



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #1056

### **Food Stamp Reinvestment (DWD -- Economic Support and Child Care)**

[LFB 2001-03 Budget Summary: Page 752, #45]

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#### **CURRENT LAW**

As part of an effort to reduce payment errors in the food stamp program, the federal government evaluates how states' food stamp payment error rates compare to each other. States that have error rates above the national average are penalized according to how much their error rate in a given year exceeds the national average. States below the national error rate receive incentive funds. States are allowed to reduce and satisfy their penalty by "reinvesting" new state funds into activities to reduce the error rate.

The state currently has unfunded food stamp reinvestment obligations to the federal government of \$3,966,000: (a) \$1,224,800 for current food stamp reinvestment commitments through federal fiscal year (FFY) 1999; (b) \$1,070,000 for not sufficiently reducing the state's error rate; and (c) \$1,671,200 for the FFY 2000 error rate.

The types of activities funded through food stamp reinvestment include participant outreach, training and other error reduction activities.

#### **GOVERNOR**

The bill would provide \$1,000,000 GPR in 2001-02 for food stamp reinvestment activities required to satisfy federal sanctions for payment errors. The bill would also require the Department of Workforce Development (DWD) to allocate \$500,000 FED for food stamp reinvestment activities from funds that were previously set aside in case federal funding could not be used to cover certain administrative costs.

## **DISCUSSION POINTS**

1. The state currently has \$3,966,000 in unfunded food stamp reinvestment obligations. To partially address these obligations, the Governor's bill would provide \$1,000,000 GPR in 2001-02. The Governor's bill would also require DWD to allocate \$500,000 for food stamp reinvestment activities from funds that were previously set aside in case federal funding could not be used to cover certain administrative costs. On September 25, 1998, the Joint Committee on Finance set aside \$500,000 to reimburse the federal government for administrative expenditures made in fiscal year 1996-97. These funds were only to be used if the federal Departments of Labor and Health and Human Services did not approve the original expenditures. These funds have not been used because the state's cost allocation plan has not yet been approved by the federal government. In the event that these administrative costs are ultimately not approved for federal funding, DWD would have to request additional GPR or other state funding to reimburse the federal government.

2. Not all of the \$3,966,000 reinvestment obligation must be satisfied in the 2001-03 biennium. A total of \$618,400 must be spent by May 1, 2003, \$606,400 must be spent by September 30, 2003, \$1,070,000 must be spent by May 1, 2004, and \$1,671,200 must be spent by September 30, 2004. In order to expend funds within the timeframes required by the federal government, it is estimated that \$3,000,000 would have to be budgeted in 2001-03. Since the Governor's budget provides \$1,500,000 for food stamp reinvestment activities, there is an estimated unfunded obligation for 2001-03 of \$1,500,000.

### **DWD Proposed Statutory Changes**

3. Because federal regulations require that food stamp reinvestment activities represent new or increased expenditures, existing programs cannot not be used to satisfy these obligations. DWD has identified a mechanism to provide additional revenue for food stamp reinvestment activities to meet the remaining \$1,500,000 unfunded obligation in 2001-03. In DWD's calendar year 2000 and 2001 income maintenance contracts with counties and tribal governments, there are three provisions that allow the Department to assess penalties on agencies. The first provision allows DWD to assess a penalty equal to the difference between the correct benefit amount and the actual benefit paid, multiplied by 63 for the 2000 contract and 80 for the 2001 contract. The second provision allows DWD to assess liquidated damages of \$250 for each error that has not been corrected within 30 days after notification by the Department. The third provision applies only to the Milwaukee County calendar year 2001 contract and allows DWD to assess a penalty of \$250,000 if Milwaukee County's FFY 2001 error rate is greater than 13%.

4. According to DWD, a total of \$503,800 in penalties could be assessed on local agencies for calendar year 2000, based on the formulas in the contracts and the county error rates for that time period. The calendar year 2000 penalties would only apply to Dane and Milwaukee counties, but could apply to other counties in future contracts, depending on the size of the county and the county error rate. DWD anticipates that similar penalty amounts could be assessed for calendar year 2001 during the 2001-03 biennium, for a total of \$1,000,000 that could be available to fund food stamp reinvestment activities. However, there is not currently a mechanism in DWD's budget for these penalties to be used for food stamp reinvestment activities. Instead, these funds

would be deposited into the general fund as departmental revenues. These penalty amounts have not been included in the general fund departmental revenues estimate under the bill.

5. DWD has two appropriations for welfare fraud and error reduction activities: one for state-level activities [s. 20.445 (3)(L)] and one for local-level activities [s. 20.445 (3)(Lm)]. These appropriations are funded by the program revenues received by the state as its share for collecting overpayments of public assistance benefits. Revenues credited to the appropriation for state activities may not exceed the amounts in the appropriation schedule. Any program revenues exceeding the amounts in the schedule for state activities are to be credited to the appropriation for local activities.

6. DWD recommends that s. 20.445(3)(L) be modified to receive funds from penalties levied as part of the income maintenance contracts. DWD also proposes to allow the appropriation to be used to pay sanctions imposed on the state from the food stamp program or to fund food stamp reinvestment activities. To provide more flexibility and to simplify the appropriations structure, DWD recommends that the two PR appropriations for fraud and error reduction be consolidated into one appropriation.

The Committee should also correct an inconsistency in the current statutes. Section 49.197(3) requires the Department to fund all fraud and error reduction activities with the PR appropriation in s. 20.445(3)(L). Under current practice, DWD is funding some fraud and error reduction activities with federal funding. In addition, the Governor's bill would fund some food stamp reinvestment activities under a GPR appropriation and some under a FED appropriation.

As part of this option, the Committee could increase PR by \$500,000 annually, based on DWD's proposed statutory changes, for a total of \$1,000,000 over the biennium. These funds could be used to meet the anticipated unmet need for food stamp reinvestment activities. The increased expenditure authority is included in Alternative 2 below. Under this option, the general fund would not receive \$500,000 per year. However, this revenue was not assumed to be available in the Governor's bill.

7. DWD's proposed statutory changes, together with the Governor's recommendations, would provide approximately \$2,500,000 during the 2001-03 biennium for food stamp reinvestment activities. Since it is estimated that \$3,000,000 needs to be expended during the biennium, an additional \$500,000 would still need to be identified.

8. Funds are available for food stamp reinvestment activities in s. 20.445(3)(L) as proposed to be amended by DWD, because available revenues in this appropriation are expected to exceed budgeted expenditures in the next biennium by \$950,000. All of these surplus revenues could be used for food stamp reinvestment activities. This additional expenditure authority is included in Alternative 2 below. Using this revenue would bring all funding sources identified to \$3,450,000. Since only \$3,000,000 is anticipated to be needed, the Committee could reduce the amount of GPR funding provided for food stamp reinvestment by \$450,000, from \$1,000,000 to \$550,000.

**ALTERNATIVES TO BILL**

1. Adopt the Governor’s recommendation to: (a) provide \$1,000,000 GPR in 2001-02 for supplies and services for food stamp reinvestment activities required to satisfy federal sanctions for payment errors; and (b) require DWD to allocate \$500,000 for food stamp reinvestment activities from funds that were previously set aside in case federal funding could not be used to cover certain administrative costs.

**Statutory Modifications**

2. Modify the Governor’s recommendation to allow penalties paid by counties and tribes to be used for food stamp reinvestment activities as follows:

a. Modify s. 20.445(3)(L) of the statutes to do the following: (1) allow the appropriation to receive funds from counties or tribal governments as a result of DWD’s error-reduction activities; (2) allow the appropriation to be used to pay sanctions imposed on the state under the food stamp program or to fund food stamp reinvestment activities; and (3) allow the appropriation to be used for both local and state activities.

b. Repeal s. 20.445(3)(Lm) and transfer all unencumbered continuing balances in the appropriation to s. 20.445(3)(L);

c. Delete language in s. 49.197(3) requiring the Department to fund all fraud and error reduction activities under s. 20.445(3)(L) since some error reduction activities would not be funded under that appropriation; and

d. Increase funding by \$975,000 PR annually to reflect revenues anticipated to be received from penalties levied on counties for food stamp payment errors and existing excess revenue from overpayment collections. Reduce GPR by \$450,000 in 2001-02 to reflect a net reduction in the amount of GPR needed for food stamp reinvestment activities.

<b>Alternative 2</b>	<b>GPR</b>	<b>PR</b>	<b>TOTAL</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$450,000	\$1,950,000	\$1,500,000

**Maintain Current Law**

3. Maintain current law.

<b>Alternative 3</b>	<b>GPR</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$1,000,000

Prepared by: Victoria Carreón