COMBINED APPLICATION PROJECTS

Cost Neutrality Guidance for Project Approval

Introduction

This guidance describes the information States will need to submit to the Food and Nutrition Service (FNS) for use in assessing whether the State's Combined Application Project (CAP) proposal meets the cost neutrality requirement. CAP demonstrations are intended to improve access to nutritional assistance for seniors and disabled individuals who may find it difficult to apply for food stamps through regular channels. At the same time, CAPs are not intended to provide participants with more or less benefits on average than they are eligible to receive through the regular Food Stamp Program (FSP). Cost neutrality ensures that recipients of Supplemental Security Income (SSI) throughout the nation are receiving comparable benefit amounts whether or not they live in a State with a CAP demonstration.

In addition to ensuring nationwide equity among SSI recipients, cost neutrality maintains Federal spending levels for the FSP. CAPs like all demonstration projects are conducted to determine the feasibility and cost effectiveness of nationwide implementation. In making its cost neutrality determination, FNS does not consider the additional costs stemming from higher participation among those already eligible for the Food Stamp Program if their CAP benefits do not exceed what they would have received under the FSP rules. In addition, FNS does not consider administrative costs or savings in making its determination. Finding a reliable method to measure administrative costs is difficult and requires extensive record keeping and monitoring by the State and FNS. Generally, any administrative savings at the State level are not passed on to the Federal government through staff reductions.

Background

FNS determines cost neutrality by comparing the cost of benefits to participants in the project to what would be the cost of benefits to the same population through the FSP. Participants in the project are defined as those individuals receiving SSI benefits who as a result of the project also receive a benefit based on either standardized benefits or benefits based on standardized shelter expenses. Participants do not include any of the CAP target population who opt out and receive a FSP benefit under the normal food stamp rules.

CAP benefits are defined as the allotments issued to CAP participants.

Once the project is operational, if the costs of the project's benefits are higher than what would have otherwise been provided under the normal food stamp rules, the project exceeds cost neutrality limitations. In this case the State will need to reduce project costs by modifying its CAP policy, finding other offsets such as reducing food stamp benefits

to individuals not participating in the project, or the State may pay FNS for any excess costs. Likewise, if the project's benefits are lower than what would have otherwise been provided, further adjustments may be necessary to increase CAP benefits.

While FNS is concerned about excessive costs, we also do not want to harm participants by reducing the amount they have to spend for food. By law, FNS cannot approve demonstration projects where more than 5 percent of the households in the project area (the whole State for CAPs) lose more than 20 percent of their benefits. Because the number of SSI recipients eligible for the project may be more than 5 percent of the State's caseload, the following cost neutrality discussion suggests how to ensure benefit levels are high enough so that the majority of participants do not have significant benefit losses. Project approval must include this assessment.

Finding the right balance between those who gain benefits and those who lose benefits is difficult to achieve and may require the State to evaluate a number of options for standardizing benefit or shelter amounts or both. While the initial standardized amounts are set at a level that is expected to achieve cost neutrality, actual results are measured through the on-going evaluation process. If the evaluation shows that too many or not enough benefits are being issued, the State may have to adjust these amounts once the project is up and running. If this happens, FNS will work with the State to develop appropriate modifications and allow the State sufficient time to implement the changes.

Cost neutrality is considered in the approval process and throughout the operation of CAP projects. The following guidance focuses on how to assess cost neutrality to obtain initial approval. It relies on using information about SSI beneficiaries who also currently participate in the Food Stamp Program and fit the State's target CAP population. Because CAP projects intend to improve access for individuals who might otherwise find it difficult to apply for food stamps, the project's participants may have characteristics that differ from current SSI food stamp participants. To determine actual project costs after approval, the evaluation criteria requires periodically pulling a sample of CAP participants and gathering from them the information necessary to calculate the normal food stamp benefit.

Guidance on Assessing Cost Neutrality and Other Criteria for CAP Approval

Data File

Much of the information on what is needed for assessing cost neutrality is contained in the Combined Application Projects Guidance for States Developing Projects booklet Section 3 – Standardization and Cost Neutrality Procedures. The listed data elements (with some elaboration) that are needed for each case:

- Case Identification (not needed for calculations, but useful for reference and discussion—do not send Social Security Numbers)
- Household size (particularly if proposing a method that would include SSI couples and a calculation of a two-person standardized benefit)

- Earned income (if such cases are proposed for inclusion in the demonstration)
- SSI benefit amount received by the case
- Any other unearned income amount received by the case (listed by source, if available)
- Shelter expense (rent or mortgage expense) reported by the case (list all data elements used in your data system, such as mortgage, real estate taxes, insurance, etc.)
- Utility amount reported by the case (listed by type of utility, if available)
- Utility amount used in the shelter deduction (SUA value, actual expense, listing each data element used in your data system)
- Out-of-pocket medical expenses reported by the case
- Actual Food Stamp benefit received by the case
- Any additional data not included in this list that the State can supply and the State feels is needed by FNS.

The State needs to determine:

- Which of the CAP models it wishes to propose (standardized benefit or standardized shelter expense).
- Who it will target in the demonstration.
- What shelter cost component it will use for distinguishing between low and high shelter groups (non-utility shelter costs versus total shelter costs including utilities). It is our experience that shelter defined only as housing costs – rent, mortgage, etc. –may be easier to use when the State has opted to have mandatory standard utility allowances.
- How it will deal with mandatory standard utility allowances (SUAs) in the standardized shelter cost model. The State can examine the frequency of its mandatory SUAs or average value, etc. to inform its decision.
- The chosen shelter cost threshold to divide cases into the shelter groups
- The opt out shelter cost value for cases with very high shelter costs above the threshold
- If it will convert existing food stamp cases with SSI to the demonstration, how it will deal with those cases that would lose benefits under the demonstration compared to the regular Food Stamp Program.

In making these choices, FNS expects the State to use data from existing cases in their State that meet the target criteria. Using this data, you should select a sample of cases to analyze. The State can decide how many cases they wish to pull, but FNS asks that if your population of cases is less than 10,000 that you submit the whole population for FNS analysis. If your population is greater than 10,000 cases, please select a random sample of cases such that the sample is between 5,000 and 7,000 cases. This is not a rule, but rather a guideline. Individual States may vary depending on population size.

Case By Case Calculations

Once cases are selected, you will need to pull enough data for each case (see the list of data elements at the start of this section) to do two types of benefit calculations – the regular Food Stamp Program eligibility and benefit determination and several CAP benefit calculations. FNS prefers the data to be in a Microsoft Excel workbook. This data should be sent to OANE at FNS via CD-Rom. OANE needs both raw data, the State's determination of each case's CAP benefit under a variety of situations, and the State's calculations of cost neutrality so we can verify that the State's estimates are valid.

Most States choose to allow some cases that fit their CAP household eligibility criteria to opt out of the demonstrations. Usually these are cases with large enough out-of-pocket medical expenses to qualify for the medical deduction, or cases with large enough shelter expenses that applying for food stamps under the normal food stamp rules would provide a much larger benefit than the CAP demonstration. Additional information about this opt out criteria is provided in the outreach materials and/or CAP application sent to current SSI participants not participating in Food Stamps. With this information they can make an informed choice about participating in the CAP demonstration. Because we do not know which choice they may make, the first CAP value calculation described in the following paragraph provides instructions for how to calculate CAP benefits if they choose to forego the opportunity to opt out and accept the CAP demonstration benefit. The second CAP value calculation provides instruction for how to calculate CAP benefits if they choose to opt out and participate in Food Stamps under the normal rules. The third CAP value calculation provides instructions for how to calculate CAP benefits if the State is converting existing food stamp participants into the CAP demonstration and the State has made decisions to protect some cases from a reduction in benefits that might result from the demonstration. Later in the paper are instructions for how to combine these values into the cost neutrality calculation.

To facilitate FNS' review the State should provide for each case up to three CAP values.

1. In the first case, the CAP value as if there are no options to opt out of the demonstration. This scenario represents a plausible outcome for all SSI cases fitting the target population who are not currently participating in Food Stamps that are contacted through outreach and choose to participate.
2. In the second case when cases are allowed to opt out, the CAP value that includes substituting the food stamp allotment for cases that meet the opt out criteria, often those cases with exceptionally high shelter costs or high medical expenses. In this way, when the column is summed, cases are not lost from the database when they would opt out (to simplify later calculations) but gives them the benefit they would receive if they did opt out. This scenario represents a plausible outcome for outreach cases with most choosing CAP but some choosing food stamps once they are informed that with their very high shelter expenses (or medical expenses) they likely would be better off applying for food stamps than accepting the CAP benefit.

3. In the third case, the CAP value that includes the State's choice for how to deal with those cases already participating in Food Stamps and SSI who are converted to the CAP benefit. Again, if the State chooses a method to protect some or all of the cases that would lose benefits in the conversion, the assigned benefit should be the food stamp allotment for the protected cases.

For each of these three CAP benefit calculation scenarios, the State should also determine the number of cases that lose more than 20 percent. FNS is required by statute to limit the coverage of demonstration projects where more than 5 percent of households in the area subject to the demonstration (the whole State in CAP projects) lose more than 20 percent of their benefit. A straightforward way to determine this is to divide the CAP benefit by the food stamp benefit in one column (for each scenario) and then assign a value of 1 in another column for each case where the ratio is less than 0.80 and assign a value of 0 otherwise. Summing the column then gives the count of cases losing more than 20 percent.

Before producing the cost neutrality calculations, the State needs to determine from Social Security's SDX file the count of all cases that fit the target population of the CAP demonstration. This count minus the count of target cases already participating in Food Stamps from the State's Food Stamp administrative data is the potential total count of new participants if the outreach achieves 100 percent participation. The count of potential new participants together with the count of current target food stamp participants forms the weights for combining the information from the three scenarios.

Calculation Examples

Let's illustrate the different calculations. For simplicity the example will use very small counts and a small sample of cases to easily show the calculations. Suppose that the SDX shows that there are 50 SSI cases that fit the population definition for the demonstration. Currently 10 of the 50 SSI cases participate in Food Stamps. A random sample of 4 cases is chosen to analyze for the cost neutrality calculations. Although the sample would contain many more data elements, the example will only show those necessary to illustrate the three CAP values discussed earlier that are needed for the cost neutrality calculations. In each of the examples a total and average for the sample cases are calculated for the Food Stamp benefit, the CAP benefit, and the count of cases losing more than 20 percent.

Assume that the State is considering a shelter threshold of $150 to divide cases into low- and high-shelter cost groups with a high shelter cost standardized benefit of $89 and a low shelter cost standardized benefit of $65.

Example 1	Shelter Expense	FSP Benefit	CAP benefit	CAP/FSP	1 if < .80
Case 1	$140	$67	$65	0.97	0
Case 2	$386	$141	$89	0.63	1
Case 3	$100	$55	$65	1.18	0
Case 4	$200	$85	$89	1.05	0

Sum:	$348	$308	1
Average:	$87	$77	0.25

In the next example, cases can opt out if their shelter cost exceeds $250. Look at the values in example 1 and see how they change in example 2.

Example 2	Shelter Expense	FSP Benefit	CAP benefit	CAP/FSP	1 if < .80
Case 1	$140	$67	$65	0.97	0
Case 2	$386	$141	$141	1.00	0
Case 3	$100	$55	$65	1.18	0
Case 4	$200	$85	$89	1.05	0
Sum:		$348	$360		0
Average:		$87	$90		0

In the last example, all current Food Stamp participating cases that would lose benefits if they were converted to the demonstration are left in the regular Food Stamp Program. Again, compare example 1 to example 3 to see how the values change.

Example 3	Shelter Expense	FSP Benefit	CAP benefit	CAP/FSP	1 if < .80
Case 1	$140	$67	$67	1.00	0
Case 2	$386	$141	$141	1.00	0
Case 3	$100	$55	$65	1.18	0
Case 4	$200	$85	$89	1.05	0
Sum:		$348	$362		0
Average:		$87	$90.50		0

Cost Neutrality Estimates

Having all of the data for the sample, you can then begin the cost neutrality estimates. The first step is determining the number of cases expected in each of the examples. As mentioned earlier for our example, the SDX showed that 50 cases met the target population and 10 of these were already participating in Food Stamps. The outreach efforts will contact 40 cases (50 minus 10). In general, we assume an expected participation rate of 60% among the outreach target cases (based on 56% in 5 months in Texas and 60% in 2 years in Washington), and assume half of the expected outreach participants (30% of the outreach total) have the costs of scenario 1 where no one opts out and the other half (30% of the outreach total) are like scenario 2 where those that can opt out do so. In this example, 30% of the 40 outreach cases are 12 cases. Therefore we expect 12 cases will have the average experience in example 1, 12 more cases will have the average experience in example 2, and the 10 cases currently participating in Food Stamps will have the average conversion experience in example 3.

For our example, total benefits under the regular Food Stamp Program for the demonstration targeted population are:

(12*$87) + (12*$87) + (10 * $87) = $2,958 Food Stamps

The cost of CAP benefits issued through the demonstration rules using the average CAP benefit cost is expected to be:

(12 * $77) + (12 * $90) + (10 * $90.5) = $2,909 CAP

The total relative monthly change in benefits for the demonstration is calculated as the CAP benefit cost minus the Food Stamp benefit cost (complete cost neutrality would equal 0):

$2,909 - $2,958 = $-49

The number of cases expected to lose more than 20% under the demonstration rules is:

(12 * 0.25) + (12 * 0) + (10 * 0) = 3 cases lose 20% or more

FNS compares these calculations for the expected demonstration target population to determine the expected percent change in benefits and the percent of demonstration participants expected to lose 20% or more. For the first calculation using the example, form the ratio of the expected CAP cost to the Food Stamp cost (complete cost neutrality would equal 1.00):

$2,909 / $2,958 = 0.98.

In the next calculation, form the ratio of the count of cases losing 20% or more to the count of expected participants to see the proportion of demonstration participants expected to have large benefit loses:

3 / (12 + 12 + 10) = 3 / 34 = 0.088 = 8.8%.

Lastly, we need to examine how the demonstration is expected to affect the State as a whole, particularly to ensure that the demonstration does not violate the statutory restriction that no more than 5 percent of households in the area subject to the demonstration (the whole State in CAP projects) lose more than 20 percent of their benefit. In our example let's assume that the monthly State caseload is 125 cases and total monthly issuance is $10,000. We estimated that 3 cases would lose 20% or more, so for the State as a whole it is:

3 cases / 125 cases = 0.024 = 2.4% (well below the maximum of 5%).

In the final calculation we form the ratio of the total relative monthly change in benefits from the demonstration to the total State monthly issuance (complete cost neutrality would equal 0). In our example:

$-49 / $10,000 = -0.0049 = -0.49%.