THE WHITE HOUSE

WASHINGTON

February 13, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: CAROL RASCO

SUBJECT: Kassebaum Medicaid for Welfare Swap

PURPOSE

To provide you with background information on the Kassebaum Medicaid/Welfare swap as a follow-up to the discussion you had with the Governors at Blair House. In addition, to provide you with a status report on the level of Congressional interest in and receptivity to this proposal.

BACKGROUND

As you know, Senator Nancy Kassebaum has proposed a major restructuring of the social welfare system in which the Federal government would take over full responsibility for Medicaid acute-care and the states would take over the food stamp, AFDC, and WIC programs. During a five-year transition period, a maintenance-of-effort requirement would bar states from reducing overall expenditures on cash and food assistance to the poor and states would continue to bear some share of Medicaid costs.

At least initially, States are attracted to this proposal because it would allow them to relieve themselves of their future Medicaid spending -- which continues to outpace inflation -- and have the Federal government take over. The downside from the Federal Government's perspective is that implementing this proposal would increase the deficit in both the short-term and the long-term. The swap could be modified to be more balanced by giving more programs to the states or by swapping only parts of the Medicaid program. However, any tradeoffs that would make the swap budget-neutral or deficit-reducing would increase costs to many or most states (certainly over the long-run) and are unlikely to be received favorably by the Governors. Since the Rebublican Congress is desperately looking to save money, it sems unlikely that this conflict will be resolved this year.

There are other significant policy implications of the Kassebaum proposal other than the deficit issue. The DPC/NEC health policy development working group raised four additional major policy concerns about the swap proposal, which are outlined in the following pages.

POLICY IMPLICATIONS OF THE KASSEBAUM SWAP

I. Likely Reductions in Welfare Programs. Experience with states over the past 25 years suggests that states will not maintain existing eligibility requirements and benefits for the welfare programs. In fact, state spending on welfare programs has declined dramatically in real terms:

- AFDC benefits in the median state have fallen 47 percent in real terms since 1970, even though the Federal government paid 50 to 80 percent of the benefit costs during this period. Combined AFDC and food stamp benefits for a family with no other income is now at the level of AFDC benefits alone in 1960, before the food stamp program was created.

- Even though state appropriations for WIC generally qualify a state for a larger Federal WIC allocation, states have been cutting state funds for WIC in recent years. In the past two years, state funding for WIC fell 33 percent in real terms.

Furthermore, if a balanced budget amendment is passed, prospects that states would maintain cash and food assistance for the poor (after the transition period requiring some maintenance of effort ends) become even less likely.

In contrast, in the two programs where benefits are 100 percent Federally-funded and national benefit standards exist -- the food stamp program and the Federal SSI program -- there has been no benefit erosion over the past 20 or 25 years.

II. Varying Impacts Among States. Any swap is likely to have different distributional impacts among states. States that spend more on welfare than Medicaid (according to Kassebaum there are 14 such states) will be losers. At least initially, the other 36 states will be winners -- meaning that Federal government will be picking up some portion of their current spending. The size of the losses and gains could vary dramatically among states.

As some states cut back on their welfare programs -- as is likely under a swap proposal -- variations in welfare benefits among states will increase even more. A key feature of the Federal food stamp program is its role in helping moderate what otherwise would be huge differences between states in the benefits they provide to poor children. Today, food stamp benefits are large in states that pay low AFDC benefits, because a family's food stamp allotment depends on its income level. This moderating effect would disappear once the food stamp program devolved to the states.

- The State of Connecticut provides a family of three that has no other income with an AFDC benefit of $680 per month, about two-thirds of the poverty line. Mississippi, by contrast, pays a family of three only about one-sixth as much -- $120 a month, which is less than 12 percent of the poverty line. When food stamps are added in, the benefit package in Mississippi climbs from about one-sixth to one-half of the size of the Connecticut package.

III. Weakening Automatic Stabilizers. The amount of Federal food stamp benefits provided in a state automatically rises when the state economy turns down and unemployment and poverty mount -- making the program the Federal government's most important automatic stabilizer after unemployment insurance. If AFDC and food stamps are devolved, states will be forced to choose among absorbing the additional benefit costs during recessions, reducing food and welfare benefits, or putting new applicants on waiting lists.

IV. Complications in Creating a Federal Medicaid Program. If the Medicaid program became entirely Federal, it would be difficult to justify maintaining the wide variations that now exist among states in the categories of households eligible for the program, the health services that are covered, and the reimbursement rates that are paid to providers. If the Federal government chose to provide uniform coverage similar to that now offered in some of the least generous states, the number of the uninsured would likely rise and beneficiaries in a number of states would lose coverage for some services. If the Federal government instead chose to provide coverage similar to that offered in the most generous states, the cost to the Federal treasury would be great.

NGA AND CONGRESSIONAL RESPONSE TO SWAP

At least at first glance, the Governors and the NGA were very interested in the Kassebaum proposal. Trading virtually anything to rid the states of their expensive, time consuming and frequently politically unpopular Medicaid obligations has real appeal. As a result, the Governors directed NGA staff to study the implications and potential of the proposal. However, in recent weeks, the Governors, the NGA staff, and the Republicans in the Congress seem to have cooled to the Kassebaum concept.

The Governors now appear to be less interested in the proposal primarily because, in an environment in which the Congressional Republicans' number one priority is obtaining large Federal savings, a Medicaid/welfare swap to achieve this seems either unlikely or will almost invariably and unevenly hurt the states. Second, proposals to block grant welfare -- that particularly the Republican Governors are advocating -- run contrary to the idea of swapping entire programs.

The Republicans in Congress are concluding the Kassebaum proposal has diminished appeal because they are increasingly believing that this proposal would necessitate complicated and controversial negotiations. Its attractiveness further diminishes when they contrast it with block granting proposals that are less complicated and more likely to produce larger Federal savings. Senator Dole's office reports that there is little or no interest in this proposal on the Finance Committee. This is significant because the Finance Committee (not Kassebaum's Labor Committee) has legislative jurisdiction over the Medicaid and AFDC programs.

CONCLUSION

Despite the states' desire to trade away the Medicaid program, the Congressional interest in producing significant Medicaid savings as well as the major policy implications of the proposal indicate that this type of swap is unlikely to go very far in the 104th Congress.

THE WHITE HOUSE

WASHINGTON

December 6, 1994

A NOTE TO CAROL RASCO

FROM: MICKEY LEVITAN
GAYNOR McCOWN

SUBJECT: INFORMATION FOR NGA HEARING

The agencies have submitted the attached information regarding the different states that will be present at tomorrow's hearing. This data - from HHS and Agriculture - reflects current activity for waivers and other pertinent issues related to children and families.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Chief of Staff

Washington, D.C. 20201

DEC 7 1994

TO: Jennifer O'Connor

FROM: Kevin Thurm

SUBJECT: Hearing Panel for the Governor's Campaign for Children

Illinois

No items reported

Indiana

- **Welfare Reform.** In June, Indiana submitted a request for waivers to implement the "Manpower, Placement and Comprehensive Training Program." Major components of the proposal include time-limited AFDC benefits and a family cap. The program also would extend grant diversion to up to 24 months and allow its use for child care and training and development projects; eliminate the 100-hours of work rule for AFDC-UP (Unemployed Parent); require children to attend school and be immunized; extend transitional child care to 18 months; provide only one-time JOBS exemption for care of child under three; and require minors to live with a responsible adult. ACF has held prolonged conversations with the state due to vagueness of the application, but expects to recommend a final decision soon.

Michigan

- **To Strengthen Michigan Families.** Secretary Shalala approved Michigan's request for welfare waivers on October 6, 1994. The state's plan will remove certain AFDC and Food Stamp Program restrictions on self-employment business income and assets; exclude one vehicle of any value; require immunization of AFDC children; allow federal funding for visitation and custody services provided by the child support enforcement agency; and change the sanction for failing to comply with the JOBS and Child Support Enforcement programs to 25% of AFDC and Food Stamp benefits.

  Though officially a welfare waiver request, the proposal also included several Medicaid issues, which were separated from the approved package and still are

under consideration. These issues include assisting families who are leaving Medicaid in the purchase of health insurance through a managed care plan; assisting non-custodial parents in the purchase of health insurance through a managed care plan for their children; and providing family planning services for individuals with incomes below 185 percent of the federal poverty level. HCFA staff are discussing concerns with the state working with the state to create a viable project.

- **Welfare Waiver Lawsuit.** HHS is involved in a pending law suit (Castillo v. Miller), concerning a waiver the Department granted in connection with Michigan's ongoing welfare reform demonstration. The Department allowed the state's interpretation that by eliminating the 100 hour rule for unemployed parents (which limits a parent to 100 hours of work to remain eligible for AFDC), the size of the family unit for certain families changed. This in turn resulted in these families becoming ineligible for AFDC. In a decision filed November 11, 1994, the court dismissed all of the claims against the Department and the state. The plaintiffs complaint in this case did not include a claim that the Department's granting of the waiver was unlawful because it was arbitrary or capricious. The court's decision gives the plaintiffs 30 days to file an amended supplemental complaint on those grounds, if they choose to do so.

Minnesota

- **Welfare Reform.** State officials have indicated that they will submit an application for welfare waivers that would, among other proposals, divert AFDC applicants to work positions, providing support services; provide monthly federal and state tax credits; require minor parents to live with a guardian; and eliminate 100-hour rule for AFDC-UP.

Missouri

- **Welfare Reform.** In August, Missouri submitted the first phase of a welfare reform waiver application to implement the Missouri Families Mutual Responsibility Plan. The statewide demonstration would require a minor parent to reside in the home of a parent or in another adult-supervised setting as a condition for receiving AFDC. Furthermore, the plan would disregard the income of the parents of minor parents if under the federal poverty line, as well as the income of minor parents while they remain in school. Under the proposal, two-parent families under age 21 would be able to work more than 100 hours and continue to receive AFDC, and all AFDC families could own one vehicle regardless of its value and exclude up to $1500 of the equity value of a second vehicle in the household. The state also proposed to eliminate the good cause

provision which allows minor mothers not to live at home under certain circumstances. ACF has informed the state that this provision cannot be waived, and has agreed with the state to review the entire proposal when the second phase is submitted in December.

West Virginia

- **Consolidated Services.** The HHS Regional Office has been holding discussions with West Virginia since April to help the state create a plan to consolidate the delivery of nearly 200 federal programs for children, youth, and families, now administered separately on the state level. In May, the state presented a concept paper to the White House, outlining its general philosophy for the plan. On October 21, Governor Caperton wrote to the President submitting the first specific proposals. The state hopes to use federal administrative dollars to create a "Children's Planning Fund" to establish contracts with certified community-based organizations that will work with the state to design family-focused service delivery systems, tailored to the unique characteristics of their community. Staff from the State of West Virginia will meet with Ralph Douglas (ACF Regional Administrator) on December 9. The Department has offered positive support for the state's proposals, and likely will develop a committee to work further with the region and West Virginia on this issue.

Wisconsin

- **Two-Tier AFDC Benefit Demonstration.** HHS approved this waiver on July 27, 1992, allowing Wisconsin to limit benefits to the level of the former state of residence for families who recently had moved to the state. On September 13, 1994, Legal Services of Wisconsin filed a suit in the U.S. District Court challenging the durational residency requirements of this project. HHS previously had informed the state that as a result of a recent California court decision (Green v. Anderson), in which a similar provision was found unconstitutional, the Department would not defend any challenges to Wisconsin's project based on its constitutionality. Reaction from the state was largely negative. The Governor held a press conference, and the Department received a letter from the entire delegation of Republican state legislators, expressing their displeasure with the Department's decision.

- **AFDC Benefit Cap (ABC) Demonstration Project.** HHS approved waivers on June 24, 1994, for Wisconsin to conduct this welfare reform demonstration, the major provision of which is a family cap. Additionally, the demonstration includes a variety of techniques to increase awareness and availability of family planning resources among AFDC applicants and recipients.

Vermont

- **Gubernatorial Disapproval of Head Start Award.** In September Governor Dean disapproved refunding of the Champlain Valley Office of Economic Opportunity Head Start program in Burlington. The Head Start Act requires that Governor's have an opportunity to approve or disapprove Head Start grants to local agencies each year. However, if a Governor disapproves a grant, HHS may override that decision. It had been many years since any Governor had disapproved an award.

  Governor Dean's reasons for the disapproval were related to the manner in which the agency is operating the program and the agency's philosophy, and did not focus on the quality of services being delivered by the program, which all parties believe to be satisfactory. The Department is working to resolve the Governor's concerns with the goal of maintaining the program. There are on-going discussions with the Governor, involving both the Secretary's office and the regional HHS office, and hopefully, the issue will be resolved shortly. In the meantime, the Head Start program continues to operate normally.

ILLINOIS

FCS Issues in Illinois - An Implementation Advance Planning Document (IAPD) for food stamps, AFDC, and several State benefit programs was approved in January, 1994. FCS has approved Illinois' EBT Implementation RFP.

The Chicago Department of Health was the host for the 11th annual National Association of WIC Directors' meeting (April 10-13). During this meeting, Illinois was one of a few states to receive an award from FCS for the establishment of WIC Food Centers. These centers address the problems of a lack of safe and economically -priced stores by providing WIC clients with a clean and secure environment for redeeming the WIC vouchers.

Illinois has also established model Food and Nutrition Education Centers for Chicago WIC clients. These centers provide a mock grocery, a demonstration kitchen, a mothers' room, and a set of computer-assisted instruction programs. This gives a full opportunity for nutrition education for clients.

The Chicago School Board's School Food Service Director, Mr. Jack Costello, contacted USDA's Regional Office in Chicago regarding BST milk earlier this year. The schools had been contacted by parents regarding whether the milk was free from BST. The Board is considering bidding for milk free of BST. However, FDA has declared that BST milk is safe and USDA is in accord with this position.

FCS Statistics in Illinois - The total cost of FCS food assistance in Illinois during the FY 1993, was $1.512 billion. Amounts for the three major programs were:

Program	Federal Cost (millions)	Participation (thousands)
Food Stamp	$1,108	1,179 (monthly average, individuals)
School Lunch	$188	866 (school day average)
WIC	$109	39 (monthly average, individuals)

INDIANA

FCS Issues in Indiana - The Indianapolis Star published on April 26, 1994 an opinion article by Senator Richard Lugar (R-IN) saying that legislation to reorganize USDA is proof that Government can work. He states in the article that he intends to hold Sec. Espy to his pledge to consolidate the county office structure. He also cites USDA's previous inability to cite how many people it employed and the work performed by each office as a reason why the Department was the focus of reform efforts.

On Electronic Benefits Transfer (EBT), the Indiana legislature has twice rejected pilot programs to test EBT in the Food Stamp Program. In mid-March, the legislature voted down the latest pilot. The failure to approve EBT was due to concern about the cost neutrality requirements in the Food Stamp Program (EBT can cost no more that current systems), and the concerns about Regulation E, a Federal Reserve rule that gives welfare customers the same consumer protections as other bank card holders.

Indiana began operating the WIC Farmers' Market Nutrition Program in the summer of 1994.

FCS Statistics for Indiana - The total cost of FCS food assistance in Indiana during FY 1993 was $610 million. Amounts for the three major programs were:

Program	Federal Cost (millions)	Participation (thousands)
Food Stamps	$430.7	496 (monthly average, individuals)
School Lunch	$84.6	554 (school day average)
WIC	$59.3	137 (monthly average, individuals)

MICHIGAN

FCS Issues in Michigan - The FY 1995 USDA budget reduces the appropriations for the Commodity Supplemental Food Program (CSFP). Detroit is the site of one of the largest and earliest CSFP programs. The Michigan Congressional Delegation staunchly supports CSFP and attempted to restore and increase the CSFP funds.

Under Secretary Ellen Haas and Rep. Dale Kildee co-chaired one of the national hearings on USDA's School Meals Initiatives in Flint, Michigan, on November 12, 1993.

The Detroit Free Press, beginning on February 21, 1994, published a series of articles on fraud in the Food Stamp Program.

Michigan is still in the planning phase of its EBT plan.

Michigan resumed operating the WIC Farmers' Market Program and was awarded $173 thousand for FY 1994. The State had dropped out in 1993 due to the lack of matching funds.

FCS Statistics for Michigan - The total cost of FCS food assistance in Michigan during FY 1993 was $1.03 billion. Amounts for the three major programs were:

Program	Federal Cost (millions)	Participation (thousands)
Food Stamps	$837	1,022 (monthly average, individuals)
School Lunch	$105	747 (school day average)
WIC	$91	188 (monthly average, individuals)

MINNESOTA

FCS Issues in Minnesota - "Minnesota Lunchpower" Initiative provides a software program to schools to conduct nutrient analysis of school meals in an effort to implement the Dietary Guidelines for Americans.

In an effort to cut paperwork, St. Paul schools are using a debit card system for students to use when participating in school meals programs.

Minnesota Family Investment Plan (MFIP), which began operations in April and will run through March 1999, will consolidate AFDC, General Assistance and the Food Stamp Program. MFIP will operate in seven counties with one set of rules. Benefits are to be issued in the form of a cash grant.

In mid-March there was a serious outbreak of bacterial food illness at the Fred Moore Middle School in Anoka, Minnesota, among 400 students and several teachers. An investigation by the State Health Department determined the cause to be some employees not washing their hands after using the bathroom.

EBT has been operating in Ramsay County (St. Paul) and will soon expand into Hennipin County (Minneapolis). Such an expansion would encompass nearly 50% of Minnesota's food stamp caseload.

Minnesota began operating the WIC Farmers' Market Program with a grant of $144 thousand for FY 94.

FCS Statistics for Minnesota - The total cost of FCS food assistance in Minnesota during FY 1993 was $443 million. Amounts for the three major programs were:

Program	Federal Cost (millions)	Participation (thousands)
Food Stamps	$254	317 (monthly average, individuals)
School Lunch	$68	470 (school day average)
WIC	$39	15 (monthly average, individuals)

MISSOURI

FCS Issues in Missouri - Missouri has been granted a waiver to permit the State to allow use of food stamp as well as AFDC benefits for wage supplementation in its cash-out demonstration, part of a 10-year welfare reform project that will operate only in the Kansas City area. Food stamp households would be targeted for self-sufficiency within 48 months and could accumulate up to $10,000 in resources. Recipients would retain eligibility during the period of participation regardless of income changes. The demonstration will be tested in up to 20 communities for 12 years, and is scheduled to end January 2005.

Missouri WIC is a member of the southern alliance of states (SAS). Jack Radzikowski of the federal EBT task force is scheduled to meet with the Missouri EBT advisory group (including WIC) December 9 to discuss the contract process to be used by SAS. Missouri continues to work with other southern alliance states on EBT, and is working with its planning contractor to develop a request for proposal and IAPD.

The Missouri WIC system known as HANDS (developed in-house) is a multi-program shared database serving all local WIC clinics Statewide. It has opened the door to communication with other programs such as Immunization, Missouri's automated client tracking system in the Bureau of Special Health Care Needs, and prenatal care services.

Missouri was the first Mountain-Plains state to develop and implement a management evaluation special initiative, which attempts to improve all aspects of a local welfare office's operations, rather than just mandatory review elements.

Missouri Family Nutrition Program nutrition education plan is a cooperative effort between University of Missouri - Columbia Extension Service and the Missouri Department of Social Services. It focuses on five program audiences: women, divorced or unmarried men with or without custody of their children, elderly, pregnant and parenting teens, and youth. It aims to help them make better use of all their resources, including food stamp dollars, to improve nutritional well-being.

Missouri began operating the WIC Farmers' Market Program with a grant of $13,000 for FY 94.

In March, approximately 350 persons attended the Regional USDA Hunger Forum in Kansas City, co-chaired by Deputy Assistant Secretary Shirley Watkins and U.S. Representative Alan Wheat (D-MO).

Allegations of food stamp fraud surfaced shortly after flood-emergency issuance began on July 16, 1993. Approximately 7,400 applications were filed in Kansas City through August 12, with nearly $2.7 million in benefits issued to flood victims. A 4-day amnesty period allowed fraudulent claimants to return stamps or make restitution; during the 4 days, about $212,000 in stamps were surrendered, according to an article in the Kansas City Star. Ongoing investigations and civil rights complaints (following termination of Jackson County employees) are not yet resolved.

VERMONT

FCS Issues in Vermont - FCS Northeast Regional Office (NERO) and the Vermont Department of Social Welfare have established a workgroup to identify ways of improving Vermont's payment accuracy.

In 1993 an estimated 9,000 people participated in the Farmers' Market Nutrition Program.

In 1994, a study conducted by a private research organization confirmed the long-term viability of the home delivery system for providing food to WIC participants, as well as the strong support for the system from participants, advocates and the home delivery vendors.

Vermont has been selected and is operating a demonstration project to test more nutritious foods in TEFAP.

Payment Accuracy - For FY 93 the State's regressed error rate was 11.40% which rendered it liable to a sanction of $11,000. For FY 94 (through May) the State's reported error rate is 5.06%. Since the regressed error rate is typically quite a bit higher than the reported error rate, we could reasonably expect a regressed error rate in the 7.0% range - a four percentage point reduction from 1993.

Staff from NERO's State Operations Section and Quality Control Unit met with representatives from the Vermont State agency on August 31, 1994 to discuss FCS' commitment toward working in partnership with the state agency to address the State's excessive QC payment error rate. At the meeting, the State agency agreed to form a corrective action workgroup comprised of both state agency and FCS staff. The workgroup will not only analyze QC payment errors but will also develop specific corrective action steps that should be taken to effectively reduce payment errors. A follow-up meeting between the Regional Office and the State agency is planned for November, 1994.

FCS Statistics for Vermont - The total Federal cost of FCS food assistance programs in Vermont during FY 1993 was $61.2 million. Amounts for the three major programs were:

Program	Federal Cost (millions)	Participation (thousands)
Food Stamps	$40.3	54 (monthly average, individuals)
School Lunch	$6.9	44 (school day average)
WIC	$7.6	15 (monthly average,individuals)

WEST VIRGINIA

FCS Issues in West Virginia - The West Virginia Supplemental Food Program for Women, Infants and Children, (WIC) has submitted a state plan to request $68,701 in federal funds to operate a Farmers' Market Nutrition Program (FMNP) in Fiscal Year 1994. This plan, which is currently under review for approval and funding, will enable the state to operate a FMNP in 12 counties, including Kanawah County (Charleston). About 4,000 pregnant, breastfeeding and postpartum WIC participants will receive $20 in FMNP coupons to purchase fresh fruits and vegetables at authorized farmers' markets.

West Virginia plans to integrate county 4-H and boy and girl scout clubs into the FMNP and work with the Partners in Education program to gain business support for school efforts to establish gardening projects.

West Virginia's most current food stamp quality control error rate for fiscal year 1993 is 13.83 which will put the state in sanction status. Last year the state's error rate was 10.64 which was just under the national average. Prior to last year the state was sanctioned for its high error rate three years in a row and is currently reinvesting those sanction amounts in error reduction activities.

FCS Statistics in West Virginia - The total federal cost of food assistance programs in West Virginia during fiscal year 1993 was $352 million. Amounts for the three major programs were:

Program	Federal Cost (millions)	Participation (thousands)
Food Stamps	$267	322 (monthly average, individuals)
School Lunch	$37	182 (school day average)
WIC	$24	43 (monthly average, individuals)

WISCONSIN

FCS Issues in Wisconsin - Diminished dairy product use in the school meals programs was an important issue at a recent hearing before the House Agriculture Subcommittee on Department Operations and Nutrition. Wisconsin Congressman Steve Gunderson (R-WI) used the hearing on the School Meals Initiative for Healthy Children (SMI) regulations to claim that these regulations would decrease sales of dairy products and reduce income to dairy farmers. Mr. Jim Barr, Chief Executive Officer, National Milk Producers Federation, submitted testimony that the SMI regulations would decrease farm revenue by $450-600 million annually, driving thousands of family farmers out of business. USDA estimates do not support such overblown figures, and show that the impact on the dairy industry to be minimal. SMI could be implemented in many ways by schools, and major reductions in dairy are not anticipated.

Madison, Wisconsin, is a designated Weed and Seed site. Currently, the caseload and funding for the Special Supplemental Food Program for Women, Infants, and Children (WIC) are adequate to serve any additional participants added as a result of Weed and Seed. However, no Federal money has been specifically designated in the WIC Program for Weed and Seed projects.

Milwaukee, Wisconsin, has implemented a total quality management approach to reduce errors in the Food Stamp Program. A team of county, State, and Federal staff have joined forces to increase program efficiency with the goal of lowering the error rate and receiving enhanced Federal funding.

FCS Statistics for Wisconsin - The total Federal cost of food assistance programs in Wisconsin during FY 1993 was $403 million. Amounts for the three major programs were:

Program	Federal Cost (millions)	Participation (thousands)
Food Stamps	$248	337 (monthly average)
School Lunch	$68.8	44 (school day average)
WIC	$45.6	94 (monthly average)

FCS Statistics for Missouri - The total cost of FCS food assistance in Missouri during FY 1993 was 702 million. Amounts for the three major programs were:

Program	Federal Cost (millions)	Participation (thousands)
Food Stamps	$502	591 (monthly average,individuals)
School Lunch	$87	510 (school day average)
WIC	$54	112 (monthly average, individuals)

103D CONGRESS
2D SESSION

S. 1891

To shift financial responsibility for providing welfare assistance to the States and shift financial responsibility for providing medical assistance under title XIX of the Social Security Act to the Federal Government, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 7 (legislative day, FEBRUARY 22), 1994

Mrs. KASSEBAUM (for herself, Mr. BENNETT, Mr. BROWN, Mr. CRAIG, and Mr. DANFORTH) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To shift financial responsibility for providing welfare assistance to the States and shift financial responsibility for providing medical assistance under title XIX of the Social Security Act to the Federal Government, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Welfare and Medicaid Responsibility Exchange Act of 1994".

SEC. 2. EXCHANGE OF FINANCIAL RESPONSIBILITIES FOR CERTAIN WELFARE PROGRAMS AND THE MEDICAID PROGRAM.

(a) IN GENERAL.—In exchange for the Federal funds received by a State under section 3 for fiscal years 1996, 1997, 1998, 1999, and 2000 such State shall provide cash and non-cash assistance to low income individuals in accordance with subsection (b).

(b) REQUIREMENT TO PROVIDE A CERTAIN LEVEL OF LOW INCOME ASSISTANCE.—

(1) IN GENERAL.—The amount of cash and non-cash assistance provided to low income individuals by a State for any quarter during fiscal years 1996, 1997, 1998, 1999, and 2000 shall not be less than the sum of—

(A) the amount determined under paragraph (2); and

(B) the amount determined under paragraph (3).

(2) MAINTENANCE OF EFFORT WITH RESPECT TO FEDERAL PROGRAMS TERMINATED.—

(A) QUARTER BEGINNING OCTOBER 1, 1995.—The amount determined under this paragraph for the quarter beginning October 1, 1995, is an amount equal to the sum of—

(i) one-quarter of the base expenditures determined under subparagraph (C) for the State,

(ii) the product of the amount determined under clause (i) and the estimated increase in the consumer price index (for all urban consumers, United States city average) for the preceding quarter, and

(iii) the amount that the Federal Government and the State would have expended in the State in the quarter under the programs terminated under section 4 solely by reason of the increase in recipients which the Secretary of Health and Human Services and the Secretary of Agriculture estimate would have occurred if such programs had not been terminated.

(B) SUCCEEDING QUARTERS.—The amount determined under this paragraph for any quarter beginning on or after January 1, 1996, is an amount equal to the sum of—

(i) the amount expended by the State under subsection (a) in the preceding quarter,

(ii) the product of the amount determined under clause (i) and the estimated increase in the consumer price index (for all urban consumers, United States city average) for the preceding quarter, and

(iii) the amount that the Federal Government and the State would have expended in the State in the quarter under the programs terminated under section 4 solely by reason of the increase in recipients which the Secretary of Health and Human Services and the Secretary of Agriculture estimate would have occurred if such programs had not been terminated.

(C) DETERMINATION OF BASE AMOUNT.—The Secretary of Health and Human Services, in cooperation with the Secretary of Agriculture, shall calculate for each State an amount equal to the total Federal and State expenditures for administering and providing—

(i) aid to families with dependent children under a State plan under title IV of the Social Security Act (42 U.S.C. 601 et seq.),

(ii) benefits under the food stamp program under the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.), including benefits provided under section 19 of such Act (7 U.S.C. 2028), and

(iii) benefits under the special supplemental program for women, infants, and children established under section 17 of the Child Nutrition Act of 1966 (42 U.S.C. 1786),

for the State during the 12-month period beginning on July 1, 1994.

(3) MAINTENANCE OF EFFORT WITH RESPECT TO STATE PROGRAMS.—The amount determined under this paragraph for a quarter is the amount of State expenditures for such quarter required to maintain State programs providing cash and non-cash assistance to low income individuals as such programs were in effect during the 12-month period beginning on July 1, 1994.

SEC. 3. PAYMENTS TO STATES.

(a) IN GENERAL.—The Secretary of Health and Human Services shall make quarterly payments to each State during fiscal years 1996, 1997, 1998, 1999, and 2000 in an amount equal to one-quarter of the amount

determined under subsection (b) for the applicable fiscal year and such amount shall be used for the purposes described in subsection (c).

(b) PAYMENT EQUIVALENT TO FEDERAL WELFARE SAVINGS.—

(1) IN GENERAL.—The amount available to be paid to a State for a fiscal year shall be an amount equal to the amount calculated under paragraph (2) for the State.

(2) AMOUNTS AVAILABLE.—

(A) FISCAL YEAR 1996.—In fiscal year 1996, the amount available under this subsection for a State is equal to the sum of—

(i) the base amount determined under paragraph (3) for the State,

(ii) the product of the amount determined under clause (i) and the increase in the consumer price index (for all urban consumers, United States city average) for the 12-month period described in paragraph (3), and

(iii) the amount that the Federal Government and the State would have expended in the State in fiscal year 1996 under the programs terminated under sec-

tion 4 solely by reason of the increase in recipients which the Secretary of Health and Human Services and the Secretary of Agriculture estimate would have occurred if such programs had not been terminated.

(B) SUCCEEDING FISCAL YEARS.—In any succeeding fiscal year, the amount available under this subsection for a State is equal to the sum of—

(i) the amount determined under this paragraph for the State in the previous fiscal year,

(ii) the product of the amount determined under clause (i) and the estimated increase in the consumer price index (for all urban consumers, United States city average) during the previous fiscal year, and

(iii) the amount that the Federal Government and the State would have expended in the State in the fiscal year under the programs terminated under section 4 solely by reason of the increase in recipients which the Secretary of Health and Human Services and the Secretary of

Agriculture estimate would have occurred if such programs had not been terminated.

(3) DETERMINATION OF BASE AMOUNT.—The Secretary of Health and Human Services, in cooperation with the Secretary of Agriculture, shall calculate the amount that the Federal Government expended for administering and providing—

(A) aid to families with dependent children under a State plan under title IV of the Social Security Act (42 U.S.C. 601 et seq.),

(B) benefits under the food stamp program under the Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.), including benefits provided under section 19 of such Act (7 U.S.C. 2028), and

(C) benefits under the special supplemental program for women, infants, and children established under section 17 of the Child Nutrition Act of 1966 (42 U.S.C. 1786),

in each State during the 12-month period beginning on July 1, 1994.

(c) PURPOSES FOR WHICH AMOUNTS MAY BE EXPENDED.—

(1) MEDICAID PROGRAM.—

(A) IN GENERAL.—Notwithstanding any other provision of law, during fiscal years 1996, 1997, 1998, 1999, and 2000 a State shall—

(i) except as provided in subparagraph (B), provide medical assistance under title XIX of the Social Security Act in accordance with the terms of the State's plan in effect on January 1, 1994, and

(ii) use the funds it receives under this section toward the State's financial participation for expenditures made under the plan.

(B) CHANGES IN ELIGIBILITY DURING FISCAL YEARS 1998, 1999, AND 2000.—During fiscal years 1998, 1999, and 2000, a State may change State plan requirements relating to eligibility for medical assistance under title XIX of the Social Security Act if the aggregate expenditures under such State plan for the fiscal year do not exceed the amount that would have been spent if a State plan described in subparagraph (A)(i) had been in effect during such fiscal year.

(C) WAIVER OF REQUIREMENTS.—The Secretary of Health and Human Services may

grant a waiver of the requirements under subparagraphs (A)(i) and (B) if a State makes an adequate showing of need in a waiver application submitted in such manner as the Secretary determines appropriate.

(2) EXCESS.—A State that receives funds under this section that are in excess of the State's financial participation for expenditures made under the State plan for medical assistance under title XIX of the Social Security Act shall use such excess funds to provide cash and non-cash assistance for low income families.

(d) DENIAL OF PAYMENTS FOR FAILURE TO MAINTAIN EFFORT.—No payment shall be made under subsection (a) for a quarter if a State fails to comply with the requirements of section 2(b) for the preceding quarter.

(e) ENTITLEMENT.—This section constitutes budget authority in advance of appropriations Acts, and represents the obligation of the Federal Government to provide the payments described in subsection (a).

SEC. 4. TERMINATION OF CERTAIN FEDERAL WELFARE PROGRAMS.

(a) TERMINATION.—

(1) AFDC.—Part A of title IV of the Social Security Act (42 U.S.C. 601 et seq.) is amended by adding at the end the following new section:

"TERMINATION OF AUTHORITY

"SEC. 418. The authority provided by this part shall terminate on October 1, 1995.".

(2) JOBS.—Part F of title IV of the Social Security Act (42 U.S.C. 681 et seq.) is amended by adding at the end the following new section:

"TERMINATION OF AUTHORITY

"SEC. 488. The authority provided by this part shall terminate on October 1, 1995.".

(3) SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC).—Section 17 of the Child Nutrition Act of 1966 (42 U.S.C. 1786) is amended by adding at the end the following new subsection:

"(q) The authority provided by this section shall terminate on October 1, 1995.".

(4) FOOD STAMP PROGRAM.—The Food Stamp Act of 1977 (7 U.S.C. 2011 et seq.) is amended by adding at the end the following new section:

"SEC. 24. TERMINATION OF AUTHORITY.

"The authority provided by this Act shall terminate on October 1, 1995.".

(b) REFERENCES IN OTHER LAWS.—

(1) IN GENERAL.—Any reference in any law, regulation, document, paper, or other record of the United States to any provision that has been terminated by reason of the amendments made in subsection (a) shall, unless the context otherwise requires, be considered to be a reference to such provision, as in effect immediately before the date of the enactment of this Act.

(2) STATE PLANS.—Any reference in any law, regulation, document, paper, or other record of the United States to a State plan that has been terminated by reason of the amendments made in subsection (a), shall, unless the context otherwise requires, be considered to be a reference to such plan as in effect immediately before the date of the enactment of this Act.

SEC. 5. FEDERALIZATION OF THE MEDICAID PROGRAM.

Beginning on October 1, 2000—

(1) each State with a State plan approved under title XIX of the Social Security Act shall be relieved of administrative or financial responsibility for the medicaid program under such title of such Act,

(2) the Secretary of Health and Human Services shall assume such responsibilities and continue

to conduct such program in a State in any manner determined appropriate by the Secretary that is in accordance with the provisions of title XIX of the Social Security Act, and

(3) all expenditures for the program as conducted by the Secretary shall be paid by Federal funds.

SEC. 6. SECRETARIAL SUBMISSION OF LEGISLATIVE PROPOSAL FOR TECHNICAL AND CONFORMING AMENDMENTS.

The Secretary of Health and Human Services shall, within 90 days after the date of enactment of this Act, submit to the appropriate committees of Congress, a legislative proposal providing for such technical and conforming amendments in the law as are required by the provisions of this Act.

○

Welfare and Medicaid Responsibility Exchange Act of 1994
by Senator Nancy Landon Kassebaum
March 7, 1994

Mr. President, later this year the Senate will take up the issue of welfare reform. I know this is a high priority to the chairman of the Finance Committee, Senator Moynihan, and many other members on both sides of the aisle.

While welfare reform has gotten much less attention than the current debate over health care, I believe the need to act on this issue is at least as important and as urgent. Today, I am introducing legislation to help address this concern.

Without question the current welfare system has helped feed, clothe, house, and educate millions of children. It also is without question that we have done so at an enormous price, not only in terms of money but in terms of creating a dependency that has lead us in the wrong direction.

With the best of intentions, we have tried to protect children from material poverty. In the process, we have helped trap too many children in a different kind of poverty--where personal responsibility, individual initiative, and a sense of belonging to community have no real meaning.

The real tragedy of our present welfare system is not the questions it constantly raises about the misuse of taxpayers' money--important as that concern is--but that the present system is failing children and families. Welfare was never intended to become a way of life, but in too many cases that is the reality we now face.

After 60 years and hundreds of billions of dollars, federal welfare efforts still have not won the war on poverty. Today, one out of five children live in poverty. Five million families with ten million children receive welfare assistance. Each year, a half million children are born to unwed teenage mothers, the vast majority of whom will end up on welfare.

The trends are clear, and they are not good. They suggest we already have lost a large part of the present generation, and we will lose even more of the next. That is why I believe the stakes in welfare reform are extremely high. Our failure or success will determine, to a large extent, whether millions of children get a fighting chance to lead healthy, responsible, productive lives.

Unfortunately, the history of our repeated attempts to reform welfare demonstrate that good intentions never guarantee success. If we want to succeed this time, and I believe we must, then we must go beyond patchwork, piecemeal change and fundamentally rethink our approach to helping families with children.

For me, the first basic question to be addressed is not <u>how</u> to reform welfare, but <u>who</u> should do the reforming. I believe a critical flaw in the present system is not only a lack of personal responsibility--it is a lack of responsibility at every level of government.

Our largest welfare programs today are hybrids of state and federal funding and management. The states do most of the administration, within a basic framework of federal regulation, while the federal government provides

most of the money. The result is a hodgepodge of state and federal rules and regulations, conflicting eligibility and benefit standards, and constant push-and-pull between state and federal bureaucracies.

This may suit the needs of government bureaucracy. It clearly is not meeting the needs of children in poverty.

The first step toward real welfare reform, I believe, is to make a clearcut decision about who will run the plan, who will have the power to make key decisions, and who will be held responsible for the outcome.

The legislation we are introducing answers that question: It would give the states complete control and responsibility for Aid to Families with Dependent Children, the food stamp program, and the women, infants and children nutrition program. In order to free state funding to operate these programs, I would have the federal government assume a greater share--in some cases the states' full share--of the Medicaid program.

In budget terms, I am proposing a straight swap. The states assume all funding for welfare and the nutrition programs and pay for it with money they now send to Washington for the Medicaid program. The federal government keeps funding it now provides to the states for welfare and food programs and uses it to further reduce the state share for Medicaid. No state would lose money and neither would the federal government.

For example, in my state of Kansas, the state share of Medicaid this year will total almost $390 million. Federal spending for AFDC, food stamps and WIC will total about $267 million. Under this legislation, the state share of Medicaid would be reduced to about $123 million. That would free up the $267 million in state funds to take over the entire federal share of AFDC, food stamps and WIC.

Nationwide, state payments for Medicaid that now total about $62.3 billion would be reduced to about $21 billion. The balance would be kept by the states to take over the roughly $41 billion that the federal government spends for welfare and the nutrition programs.

In terms of government responsibility, this approach would for the first time draw a clear line between the states and Washington. It would fix responsibility for welfare at the state level--with no federal strings attached.

It also would begin the process of making the federal government responsible for Medicaid--an issue we already must address in health care reform. The explosive growth in Medicaid costs is a major cause of budget problems at both the federal and state level. Clearly, we must overhaul this program, and I plan to introduce legislation soon to lay out my own views on Medicaid reform.

I believe the exchange of responsibilities proposed in this bill makes sense for two reasons.

First, giving states both the power and the responsibility for welfare--with their own money at stake--would create powerful incentives for finding more effective ways to assist families in

need. Nearly half the states already are experimenting with welfare reforms. This would give them broad freedom to test new ideas.

Second, I do not think Washington can reform welfare in any meaningful, lasting way. The reality is that we cannot write a single welfare plan that makes sense for five million families in 50 different and very diverse states.

Washington does not have a magic answer to the welfare problem. The governors and state legislatures have no magic solutions either, but they have the potentially critical advantage of being closer to the people involved, closer to the problems, and closer to the day-to-day realities of making welfare work.

In this case, I believe proximity does matter, perhaps powerfully so. One of the most important factors in whether families succeed or fail is their connection to a community, to a network of support.

For some families, this is found in relatives or friends. For others it might be a caring caseworker, a teacher or principal, a local church, a city or county official. These human connections are not something we can legislate, and they are not something that money can buy.

True welfare reform will require a renewal of local and state responsibilities for children and families in need. I believe that can only happen if the federal government steps aside and allows the states to get on with this work.

Mr. President, I ask unanimous consent that a summary of the bill and the text of the bill appear in the Record following my remarks.

BASIC INFORMATION ABOUT THE KASSEBAUM SWAP PROPOSAL

WHAT IS BEING "SWAPPED:"

The basic purpose of the "swap" proposal is to transfer responsibility for welfare assistance programs to the states, while beginning the process of shifting responsibility for Medicaid to the federal government.

WHY THE SWAP IS THE BEST APPROACH TO WELFARE REFORM:

States are in a much better position than the federal government to make determinations about programs providing cash and noncash assistance for low-income individuals and families. In the past decade, most, if not all, of the innovation in the area of welfare reform has originated at the state and local levels. The number of waivers of federal mandates, regulations and rules being requested by states demonstrates a number of significant things:

There is a need to change the currently federally mandated system of welfare assistance because it is not working well.

Federal rules, regulations, and mandates have become a barrier to operating effective welfare assistance programs.

In the past decade, the momentum for restructuring the welfare system has been generated by the states--the innovations that are being discussed in Congress and by the administration are the result of state efforts to devise and operate more effective welfare systems.

States need the flexibility to adapt their basic assistance programs to better meet the needs of individuals and families in need of welfare assistance.

Economic conditions, employment, educational and training opportunities, and available support services vary widely among states--a "one-size-fits-all" federal welfare assistance program is not able to adapt readily either to this diversity of situations or changing conditions.

In contrast, the federal government is in a better position to devise and administer basic health care services for low-income individuals and families. As the health care reform debate has demonstrated, there is a need for the development of a broader view of health care financing and service provision--an appropriate role for the federal government.

KEY PROVISIONS OF THE "SWAP" PROPOSAL:

- The states will assume full fiscal and administrative responsibility for the Aid to Families with Dependent Children (AFDC), food stamp, and Nutritional Assistance for Women, Infants, and Children (WIC) programs.

- For five years, there will be a maintenance-of-effort requirement that funds currently obligated by states and the federal government for these programs be used to provide cash and noncash assistance for low-income individuals and families. States will have the responsibility and flexibility to design and operate assistance programs without federal rules, regulations, and mandates.

- In return, the states will receive a federal supplement to the state share of Medicaid expenditures equal to the amount currently spent by the federal government in a given state for AFDC, food stamps, and WIC (adjusted annually to account for changes in population and inflation).

- State Medicaid benefits and plan options will be frozen at the January 1, 1994, levels. In the process of redesigning state welfare systems, states may change Medicaid eligibility as long as the aggregate expenditures for the state do not grow faster than the projected costs for Medicaid under the current law.

- After five years, the federal government will assume responsibility for Medicaid (or its equivalent under a new national health care plan).

ST	Medicaid State Share 1994	AFDC 1994	Food Stamp Program 1994	WIC 1994	Medicaid - (AFDC+FSP+WIC)
AL	496,028,000	83,109,394	501,072,318	71,117,000	(159,270,712)
AK	127,480,000	62,106,365	53,930,360	10,698,000	745,275
AZ	561,553,000	196,232,543	433,217,573	59,910,000	(127,807,116)
AR	280,248,000	47,447,808	230,226,756	44,093,000	(41,519,564)
CA	8,106,973,000	3,138,454,180	2,383,573,707	385,760,000	2,199,185,113
CO	562,152,000	100,902,860	246,489,856	34,343,000	180,416,284
CT	1,169,094,000	200,241,366	162,316,932	41,522,000	765,013,702
DE	141,216,000	22,810,473	51,879,148	8,406,000	58,120,379
DC	331,973,000	67,497,817	91,765,506	10,112,000	162,597,677
FL	2,759,117,000	515,387,946	1,434,158,960	136,789,000	672,781,094
GA	1,196,057,000	299,014,716	726,666,754	105,205,000	65,170,530
GU	3,265,000	4,117,898	20,134,757	4,407,000	(25,394,655)
HI	240,870,000	76,179,538	142,104,169	19,924,000	2,662,293
ID	106,409,000	22,362,518	62,816,383	20,634,000	596,099
IL	2,577,265,000	470,670,185	1,141,965,464	132,974,000	831,655,351
IN	1,246,783,000	178,494,601	443,916,509	70,816,000	553,555,890
IA	403,073,000	112,964,096	159,768,255	31,426,000	98,914,649
KS	389,627,000	83,830,974	153,451,007	29,868,000	122,477,019
KY	567,845,000	170,288,835	462,339,685	61,968,000	(126,751,520)
LA	1,189,270,000	135,474,713	708,910,185	83,406,000	261,479,102
ME	333,149,000	75,912,184	121,629,486	15,603,000	120,004,330
MD	1,169,535,000	187,355,694	366,699,285	44,421,000	571,059,021
MA	2,257,484,000	409,618,332	358,125,142	55,007,000	1,434,733,526
MI	2,165,169,000	742,491,923	907,155,282	107,593,000	407,928,795
MN	1,123,929,000	247,909,622	263,434,572	46,072,000	566,512,806
MS	277,997,000	72,649,192	447,649,248	53,802,000	(296,103,440)
MO	969,665,000	183,211,175	517,917,671	66,638,000	201,898,154
MT	110,143,000	37,866,499	60,644,145	12,395,000	(762,644)
NE	254,845,000	56,480,146	88,686,882	18,846,000	90,831,972
NV	218,467,000	28,933,525	92,968,695	12,498,000	84,066,780
NH	469,725,000	29,899,689	50,451,268	11,302,000	378,072,043
NJ	2,512,671,000	356,204,375	535,153,839	73,384,000	1,547,928,786
NM	167,605,000	91,000,782	212,249,777	29,408,000	(165,053,559)
NY	11,671,460,000	1,635,945,100	1,978,040,977	248,959,000	7,808,514,923
NC	1,170,938,000	260,069,792	528,141,489	91,268,000	291,458,719
ND	76,991,000	22,352,465	40,241,397	11,164,000	3,233,138
OH	2,274,868,000	626,425,152	1,204,369,263	133,740,000	310,333,585
OK	312,354,000	143,755,609	322,588,775	50,064,000	(204,054,384)
OR	432,164,000	140,703,219	260,003,127	34,869,000	(3,411,346)
PA	3,081,206,000	545,182,143	1,077,272,223	133,530,000	1,325,221,634
PR	108,500,000	81,428,646	0	11,498,000	15,573,354
RI	360,163,000	72,488,392	80,877,781	12,615,000	194,181,827
SC	329,076,000	92,177,779	333,186,251	64,504,000	(160,792,030)
SD	91,284,000	18,491,010	48,068,465	14,175,000	10,549,525
TN	1,173,316,000	174,536,082	657,518,220	70,822,000	270,439,698
TX	2,985,841,000	379,095,548	2,439,266,641	280,620,000	(113,141,189)
UT	138,662,000	61,015,569	110,178,897	30,550,000	(63,082,466)
VT	112,742,000	40,791,796	43,818,976	10,136,000	17,995,228
VI	3,337,000	2,952,912	23,096,959	6,609,000	(29,321,871)
VA	977,626,000	130,107,102	487,117,037	66,494,000	293,907,861
WA	1,192,094,000	374,839,770	414,222,392	52,316,000	350,715,838
WV	307,478,000	97,381,077	275,728,184	29,384,000	(95,015,261)
WI	968,395,000	303,207,247	254,049,134	53,734,000	357,404,619
WY	53,260,000	19,936,306	29,483,438	7,889,000	(4,048,744)
	62,308,437,000	13,730,004,680	24,240,739,202	3,325,287,000	21,012,406,118