CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

June 22, 1998

S. 1150
Agricultural Research, Extension, and Education Reform Act of 1998

As cleared by the Congress on June 4, 1998

SUMMARY

S. 1150 would reauthorize and provide new direct spending for agricultural research and would change provisions of the Food Stamp and crop insurance programs. CBO estimates that enacting S. 1150 would increase direct spending by $5 million in 1999 but would decrease direct spending by $106 million over the 1999-2003 period. The act would not affect governmental receipts.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of S. 1150 on direct spending is shown in Table 1. The budgetary impact of this legislation falls within functions 350 (agriculture) and 600 (income security). For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 1. Summary of Effects on Direct Spending

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in outlays	0	5	24	-50	-53	-33	-53	-74	-118	-126	-135
Change in receipts	Not applicable										

BASIS OF ESTIMATE

S. 1150 contains several provisions that would affect direct spending. It would increase spending for agricultural research and crop insurance and would decrease spending for the

Food Stamp program. Table 2 shows estimated changes in budget authority and outlays by section.

TABLE 2. Effects on Direct Spending of S. 1150, the Agricultural Research, Extension, and Education Reform Act of 1998

	By Fiscal Year, in Million of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Section 252: Fund for Rural America										
Estimated Budget Authority	-40	-40	60	60	60	0	0	0	0	0
Estimated Outlays	-5	-17	-18	6	35	42	33	16	7	1
Section 401: Initiative for future agriculture and food systems										
Estimated Budget Authority	120	120	120	120	120	0	0	0	0	0
Estimated Outlays	61	96	120	120	120	59	24	0	0	0
Section 501: Food Stamp employment and training										
Estimated Budget Authority	-107	-51	-11	-14	-16	-9	0	0	0	0
Estimated Outlays	-27	-21	-36	-44	-51	-29	0	0	0	0
Section 502: Food Stamp administrative costs										
Estimated Budget Authority	-280	-310	-380	-380	-380	-380	-380	-380	-380	-380
Estimated Outlays	-260	-310	-370	-380	-380	-380	-380	-380	-380	-380
Sections 503-508: Food Stamp eligibility for certain noncitizens										
Estimated Budget Authority	195	182	156	145	139	144	134	126	121	115
Estimated Outlays	195	182	156	145	139	144	134	126	121	115
Section 521: Information technology funding										
Estimated Budget Authority	-82	0	0	0	0	0	0	0	0	0
Estimated Outlays	-82	0	0	0	0	0	0	0	0	0
Section 531: Fund crop insurance sales commissions from the FCIC fund										
Estimated Budget Authority	194	197	203	208	213	222	228	237	246	252
Estimated Outlays	184	197	202	207	213	222	228	237	245	251
Section 532: Change other crop insurance provisions										
Estimated Budget Authority	-103	-103	-106	-108	-110	-112	-114	-118	-121	-122
Estimated Outlays	-61	-103	-104	-107	-109	-111	-113	-117	-119	-122
Section 601: Retention and use of fees										
Estimated Budget Authority	a	a	a	a	a	a	a	a	a	a
Estimated Outlays	a	a	a	a	a	a	a	a	a	a
Total Changes in Direct Spending										
Estimated Budget Authority	-103	-5	42	31	26	-135	-132	-135	-134	-135
Estimated Outlays	5	24	-50	-53	-33	-53	-74	-118	-126	-135

a. Less than $500,000. Totals for both the 1997-2003 period and the 1999-2008 period round to $1 million.

Agricultural Research

Section 252 of S. 1150 would establish a funding level for the Fund for Rural America of $60 million a year for fiscal years 1999 through 2003. Under current law, the Fund for Rural America has funding of $100 million for each of fiscal years 1999 and 2000, with no funding for subsequent years. Thus, the act would decrease funding for the next two years but provide new funding for three additional years. CBO estimates that those changes would have a small net effect on outlays over the 1999-2003 period—an increase of about $1 million—but would increase outlays by $100 million over the 1999-2008 period.

Section 401 would establish an initiative for future agriculture and food systems, with direct spending of $600 million over the 1999-2003 period. Under the initiative, the Secretary of Agriculture would award funding to research projects that address critical emerging issues related to future food production, environmental protection, farm income, or alternative uses of agricultural products.

In addition to its effects on direct spending, the act includes agricultural research provisions that would increase spending subject to appropriation.

Food Stamp Program

S. 1150 contains three provisions that affect the Food Stamp program. One provision would lower federal Food Stamp spending by $1.7 billion over the 1999-2003 period by reducing amounts made available to states for program administration. Decreases in Food Stamp Employment and Training funding would lower outlays by an additional $179 million. The act would restore Food Stamp eligibility for some noncitizens who lost benefits under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), resulting in increased outlays of $818 million over the 1999-2003 period.

Food Stamp Employment and Training. S. 1150 would reduce federal funds available for the Food Stamp Employment and Training (E&T) program by $100 million in 1999 and $45 million in 2000. Because CBO assumed that states would not spend all of the E&T funds made available in the first few years but would carry amounts forward each year, estimated outlay savings are lower than the amount rescinded in the first few years ($20 million in fiscal year 1999 and $15 million in 2000) but continue in later years, totaling $125 million through 2003 and $145 million by the end of 2004.

In addition, Food Stamp spending would be lower because the reduction in E&T spending would make more people subject to the three-month time limit on benefits. In general, childless, able-bodied individuals aged 18 to 50 are ineligible for benefits after three months if they are not working and not in an approved training or work activity. CBO estimates that Food Stamp benefits would be $7 million lower in fiscal year 1999, a total of $54 million lower through 2003, and $63 million lower through 2004.

Food Stamp Administrative Costs. The act would lower the amounts that states could obtain from the federal government for administering the Food Stamp program each year by an amount to be determined by the Secretary of Health and Human Services (HHS). The provision addresses a complicated set of circumstances that arose as a result of the enactment of PRWORA.

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. States also administer many other public benefit programs, such as Medicaid and cash assistance for families with children (previously Aid to Families with Dependent Children (AFDC), now Temporary Assistance for Needy Families (TANF)).

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. 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. The 1996 welfare law 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 assumption that 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.

In estimating spending under current law, CBO assumed that states will draw down more Food Stamp and Medicaid administrative funds than they have in the past for these two reasons. In fiscal year 1997 states received $1.7 billion in federal matching funds for administering the Food Stamp program (other than the employment and training component). CBO currently estimates that this amount will increase to $1.8 billion in fiscal year 1998, $2.1 billion in fiscal year 1999, and $2.3 billion in fiscal year 2003.

Effect of this legislation. S. 1150 would reduce each state's Food Stamp administrative reimbursement each year by an amount to be determined by the Secretary of HHS. The Secretary would estimate the amount of funds included in each state's block grant for TANF that would have been allocated to Food Stamps if the state had allocated common administrative costs equally among AFDC, Medicaid, and Food Stamps during the base period used to determine the state’s TANF block grant amount. Based on an analysis of historical administrative costs in welfare programs and on conversations with staff from HHS and the states, CBO assumes that the Secretary will estimate this amount to be $250 million in total for all states. S. 1150 also would prohibit states from using TANF or other federal funds to pay for costs allocated to the Food Stamp program.

CBO assumes that not all states would make up the entire amount of the federal reduction out of state general funds. To the extent that the total administrative effort is lower, additional federal Food Stamp savings would result. CBO estimates total federal savings of

$260 million in 1999 rising to $380 million by 2002, and summing to $1.7 billion over the 1999-2003 period.

Food Stamp Eligibility for Certain Noncitizens. S. 1150 would restore Food Stamp eligibility to some legal immigrants who lost eligibility under PRWORA. Specifically, individuals who are children, elderly, or disabled, who resided in the United States as of August 22, 1996 (the enactment date of PRWORA), members of a Hmong or Highland Laotian tribe at the time the tribe assisted the U.S. military during the Vietnam War, and certain Indians living near the U.S. border, would regain eligibility. In addition, refugees and asylees would retain eligibility until they live in the U.S. for seven years, rather than five years. CBO estimates increased Food Stamp outlays of $195 million in fiscal year 1999 and $818 million over the 1999-2003 period.

PRWORA eliminated Food Stamp eligibility for most legal immigrants. Exceptions were made for refugees who have been in the U.S. for less than five years, noncitizens who have work history of 40 or more quarters of employment covered by Social Security, and veterans or active-duty members of the U.S. military. Legal immigrants also retain Food Stamp eligibility if they become naturalized U.S. citizens.

At the time PRWORA was enacted, CBO estimated that about one million legal immigrants would lose Food Stamp benefits in an average month in fiscal year 1997, falling to 780,000 by 2002 as more immigrants naturalize. CBO estimated corresponding benefit savings of $600 million to $700 million a year. No data are yet available to confirm the effects of the provision. CBO's current estimates are consistent with the original estimates, with the exception that because overall Food Stamp caseloads have fallen by about 20 percent between 1996 and 1998, the number of noncitizens losing benefits as a result of PRWORA is probably somewhat lower than was originally projected.

CBO estimates the number of noncitizens in each of the various categories whose Food Stamp benefits would be restored and the value of their benefits based on 1996 data from the Food Stamp Quality Control system and from Supplemental Security Income (SSI) administrative records. CBO adjusts these numbers for estimates of the number of individuals who are exempted under the provision and for increased naturalization of noncitizens in recent years.

Table 3 presents CBO's estimates of the numbers of individuals and total Food Stamp benefits that would be restored in each category under S. 1150 in an average month in fiscal year 2000. The total estimated cost is lower than the sum of the groups because some individuals would fall into more than one category.

TABLE 3. Changes in Food Stamp Beneficiaries in Fiscal Year 2000 Under S. 1150

	Number of individuals (in thousands)	Total Food Stamp benefits (in millions of dollars)
Children	75	69
Elderly or disabled	110	72
Refugees	65	50
Hmong	20	14
Total	250	182

NOTE: CBO expects that any change in the number of Indians who would receive food stamps under S. 1150 would be insignificant.

Crop Insurance

S. 1150 would increase direct spending for crop insurance and would provide permanent authorization for crop insurance funding effective beginning with the 1999 reinsurance year (July 1, 1998, through June 30, 1999).

Sales Commissions. Section 531 would allow the Federal Crop Insurance Corporation (FCIC) to reimburse insurance companies from the FCIC fund for sales commissions paid to agents. Under current law, these reimbursements for 1998 and later years are subject to appropriation.

FCIC reimburses private insurance companies for the costs of delivering "additional" crop insurance to producers. FCIC bases the reimbursement not on actual costs of the companies but on a fixed percentage of the total premium for each type of additional crop insurance sold. The benchmark percentage for multiperil crop insurance (the type of insurance sold most widely) is 27 percent of the total premium. CBO assumes that 50 percent of total company costs for delivering crop insurance is for sales commissions and 50 percent is for other delivery expenses. Thus, we estimate that 50 percent of the total FCIC funding needed to reimburse company delivery expenses is for sales commissions.

After fiscal year 1998, current law provides no funding for sales commissions. Thus, to fund agent sales commissions for the 1999 reinsurance years and later years, new sources of funding must come from either from the FCIC fund or from annual appropriations. CBO estimates that by providing this funding through the FCIC fund, section 531 would increase direct spending by about $1 billion over the 1999-2003 period.

Other Provisions. Section 532 would change a number of crop insurance provisions that CBO estimates will reduce outlays by $484 million for fiscal years 1999 through 2003.

The section would reduce the rate at which insurance companies are reimbursed from the FCIC fund for their costs of delivering additional crop insurance from the benchmark rate of 27 percent of total premium on policies sold to 24.5 percent. It also would reduce the rate at which companies are reimbursed from the FCIC fund for their cost of adjusting losses on catastrophic crop insurance from 14.1 percent of total premiums to 11 percent.

Each producer's fee for buying catastrophic (CAT) coverage would change from $50 per crop per county (with a maximum of $200 per county and $600 for all counties) to the higher of $50 per crop per county or 10 percent of the imputed premium. All CAT policies would be assessed an additional $10 fee. Under current law, private insurance companies retain the first $100 per producer; under S. 1150, all CAT fees would be paid into the FCIC fund. Each of these changes would increase fee receipts for the FCIC fund.

Other than the additional $10 fee, producers with CAT policies having a premium less than or equal to $500 would see no change in their CAT fees as long as the sum of their fees for all individual CAT policies was below the county and national limits. Producers with CAT policies having a premium more than $500 or producers with many small-premium CAT policies whose total fees previously were limited would see their CAT fees increase.

CBO did not assume any fee-induced changes in aggregate participation for either CAT or additional insurance. While a higher CAT fee could cause some producers to drop their CAT coverage (especially those with high-liability policies), the impact on the FCIC fund would depend on what producers did after dropping CAT coverage. If they dropped all insurance, FCIC costs would decline; if they instead bought additional crop insurance, FCIC costs generally would increase. The estimate assumes that these factors would offset.

The section also would increase other administrative fees paid into the FCIC fund. Producer fees for lower-valued additional crop insurance would not change but would be paid into the fund rather than retained by crop insurance companies. Producer fees for higher-valued additional crop insurance, which already are paid into the fund, would increase from $10 per policy to $20 per policy.

S. 1150 also would limit mandatory funding for crop insurance research and development to $3.5 million per year.

Standard Reinsurance Agreements. Section 536 would direct FCIC to incorporate the amendments of sections 531 and 532 into the Standard Reinsurance Agreement (SRA) contract between each private insurance company and the Federal Crop Insurance Corporation. It then would fix the cost-related provisions of the adjusted SRA in law. The SRA establishes the legal relationship between insurance companies and FCIC. It includes the terms under which private companies deliver crop insurance, the rates at which they are reimbursed for their delivery expenses, detailed provisions on how losses and gains on crop insurance are shared between each company and FCIC, and penalties for noncompliance. The SRA periodically is renegotiated by the companies and FCIC. Only some of the cost-related provisions of the SRA are changed by S.1150. If all cost-related provisions of the SRA were not fixed in law, the savings from S.1150 could be offset if other provisions were changed in subsequent negotiations.

Retention and Use of Fees

CBO estimates that section 601 would increase direct spending by less than $1 million over the 1999-2003 period. Section 601 would require the Secretary of Agriculture to spend funds currently being held in special Treasury accounts for authorized research and education activities at the National Arboretum and the Agricultural Research Patent Culture Collection.

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