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FIVE-STATE FOOD STAMP BLOCK GRANT PROPOSAL IN HOUSE WELFARE BILL WOULD RISK SERIOUS HARM TO LOW-INCOME FAMILIES

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The House welfare reauthorization bill (H.R. 240) contains a proposal to allow five states to elect a food stamp block grant in lieu of the regular federal Food Stamp Program. A block grant, even if limited to five states, would likely cause damage to the Food Stamp Program and low-income families. The Food Stamp Program would lose its ability to respond to economic downturns in these five states and, as explained below, food benefits would necessarily be cut in these states. In addition, states taking the block grant would have significant incentives to shift funds out of food stamps to help close state budget deficits, further reducing food benefits to low-income families. The Food Stamp Program also could fall prey to increased fraud problems since the federal government would no longer be responsible for investigating retailer fraud in these states.

This proposal is essentially identical to the provision that the House leadership inserted into the welfare bills the House took up in 2002 and 2003. This proposal has never been the subject of a single Congressional hearing or "mark-up" in the House Agriculture Committee. It has been included in the House welfare bill once again this year without any hearings or action by the Agriculture Committee.

The block grant proposal was originally inserted into the House welfare bill at the same time that Congress was putting the finishing touches on the 2002 farm bill, which included a six-year food stamp reauthorization. That legislation, which President Bush signed in May 2002, *was* the subject of hearings and extensive debate in the Agriculture Committees. It included major reforms to the Food Stamp Program that were developed on a bi-partisan basis and praised by states, the Bush Administration, and non-profit organizations.

During the time that the Agriculture Committees worked on that food stamp reauthorization, no proposal to convert the Food Stamp Program to a block grant in some or all states was ever made. In reauthorizing the program, the Agriculture Committees focused on streamlining program administration, providing states with an array of options to simplify the program and coordinate it better with TANF and Medicaid, improving food stamp benefits and access, especially for the working poor, and reforming the food stamp quality control system and reducing erroneous payments. In the years following enactment of the 2002 food stamp legislation, the food stamp error rate has fallen to all-time lows. In 2004, only about four percent of food stamp benefits represented either overpayments to eligible households or payments to ineligible households.[1]

The House welfare bill terms its five-state block grant proposal a "demonstration project." Examination of the provision indicates, however, that it is nothing of the sort. No evaluation is required. States electing the block grant would not even be required to collect or report even the most basic data about the uses of block grant funds. (Furthermore, under the superwaiver proposal also included in the House welfare bill, the U.S. Department of Agriculture could waive the five-state limitation and allow any state into the block grant.) Once budget directors in other states become aware of the ability that the proposed food stamp block grant would accord them to shift federal funds from food assistance to other programs and to fill state budget holes (this is explained below), they might well seek an expansion of the block grant so more states could take advantage of this opportunity to divert federal food stamp funds to other purposes.

The House Leadership's proposal to provide for a five-state block grant raises a number of concerns. The key issues include:

- The Food Stamp Program would no longer respond to increased need, such as during an economic downturn;
- Food assistance would have to be cut, due to the fixed funding structure of the block grant and other problems;
- States would be able to shift funds away from food assistance to other purposes, a large temptation to states facing budget shortfalls;
- Fixed block grant funding would undermine efforts to increase relatively low participation rates among the working poor and the elderly;
- The proposal provides no protection to current recipients and could materially weaken the safety net;
- Problems with fraud could increase; and
- This five-state "demonstration" could be a precursor to a national block grant.

This analysis first provides a description of the block grant proposal and then reviews the major problems that would result if the block grant proposal were enacted.

[1] This is an impressive achievement for a program that is administered by thousands of eligibility workers in states and local offices across the country. By comparison, the Internal Revenue Service recently released a report that finds that taxpayers underpay their taxes by about 15 percent. See *New IRS Study Provides Preliminary Tax Gap Estimate* available at http://www.irs.gov/newsroom/article/0,,id=137247,00.html.

Description of the Five State Block Grant Proposal

Under H.R. 240, five states could elect to take a food stamp block grant instead of participating in the regular Food Stamp Program. USDA is given no criteria by which to distinguish among states that seek the block grant. It appears that the first five states that provide the minimal state plan required would have to be approved, regardless of their block grant design.

The block grant funding level would be a fixed dollar amount equal to the amount that the state issued in food stamp benefits for fiscal year 2005 or the average amount of benefits issued in the state during fiscal years 2003 through 2005, whichever is greater. (Food stamp benefits are 100 percent federally financed.) The state also would receive an amount equal to its federal food stamp administrative and employment and training expenditures for fiscal year 2005 or the average for fiscal years 2003 through 2005, whichever is greater. These two amounts would be pooled into a single block grant, with no specific set-aside for food assistance.

The amount of block-grant funding a state received would then be frozen at this level for five-years. There would be no adjustment for increases in the cost of food during this period. Nor would there be any adjustment to respond to economic changes, population growth, increases in poverty or increases in the size of the U.S. population. A state could opt out of the block grant after electing it; if it did so, it would be barred from opting back into the block grant.

Block grant funds could be spent on three things: 1) food assistance, which could be in the form in which food stamp benefits are currently provided or in the form of agricultural commodities; 2) employment and training programs; and 3) administrative costs. There would be no limits on how much a state could spend within any one of these categories; states could shift funds from food assistance to administrative costs and job training programs to whatever extent they wanted. And there would be a substantial likelihood that funds would indeed be shifted in such a fashion, since states would not be required to maintain their current levels of state funding for food stamp administration and employment and training services for food stamp recipients. While food stamp benefits are entirely federally-funded, states currently pay 50 percent of most food stamp administrative costs and 50 percent of all employment and training costs that exceed their federal food stamp employment and training grant.

There also would be virtually no limits on how a state could alter the program under the block grant. States could cut or eliminate benefits for any group of individuals. No individuals or categories of current recipients would be protected, including the elderly and people with disabilities. States also could expand benefits beyond current eligibility rules, although not to legal immigrants. The cost of any such expansion would have to be offset by cuts elsewhere in the state’s Food Stamp Program.

No evaluation or basic data reporting would be required. Beyond submitting an initial state plan, states would merely have to provide for an annual independent “audit” to determine the error rate in the state’s program. Moreover, no standards would be set for these audits. USDA would simply be required to provide basic oversight to assure that states complied with the standards outlined in their own state plans and with due process and civil rights law.

The Loss of Responsiveness during an Economic Downturn

The Food Stamp Program is the most responsive of all means-tested programs to changes in poverty and unemployment. If more households in a state qualify for food stamps because poverty increases, as can occur during a recession or as a result of strong state population growth, the program automatically expands and serves more people. When poverty declines, the program contracts.

Between June 1990 and June 1992, as the national unemployment rate climbed from 5.1 percent to 7.7 percent, the number of people receiving food stamps rose more than five million. In the late 1990s, in significant part because of the strong economy, the number of people receiving food stamps fell by 40 percent (or about 10 million people).

More recently, food stamp caseloads have been on the rise since the economy entered a recession in March 2001. Some of the states with the steepest increases in unemployment have seen the largest increases in the number of people who receive food stamps. For example, since March 2001, food stamp caseloads have increased by 64 percent in Michigan where unemployment climbed from 4.7 percent in March 2001 to a peak of 7.4 percent in December 2004, among the highest unemployment rates in the country. Similarly, food stamp caseloads have increased 53 percent in Oregon where the unemployment rate has increased significantly and been among the highest in the country over the last four years.

Under a block grant, the program's ability to respond immediately to fluctuations in the economy and changes in need would be lost entirely. States would receive a fixed amount of funding at the beginning of the year; if unemployment increased, federal funding would not respond. Moreover, the annual funding level would be frozen for five years regardless of the performance of the economy during that period.

As a result, if unemployment and poverty increased, states would have to choose between bearing all of the added food assistance costs themselves (at a time when state revenues were declining), cutting food assistance benefits, eliminating eligibility altogether for some low-income households, and placing new applicants on waiting lists in the midst of a downturn when jobs are hard to find.

To illustrate the potential effects of a block grant on the amount of food stamps available to needy families and individuals, Table 1 shows how much less in federal food stamp funding would have been available in each state in 2004 if, instead of participating in the Food Stamp Program, the state had received a block grant equal to its food stamp expenditures in 2000. Nationally, if federal food stamp funding had been frozen at the 2000 expenditure level, the total amount of federal food stamp funds available to states would have been 34 percent lower in 2004 than the amounts of federal funds actually expended that year. Federal funding under the block grant would have been cut by more than 40 percent in sixteen states in 2004, by more than 50 percent in two states, and by 10 percent or more in every state in the nation except Hawaii.

Had such a block grant been in effect, states would have had to choose between turning applicants away, terminating large categories of needy households, instituting deep across-the-board benefit reductions, and cutting other state funded programs or raising taxes to put substantial new state funding into the Food Stamp Program (an unlikely course during a downturn when states face

TABLE 1:
PROJECTED CUT IN FEDERAL FOOD STAMP FUNDS IN 2004 IF EACH STATE HAD A BLOCK GRANT AT 2000 LEVELS

	Block Grant Funding Level (in millions of dollars)*	2004 Federal Food Stamp Expenditures (in millions of dollars)	Difference 2000-2004 (in millions of dollars)	Percentage cut in 2004 if state received block grant funding set at the 2000 expenditure level
Alabama	$376	$545	$-169	-31%
Alaska	56	72	-16	-22%
Arizona	266	609	-343	-56%
Arkansas	226	373	-147	-39%
California	2,097	2,408	-310	-13%
Colorado	164	277	-113	-41%
Connecticut	170	217	-47	-22%
Delaware	39	64	-25	-39%
D.C.	89	109	-20	-19%
Florida	912	1,353	-441	-33%
Georgia	577	987	-410	-42%
Guam	38	51	-13	-25%
Hawaii	186	163	23	14%
Idaho	54	100	-46	-46%
Illinois	900	1,313	-413	-31%
Indiana	310	595	-285	-48%
Iowa	116	193	-76	-40%
Kansas	93	174	-81	-47%
Kentucky	367	572	-204	-36%
Louisiana	497	798	-301	-38%
Maine	97	149	-52	-35%
Maryland	276	322	-46	-14%
Massachusetts	238	338	-100	-30%
Michigan	605	986	-380	-39%
Minnesota	205	286	-81	-28%
Mississippi	265	387	-121	-31%
Missouri	398	699	-300	-43%
Montana	59	86	-27	-31%
Nebraska	76	124	-48	-39%
Nevada	65	131	-66	-50%
New Hampshire	34	49	-15	-30%
New Jersey	416	474	-58	-12%
New Mexico	158	239	-80	-34%
New York	1,680	2,189	-509	-23%
North Carolina	481	818	-337	-41%
North Dakota	31	46	-15	-34%
Ohio	638	1,126	-488	-43%
Oklahoma	249	431	-182	-42%
Oregon	230	456	-226	-50%
Pennsylvania	823	1,086	-264	-24%
Rhode Island	66	80	-15	-18%
South Carolina	277	520	-243	-47%
South Dakota	43	60	-18	-30%
Tennessee	460	848	-388	-46%
Texas	1,457	2,480	-1,022	-41%
Utah	87	144	-58	-40%
Vermont	41	49	-8	-17%
Virgin Islands	25	23	2	7%
Virginia	345	549	-203	-37%
Washington	313	499	-187	-37%
West Virginia	217	247	-30	-12%
Wisconsin	164	305	-141	-46%
Wyoming	22	29	-7	-23%
Total	**18,075**	**27,226**	**-9,151**	-34%

* based on higher of FY2000 and the average of FY1998-2000, using the methodology proposed in the House bill.

budget deficits). By contrast, under the regular Food Stamp Program, the federal government bore 100 percent of the added food assistance costs that resulted in the states when the economy sagged and unemployment rose.

The conversion of food stamps to a block grant also would represent dubious economic policy. Because of its quick and automatic response to increased need, the Food Stamp Program acts as what economists call an "automatic stabilizer," infusing more purchasing power into the economy when the economy turns down. When a local area suffers an economic crisis, such as a plant closing, the Food Stamp Program is immediately available to newly laid-off workers to provide them with the means to continue purchasing food, stimulating demand and helping to stabilize businesses. Under the block grant, by contrast, there would be no added injection of funds into hard-hit communities, as no additional federal funds would be made available for that purpose.

Some proponents of the block grant approach argue that because a block grant has not produced problems in the welfare cash assistance area, it would be safe to try a block grant in the food stamp area. The Food Stamp Program is designed, however, to be far more responsive to changes in the economy than the AFDC or TANF programs; for several decades, food stamp caseloads have risen (and fallen) much more in response to economic cycles than welfare cash assistance rolls have. Moreover, the TANF block grant funding levels had the good fortune of being based primarily on state expenditures in a high-expenditure, relatively high unemployment year (1994), providing a cushion for states for a number of years after TANF'S inception. By contrast, while food stamp caseloads have risen recently due to the economic slump, they remain lower in most states than they were in 1994.

Returning to the Food Stamp Program

Some might argue that states need not worry about a recession because under the proposal, states that elect the block grant could switch back to the regular Food Stamp Program if a downturn occurred. But conversion back to the regular program would take time and entail significant costs for a state.

Furthermore, recessions are rarely predicted in advance. Often food stamp caseloads begin to rise before economists realize the economy is entering a recession. A state seeking to switch back to the regular program if a recession sets in would likely be able to convert only after the recession had run for a number of months, causing serious hardship to low-income families. Conversion also would entail administrative, computer-related, and other costs to a state, an expense that a state may not be willing to incur during a period of reduced state revenues when the state is struggling to balance its budget.

Fixed Block Grant Levels Would Undercut Efforts to Increase Participation

A food stamp block grant tied to current expenditure levels also would provide no room to address one of the most significant issues facing the program today: low participation rates among eligible working families with children.

The Food Stamp Program plays an important role in helping low-income working families make ends meet. Food stamps boosts the monthly income of participating households, helping to lift them out of poverty and enabling them to put food on the table each day. A typical low-wage working family receives over $235 a month in food stamps. Yet USDA research has shown that only about half of eligible working families participate in food stamps.

In deliberations over the food stamp aspects of the 2002 farm bill, there was bipartisan consensus in Congress that increasing participation among working-poor families should be a priority. Many of the food stamp policies included in the 2002 law were designed to ease administrative barriers that were keeping such families from enrolling in the program. Similarly, the Department of Agriculture's Under Secretary for Food, Nutrition, and Consumer Services, Eric Bost, has worked to increase participation among eligible working-poor families.

These efforts will be to no avail, however, if a state elects a food stamp block grant. With fixed funding frozen at the 2005 level, states would have no room to expand participation among working-poor families, the elderly, or people with disabilities without cutting elsewhere in the program. Instead, as explained in the next section of this analysis, these states almost certainly would have to cut benefits or erect new barriers to participation in order to remain within the fixed block grant funding levels as grocery store food prices increased.

The Block Grant Would be Likely to Lead to Benefit Cuts

As discussed above, states would have to cut back on food benefits in the event of a recession, since there would be no increase in federal funding to meet the increased need. But the block grant proposal also would make it very likely that states would have to initiate benefit cuts even if no recession occurred.

Fixed Block Grant Funding Level Erodes the Value of Food Assistance

Food stamp benefit levels are adjusted each year to reflect rising food costs and, to a lesser degree, rising housing costs and other expenses. In addition, food stamp benefit costs increase over time to reflect population growth, as well as increases in administrative costs attributable to inflation. The proposed block grant would not make any of these adjustments.

A state taking the block grant thus could not ensure that benefit levels would keep pace with increases in food costs and in the size of the state's population without cutting caseloads or providing state funds to offset the increase in food costs each year. States would probably find it necessary to freeze food assistance benefits from year to year. With rising food costs, a poor family's fixed benefit would purchase less food with each passing year, making it likely that a steadily increasing number of poor households would have inadequate diets. States that experienced greater-than-average population growth or suffered from regional economic slowdowns would generally have to impose deeper benefit cuts.

States Could Replace State Administrative Funds with Federal Benefit Funds

Currently, each state contributes 50 percent of the administrative costs associated with operating the Food Stamp Program. These costs cover staff, computers, offices and other administrative expenses needed to operate the program. Under the block grant, states would not be required to maintain any of their current administrative spending. Instead, they could withdraw all state spending on food stamp operations and cover administrative costs entirely out of their federal block grant funds. If more federal funds were used to cover administrative costs, however, food assistance benefits would have to be cut.

Many states would face pressure to withdraw their state administrative funds. States and localities have just begun to emerge from the state fiscal crisis that began in 2001. Even though revenue growth has resumed, at least 26 states face fiscal year 2006 budget deficits totaling approximately $34 billion. These deficits average about eight percent of general-fund spending in the states that face deficits.

Most states have instituted budget cuts in a number of areas in recent years. After several years of cutting budgets for popular public programs and services, including education, health care, and public safety, some states could be tempted to opt for the food stamp block grant primarily to save their state's share of the administrative costs, even though such a measure would mean that food assistance for needy families in the state would be reduced.

States Would Face Pressure to Transfer Food Assistance Spending to Employment and Training Programs

In addition to the pressure brought on by budget shortfalls, the House TANF reauthorization bill would itself place significant new fiscal pressures on states. The bill would increase sharply the work participation requirements that states must meet in their TANF programs, but would not provide any additional TANF funding to help states cover the costs of expanding their work programs to meet these requirements. CBO estimates indicate that the requirements of the House bill could add $8 billion in new state costs over five years.

States will have to find other ways to finance these new costs. If approved, the food stamp block grant would be a likely source of funding. The five states in the block grant would be required to continue operating employment and training programs "for needy individuals under the program" and could use an unlimited amount of food stamp block grant funds for this purpose. Since the majority of TANF recipients also receive food stamps, there would be nothing to stop a state from diverting tens or hundreds of millions of federal food stamp block grant dollars from food assistance and instead using these funds to finance employment programs to satisfy the expanded TANF work participation requirements.

To free up food stamp funds for this purpose, a state would have to institute substantial cuts in food stamp eligibility or benefits. Food assistance for needy households consequently would be threatened. Those most at risk could be working-poor families and low-income elderly people, since they tend to have modestly more income than other food stamp households; they would be among those most likely to have their food assistance benefits terminated if a state significantly lowered the food stamp income limits in order to finance the diversion of some of its block grant funds to purposes other than food assistance.

Supplantation Would be a Major Problem under the Block Grant

Even without the increased TANF work participation requirements, there would be incentives for states facing budget difficulties to shift substantial federal food stamp benefit funds to employment and training programs. States could shift such funds to employment and training programs to which the state currently contributes state funds and for which there is no state matching or maintenance-of-effort requirement. A state following such a course could then scale back state funding for these employment and training programs and use the freed-up state funds however it chose. This would help states facing budget problems to plug budget holes or to find resources for new spending or tax-cut initiatives unrelated to food assistance for low-income families.

For all the reasons noted in this section, the block grant proposal almost certainly would lead to a reduction in the overall resources available for food assistance for low-income families and communities.

No Protections For Current Recipients

There would be virtually no boundaries on what eligibility rules a state could establish under the block grant. The only restriction is that states could not establish eligibility rules for legal immigrants more generous than those in effect in the regular Food Stamp Program. States could reduce or eliminate benefits for any group of households and also could eliminate the current targeting rules which ensure that the poorest households receive the most assistance.

A Block Grant Would Undermine Food Stamps as a Safety Net Program

Although states have flexibility in how they administer the program (with this flexibility having been broadened substantially by the 2002 farm bill), the current food stamp benefit structure is essentially uniform across the states. The national benefit structure was established under President Nixon after an initial effort to operate the program without such standards resulted in enormous disparities across states, with some states setting income limits as low as half of the poverty line. The national benefit structure ensures that poor families can obtain adequate nutrition, regardless of where they live. Families in South Carolina need to eat just as much as families in California.

Consistent food stamp eligibility (and benefit) standards across states also substantially reduce gaps among states in their overall support for poor children. A family's food stamp benefits depend on its income; thus, food stamp benefits tend to be higher in states that provide low cash assistance benefits and in which wages are lower than average. Cash assistance benefits for families with children that have no other income are four times higher in states that provide the highest cash assistance payments than in the lowest payment states. When food stamp benefits are added in, this disparity narrows to two to one. This aspect of the Food Stamp Program is especially important to southern states and rural areas due to their lower cash assistance benefits and lower overall wages (and lower fiscal capacity).

Food stamps are the safety net of last resort and are of particular importance to children. More than half of food stamp recipients are children, and more than 80 percent of food stamp benefits go to families with children. Much of the rest goes to the elderly and disabled. During the debate on the TANF block grant in the mid-1990s, many Republican Members of Congress who supported the time-limited benefits and capped federal funding in the TANF block grant defended those measures by pointing out that the Food Stamp Program would still remain as the safety net of last resort. Thus, even though poor families with children might hit time limits on cash assistance or states might run out of TANF block grant funds, the Food Stamp Program remains available to these families and children. By contrast, states operating a food stamp block grant could run out of food stamp funds and have to turn poor families and children away from food assistance benefits.

Concerns about Fraud

Another concern is how conversion to a block grant would affect anti-fraud efforts. The federal government devotes substantial resources to combating food stamp fraud — in particular, fraud that may take place in some of the 145,000 retail food stores participating in the program. USDA operates a sophisticated national computer system that identifies suspicious food stamp redemption patterns. Federal undercover agents then visit the suspicious stores and gather evidence of illegal activity.

If food stamps are converted to a block grant, much of this responsibility would apparently shift to states. Few states would be able to match the anti-fraud capabilities and resources of the federal operation, however, and states would receive no new resources with which to do so. Illegal use of food stamp benefits and retailer fraud could increase in these states.

Five-State Block Grant Could be a First Step to Converting Food Stamps to a Block Grant Nationally

Although the food stamp block grant proposal in H.R. 240 is entitled "State Food Assistance Block Grant Demonstration Project," it is not a demonstration. No evaluation is required of the five state block grant programs. Neither states nor USDA would be required to examine or even to collect data on the impact of the block grant on participation, food expenditures, benefit levels, administrative spending, or fraud. Congress, the Administration and the public would have no basis by which to judge the block grants when the Food Stamp Program was reauthorized.

Furthermore, given the degree to which states could use food stamp block grant funds to replace state funds for administrative and employment and training — and turn the block grant into a form of revenue sharing — the five states with the block grant would likely be loathe to give up the block grant. At the end of the five years, other states might seek the block grant for themselves because of the opportunities it would afford states to siphon off federal food stamp funds for other purposes. Pressure to open up the block grant to all states could be considerable.[2]

In short, his proposal is best understood not as a demonstration but as the first step toward block granting the Food Stamp Program nationally.

[2] Technically, under H.R. 240, all states could opt into the block grant. The proposed superwaiver authority does not prohibit USDA from providing waivers to other states wishing to adopt a block grant.