



May 2003

TRANSITIONAL FOOD STAMPS WOULD HELP FORMER WELFARE RECIPIENTS AT LOW STATE COST

Congress recently gave states the option to automatically extend five months of federally-funded food stamp benefits to former welfare recipients. Implementation of this new option would help smooth families' transition from welfare to work, help reduce California's food stamp error rate, and bring approximately \$70 million in federal funds annually into the California economy.

WHAT IS THE NEED?

Families have very low incomes when they first leave welfare, often below the poverty level. For example, a statewide evaluation of the CalWORKs program found that former recipients earn an average of \$500 per month in the first months after leaving welfare.¹ Food stamps can help families make the transition from welfare to work, but most families do not receive food stamps after leaving welfare, often due to burdensome paperwork or families' not realizing they were eligible. Studies indicate that a third of families or fewer receive food stamps after leaving welfare in California, despite the fact that many more families are eligible.²

WHAT IS THE TRANSITIONAL FOOD STAMP OPTION?

The 2002 Farm Bill allows states to extend families' federally-funded food stamp benefits for five months after they leave welfare.³ The benefit level is determined by the benefit amount that families receive in the final month before leaving welfare, adjusted upward to compensate for the loss of welfare income. Families do not have to submit any paperwork during the five-month period to retain their food stamp benefit.⁴

WHAT ARE THE ADVANTAGES OF TRANSITIONAL FOOD STAMP BENEFITS?

Transitional benefits would allow thousands of California families to retain food stamps for at least five months when they leave CalWORKs. Californians would receive approximately \$70 million in increased food stamp benefits on an average annual basis.⁵ To the extent that transitional food stamp benefits help stabilize families' economic well-being after leaving CalWORKs, they may be less likely to return to welfare.

California could also lower its food stamp error rate and resultant federal penalties by adopting transitional benefits. Because families' benefit levels would be frozen for five months, county workers would not have to recalibrate benefit amounts every month based on welfare leavers' fluctuating incomes, as they currently do. California has one of the highest food stamp error rates in the country and faces a federal penalty of \$114.3 million for 2001; moreover, the state expects a penalty of approximately \$80 million for 2002. Adopting transitional benefits could help reduce or eliminate this penalty in future years.

Finally, budget decisions this year will reduce state spending. Increased economic activity resulting from transitional food stamp benefits, while relatively small, could help offset some of these reductions

at a time when the state has yet to recover fully from the recession. The federal government estimates that increased food stamp spending during a recession can stimulate the economy by nearly twice the amount of the investment in food stamps.⁶

WHAT IS THE COST TO CALIFORNIA OF TRANSITIONAL FOOD STAMPS?

Implementing the transitional benefit option would have three minor types of costs for California: one-time automation costs, county administrative costs when families begin receiving transitional benefits, and increased costs for families that are ineligible for federal food stamps due to their immigration status, but who would receive state-funded transitional food stamps through the California Food Assistance Program (CFAP). The Department of Social Services estimates that transitional benefits as encompassed in AB 231 (Steinberg) would have one-time automation costs of \$2.5 million, ongoing administrative costs of \$0.3 million, and annual CFAP benefit costs of \$0.9 million. However, the CFAP cost appears to be considerably overestimated. The total CalWORKs caseload eligible for CFAP will likely decline to less than 500, since the 2002 Farm Bill expanded federal food stamp eligibility to most current CFAP recipients.⁷

The General Fund would not absorb the entire state cost of transitional food stamp benefits. For example, if implementing the transitional benefit option decreases California's food stamp error rate, a lower federal penalty would offset General Fund costs. Also, General Fund savings would accrue to the extent that transitional food stamp benefits decrease the number of families returning to welfare. Finally, at least a portion of the cost could count toward California's Temporary Assistance for Needy Families (TANF) maintenance-of-effort (MOE) requirement. Counting a part of the cost toward the MOE would lower the amount of new General Fund spending that would be required to support transitional food stamp benefits.

David Carroll prepared this report. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's web site at www.cbp.org.

ENDNOTES

¹ Jacob Alex Klerman, et al., *Welfare Reform in California: Early Results from the Impact Analysis* (RAND: 2002).

² See, for instance, Nandita Verma and Richard Hendra, *Monitoring Outcomes for Los Angeles County's Pre- and Post-CalWORKs Leavers: How Are They Faring?* (Manpower Demonstration Research Corporation: January 2003); David C. Mancuso, et al., *Examining Circumstances of Individuals and Families Who Leave TANF: Assessing the Validity of Administrative Data* (The SPHERE Institute: November 30, 2001); and David C. Mancuso and Vanessa L. Lindler, *Examining the Circumstances of Welfare Leavers and Sanctioned Families in Sonoma County* (The SPHERE Institute: June 29, 2001).

³ The Food Stamp Reauthorization Act of 2002, contained in HR 2646.

⁴ Families can choose to seek additional assistance if their need increases (for example, if their family size increases).

⁵ Center on Budget and Policy Priorities analysis of Congressional Budget Office ten-year cost estimate.

⁶ Kenneth Hanson and Elise Golan, *Effects of Changes in Food Stamp Expenditures Across the U.S. Economy* (US Department of Agriculture, Economic Research Service: August 2002). The estimate assumes that the increased food stamp spending is funded through borrowing and not tax increases.

⁷ The CBP estimates that the cost of issuing five months of food stamps to 1,000 families is approximately \$0.9 million. However, fewer than 500 CalWORKs families are likely to be eligible for CFAP, and only a portion of these families leaves CalWORKs in any one year and would thus be eligible for state-funded transitional food stamp benefits.