



**CONGRESSIONAL BUDGET OFFICE
INTERGOVERNMENTAL MANDATES STATEMENT**

September 4, 1997

Agricultural Research, Extension, and Education Reform Act of 1997

*As ordered reported by the Senate Committee on Agriculture, Nutrition & Forestry on
July 30, 1997*

SUMMARY

This legislation would reauthorize, reform, or eliminate certain agricultural research, extension, and education programs, and would authorize appropriations for several new ones. These programs operate largely through grants to colleges and universities. The bill also includes provisions that would authorize federal spending for grants to state and tribal institutions, and others that would impose new conditions for the receipt of these grants.

The bill includes a provision (section 501) that would limit the amount the Secretary of Agriculture would pay each state for administering the Food Stamp program. Section 501 would impose an intergovernmental mandate, as defined in the Unfunded Mandates Reform Act of 1995 (UMRA), because it would reduce the federal share of a major entitlement program. CBO estimates that the net direct costs to states of this mandate would be \$200 million in 1998 and \$1.1 billion for the 1998-2002 period. These amounts exceed the threshold for intergovernmental mandates specified in UMRA.

INTERGOVERNMENTAL MANDATES CONTAINED IN BILL

Section 501 would limit the federal government's responsibility to provide funding to states for administrative costs of the Food Stamp program. Section 421(5)(B)(ii) of UMRA provides that imposing a cap on federal funding for certain entitlement programs, including the Food Stamp program, is a mandate if the state, local, or tribal governments that participate in the program lack the authority to amend their financial or programmatic responsibilities to continue providing required services that are affected by the legislation. Because states have limited authority to amend their programmatic responsibilities under the

Food Stamp program, CBO has determined that the cap imposed by section 501 would constitute a mandate.

ESTIMATED DIRECT COSTS OF MANDATES TO STATE, LOCAL, AND TRIBAL GOVERNMENTS

Is the Statutory Threshold (\$50 million in 1996, adjusted annually for inflation) Exceeded?

Yes

Total Direct Costs of Mandates

CBO estimates that the direct costs of the intergovernmental mandate on state, local, and tribal governments are as follows:

	<u>By Fiscal Year, in Millions of Dollars</u>				
	1998	1999	2000	2001	2002
Net Direct Costs	200	280	240	200	190

BASIS OF ESTIMATE

Background. Under current law, the states administer the Food Stamp program and the federal government reimburses them for half of all administrative costs. The largest component of administrative costs is the cost of certifying eligible households. Other components include costs of issuing food stamps, computer operations, and fraud control. States also administer many other public benefit programs, such as Medicaid, cash assistance for families with children (previously Aid to Families with Dependent Children (AFDC), now Temporary Assistance for Needy Families (TANF)), Child Support Enforcement, Foster Care, and in some states, general assistance. The federal government matches states' administrative expenses for all of these programs except state-funded general assistance.

Because of the overlap in eligible populations, states often undertake administrative activities that benefit more than one program. For example, when a household applies for TANF, Medicaid, and food stamps, collecting information on the household's income is necessary for all programs and is usually done during a combined eligibility interview. The process of allocating shared administrative costs among various state and federal programs is known as cost allocation. The general rules for allocating costs are prescribed by regulation in OMB Circular A-87. These rules require that costs that are incurred for more than one program be allocated based on the extent to which the various programs benefit from the activity. Under this logic, a cost that is equally necessary for more than one program should be shared equally by the programs.

The history of the public welfare programs led to an exception to this general cost allocation rule. All costs that were identified as shared costs were allocated to AFDC because AFDC existed first. When Congress later created Medicaid and Food Stamps it assumed that large portions of the administrative work for households that received AFDC was already done for AFDC and that these newer programs could piggy-back on that work. For cases that received AFDC, food stamps, and Medicaid, the Food Stamp and Medicaid programs paid only the cost of the work that was over and above what was required for AFDC. Because the federal match rate was generally 50 percent in all three programs, the amount that the federal government paid was the same, regardless of whether it was considered a joint cost (and thus claimed under the AFDC program) or a cost allocated to one of the individual programs.

Effect of PRWORA. Last summer's welfare law, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), replaced the AFDC program with the TANF block grant program. Under AFDC, the federal government and the states had shared the entitlement costs of cash benefits, administrative costs, emergency assistance, and the Job Opportunities and Basic Skills Training (JOBS) program. PRWORA repealed these programs and replaced them with a federal block grant that states can use as they choose, within wide boundaries, for serving needy families. The amount for the block grant was based on recent historical federal spending for the repealed components of AFDC. Therefore, although the amount states will spend on administrative expenses is not dictated by federal law (except that it cannot exceed 15 percent of the block grant amount), the amount that was implicitly included in the TANF block grant based on pre-1996 spending was predicated on the cost allocation method discussed above, where AFDC paid for the administrative costs that benefitted all the various programs.

The repeal of AFDC and institution of TANF affected the allocation of administrative costs in two ways. First, states now have the incentive to maximize the administrative costs

attributed to Medicaid or Food Stamps, where they can still receive a 50 percent match, and minimize TANF expenses so that those funds can be used for other purposes. Second, with AFDC abolished, the legislative history that gave AFDC special treatment for cost allocation purposes may be obsolete, and the Congress did not specify how shared costs should be treated under TANF.

CBO's March 1997 Baseline. In estimating spending under current law for CBO's March 1997 baseline, CBO assumed that states will begin to draw down more Food Stamp and Medicaid administrative funds than they have in the past for the two reasons outlined above: they will maximize the amount of administrative costs that they attribute to Medicaid or Food Stamps, and they will seek to revise their cost allocation plans so that all programs that benefit from joint activities share in the costs, instead of TANF paying all of the shared costs.

Effect of this bill. The bill would cap each state's allowable Food Stamp administrative costs at a level that, when aggregated, is lower than CBO's March 1997 estimates of current law spending. States would still draw down federal money at the 50-percent-match rate up to the cap, and then would receive no additional match for costs above the cap. In 1998 the cap level would be 110 percent of the amount the state received in fiscal year 1996. In later years the cap would be 115 percent of the fiscal year 1996 amount, adjusted for inflation and for changes in the number of households participating in the Food Stamp program. As a result, states would receive less administrative funding under the Food Stamp program than they would otherwise receive if the federal contribution remained open-ended. However, CBO anticipates that spending on certain other expenses exempt from the cap on Food Stamp administrative costs (such as employment and training and initiation of new computer systems) would increase under the bill. CBO estimates that states on balance would lose Food Stamp funding totaling \$310 million in fiscal year 1998 and \$1.7 billion over the 1998-2002 period.

CBO expects that states would minimize their losses under the bill by changing some practices and reallocating their administrative costs to draw down more money under Medicaid, which retains an open-ended match for administrative costs. CBO estimates that states would collect an additional \$110 million in fiscal year 1998 and \$600 million over the 1998-2002 period. Thus, the net cost of the mandate would be \$200 million in fiscal year 1998 and \$1.1 billion for the five-year period beginning in 1998.

APPROPRIATION OR OTHER FEDERAL FINANCIAL ASSISTANCE PROVIDED IN BILL TO COVER MANDATE COSTS

None

OTHER IMPACTS ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Agricultural Research, Extension, and Education Programs. This bill would extend the authorization of appropriations for federal agricultural research, extension, and education programs through fiscal year 2002. It would also create several new programs and repeal certain existing ones. A large part of the funds authorized by this bill would be spent on grants to state and tribal institutions, mostly colleges and universities. The bill imposes new conditions on the use of this assistance, however.

The primary result of these new conditions would be to redirect the uses of federal funds by grantees. Section 205 of this bill would limit indirect costs charged to certain competitive research, extension, or education grants to no more than 25 percent total federal funds. Section 105 would require land-grant colleges and universities to use a minimum percentage of funds provided under other programs for activities that integrate cooperative research and extension. Finally, section 224 would require that states use a minimum percentage of their cooperative extension funds for multistate activities. The extent to which the latter two provisions lead to a significant change in funded activities would depend on how the USDA would define the terms and what types of activities it would accept as counting towards these goals. The cost of these provisions also would depend on what specific requirements USDA would impose on grant recipients to document their compliance.

Other provisions would require scientific peer review or merit review of activities funded by this bill. Institutions that receive agricultural research or extension funds would be required to establish a process for merit review of funded activities. Based on information provided by state officials, CBO estimates that these requirements would not impose significant new costs on grant recipients. These institutions generally follow procedures that would comply with these provisions. They could face additional burdens if the specific requirements imposed by USDA's implementing regulations were to differ significantly from current practice.

Child Nutrition. The bill would authorize funding totaling \$5 million annually for startup and expansion costs associated with the school breakfast and summer food service programs. Because it would increase funding for Child Nutrition programs, the bill would also add to the amount that states receive from the federal government for administering such programs by less than \$0.5 million annually beginning in fiscal year 2000.

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