



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #406

Food Stamps (DHFS -- Health Care Financing -- Administration)

[LFB 2003-05 Budget Summary: Page 238, #4]

CURRENT LAW

The food stamp program is a federal program under which individuals living in eligible households are issued electronic debit cards that are used to purchase food. The Food and Nutrition Services (FNS) of the U.S Department of Agriculture (USDA) is responsible for the federal administration of the program; states are responsible for determining eligibility and issuing benefits. Food stamp benefits, with the exception of benefits for some immigrants, are federally funded. State administration of the program is generally 50% state and 50% federally funded.

The Department of Health and Family Services (DHFS) administers the food stamp program at the state level according to federal law and regulations. Before July 1, 2002, the Department of Workforce Development (DWD) administered the food stamp program. DHFS is responsible for ensuring the proper certification of applicant households, overseeing issuance of benefits, maintaining records, and submitting appropriate reports to the federal government. DHFS contracts with Citicorp Electronic Financial Services, Inc., to provide the electronic benefits transfer (EBT) system. Individual eligibility determinations and the issuance of debit cards are generally conducted at the local level.

Benefits to Immigrants. Under current law, state-funded food stamps are required to be provided to immigrants who are not eligible for federally-funded food stamps. These benefits are funded with GPR and are counted towards the state's maintenance-of-effort requirement for temporary assistance for needy families (TANF) block grant funds.

Reinvestment Activities. 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 with 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.

GOVERNOR

Provide \$189,700 (-\$371,800 GPR, \$2,938,600 FED, and -\$2,377,100 PR) in 2003-04 and reduce funding by \$1,938,200 (-\$199,300 GPR, \$739,500 FED, and -\$2,478,400 PR) in 2004-05 to reflect the net effect of several changes in the funding for food stamps benefits and administration costs.

Benefits to Immigrants. Reduce funding by \$625,000 GPR in 2003-04 and \$561,900 GPR in 2004-05 to reflect a projected decrease in state-funded benefits for qualified immigrants due to a recent federal law change that made certain immigrant groups eligible for federally-funded benefits. This GPR funding is currently used to meet a portion of the state's TANF maintenance-of-effort requirement.

Reinvestment Plan. Provide \$308,300 (\$2,685,400 FED and -\$2,377,100 PR) in 2003-04 and reduce funding by \$2,101,500 (\$376,900 FED and -\$2,478,400 PR) in 2004-05 to fund activities approved by FNS to reduce the state's food stamp payment error rate as an alternative to paying federal sanctions. The federal amounts would be funded with income augmentation revenues.

Contract Costs. Provide \$506,400 (\$253,200 GPR and \$253,200 FED) in 2003-04 and \$725,200 (\$362,600 GPR and \$362,600 FED) in 2004-05 to fund projected increases in the contracted costs of administering the program.

Funding Transfer. Transfer \$1,000,000 GPR and \$1,000,000 FED annually from the appropriations that support operations of the Division of Health Care Financing to the appropriations that support contracted services relating to the MA program to consolidate funding budgeted for contracted services.

DISCUSSION POINTS

State Food Stamp Benefits

1. 1997 Wisconsin Act 296 created a state food stamp benefit for qualified immigrants who had become ineligible for federal benefits under the 1996 federal welfare reform legislation (P.L. 104-193). However, the federal Farm Bill of 2002 restored eligibility for federal food stamp benefits to qualified immigrants who are otherwise eligible and who are: (a) receiving SSI; (b) are under 18 years of age; or (c) have lived in the United States continuously for five years as a qualified alien from the date of entry into the country. Formerly, immigrants were required to have a legal presence in the United States on August 22, 1996. The state program provides benefits to

qualified immigrants that remain ineligible for federal food stamp benefits. These are primarily able-bodied adults who have lived in the United States for less than five years.

2. The elements that were restored under the Farm Bill have different effective dates. Qualified and eligible immigrants who receive SSI are eligible for federal food stamp benefits beginning October 1, 2002. This was expected to reduce the state food stamp caseload by 1%. Qualified and eligible immigrants who have lived in the United States for five years are eligible for federal benefits on April 1, 2003. This is estimated to reduce the state food stamp caseload by 70%. Finally, qualified and eligible immigrants who are under 18 years of age, regardless of entrance date, are eligible for federal benefits on October 1, 2003. This change is estimated to reduce the state food stamp caseload by 30%.

3. The number of participants in the state food stamp program rose from 1,573 in February, 2002, to a peak of 1,835 in February, 2003, representing a 16.7% increase. According to DHFS, this increase may be associated with the increase in the number of low-income families eligible for medical assistance (MA) and BadgerCare in recent years, as the majority of food stamp recipients (86% in September, 2002) are also eligible for MA.

4. In 2002-03, \$950,000 GPR was allocated for the state food stamp program. Based on current caseload estimates, adjusted for the changes in federal law, \$322,800 GPR in 2003-04 and \$353,700 GPR in 2004-05 will be needed to fully fund the state food stamp program. Therefore, the Committee could reduce funding in the bill for state food stamp benefits by \$2,200 GPR in 2003-04 and by \$34,400 GPR in 2004-05.

EBT Contract Costs

5. Federal regulations require states to operate an electronic benefit transfer (EBT) system for food stamp benefits (the food stamp benefit debit, or Quest, card.) DHFS contracts with Citicorp Financial Services, Inc., to process the food stamp EBT and to provide the Quest card, establish and maintain recipient accounts, process transactions, post credits and debits to the card, and provide customer service. In addition, funding for this contract supports the retailer transaction fee.

6. The contract costs are based on the number of active food stamp participants and the number of transactions. Food stamp caseloads increased from 95,642 in February, 2002, to 107,327 in February, 2003, an increase of 12.2%. Based on this trend, the cost of the contract would be \$3,054,600 (all funds) in 2003-04 and \$3,433,200 in 2004-05. Therefore, the Committee could provide an additional \$272,600 (\$136,300 GPR and \$136,300 FED) in 2003-04 and \$432,400 (\$216,200 GPR and \$216,200 FED) for costs associated with the EBT contract.

Reinvestment Activities

7. Since federal fiscal year 1993-94, the federal government has determined that Wisconsin's error rates has been above the national average and has imposed food stamp penalties on the state. Wisconsin has always been permitted to develop a reinvestment plan as an alternative

to making penalty payments to the federal government. Table 1 shows the national average error rate, Wisconsin's rate, and the difference between the two, by federal fiscal year (FFY). The table shows that while, overall, the national average has fallen, Wisconsin's rate has increased. In addition, Wisconsin's penalty amounts are shown.

TABLE 1
History of Wisconsin's Food Stamp Error Rate and Penalties
Federal Fiscal Year 1993-94 through 2000-01

<u>Assessment Year</u>	<u>National Average</u>	<u>Wisconsin's Error Rate</u>	<u>Difference (WI - Nat'l)</u>	<u>Penalty Amount</u>
FFY 94	10.32%	10.51%	0.19%	\$8,544
FFY 95	9.70	12.10	2.40	1,370,000
FFY 96	9.20	11.61	2.41	1,224,955
FFY 97	9.89	13.70	3.81	2,200,000
FFY 98	10.69	14.58	3.89	689,391
FFY 99	9.88	13.42	3.54	606,466
FFY 00	8.91	12.72	3.81	1,671,222
FFY 01	8.66	13.14	4.48	2,873,308

8. There are a number of places where errors could occur and where penalties could be assessed: (a) an agency preventable error, which is an error made by the local income maintenance (IM) agency in any aspect of eligibility or benefit determination that could have been prevented; (b) agency error, which is an error caused by the IM agency but it is unclear if the agency would have been able to prevent the error; (c) a client error, which occurs when the client fails to report changes in income, household status, or other required information or fails to report the change within the required time frame; or (d) a CARES or state error, which is an error caused by the state's automated eligibility, or CARES, system or by the state.

Table 2 shows the changes in the causes of the food stamp errors for FFY 1999, 2000, and 2001. As the figure shows, client errors and agency preventable errors have been the two largest sources of errors in the food stamp program.

TABLE 2

Causes of Food Stamp Errors

	<u>FFY 1999</u>	<u>FFY 2000</u>	<u>FFY 2001*</u>
CARES/State	2%	5%	14%
Agency	11	7	3
Client	27	42	46
Agency Preventable Error	60	46	37

*2001 Error data is only through the first 11 months of FFY 2001.

9. Wisconsin's reinvestment plans have incorporated different activities, including: (a) changes in the CARES system, the informational system that IM workers use to determine eligibility for a variety of programs, including food stamps; (b) customer surveys; (c) the Milwaukee project, which was an in-depth analysis of Milwaukee County's food stamp administrative system to reduce the county's error rate, which was much higher than the rest of the state; (d) the development and implementation of a database to integrate quality control reviews with other types of case data; (e) food stamp training programs for county IM workers and a state conference; (f) the development of checklists for workers to complete at each eligibility review; (g) instituting a requirement that each local agency develop a quality assurance plan to address many internal issues; (h) putting the food stamp manual on-line, to replace the paper manual; and (i) providing help desk services and hiring 4.0 payment accuracy consultant positions to assist local agencies in developing effective internal quality control procedures.

Since each state's error rate is determined relative to other states, it is hard to determine the effect of Wisconsin's reinvestment activities. At any one time, 50% of the states are under sanctions, based on the federal error rate formula.

10. In April, 2002, DHFS received notification from the federal government that its FFY 2001 food stamps error rate exceeded the national average, resulting in a penalty of \$2,873,300. As in previous years, Wisconsin can choose to undertake reinvestment activities in lieu of penalty payments. Reinvestment expenditures in the same amounts must be completed by September 30, 2004.

11. The type of error and the financial impact of that error determine the amount of the state's penalty. Of the identified errors in FFY 2001, 49% of state's financial penalties were attributable to earned income errors, primarily resulting from client failure to report changes in income, worker failure to act on reported changes, and policy misinterpretation. Also, of the identified errors, 35% of the state's overall error rate is attributed to agency preventable error, while 50% of the total error rate can be attributed to client error. Under the reinvestment plan approved

by FNS, the state's major causes of error are targeted. The following activities are to be conducted using the state reinvestment funds: (a) automatic updates to income fields in the state's automated eligibility system (CARES), using data from trusted sources, followed by a system generated review of eligibility using the new information; (b) software changes in the CARES system to support the state's implementation of an option provided in federal law for semi-annual reporting by food stamp recipients, along with training for food stamp workers about the policy and systems change; and (c) development of new case management tools, including scanning documents and electronic case records to support food stamp workers in the state, beginning with a pilot project in Milwaukee County.

12. There is \$966,000 in food stamp reinvestment obligations that the state has from penalties in FFY 2000 or earlier that were not required to be expended until the 2003-05 biennium. Therefore, funding was not provided for these obligations in 2001 Wisconsin Act 16 (the 2001-03 biennial budget act). In addition, the state has \$2,873,300 in food stamp reinvestment obligations from the FFY 01 penalties that are to be paid in the 2003-05 biennium. Therefore, there are \$3,839,300 known food stamp reinvestment obligations in the 2003-05 biennium.

13. Under the bill, DHFS expects to receive \$446,300 in 2003-04 and \$345,000 in 2004-05 from counties in penalty revenues. The county IM contracts include a provision that holds some counties liable for agency-preventable errors in the food stamps program. These funds support a portion of the state's reinvestment activities.

14. The bill provides \$2,685,400 in 2003-04 and \$376,900 in 2004-05 in income augmentation funds to support the remaining food stamp investment obligations in the biennium. Income augmentation funds are unanticipated federal funds DHFS receives under Titles IV-E (foster care), XIX (Medicaid), and XVIII (Medicare) of the federal Social Security Act as reimbursement for costs that were initially paid with state or local revenue, or revenue from one of these sources that would not otherwise have been available had it not been for activities conducted to augment federal income. There are no federal restrictions relating to the use of income augmentation funds. Consequently, the state can use these funds for any purpose. [LFB Issue Paper #365, dated April 24, 2003, provides additional information on income augmentation revenues.]

15. The bill assumes a FFY 2001 reinvestment amount of \$2,887,600. The actual reinvestment amount is \$14,300 less, or \$2,873,300. Therefore, the Committee could reduce funding in the bill for reinvestment activities by \$14,300 FED in 2004-05. This would reduce the amount of income augmentation funds used in the budget bill from revenues received after June 30, 2003 by a corresponding amount. Under the Committee's previous actions on income augmentation funds, this amount would lapse to the general fund in 2004-05.

16. It is likely that Wisconsin will have a higher error rate than the national average in FFY 2002, since the same practices were used by DWD (who was administering the program at that time) in FFY 2001 as in FFY 2002. DHFS expects to receive notice of the state's error rate in June or July, 2003. Reinvestment funds to address the FFY 2002 penalty would have to be expended by

September, 2005. The best estimate of the FFY 2002 penalty is the FFY 2001 penalty, or \$2,873,300.

17. In anticipation of these costs, the Committee could provide \$2,873,300 GPR and place it in the Joint Committee on Finance's supplemental appropriation. DHFS could then request funding for FFY 2002 food stamp reinvestment activities under s. 13.10 of the statutes, if needed. Alternately, the Committee could take no action on this and wait until notification is received. The Department could then submit a plan on how it would address this matter.

Funding Transfer

18. The bill transfers \$1.0 million GPR and \$1.0 million FED annually from an appropriation for operations to an appropriation for contracted services. These are the base funds for the EBT contract. The intent of this transfer is to consolidate funding budgeted for contracted services. Therefore, the Committee should consider approving this portion of the Governor's recommendation since it properly aligns the funding for the EBT contract.

ALTERNATIVES

1. Modify the Governor's recommendation by providing an additional \$270,400 (\$134,100 GPR and \$136,300 FED) in 2003-04 and \$383,700 (\$181,800 GPR and \$201,900 FED) in 2004-05 to reflect the following: (a) reestimates of state food stamp benefits amounts (-\$2,200 GPR in 2003-04 and -\$34,400 GPR in 2004-05); and (b) reestimated EBT contract costs (\$136,300 GPR and \$136,300 FED in 2003-04 and \$216,200 GPR and \$216,200 FED in 2004-05); and (c) reinvestment amounts for penalties through FFY 2001 (-\$14,300 FED in 2004-05). In addition, approve the Governor's recommendation to transfer base GPR and FED funding for the EBT contracts from the appropriations that support operations of the Division of Health Care Financing to the appropriations that support contracted services relating to the MA program to consolidate funding budgeted for contracted services.

<u>Alternative 1</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
2003-05 REVENUE (Change to Bill)	\$14,300	\$0	\$14,300
2003-05 FUNDING (Change to Bill)	\$315,900	\$338,200	\$654,100

2. Adopt all of the changes identified in Alternative 1. In addition, provide \$2,873,300 GPR in 2003-04 in the Joint Committee on Finance's supplemental appropriation for FFY 2002 food stamp reinvestment activities. Require DHFS to request funding for reinvestment activities related to errors in FFY 2002, if needed, under s. 13.10 of the statutes.

<u>Alternative 2</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
2003-05 REVENUE (Change to Bill)	\$14,300	\$0	\$14,300
2003-05 FUNDING (Change to Bill)	\$3,189,200	\$338,200	\$3,527,400

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