



Center for Public Policy Priorities

THE POLICY PAGE

An Update on State and Federal Action

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TEXAS AWARDED \$29.1 MILLION FOR FOOD STAMP PROGRAM MANAGEMENT

Continued funding for nutrition programs outreach in jeopardy

On June 27, the United States Department of Agriculture (USDA) awarded the Texas Department of Human Services (DHS) \$29.1 million for achieving high payment accuracy in the Food Stamp Program in fiscal 2002. USDA evaluates states' Food Stamp Program performance annually by calculating their "error rate"—the percentage of food stamp benefit dollars issued in error—to ensure that federal funds are spent appropriately. States receive enhanced federal funding if their error rate is below 6 percent, and face fiscal penalties if their error rate exceeds the national average. This year's award marks the fifth year in a row that DHS has received enhanced funding. This is also the last year that Texas will be eligible for such a large award before a new Quality Control system takes effect, which caps the total amount of annual bonus money for all states at \$48 million. In the 1999 and 2001 sessions, the legislature authorized DHS to spend \$2 million of the enhanced funds on nutrition programs outreach, which the agency now uses to conduct outreach for the Food Stamp Program and increase participation in the Summer Food Service Program. While the budget passed for the 2004-2005 biennium includes similar language relating to nutrition programs outreach, lawmakers appropriated all of the \$29.1 million for Community Care programs. This means that DHS will have to find the money elsewhere in its budget in order to continue the Food Stamp and Summer Food Service program initiatives. This Policy Page explains the enhanced funding process and the impact that ending these important outreach efforts will have on low-income families and Texas.

BACKGROUND

Since fiscal 1998, Texas' error rate has been well below the national average, ranging from 5.27 percent in 1998—roughly half the national average—to 4.85 percent in 2002, compared to 8.26 percent nationally. Over the last five years, Texas has received a total of over \$135 million in enhanced federal funding for high payment accuracy in the Food Stamp program. The size of Texas' award has consistently dwarfed those of other states, including other states with a high number of Food Stamp recipients. Between 1981 (the year the Quality Control system was put in place) and 2002, Texas was the only one of the eight "large Food Stamp states"¹ that had ever received enhanced funding, a trend that was broken by New Jersey last year, who was awarded \$14.5 million for a 4.08 error rate.

States receive enhanced federal funding in the form of an increased contribution from USDA toward the costs of administering the Food Stamp Program. The federal government typically picks up 50% of the costs of administering Food Stamps, while the state must put up its own money to pay for the rest. In the event that a state becomes eligible for enhanced funding, USDA pays a higher share of these costs. The way it works is that the federal share of administrative costs increases by .5% for

each .1% the state's payment error rate is below 6%. The maximum federal contribution for administrative costs is 60%. Because the total cost of administering the program varies by state, the amount of enhanced funding is based on both a state's payment error rate and its caseload size.

FY	Error rate		Award (\$million)
	U.S.	Texas	
1998	10.69%	5.27%	\$19.7
1999	9.88	4.56	27.9
2000	8.91	4.14	28.7
2001	8.66	3.70	29.9
2002	8.26	4.85	29.1

There are no federal restrictions on how enhanced food stamp funding can be spent. By reducing the state's cost of running the food stamp program, enhanced federal funding frees up general revenue that can be spent elsewhere in the state budget. Over the years, the Texas legislature has authorized DHS to use the majority of the enhanced funding in a variety of ways, including: for caseworker bonuses; nutrition programs outreach; improvements in nursing home care; to pay for shortfalls in the Medicaid program; to comply with the Olmstead decision to improve access to community care; to help Texans affected by Tropical Storm Allison; and to pay for the Texas Integrated Eligibility Redesign System (TIERS),

¹ CA, TX, NY, OH, PA, FL, IL, and MI

a new automated system for determining eligibility for DHS programs.

REFORM OF THE QUALITY CONTROL SYSTEM

Because payment accuracy has been the only measure of success in the Food Stamp Program, there has been little financial incentive in place for states to increase program participation or improve customer service. Although payment accuracy is an important component of program integrity—and DHS should be recognized for its achievement in this area—Texas' success in lowering error rates may have come at the cost of deterring many eligible families from receiving Food Stamps. According to DHS estimates, almost 4.8 million Texans are eligible for Food Stamps; yet fewer than 1.6 million, or 33 percent of those eligible actually receive these benefits—down from 54% in 1996. It was this alarming drop in participation that prompted the Texas legislature to appropriate funding for a Food Stamp outreach program in 1999 and 2001.

Concerns about the lack of balance in how state performance is measured led Congress to reform the Food Stamp Quality Control (QC) system as part of the 2002 Farm Bill, which reauthorized Food Stamps and made many other significant improvements to the program. The new QC system—which will take effect in FY 2003—decreases greatly the chance that states will be penalized for high error rates, and replaces the current system of enhanced funding with \$48 million each year for new performance bonuses to states. Half of these bonus funds will be awarded to states with the lowest or most improved payment error rates; the other half will be distributed based on “participant access rates”—the percentage of the eligible population that receives Food Stamps, “negative error rates” (rates of improper denials or terminations), and the percentage of applications processed on time. These changes significantly reduce the potential amount of bonus money Texas will receive in the future.

NUTRITION PROGRAMS OUTREACH

Since the legislature first appropriated money for nutrition programs outreach in 1999, DHS has used \$700,000 of these funds (which were 100% federally matched) to raise awareness about the Food Stamp Program, and \$3 million to increase participation in the Summer Food Service Program.

Food Stamp Education and Outreach Campaign: The Food Stamp Education and Outreach Program (FSEOP) uses public service announcements and outreach by community-based organizations in underserved areas to inform low-income communities about the Food Stamp Program and assist families with the enrollment process. DHS contracts with the Texas Association of Community Action Agencies (TACAA) to operate the program (go to <http://www.tacaa.org> for information about outreach activities in your area). TACAA and its subcontractor have

consistently outperformed the goals established for them in their contract. Although it is difficult to determine precisely the impact of this outreach on Food Stamp participation, a portion of the recent growth in caseloads can be attributed to successful public awareness efforts. By the end of fiscal 2002, average monthly Food Stamp caseloads had grown to 1.6 million, a 14 percent increase over 2001.

Summer Food Service Program (SFSP) outreach and supplemental payment to sponsors: DHS conducts outreach to increase the number of sponsors who participate in the SFSP and works with sponsoring organizations to help them increase the number of children who eat meals through their summer programs. In addition, DHS uses these funds to supplement the federal reimbursement sponsors that receive for the meals they serve. In 2002, federally funded summer programs served almost 13 million meals to low-income children in Texas, up from 10.6 million in 1999—a 23 percent increase.

HOW FY2002 ENHANCED FUNDS WILL BE SPENT

The appropriations act signed into law in June—Texas' budget for the next two years—requires that a “portion” of the enhanced Food Stamp funding be spent on nutrition programs outreach and eligibility worker bonuses, a change from past language (from the 1999 and 2001 sessions), which dedicated “up to \$2 million” for nutrition programs outreach and “up to \$5 million” for staff bonuses. At the same time, during final behind-the-scenes deliberations on DHS' budget, lawmakers allocated all of the \$29.1 million received in FY 2002 to cover the cost of DHS Community Care programs in 2004-2005, although nothing in the appropriations act spells this out. While a *portion* could be interpreted to mean \$1, it was clearly the intent of original budget drafters that at least some—probably more than \$1—be used for nutrition programs outreach and caseworker bonuses. DHS has indicated its willingness to continue the Food Stamp and SFSP initiatives if the agency can find the money from another source in its budget.

Discontinuing these initiatives will jeopardize federal funding for these programs and weaken the nutrition safety net at a time when Texas families need it most. Given the recent state budget cuts and no significant economic improvement in sight, continued efforts to assist the Food Stamp Program in reaching its target population are critical. Food Stamps not only help low-income families keep food on their tables, they also fuel the state and local economies. If Texas had reached at least 54 percent of those eligible for Food Stamps in 2002 (the 1996 participation rate), we estimate that the increase in participation would have drawn down \$946 million more in federal Food Stamp benefit revenue. Efforts to increase participation will also improve Texas' chance of receiving a bonus award in this area when the new QC system takes

effect. USDA assigned Texas a “participant access rate” of 45% in 2001. Although this estimate is much higher than DHS’ own estimate of what percentage of the population it reaches, it is still the 8th worst in the nation.

If the funding for SFSP outreach and supplemental payment is discontinued, it is likely that some sponsors will drop off the program, and fewer low-income children will receive free meals during the summer months. This will mean a loss of federal money for Texas, since SFSP is 100% federally funded. President Bush has made increasing SFSP participation a priority for his administration, selecting Texas as one of a handful of states charged with increasing participation. While DHS has met and exceeded the goals set for them by USDA thus far, the loss of the state dollars that support the program will jeopardize the agency’s success in this area. The Food Research and Action Center, a national anti-hunger advocacy group, estimates that Texas could receive another \$27 million annually in federal SFSP funds if the state performed just at the level achieved by states with the best records in recent years.

HOW TO WEIGH IN

To voice your support for continuing the Food Stamp outreach and SFSP initiatives, write or email DHS Commissioner Jim Hine at:

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