Scheppach
Executive Director

Hall of the States
444 North Capitol Street
Washington, D.C. 20001-1512
Telephone (202) 624-5300

January 30, 1998

The Honorable Donna E. Shalala
Secretary
U.S. Department of Health and Human Services
200 Independence Avenue Southwest
Room 606G
Washington, D.C. 20201

Dear Secretary Shalala:

We are writing on behalf of the nation's Governors regarding recent congressional proposals to restrict federal reimbursements to states for administrative costs of federal means-tested benefits, such as food stamps and Medicaid. As we anticipate that similar proposals will be introduced this year, we are asking for your help in ensuring that the states, Congress and the administration are all working with accurate information when formulating policy.

Through discussions with Governors' staff, state agency officials, and officials at the U.S. Department of Health and Human Services (HHS), we have learned that state practice has varied greatly around the allocation of administrative costs among Aid to Families with Dependent Children (AFDC), food stamps, and Medicaid. In some states, shared state administrative costs, such as a single eligibility interview for welfare, food stamps, and Medicaid, were charged to AFDC. Under this practice, AFDC was designated as the "primary" program for claiming shared administrative reimbursements. Some states pursued a benefiting approach, whereby shared administrative costs are distributed proportionally among the programs, while some used a combination of primary and benefiting cost allocation.

prior

Governors recognize the need to address legitimate concerns about states receiving additional reimbursement for costs that are already built into the Temporary Assistance for Needy Families (TANF) block grant and are willing to work with Congress and the administration to develop a solution. However, the issue of administrative cost allocation is very complex and earlier assumptions regarding historical state practice and anticipated future behavior fail careful scrutiny.

To the extent states designated AFDC as primary programs, the states' TANF block grant bases included the reimbursement states received for shared administrative costs. Because of the great variety and complexity in state practices, we find it to be overly simplistic to base cost estimates on the assumption that all states are following the same cost allocation practices.

So that we may all have a better understanding of the issue, we respectfully request that you provide the nation's Governors with an accurate assessment of state-by-state numbers of shared administrative cost reimbursements for Medicaid and food stamps that are included in states' TANF block grant bases as soon as possible. At a meeting with Governors' staff last fall, officials from the Office of Audit Resolution and Cost Policy indicated that it would be possible to calculate these numbers. Although we all may have different views on the degree to which states were designating AFDC as primary and how these potential savings should be spent, we all should at least be working with the same facts.

We look forward to hearing from you and hope you will be able to provide us with the information in a timely manner so that the discussion of this issue can occur in a more informed environment.

Sincerely,

Frank O'Bannon
Governor Frank O'Bannon
Co-lead Governor on Welfare

Tommy G. Thompson
Governor Tommy G. Thompson
Co-lead Governor on Welfare

Cost Allocation

NATIONAL GOVERNORS' ASSOCIATION

NGA Policy

HR-46. COST ALLOCATION

46.1 **Preamble**

The nation's Governors strongly believe in upholding the welfare reform agreement reached with congressional leadership and the administration with the passage of P.L. 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act. As part of the agreement, Governors were granted significant flexibility in administering the Temporary Assistance for Needy Families (TANF) block grant. Any attempt to decrease or limit Governors' flexibility in the use of TANF funds sets a dangerous precedent and would be an infringement on the carefully crafted welfare reform agreement.

Recent congressional proposals have attempted to restrict federal reimbursements to states for administrative costs of federal means-tested benefits, such as food stamps and Medicaid, and at the same time limit state flexibility in the use of the TANF grant. Governors oppose such proposals as they would result in a cost shift to states and would be a clear violation of the Unfunded Mandates Reform Act of 1995.

46.2 **Background**

Historically, state practice around the allocation of administrative costs among Aid to Families with Dependent Children (AFDC), food stamps, and Medicaid has varied greatly. In some states, shared state administrative costs were charged to AFDC, such as a single eligibility interview for welfare, food stamps, and Medicaid. Under this practice, AFDC was designated as the "primary" program for claiming shared administrative reimbursements. This practice was acceptable to, and encouraged by, the federal government, even though a more traditional approach, called "benefiting," was prescribed in Office of Management and Budget (OMB) Circular A-87. Some states pursued a benefiting approach, whereby shared administrative costs are distributed proportionally among the programs, while some used a combination of primary and benefiting cost allocation. In reviewing varying state practices, it has become apparent that guidance from the U.S. Department of Health and Human Services (HHS) with respect to these programs and compliance with OMB Circular A-87 has differed by, as well as within, geographic region.

To the extent states designated AFDC as primary programs, the states' TANF block grant bases included the reimbursement states received for shared administrative costs. Subsequently, when the Congressional Budget Office (CBO) revised its baseline in 1997, it anticipated that states would move to a benefiting approach by allocating some administrative costs to the food stamp and Medicaid programs that would otherwise be borne only by TANF. In its baseline, CBO estimated that combined administrative costs for food stamps and Medicaid would increase significantly because of this practice. Some in Congress have expressed concerns that if states now move to a benefiting approach they would effectively be receiving a double reimbursement for these shared administrative costs. However, CBO's estimate was based on the erroneous assumption that all states were uniformly designating AFDC as the primary program and that all states would move to benefiting.

46.3 **Issues**

Various proposals have been introduced in Congress in an attempt to restrict federal reimbursements to states for administrative costs of federal means-tested benefits, based on the assumption that states are now claiming shared administrative costs in their TANF block grants while also benefiting those costs out to the corresponding programs, such as food stamps or Medicaid.

One proposal would reduce a state's federal food stamp administrative reimbursement by the amount in the TANF grant representing common costs that under a primary allocation were charged to AFDC. In its current form, this proposal would be highly problematic for states. Once a state moves to a benefiting approach, it would not be able to utilize its TANF grant to cover the federal portion of shared food stamp administrative costs, even though federal funding was included in the block grant for that purpose. As a result, states would have to come up with their own funds to cover these costs. Although the proposal requires state-specific calculations for any food stamp reductions, state officials would not be given any meaningful process to challenge incorrect determinations. With these two fatal flaws, this approach clearly represents a cost shift to states and would constitute an unfunded mandate. Fixing the defects of this proposal could make it a more viable option for limiting state reimbursements, but it would not be likely to produce any short-term savings under CBO projections because states were never assumed to be able to immediately expend the TANF funds freed up by administrative reimbursements from outside the block grant.

Another suggested approach is to require states to "freeze," or lock into, their current cost allocation plan, whether it be the primary or benefiting approach. The Governors are concerned that this would essentially restrict states that are currently using a primary approach from moving to benefiting in the future, despite the fact that benefiting may be the most cost-effective means of claiming federal reimbursement for administrative expenditures. This proposal would be in direct contrast to OMB Circular A-87, which prescribes that states move to a benefiting approach for shared administrative costs. In addition, the proposed TANF regulations explicitly require states to move to benefiting, so a mandate to continue covering shared eligibility costs under the block grant would represent a change in current policy by Congress and the administration.

Governors are also strongly opposed to any cap placed on food stamp administrative costs. With the enactment of welfare reform, states are faced with many new federal mandates that will require greater investment in food stamp administrative expenditures. With limited administrative dollars under a food stamp cap, states would have to absorb new administrative costs associated with implementing the new work requirement for able-bodied single adults, the new noncitizen eligibility prohibitions, and the fraud control requirements to disqualify those with drug offenses. In addition, as TANF caseloads are dropping across the country as a result of welfare reform, the number of food stamp-only cases that require additional food stamp administrative funds is rising. As for Medicaid, P.L. 104-193 gave states the option to determine eligibility for Medicaid separately from the TANF program, which for some states could result in lower shared costs but higher Medicaid administrative program costs Both the food stamp and Medicaid programs remain federal entitlements administered by states, with eligibility policy determined largely by Congress and the administration. Overall limitations on federal contributions to cover administrative costs would break the federal government's commitment to its current partnership with states.

46.4 Recommendations

The nation's Governors oppose attempts to restrict federal reimbursements to states for administrative costs of federal means-tested benefits, as they would result in a cost shift to the states and would clearly be a violation of the Unfunded Mandates Act of 1995. Considering the varying state practices with regard to cost allocation, Governors are also opposed to applying such proposals retroactively.

However, the Governors recognize the need to address legitimate concerns about states receiving additional reimbursement for costs that are already built into the TANF block grant and are willing to work with Congress and the administration to develop a solution. However, several policy issues must first be discussed and a fair and reasonable solution to this problem may not yield the savings anticipated by Congress following CBO's original projections. In addition, the issue of administrative cost allocation is very complex and earlier assumptions regarding historical state practice and anticipated future behavior fail careful scrutiny.

Time limited (effective Winter Meeting 1998–Winter Meeting 2000)
Adopted Winter Meeting 1998

NATIONAL GOVERNORS' ASSOCIATION

George V. Voinovich
Governor of Ohio
Chairman

Thomas R. Carper
Governor of Delaware
Vice Chairman

Raymond C. Scheppach
Executive Director

Hall of the States
444 North Capitol Street
Washington, D.C. 20001-1512
Telephone (202) 624-5300

March 5, 1998

The Honorable Richard G. Lugar
Chairman, Senate Agriculture, Nutrition and Forestry Committee
328-A Russell Senate Office Building
Washington, DC 20510

Dear Chairman Lugar:

As you move to conference on S. 1150, the Agricultural Research, Extension and Education Reform Act, we are writing to express our strong opposition to the funding mechanism contained in the Senate version of the bill and urge you to reject it in its current form. The nation's Governors recently adopted policy addressing this issue of cost allocation that specifically opposes this provision. We have attached a copy of that policy for your review.

Section 501(a), intended to address congressional concern that states not receive additional reimbursement for food stamp administrative costs built into the Temporary Assistance for Needy Families (TANF) block grant, would result in an estimated cost shift of $1.2 billion to the states. Clearly, this provision is a violation of the Unfunded Mandates Reform Act of 1995 and would be subject to a point of order. In addition, section 501(a) unnecessarily decreases state flexibility in the use of TANF block grant funds. As such, the nation's Governors view this as contrary to the welfare reform agreement reached in 1996 between Governors and Congressional leadership and fear that such action sets a dangerous precedent.

S. 1150 attempts to achieve savings by preventing states from receiving federal food stamp administrative reimbursement for food stamp eligibility costs that were built into some states' TANF block grant as shared costs with the former AFDC program. Under this proposal, these states would continue to receive food stamp administrative funds through an uncapped funding source (the food stamp program). However, the federal government would deduct annually, from a state's food stamp reimbursement, the amount of funding included in the TANF block grant for these purposes.

If implemented fairly, we could support using this proposed approach to address the potential duplication of federal administrative reimbursement for states' food stamp program costs. However, as currently drafted, Section 501(a) is fatally flawed for two reasons:

- **First, states are given no authority to continue using their TANF funds for food stamp administrative costs even though these costs are built into the TANF block grant.** States must be able to use TANF funds for such purposes to replace the automatic reduction of their separate food stamp reimbursements. Otherwise, states will receive no federal assistance for common administrative costs. We understand that providing states' with this authority may significantly reduce the savings scored by the Congressional Budget Office (CBO). However, if this change is not made, states will face a huge cost shift. And in order to fill in the loss of federal funds, states may be forced to curtail cost-effective food stamp activities like fraud reduction, error rate control and case management, or reduce services to families leaving welfare.

- **Second, while Section 501(a) requires the U.S. Department of Health and Human Services (HHS) to consult with states in determining the amount of each state's food stamp administrative reduction, it also makes the Secretary's decision final and not subject to any appeal process.** Through extensive discussions with CBO, HHS and the Congressional Research Service (CRS), the NGA staff and our staff have learned that the issue of administrative cost allocation is very complex and that earlier assumptions concerning historical state practice and anticipated future behavior may not have been wholly correct. For this reason, any adjustment of state reimbursements by HHS must allow for an administrative and judicial appeals process similar to the one provided under TANF.

Additionally, states have expressed concerns about the impact of this proposal on their ability to meet the maintenance-of-effort requirement (MOE) under TANF.

Governors recognize the need to address legitimate concerns about states receiving additional reimbursement for costs that are already built into the TANF block grant and are willing to continue working with Congress and the administration to reach a solution. We also believe, however, that a fair and reasonable solution to this problem may not yield enough savings to fully fund the expansion of agriculture research proposed in S. 1150 for federal fiscal years 1998-2002. If the proposed cost allocation provision in the Senate bill cannot be amended to address our objections, it should be dropped.

In conclusion, we encourage you to review our policy on cost allocation so that you may have a more in-depth understanding of our views and urge you to reject the current version of the funding mechanism in S. 1150.

Sincerely,

George V. Voinovich

Governor George G. Voinovich
Chairman

Tom Carper

Governor Thomas R. Carper
Vice Chairman

Tommy G. Thompson

Governor Tommy G. Thompson
Co-Lead Governor on Welfare

Frank O'Bannon

Governor Frank O'Bannon
Co-Lead Governor on Welfare

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

DEC 16 '97

~~CONFIDENTIAL~~

DETERMINED TO BE AN ADMINISTRATIVE MARKING
INITIALS: RY DATE: 4/2/2018
2018-0525-S

To: Deputy Secretary
Thru: COS ______
ES ______

From: John J. Callahan John J. Callahan
Assistant Secretary for Management and Budget

Subject: TANF-related Cost Allocation and Offsets -- BRIEFING

Wednesday, December 17 -- 11 a.m. to noon -- in the Deputy Secretary's conference room

Participants:

Kevin Thurm	Harriet Rabb, OGC
Lavarne Burton	Anna Durand
Jackie White	Marcy Wilder
Katie Steele, IGA	Olivia Golden, ACF
Ann Rosewater, IOS	John Monahan
Rich Tarplin, ASL	Kathy King, HCFA
Peggy Hamburg, ASPE	Judy Moore
✓ John Callahan & ASMB staff	

Purpose:

This responds to the Deputy Secretary's request for a briefing. It follows our December 9 memo on the subject on efforts to achieve savings through cost allocation (see attachment). Yesterday, we received the OMB passback proposal for addressing cost allocation in the FY 1999 budget. This briefing is to provide you with further background and discuss the OMB proposal.

Summary of OMB assumptions on cost allocation:

- Effective in FY 1999, States will be required to adopt the benefitting approach. The baseline will include an increase in Food Stamps and Medicaid administrative costs in FY 1999 and outyears due to the new approach.

- The Federal match rate for administrative costs in Medicaid and Food Stamps would be reduced from 50 percent to 47 percent to yield savings roughly equivalent to the estimated increase from moving to benefitting, or approximately $3 billion.

- HHS will disapprove cost allocation plans submitted by States thus far. This assumes that money will be saved in 1997 and 1998 by not allowing costs to increase in Food Stamps and Medicaid. HHS will then notify States that all must submit revised cost allocation plans reflecting benefitting approach effective at the beginning of FY 1999.

We do not support reducing the administrative cost matching rate to 47 percent. It is inconsistent with Administration policy to reduce administrative resources in Medicaid at a time when we are encouraging maximum efforts to enroll eligible individuals in the program, and at a time when there are major structural changes in public assistance programs (welfare reform and the new Child Health program). In addition, the effects of this change will vary from State to State and over time.

As you are aware, it is fully consistent with current law and regulations for States to adopt the benefitting approach. We are concerned that we have no legal authority to disapprove plans already submitted that move to a benefitting approach.

Attachment

MA97-7928

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

DEC 9 1997

TO: THE DEPUTY SECRETARY

THROUGH: CoS____
ES____

FROM: John J. Callahan John J. Callahan
Assistant Secretary for Management and Budget

SUBJECT: TANF Related Cost Allocation Savings and Offsets--Information

This note is to provide you background about Congressional and Administration efforts to achieve savings from TANF-related cost allocation offsets.

The enactment of TANF set into motion a chain of events with regard to State Cost Allocation practices. Prior to Welfare Reform, common administrative costs for AFDC, Food Stamps, and Medicaid, were charged to the AFDC program. An example of "common administrative costs" is the eligibility determination process, where one determination of eligibility can be used for several programs. This cost allocation methodology is referred to as "primary" program. Since open-ended AFDC program was replaced by a capped block grant, it became logical for the States to maximize the use of Federal dollars by changing their cost allocation methodologies to charge common administrative costs to the open-ended Food Stamps and Medicaid programs to the degree that these programs benefit from those relevant common activities (a "benefitting" program approach). This maximizes the amount of TANF funds available for program services.

The HHS Welfare Reform Administrative Task Group recommended using the "benefitting" approach. This approach is supported by the States, and is consistent with OMB Cost Principles for State, Local and Tribal governments (circular A-87) and generally accepted cost accounting principles. This approach does not financially penalize States for initiatives to expand Medicaid and allows more flexibility to States in the design of all their public assistance programs. However, OMB included as part of its FY 1998 budget passback instructions that TANF replace AFDC as "primary" for the purposes of allocating common costs, and that States not be allowed to move to "benefitting" program, which OMB feared would result in an increase in total spending. Our General Counsel found no legal support for this position and ASMB vigorously opposed this OMB proposal.

OMB has not updated the Administration baseline to account for the States' move to "benefitting" program. In March, the Congressional Budget Office did increase its baseline to reflect additional costs in Medicaid and Food Stamps, assuming that States would move to "benefitting" program. This CBO update spurred legislative action to recapture the newly estimated costs for use as an offset for other spending initiatives.

Initial proposals during the reconciliation process included codifying TANF as "primary" and capping Food Stamps administrative costs. These proposals were tagged as "unfunded mandates" and were unsuccessful. No cost allocation proposals were adopted as of the passage of the Balanced Budget Act.

On September 29, S. 1150 (Agricultural Research) passed the Senate. The bill contained an offset on cost allocation that recaptures from Food Stamps the amount of common administrative costs that were previously charged to AFDC and continue to be included in the TANF base. The provision was scored by CBO as saving $1.25 billion over five years. A parallel provision for Medicaid would also save $1.25 billion over five years, but has not yet been introduced as part of any legislation. This type of provision would allow for a "benefitting" approach, which is less objectionable to the States and is less objectionable from a cost accounting perspective. This bill was effectively stalled in the House for this session of Congress, without OMB taking a position.

Nevertheless, if such a proposal is resurrected, we may find legislation that directly recaptures the administrative costs from TANF, Food Stamps or Medicaid objectionable on other policy grounds. For example, limiting the availability of administrative funds for Medicaid could make it difficult for States to enroll as many eligible individuals as possible.

We understand from OMB that they plan to update Medicaid and Food Stamps baseline estimates to reflect increased spending from the benefitting approach in the FY 1999 President's Budget. This would allow the Administration to propose legislative savings resulting from the change in cost allocation mechanisms to finance a Presidential initiative.

Some form of cost allocation offset will continue to be an attractive means of financing programmatic initiatives. To the extent possible, we should ensure that benefitting program continues to be the cost allocation methodology but that any resultant savings should support both good program management and other overarching policy objectives, such as enrolling Medicaid eligibles or expanding child care.

In summary, the following points should be noted:

- Department should support benefitting because it is good accounting practice and it takes the pressure off TANF spending

- Pending Agriculture legislation will set us on the way to benefitting approach and may encourage the use of savings from Medicaid as mandatory funding offsets.

- If cost allocation offsets were to be applied to Medicaid, State administrative costs may have to be reduced (and could not recover legitimate administrative costs). Thus, there is a price to using cost allocation offsets from Medicaid to (1) finance other HHS programs, or (2) finance other Medicaid expansions.

- The most desirable policy might be to move to benefitting approach but <u>not</u> seek offset savings from Medicaid which could have counterproductive program offsets.

Please call me if you have any questions.

Why?

cc: Rich Tarplin
Peggy Hamburg
Nancy-Ann Min Deparle
Olivia Golden

ALLOCATION OF ADMINISTRATIVE COSTS IN STATE PROGRAMS

The President's budget proposes a new method of allocating administrative costs that shifts some costs from the capped TANF grants to Medicaid and Food Stamps without increasing Federal spending. Under current practice, common administrative costs are to be paid for by TANF or absorbed by the States and not charged to Medicaid or Food Stamps. To ensure that Federal Medicaid and Food Stamps spending does not rise above projected spending without this cost shift, the budget would adjust the matching rate for administrative costs from 50 to 47 percent.

- **No overall reduction in Federal administrative spending.** This proposal does not "cut" Federal administrative support for States. The proposal simply changes the way that such costs are matched, moving some of the common administrative costs that would have been borne by the States or TANF to the open-ended Medicaid and Food Stamps programs while lowering the Medicaid and Food Stamps matching rate. Thus, States will receive the same amount of Federal matching funds they would have received under previous cost allocation policies. States will still receive their entire TANF block grant, with cost allocation freeing up limited TANF resources and State funds for other uses.

- **No effect on children's health outreach funding.** The President's budget also proposes to allow States to draw down extra Federal matching from a special fund so that the matching rate for children's health outreach will be 90 percent up to a limit. In fact, the President's budget gives States additional resources and flexibility for outreach.

BACKGROUND

- Before welfare reform, States charged most common administrative costs of AFDC, Medicaid and Food Stamps to their AFDC budget. Because the matching rate for all of these open-ended programs was the same, States would receive the same Federal matching funds regardless of which program paid for these common costs.

- However, welfare reform has changed this equilibrium. TANF consolidated cash assistance, related programs, and administrative expenditures into a fixed block grant. Under current policy, all common administrative costs have to be absorbed within the block grant (within certain limits on administrative expenses) or paid by the States. Many States have sought to allocate some of the common administrative costs to Medicaid and Food Stamps.

- Both OMB and CBO baselines include Federal cost increases from States' shifting administrative costs from the capped TANF block grant to the open-ended Food Stamp and Medicaid programs. Conservative estimates suggest that this will increase Federal costs by at least $3 billion over the next five years in the baseline.

- The budget proposes to recognize the new structure and to change allocation practices, and adjusts the administrative matching rate in Food Stamps and Medicaid from 50 percent to 47 percent to account for this cost shift from TANF. The total savings from the matching rate change equals the total cost increases resulting from the new cost allocation practices. In the aggregate, this means that States will receive the same amount of funding they would have received under the previous cost allocation policy.

ALLOCATION OF ADMINISTRATIVE COSTS BETWEEN WELFARE PROGRAMS

Question: Why do you want to cut State administrative costs to run Food Stamps and Medicaid? Doesn't that place more burden on States?

Answer: The Administration does not propose to cut needed State administrative funding for Food Stamps and Medicaid. The budget only proposes to ensure that States do not get reimbursed twice for certain administrative costs: once from the amounts they receive in their TANF block grant, a second time by claiming reimbursement through matching funds in Medicaid and Food Stamps.

The Budget adjusts the match rate on administrative costs in Food Stamps and Medicaid from 50 percent to 47 percent to account for the cost shift from TANF. The total savings from the match rate change equals the total cost increases resulting from new State "cost allocation" practices. In the aggregate, this means that States will receive an equivalent amount of funding to what they would have received prior to welfare reform. We are therefore not placing more burden on States.

Additional: Some States may view the Budget policy as unfair because it applies the same match rate reduction to all States regardless of individual State differences in pre-welfare reform cost allocation policies. However, HHS and USDA do not currently have specific State-by-State cost data on cost allocation policies. Negotiating the administrative costs on a State-by-State basis would result in a long and protracted process that could not support scoring the savings from this policy for the Budget. States may also view the growing dollar cuts in Food Stamps and Medicaid as unfair because they say they can shift only a fixed amount from TANF. Once States shift costs to Food Stamps and Medicaid, however, the costs are projected to increase at the rate of growth in those programs. The match rate change removes the costs as they grow over time.

Background: As an unintended consequence of welfare reform, States have an incentive to shift administrative costs from the capped TANF block grant to the open-ended Food Stamp and Medicaid programs as a way to generate more revenue for States. If States pursued this course, Federal costs would increase by $3 billion or more in FYs 99-03 with no commensurate benefit for poor people. Effective in FY99, States will be required to adopt the cost allocation approach which requires them to shift costs from TANF to Food Stamps and Medicaid. The match rate reduction will become effective in FY99. Up to and including FY98, HHS will not approve State plans to shift costs.

Prepared by: Jeff Farkas (x5-7756) and Anne Tumlinson (x5-7789)

ALLOCATION OF ADMINISTRATIVE COSTS BETWEEN WELFARE PROGRAMS
REP. STENHOLM CONCERNS

Question: Why does your cost allocation proposal save less in Food Stamps than the Senate agriculture research bill? Does that mean your immigrant and crop insurance proposals are not fully offset in the Ag Committee? Why do you want to cut farm programs to pay for increases in Food Stamps?

Answer: The Budget achieves less savings from Food Stamps ($0.9 billion) than the Senate agriculture research bill ($1.2 billion) because the Administration uses a different methodology to harmonize Food Stamps and Medicaid policy while the ag research bill addresses Food Stamps only.

In total, the Administration's spending proposals -- which include Food Stamp benefit restorations for legal immigrants, crop insurance delivery expenses funded through mandatory spending, and other farm items -- are fully offset in the context of the Budget. Within the Agriculture Committee, the Administration's proposals are not fully offset -- spending increases in Food Stamps, crop insurance, and other programs outweigh the savings from cost allocation, commodity exports, and other proposals.

In addition, total spending changes in Food Stamps (+$1.5 billion) outweigh total spending changes in farm programs (-$0.6 billion). Restoring Food Stamps to legal immigrants who were made ineligible for benefits by the 1996 welfare law remains a top priority for the Administration and fulfills the President's pledge to reverse the most excessive cuts included by Congress in welfare reform.

Additional: In line with Rep. Stenholm's concerns about cost allocation, the Budget does not change TANF grant levels, TANF State maintenance of effort requirements, or TANF transfer provisions.

Background: The Budget addresses the cost shift from TANF to Food Stamps and Medicaid in a unified manner by changing the match rate on administrative expenses in both Food Stamps and Medicaid from 50% to 47%. Because Medicaid costs are much higher than Food Stamp costs, a larger share of the savings from the match rate adjustment come from Medicaid rather than Food Stamps. In comparison, the Senate agriculture research bill did not seek to address the cost shift to both Food Stamps and Medicaid; it sought to prevent cost increases only in Food Stamps, and sought to prevent all of the cost increases in the program. As a result, its savings in Food Stamps are higher.

Prepared by: Jeff Farkas (x5-7756) and Adrienne Erbach (x5-3496)