EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

June 12, 1997

The Honorable Robert F. Smith
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As you know, the Administration and the bipartisan congressional leadership recently reached agreement on an historic plan to balance the budget by 2002 while investing in the future. The plan is good for America, its people, and its future, and we are committed to working with Congress to see it enacted.

The Bipartisan Budget Agreement includes $1.5 billion in additional funding for the Food Stamp Program to increase support for work and provide States with flexibility to exempt individuals from the Food Stamp time limits due to hardship. I am writing to express the Administration's deep concerns with the Committee's plans to implement the Food Stamp provisions in the agreement and to provide our views on two amendments that may be offered during mark-up.

We appreciate the Committee's draft language to implement the 15 percent hardship exemption, which is consistent with the Administration's approach. However, we have deep reservations about the Committee's proposal for employment and training (E&T) funds for able-bodied childless adults aged 18-50. The agreement specifically states that existing Food Stamp E&T funds will be redirected and new capped mandatory funding added "to create additional work slots for individuals subject to the time limits." The agreement provides $1 billion for this purpose. The Administration's legislative proposal creates 350,000 additional work slots over five years for individuals who want to work and would otherwise lose benefits if a work opportunity were not available. The Committee's planned approach does not achieve this end; it would create fewer than one-half the additional work opportunities for individuals facing the time limit.

The Committee proposal is seriously flawed for the following reasons:

- **The proposal lacks performance standards and accountability to ensure that the new Federal funding creates additional work slots.** The Committee proposal gives States hundreds of millions of dollars without any meaningful provisions to ensure that they put forth additional efforts to provide work opportunities for persons facing the time limit. Without such performance measures, States can absorb the additional funds by changing cost allocation schemes among current E&T activities or increasing the average cost of a slot.

- **The lack of maintenance-of-effort provisions in the preliminary Committee bill would result in States using new Federal money to reduce significantly their spending on E&T.** Adequate maintenance-of-effort provisions are necessary to ensure that the legislation provides maximum work opportunities. In FY 1996, States provided $73 million to fund E&T services for Food Stamp recipients. These existing State contributions are matched dollar for dollar at the Federal level. With the structure of the Committee's proposal for the new 100 percent Federal money, States can simply replace their funds with the new Federal money. We urge the Committee to strengthen the maintenance of effort requirements.

- **The proposal funds work slots that do not meet the welfare reform statute's tough work requirements for Food Stamp recipients.** The Committee provisions allow States to spend unlimited amounts of the new 100 percent Federal money on work activities that don't create workfare slots or provide 20 hours of employment. The Committee provisions would allow all the money to be spent on job search. The Administration's proposal targets funds to work activities that meet the tough standards for 18-50s -- and provide opportunities for individuals willing to work.

- **The provisions are out of line with performance requirements for other Federal work programs for welfare recipients.** The new Temporary Assistance for Needy Families (TANF) block grant includes explicit participation targets to ensure that States use block grant money to create work opportunities. States that do not achieve participation targets forfeit a portion of their grant. The Administration's proposal is consistent with this approach; the Committee proposal is not.

The Administration's proposal addresses accountability concerns, while giving States wide flexibility. It permits States to use 100 percent Federal funds to support work activities for individuals in areas waived from the time limits due to high unemployment or too few jobs. It also funds activities, such as job search. The Administration proposal, however, includes measures to ensure that the 100 percent Federal funding for these activities reimburses States at a rate that reflects the lower cost of providing these services. Better targeting of reimbursement rates, as well as the Administration's more accountable maintenance-of-effort requirements or measures with equivalent results, are essential to ensure that additional Federal funding for work slots yields additional opportunities rather than just supplanting State spending.

Amendments

The Administration understands that amendments may be offered that would allow Food Stamp operations to be privatized. While certain program functions, such as computer systems, can currently be contracted out to private entities, the certification of eligibility for benefits and related operations (such as obtaining and verifying information about income and other eligibility factors) should remain public functions. The Administration believes that changes to current law would not be in the best interest of program beneficiaries and would strongly oppose such amendments.

We understand that an amendment may be offered in the Committee mark-up, the purpose of which is to prevent costs from increasing in Food Stamps due to cost-shifting for common functions from the new TANF block grant, which places a cap on TANF administrative costs. We understand the CBO baseline includes costs of over $5 billion in FYs 98-02 because CBO assumes administrative cost shifting from TANF to Food Stamps and Medicaid. This proposal would reduce the extent of the cost-shift to the Food Stamp Program, yielding substantial savings against CBO's baseline, although it would not prevent cost-shifting to Medicaid and might even increase Medicaid costs. While the Administration is generally supportive of this effort -- to prevent States from changing cost allocation plans in order to shift greater administrative costs from the capped TANF block grant to the open-ended Food Stamp and Medicaid administrative costs that are matched by the Federal government -- we would need to carefully review the specific mechanism proposed. In particular, we would have serious reservations about proposals that would cap Food Stamp administrative costs.

The budget negotiators discussed the Food Stamp Program at considerable length and agreed to a $1.5 billion restoration in funding. An amendment reducing Food Stamps and directing savings to other programs was neither raised nor included in the budget agreement. The Administration has strong reservations about such an approach.

The budget agreement reflects compromise on many important and controversial issues, and challenges the leaders on both sides of the aisle to achieve consensus under difficult circumstances. We must do so on a bipartisan basis.

I look forward to working with you to implement the historic budget agreement.

Sincerely,

Franklin D. Raines
Director

Identical letter sent to the Honorable Charles Stenholm

MEMO

TO: Dedicated Administration staff who care about politically unpopular poor people
FROM: Ed Lorenzen w/ Rep. Stenholm
RE: Proposal on use of funds for ABAWDs (food stamp18-50's)
DATE: June 22, 1997

For what it is worth, my thoughts on how to structure a proposal to Kasich on the food stamp E&T money that best accomplishes the administrations goals in a way that appeals to Republicans and addresses the concerns (real or contrived) that Ag Committee majority staff have raised:

1. Job search As I have said before, the fact that the Ag committee bill gives states unlimited ability to use the funds for job search programs is where the Republicans are most vulnerable. The budget agreement said the funds were to be used for "work slots"; Republicans have to argue that they believe job search constitutes a work slot to defend the Ag Committee bill. There has always been a disconnect between Republican policy wonk staff on the one hand, who see merit in job search programs, and the politically-oriented staff (i.e. Republican leadership) and Republican members on the other hand, who reflexively attack job search as not being work. I have several pages of Republican attacks on Democratic welfare reform bills for being weak on work because states could institute job search programs. The first draft of the DLC fax on welfare provisions in reconciliation attacked the Republicans from the right for allowing E&T funds to be used for job search instead of work slots; this criticism was edited out because of space considerations. I'd bet DLC would gladly resurrect this criticism of the Republicans if it would be helpful to their friends in the administration.

Although I recognize that job search programs can have a useful role in employment and training programs, allowing the new funds to be used for job search programs is in direct conflict with the goal of creating the maximum number of work slots that meet the definition of work with limited funds. If the goal of the new money is to create 350,000 work slots that meet the work requirement, then the new money should be devoted to creating work slots, and states should be required to fund job search programs with 50-50 money.

Every dollar that states use on job search programs is a dollar that is not used to create work slots. The determination of how many work slots is created is in large part a simple formula of the amount of funds that will be devoted to creating work slots divided by the CBO estimate of the cost per work slot. Since the CBO estimate of the cost of creating a work slot is relatively fixed, the primary variable is the amount of funds that are devoted to creating work slots as opposed to job search programs or other activities that do not count as work slots. For every $90/ mont that CBO assumes will be used for job search programs, CBO will assume one less work slot created.

Given Chairman Smith's insistence that states be able to use some of the funds for job search programs, a compromise based on the TANF program rules may make sense:

1. **No more than 20% of the funds may be used for activities that do not meet the work requirement in 6(o)** [or at least 80% of the funds must be used for activities that meet the work requirement in 6(o)]. Although the approach is different, this essentially achieves the same result as the administration policy of differential reimbursements without the complexity that APWA has complained about. Since CBO assumed that the administration's differential reimbursement will result in states using approximately 20% of the funds for job search and other activities that do not meet the work requirement, this approach should result in CBO estimating the same number of slots as the administration bill (excluding MOE issues).

2. **Limit job search programs to six weeks per individual in non-waived areas and twelve weeks for individuals in waived areas.** This is essentially the TANF rule that Republicans insisted on over objections by the governors. In addition to limiting the amount of funds diverted to job search programs, this also reduces the likelihood that states will place food stamp recipients in job search programs after they have used up their three months of eligibility. This will allow states to put food stamp recipients in job search programs as soon as they become eligible (which is the ostensible goal that the Republicans have cited) but will ensure that individuals will be placed in work slots that meet the work requirement before their three months of eligibility are used up.

2. Performance standards

Ag Committee Republican staff have criticized all of the performance standard proposals that have been propounded for penalizing states that create high cost work slots that are successful in moving welfare recipients into private sector employment. Despite the fact that the data on high cost work slots is not positive (although there really isn't enough evidence to be conclusive), this argument does resonate with Republican members. (Particularly when you consider that we allocate $3000 - $4000 a year for TANF work slots, not counting child care, compared to approximately $1000 a year for food stamp work slots).

I doubt that the Republicans will accept any performance standard that doesn't take this into account. The only way that Republicans are likely to accept a performance standard or participation rate that gets anywhere near 350,000 slots is if there is some consideration of the quality of slots in addition to the quantity of slots. For example:

The Secretary shall impose reductions based on the degree of non-compliance, and may reduce the penalty to take into account the efficiency of the state program and the effectiveness of the state program in helping individuals obtain private sector employment.

There is no magic to this language, there are any number of ways that the concept of quality of slots can be added to a performance standard based on quantity of slots. If Republicans raise objections to the Secretary, provisions could be added providing that the standards and/or guidelines for enforcing the standards will be developed in consultation with APWA.

JUN 1 9 1997

SUBJECT: Passage of Murray/Gorton Amendment

TO: All Regional Administrators
Food and Consumer Service

Attached for your information is a copy of the Murray/Gorton amendment to the supplemental appropriations bill which was passed by Congress as H.R. 1871 on June 12, 1997 and was signed into law as Public Law 105-18 on the same date.

The Murray/Gorton amendment provides that a State agency may, with the approval of the Secretary, issue benefits to an individual who is ineligible to participate in the Food Stamp Program solely as a result of the time limits in Section 6(o)(2) of the Food Stamp Act or the noncitizen restrictions under Section 402 or 403 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The State must pay the Secretary the value of the benefits issued, the cost of printing, shipping, and redeeming coupons, and other Federal costs incurred in providing the benefits.

We are committed to working with the States to successfully implement this new legislation. Please inform States immediately about this law - as you know, most noncitizens now getting food stamps will lose eligibility at the end of August. We have already joined two Regional Offices and our Financial Management staff in working actively with two States on State proposals. If your staff has any questions concerning this issue please have them contact Virginia K. Gerbasi, Assistant Branch Chief of the Program Design Branch, Program Development Division, at (703) 305-2519.

Yvette S. Jackson

Yvette S. Jackson
Deputy Administrator
Food Stamp Program

Attatchment

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H.R.1871 (Public Law 105-18, June 12, 1997)

1997 Emergency Supplemental Appropriations Act for Recovery from Natural Disasters, and for Overseas Peacekeeping Efforts, Including Those in Bosnia

TITLE VII--FOOD STAMP PROGRAM

State Option to Issue Food Stamp Benefits to Certain Individuals Made Ineligible by Welfare Reform

(a) IN GENERAL- Section 7 of the Food Stamp Act of 1977 (7 U.S.C. 2016) is amended--

(1) in subsection (a), by inserting after `necessary, and' the following: `(except as provided in subsection (j))'; and

(2) by adding at the end the following:

`(j) STATE OPTION TO ISSUE BENEFITS TO CERTAIN INDIVIDUALS MADE INELIGIBLE BY WELFARE REFORM-

`(1) IN GENERAL- Notwithstanding any other provision of law, a State agency may, with the approval of the Secretary, issue benefits under this Act to an individual who is ineligible to participate in the food stamp program solely as a result of section 6(o)(2) of this Act or section 402 or 403 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (8 U.S.C. 1612 or 1613).

`(2) STATE PAYMENTS TO SECRETARY-

`(A) IN GENERAL- Not later than the date the State agency issues benefits to individuals under this subsection, the State agency shall pay the Secretary, in accordance with procedures established by the Secretary, an amount that is equal to--

`(i) the value of the benefits; and

`(ii) the costs of printing, shipping, and redeeming coupons, and other Federal costs, incurred in providing the benefits, as determined by the Secretary.

`(B) CREDITING- Notwithstanding section 3302(b) of title 31, United States Code, payments received under subparagraph (A) shall be credited to the food stamp program appropriation account or the account from which the costs were drawn, as appropriate, for the fiscal year in which the payment is received.

`(3) REPORTING- To be eligible to issue benefits under this subsection, a State agency shall comply with reporting requirements established by the Secretary to carry out this subsection.

`(4) PLAN- To be eligible to issue benefits under this subsection, a State agency shall--

`(A) submit a plan to the Secretary that describes the conditions and procedures under which the benefits will be issued, including eligibility standards, benefit levels, and the methodology the State agency will use to determine amounts due the Secretary under paragraph (2); and

`(B) obtain the approval of the Secretary for the plan.

`(5) VIOLATIONS- A sanction, disqualification, fine, or other penalty prescribed under Federal law (including sections 12 and 15) shall apply to a violation committed in connection with a coupon issued under this subsection.

`(6) INELIGIBILITY FOR ADMINISTRATIVE REIMBURSEMENT- Administrative and other costs incurred in issuing a benefit under this subsection shall not be eligible for Federal funding under this Act.

`(7) EXCLUSION FROM ENHANCED PAYMENT ACCURACY SYSTEMS- Section 16(c) shall not apply to benefits issued under this subsection.'.

(b) CONFORMING AMENDMENTS- Section 17(b)(1)(B)(iv) of the Food Stamp Act of 1977 (7 U.S.C. 2026(b)(1)(B)(iv)) is amended--

(1) in subclause (V), by striking `or' at the end;

(2) in subclause (VI), by striking the period at the end and inserting `; or'; and

(3) by adding at the end the following:

`(VII) waives a provision of section 7(j).'.

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Filename: I:data/shared/pdb/welftrs/wp:HR 1871.doc

cc Cynthia

CENTER ON BUDGET AND POLICY PRIORITIES

Revised June 12, 1997

STENHOLM AMENDMENT ON STATE FOOD STAMP ADMINISTRATIVE COSTS WOULD HAVE DAMAGING EFFECTS ON THE PROGRAM AND BE INEQUITABLE TO STATES

Rep. Stenholm is planning to offer an amendment in today's food stamp mark-up that would impose a cap on the federal funds that defray half of the costs states incur in operating the food stamp program. Rep. Stenholm's interest is to prevent states from shifting administrative expenses to food stamps that have historically been funded through the AFDC program. Unfortunately, however, his amendment would have very damaging consequences. It would provide insufficient funding to operate the food stamp program in states that experience recessions, states with higher-than-average population growth, and states that need to upgrade their computer systems to reduce error rates. (An earlier version of the Stenholm amendment did not pose such serious problems, but CBO would not "score" the earlier version as producing savings.)

The amendment would present a profound change in the federal-state partnership in operating the food stamp program, under which the federal government sets the rules, states operate the program, and the federal government covers half of the states' administrative costs. The amendment is being offered without any consultation with states or any hearings. The National Governors' Association, National Conference of State Legislatures, and American Public Welfare Association all strongly oppose the amendment.

This cap would reduce federal funding for state administrative expenses by approximately 20 percent over the next five years — or over $2 billion — compared to the CBO baseline. The reduction in federal spending on state administrative expenses would be used to pay for increases in several farm programs and in The Emergency Food Assistance Program (TEFAP). This amendment would run counter to the intent of the budget agreement, which was to add $1.5 billion to the food stamp program for individuals facing the three month time limit, not to cut $2 billion from food stamps in exchange for increases in other programs.

How the Amendment Would Work

Currently, states and the federal government share state food stamp administrative expenses equally. The federal government provides an open-ended 50 percent match for expenses that states incur in carrying out the program. Rep. Stenholm's proposal would eliminate states' ability to draw down administrative expenses according to their needs. Instead, for FY1998 he would set a cap on each state's administrative costs at 102% of the state's FY1996 level, as adjusted for inflation and changes in the national food stamp caseload. Each year thereafter the cap would be adjusted for inflation and national caseload levels.

This type of administrative cap would impose disproportionate burdens on states with growing caseloads, states seeking to reduce high error rates and states that need to update antiquated computer systems.

- A state's administrative cap would be adjusted to reflect changes in national caseload. Therefore, a state with caseload growth above the national average would face a limitation on its administrative expenses right at the time it would be need to spend more.

  This could happen under two circumstances.

  First, a state could experience a regional recession, causing its caseload to grow while national caseload held relatively level. That state, already in the midst of tough budget decisions due to the recession, would have to find additional resources to cover 100 percent of the increased administrative costs it faced due to the growth in its caseload. Under current law, the federal government would share equally with the state in bearing the increase in administrative costs during the recession.

  Second, a state experiencing rapid growth in its total population would also face higher-than-average growth in its food stamp population. States with high population growth would be inequitably treated and would have to shoulder large costs without federal relief. The administration cap would not adjust for those states that would be unable to operate effectively and efficiently with the staff they had when their caseloads were smaller.

  Two outcomes could result if a state with caseload growing faster than the national average are unable to allow its administrative operation to keep pace with its growing caseload. Food stamp program operations are likely to deteriorate causing a decline in client service and the overall effectiveness of the program. When this happens, there can often be a surge in error rates.

- An administrative cap penalizes states wishing to invest in activities that will reduce their error rates. Several states issue food stamps with an unacceptably high error rate. In many such states, the high error rate is clearly related to their being too few food stamp caseworkers to handle the workload and inadequately verify client information. Unable to keep up, workers often can issue benefits improperly. Under the Stenholm administrative cap, a state with a high error rate wanting to invest in more food stamp workers and an intensive error reduction training program might be precluded from doing so because they could not receive federal funding for these activities. If a state was not already spending administrative dollars on error reduction in the base year, it would likely be unable to make a significant investment in the future under a cap.

- States with aging computer systems would also be penalized under a cap. If a state wanted to invest in a major new computer system, with the intent of reducing error and improving program services, its administrative costs would temporarily increase. Unless such states had sufficient room within the cap, they might be deterred from modernizing their program with new computer hardware and software.

- Finally, it is unclear whether the cap provides for any adjustment in the case of natural disasters. If it does not, states would have to bear all of the added costs of providing low-income households food assistance after a flood or hurricane. This would include the costs of establishing temporary welfare offices in local schools or the costs of repairing damaged buildings.

The food stamp program has never operated under a policy in any way like that which the amendment proposes. Although this amendment represents a profound change, states have been given no opportunity to comment on the proposal. There have been no hearings on it. It is not part of the budget agreement. The Committee would be ill-advised to pass such a significant overhaul of the state food stamp administrative system without state input.

CHARLES W. STENHOLM
17th District
TEXAS

1211 Longworth House Office Building
Washington, DC 20515
(202) 225-6605
Fax (202) [illegible]
e-mail: Texas17@hr.house.gov
Home Page: http://www.house.gov/stenholm/

AGRICULTURE COMMITTEE
RANKING MEMBER

Congress of the United States
House of Representatives
Washington, DC 20515

DISTRICT OFFICES:
P.O. Box 1237
Stamford, TX 79553
(915) 773-3623
Fax (915) 773-2833

P.O. Box 1101
Abilene, TX 79604
(915) 673-7221
Fax (915) 676-9547

33 E. Twohig Ave., #318
San Angelo, TX 76903
(915) 655-7994
Fax (915) 655-2798

FAX TRANSMISSION COVER SHEET

TO: Cynthia Rice **DATE:** June 11, 1997

FAX #: ______________ **NO. OF PAGES FOLLOWING:** 5

___ THE HONORABLE CHARLES W. STENHOLM

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EXPLANATION OF THE STENHOLM AMENDMENT

Sec. 1103. States Authority to Perform Certain Administrative Activities by Contract.

State food stamp agencies are permitted to enter into contracts approved by the Secretary with governmental or nongovernmental entities to perform certification of households under the food stamp program. The State agency will determine eligibility for benefits and hold any hearings or redeterminations relating to eligibility or allotments.

The Secretary may approve a contract only if:

- it will not reduce or adversely affect services to households,
- the State legislature has reviewed or has the authority to review the contract,
- it contains privacy safeguards, and
- it provides protection to the Secretary and the State agency for negligence or fraud in implementing the contract.

Section 1104. Allocation of Administrative Costs. To ensure that Federal food stamp administrative payments to States are used for food stamp purposes only, State costs of the various means tested programs will be allocated in the same manner as they were allocated immediately prior to enactment of the welfare reform bill.

Section 1105. Coordination of Administration with the Administration of Other Programs. A State agency may coordinate administration of the food stamp program and any other means tested program if the food stamp program administrative requirements are met and services are provided in a timely, accurate and fair manner.

Section 1106. Study of the Effects of Welfare Reform. Fifteen million dollars are provided for fiscal years 1998 through 2002 in order for the U.S. Department of Agriculture to conduct an ongoing study on the impact on food stamp households of the welfare reform changes.

Section 1107. Commodities for The Emergency Food Assistance Program (TEFAP). An additional $50 million is added to the $100 million currently required to be expended each year by the Secretary to purchase commodities for TEFAP.

SEC. 1104. ALLOCATION OF ADMINISTRATIVE COSTS.

Section 16(a) of the Food Stamp Act of 1977 is amended to add at the end:

"Notwithstanding any other provision of law or regulation, the Secretary shall issue regulations to require that costs incurred in serving households eligible or applying for benefits under this Act and any other Federal means tested program be allocated to the Food Stamp Program in the same manner as such costs were allocated by State agencies on August 21, 1996.

Draft

Talking Points on Stenholm Amendment to Reform Food Stamp Administrative Spending

Reducing the growth in food stamp administrative expenses by reforming cost allocation rules

- The Stenholm amendment would reduce federal spending for food stamp administrative expenses by preventing states from shifting administrative expenses that historically have been funded through the AFDC program to the food stamp program.

- Prior to enactment of welfare reform, most states designated AFDC as the primary program in allocating administrative expenses. CBO has projected that the enactment of welfare reform, which converted AFDC from an open-ended entitlement into a capped block grant, will give states an incentive to shift administrative costs to the food stamp program, which remains an open-ended entitlement. The Stenholm amendment would prevent this cost-shift by requiring states to allocate administrative expenses in the same way they did prior to welfare reform.

- CBO projects that food stamp administrative costs will increase by more than $3.3 billion above 1996 spending between 1998 and 2002 -- a 40% increase over five years. Three-quarters of this increases spending for food stamp administrative costs is a result of states shifting administrative expenses from TANF to food stamps.

- Prior to enactment of welfare reform, federal spending on food stamp administrative programs grew by approximately $100 million or 5% a year. Administrative spending was $1.619 billion in 1994; $1.737 billion in 1995 and $1,825 in 1996. CBO projects that food stamp administrative expenses will increase substantially as a result of the changes in state allocation procedures that CBO expects to occur as a consequence of welfare reform. Federal administrative spending would increase by $250 million in 1997 to $2.074 billion -- a 14% increase, and a $300 million increase in 1998 to $2.372 billion -- another 14% increase.

- If states do not intend to shift administrative costs from TANF to food stamps, this amendment will not have any effect on the funding received by states. The amendment will reduce federal costs only to the extent that states intend to shift costs from TANF to food stamps.

- When Congress passed welfare reform legislation that replaced the AFDC program with the TANF block grant, states promised that they could provide improved services with fixed funding in return for additional funding. This amendment enforces this commitment by ensuring that states continue to fund administrative programs in the same manner they did prior to enactment of welfare reform without shifting administrative costs from TANF to food stamps. If converting AFDC to a block grant will allow states to administer the program more efficiently, states should not need to shift administrative costs to food stamps.

- The contention that preventing states from **increasing** the amount of administrative expenses paid by the federal government at a time when welfare caseloads are **decreasing** is an unfunded mandate defies common sense. The caseload reductions since the enactment of welfare reform has resulted in states receiving more funds from the TANF block grant than they would have under the open-ended entitlement. Given these caseload reductions, there is no need for states to shift administrative costs from TANF to food stamps to meet TANF administrative expenses.

Increasing state flexibility to administer the food stamp program more efficiently by providing states with the option of contracting out portions of food stamp administrative functions

- The Stenholm amendment offsets the reduction in the rate of growth of administrative expenses by giving states the flexibility to contract out administration of welfare programs. Several states have indicated that they believe that they may be able to reduce administrative expenses for means-tested programs without reducing services by contracting out a portion of the administration of these programs. Texas has indicated that allowing public-private partnerships to compete for a contract to administer welfare programs would save $10 million month. links 2 issues

- The amendment strikes a balance between current law as it has been interpreted -- which prevents states from even exploring the possibility of soliciting bids for contracting out food stamp administrative functions on the one side , and proposals to allow unrestricted privatization without any review on the other side. The Stenholm amendment allows states to explore the possibility of contracting out a portion of the food stamp certification process, but adds safeguards to ensure that the integrity of the food stamp program is not harmed by contracting out the certification process.

- States would be allowed to contract out the certification process for food stamps, but requires that the eligibility determination would be made by state employees. This reflects the compromise recommended by Secretaries Glickman and Shalala in a memo to the President.

- The effect of this amendment is to allow food stamps to be administered by a public-private partnership in which state agencies perform the inherently governmental functions and private contractors perform the functions that can be more efficiently performed by the private sector. This is consistent with the public-private partnership proposals that have expressed an interest in competing in Texas to administer means-tested programs.

- The Texas proposal submitted to the federal government over a year ago. The proposal has been subject to intense scrutiny within the federal government and in public over the last several months. Texas has worked over the last several months to address concerns that have been raised by the administration. The Texas legislature has reviewed the proposal and refined it as a result of concerns that have been raised. Despite this effort to resolve concerns about the proposal, Texas still has not been allowed to even proceed with soliciting bids to determine whether contracting out administration of welfare programs will improve the programs.

- The amendment is a good faith effort to respond to the very valid concerns that have been raised about contracting out. The amendment contains several safeguards to address every concern that have been raised by requiring that any contracts be reviewed by the Secretary to ensure that the contract maintains the safeguards in the food stamp act.

    The Secretary must determine that services to low-income households will not be reduced or adversely affected before a private contract is approved.

    The amendment explicitly states that a private contract must hold the private contractor liable for any negligence or fraud or cost overruns.

    The amendment requires that private contracts contain privacy safeguards :

- The amendment ensures that the decision to contract out food stamp administration must be subject to a public debate within the state by requiring that the State legislature have the authority to review any contracts. Requiring that the legislature have the opportunity to review any contracts will ensure that all interests within a state -- labor, business, low-income communities, etc -- have an opportunity to participate in the decision on whether or not to contract out food stamp administration.

- No one can honestly say whether or not contracting out administration of welfare programs will improve services or reduce costs until states are allowed to solicit bids that can be subjected to review. The Stenholm amendment allows states to solicit bids so that the state and federal government can determine whether a private contractor or public-private partnership can administer welfare programs more efficiently and effectively than a state agency.

MEMO

TO: Dianna Fortuna
FROM: Ed Lorenzen w/ Stenholm
RE: Questions about Food Stamp E&T

In general, I am interested in identifying changes to the current food stamp E&T program that would give states increased flexibility to improve the efficiency/effectiveness of their E&T programs. I am particularly interested in reforms that would allow states to break the stereotype of "make work" programs and develop programs that help food stamp recipients obtain private sector employment and become self-sufficient.

In conversations with states and

1. Allow states to use E&T funds on programs that do not meet the definition of services under the Act but which help an individual become self-sufficient, i.e. one-time work related expenses (purchasing tools, uniforms), microenterprises, etc.

2. Allow states to use the new 100% funds for food stamp work programs to cover transportation and other supportive services instead of requiring these costs to be funded with 50/50 money, with restrictions on the amount that can be reimbursed. Requiring states to provide additional 50/50 money for transportation subject to the restrictions in the act will discourage states from using the additional 100% money to increase slots (since each new slot could potentially result in transportation expenses).

3. Encourage states combine E&T money with TANF funds to create programs that serve both populations in proportion to the funding provided (i.e. a work program that received 60% of its funding from TANF and 40% from food stamp E&T, and which provided 60% of slots to TANF recipients and 40% to food stamp recipients.

4. Encourage states to allow local governments to administer E&T programs.

Although there is probably not enough time to put something together before the Ag Committee markup on Wednesday, this issue will continue to be relevant as the bill moves through conference. One of the key issues in conference will be tnsion between maintaining the maximum amount of state flexibility (House bill) vs. creating the maximum number of additional slots (Senate bill, administration position). To the extent that we can identify reforms that increase state flexibility and improve the number and effectiveness of food stamp E&T slots, we will take a big step towards resolving this issue in conference in a manner that is satisfactory to all sides and accidentally good policy.