

NLWJC - Kagan

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Welfare - Cost Allocation

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.

Wp-cost allocation

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.

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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.

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