

# The California Impact of Chairman Ryan's Budget Resolution

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Cuts to and restructuring of SNAP funding would harm low-income Californians, as well as state and local economies

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## Introduction

House Budget Committee Chairman Paul Ryan recently introduced a long-term federal budget plan that was approved by the U.S. House of Representatives on April 15, 2011. This report examines the potential impacts of the resolution as related to CalFresh, California's version of the federal Supplemental Nutrition Assistance Program (SNAP), and the state economy.

The House budget resolution includes cuts to SNAP estimated at \$127 billion over the next ten years (a reduction equivalent to approximately 20 percent of current SNAP spending). If federal cuts to SNAP in California are directly proportional to current federal allocations, **the state could lose up to \$10.3 billion in federal SNAP funds**. While the resolution does not articulate specific details for how these cuts will be achieved, the loss of these federal funds could force a reduction in nutrition benefits for participants and/or program changes that could reduce the number of individuals served. In addition, to the proposed funding cut, the House budget resolution proposes to convert SNAP from a federal entitlement program to a state block grant by 2015. As this report details, these changes would harm low-income Californians as well as harming the state and local economies.

**Update:** The House Budget Resolution is likely to reach the floor in late May for a vote. We are hopeful that it will be a tough "yes" vote for Senate Republicans who may not be willing to go on record in support of such drastic changes to social programs, while also implementing significant and permanent tax cuts for wealthy Americans. In addition, some Senate Republicans have already voiced their opposition to the plan (e.g. Senator Susan Collins, R-Maine). With this in mind, many believe the House Budget Resolution introduced by Representative Ryan and approved by the House of Representatives will not pass the Senate. While the resolution is likely "dead on arrival", this analysis continues to hold value in discussing the most recent assault on SNAP funding and program structure. As Congress continues work on the development of a federal budget that closes the current deficit, advocates should be aware of the potential impacts of similar proposals if reintroduced.

## Background

The House budget resolution is intended to guide the work of the Congressional appropriations and tax writing committees in developing a federal budget. The resolution's major components include changes to the federal payment structures for Medicare and Medicaid and the elimination of subsidies that would be provided through the health insurance exchange approved by the health care reform act of 2010. The resolution also outlines a plan for all other federal spending and tax revenues. Of the more than \$4 trillion in cuts proposed over the next ten years, \$2.9 trillion come from programs that provide essential support to low-income Americans.

While the House budget resolution is promoted by its supporters as an effort to reduce the national deficit, the resolution incorporates tax cuts, including significant and permanent cuts for wealthy Americans that counteract many of the savings the resolution seeks to yield by cutting program funding. The Center on Budget and Policy Priorities recently conducted a series of analyses<sup>1</sup> that draw the following conclusion: the House budget resolution will further increase the income gap, ignores deficit reduction by focusing on tax cuts for the wealthy, and push many households deeper into poverty.

In addition to tax cuts and deep reductions in funding, the House budget resolution proposes to change the way federal programs have historically done business. For example, by converting SNAP from an entitlement program to a state block grant.

### **SNAP/CalFresh Overview**

SNAP is the nation's largest source of nutrition assistance, currently providing \$64.7 billion in benefits per month to 40.3 million Americans. CalFresh, California's version of SNAP provides low-income individuals and families with benefits to supplement household food budgets when they are so pinched that families have to struggle to put food on the table. By increasing access to a nutritious, affordable diet, SNAP/CalFresh benefits support productivity, promote health, and help prevent hunger.

SNAP/CalFresh benefits are fully federally funded. The federal government also funds 50 percent of the state's CalFresh administrative costs, with the state and counties contributing the remaining 35 and 15 percent, respectively. SNAP's status as a federal

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<sup>1</sup> See the Center on Budget and Policy Priorities website ([www.cbpp.org](http://www.cbpp.org)) to access the analyses.

entitlement program means that federal funding must be made available to provide benefits for all eligible applicants.

In addition to supporting individual households, CalFresh provides a vital economic stimulus to state and local economies. USDA estimates that every dollar in federal SNAP expenditures generates \$1.79 in economic activity.<sup>2</sup> This SNAP multiplier effect is also cited as one of the most effective forms of economic stimulus during periods of economic downturn, such as during the most recent recession. For example, Moody's Analytics estimates that for every dollar the American Reinvestment and Recovery Act (ARRA) allocated to the temporary increase in SNAP benefits, the Gross Domestic Product increased by \$1.72.<sup>3</sup>

### Recent SNAP/CalFresh Growth

Supporters of the House budget resolution justify the proposed changes to SNAP funding by citing recent trends in federal SNAP spending as evidence of the program's "relentless and unsustainable growth." This claim is based on a flawed understanding of present and future SNAP expenditures. In recent years, SNAP has responded to the faltering economy as intended, expanding quickly in response to the increased need experienced by many Americans during the economic downturn. The prolonged and far reaching recession has made historic numbers of people eligible for SNAP benefits and even as the economy begins to recover, the number of Americans living in poverty is slow to subside. Fortunately, SNAP, as it is currently designed, will continue assisting the most vulnerable Americans as they recuperate from the economic downfall.

The countercyclical nature of SNAP ensures that as the economy recovers, SNAP enrollment, and therefore spending, will decrease and stabilize to pre-recession levels. As shown in Table A, the Congressional Budget Office (CBO) estimates that SNAP participation, and therefore SNAP spending, will return to pre-recession levels by 2021. SNAP enrollment for FY 2011 is estimated at 44.5 million people. By 2021, enrollment will decrease to an estimated 30.5 million people, which is a decline of more than 32

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<sup>2</sup> Kenneth Henson, United State's Department of Agriculture, Economic Research Service, The Food Assistance National Input Output Multiplier Model and Stimulus Effects of SNAP, October 2010, <http://www.ers.usda.gov/Publications/ERR103/ERR103.pdf>

<sup>3</sup> Mark Zandi, Moody's Analytics, Too Soon to Pull Back Fiscal Policy Support, December 2010, <http://www.cbpp.org/files/2010-12-6econ.pdf>

percent. This decline in enrollment will bring federal SNAP spending back to pre-recession levels relative to the projected size of the economy.

Another factor related to the recession and contributing to the growth of SNAP spending is the *temporary* increase in SNAP benefits enacted through ARRA. Combined with the increase in enrollment due to increased need, the temporary 13.6 percent increase in the maximum SNAP benefit increased national benefit spending by approximately \$4.3 billion in 2009; \$10.6 billion in 2010; and an expected \$12.2 billion in 2011. The temporary benefit increase is scheduled to end in October 2013 and has been cited as one of the most effective and efficient forms of economic stimulus enacted as part of ARRA.

A report<sup>4</sup> recently released by USDA found that from late 2008 to late 2009 (i.e., before and after the American Reinvestment and Recovery Act) food insecurity among low-income households decreased by 2.2 percentage points, with very low food security falling by two percentage points. The reports also showed that food spending among low-income families increased by 5.4 percent during the same period. Food spending increased more among SNAP participants than non-participants. The report confirms that SNAP performed as intended during the recession. Any future projections for federal SNAP spending should account for the impending reversion back to pre-ARRA benefit levels.

Fluctuations in food prices should also be included in assessments of recent federal SNAP funding. This was particularly evident during 2007 and 2009 when rising food prices drove up the maximum SNAP benefit by 13%. Because SNAP benefit levels are determined by the cost of the USDA Thrifty Food Plan, increased food prices result in increased SNAP spending. Food prices have subsequently stabilized.

The assertion that current SNAP spending is “relentless and unsustainable” ignores three critical factors: (1) the role of the economic recession in temporarily increasing SNAP spending and participation, including the temporary ARRA increase to SNAP benefits; (2) the economic and social benefits of protecting vulnerable Americans from deeper poverty and food insecurity; and (3) the immediate and positive impact throughout communities and the state of the economic stimulus effect associated with

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<sup>4</sup> United States Department of Agriculture, Economic Research Service, Food Security Improved Following the 2009 ARRA increases in SNAP Benefits, April 2011; <http://www.ers.usda.gov/publications/err116/>

SNAP benefits. Given that SNAP costs and participation will likely decrease as the economy recovers in the coming years, any cuts or changes to the program's current funding structure may be based upon misconceptions about the program. As demonstrated below, such cuts will harm individual Californians and the state economy at large.

## Proposed Cuts to SNAP/CalFresh Funding

### Overview

Reducing SNAP funding by \$127 billion over the next ten years could directly impact millions of low-income Californians and the state economy by forcing (1) a reduction in the level of nutrition benefits for eligible applicants and/or (2) program changes that reduce the number of individuals served.

The Center on Budget and Policy Priorities estimates that **California's share of the proposed cuts to federal SNAP funding over fiscal years 2012-2021 could reach \$10.3 billion**. If the estimated \$10.3 billion dollars in SNAP cuts were evenly distributed across FY 2012-2021, California could be required to cut \$1.03 billion in federal SNAP spending each year. These cuts would have a significant and immediate impact on the most vulnerable Californians, particularly children and very low-income households. The SNAP/CalFresh population in California consists of more children than any other state. Seventy-one percent of CalFresh households are households with children compared to the national average of 51 percent. Moreover, approximately 69 percent of CalFresh households have an income at or below the Federal Poverty Level (FPL), while 23 percent have no income at all.<sup>5</sup>

The Congressional Budget Office (CBO) has developed national projections through FY 2021 for SNAP participation and average monthly benefits. These projections take into consideration a number of factors that impact SNAP, including changes to unemployment rates and costs of the USDA Thrifty Food Plan over time. Using the CBO projections, CFPA conducted an analysis to examine the potential impacts of the House budget resolution on SNAP/CalFresh in California. More specifically, CFPA projected CalFresh participation and average monthly benefits under two conditions: with and without the proposed cuts to federal SNAP spending.

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<sup>5</sup> California Food Policy Advocates, California Food Stamp Characteristics Report 2009, [http://www.cfpa.net/foodstamps/foodstamp\\_characteristics.pdf](http://www.cfpa.net/foodstamps/foodstamp_characteristics.pdf)

## Analysis: Baseline Projections

Using the CBO’s projections, CFPA calculated the estimated year-to-year rates of national SNAP growth and applied those rates to enrollment and average monthly benefit levels for CalFresh. The results (shown in Table B) are baseline projections for CalFresh participation and average monthly benefits through 2021. These projections assume current SNAP/CalFresh funding levels are maintained. As shown in Table B, by 2021 CalFresh enrollment is projected to decrease from approximately 3.2 million individuals to 2.2 million individuals. The average monthly CalFresh benefit is projected to increase from \$146.52 to \$167.25, reflecting anticipated changes to inflation, the cost of food, and other economic factors.

## Analysis: Impact on CalFresh Benefits

To model the impact of the House budget resolution on CalFresh benefit levels, CFPA conducted an analysis that cut \$1.03 billion per year from the projected federal allotment for CalFresh benefits through FY 2021. (\$1.03 billion per year is equivalent to the \$10.3 billion cut over 10 years that is proposed by the House resolution, assuming that the cut is divided evenly by year.) As shown in Table C, **eliminating these federal funds would result in a mean change of \$31 per participant per month in average monthly benefits for FY 2012-2021.** Accounting for the stimulus effect of federal CalFresh/SNAP funding (\$1.79 per dollar of federal expenditures), this decrease in average monthly benefits equates to a loss of \$55 in economic activity per participant per month. In FY 2012 alone, the statewide loss of economic activity would be \$2.2 billion when scaled to reflect the number of projected CalFresh participants.<sup>6</sup>

Figure 1. Formula used to calculate projected average benefit per person after a cut of \$1.03 billion from projected federal spending on CalFresh benefits

|   |
|---|
| $\frac{\text{total projected CalFresh benefit spending per year} - \text{federal CalFresh cut per year}}{\text{(projected participants per month x 12 months)}} = \text{Projected average CalFresh benefit per person per month}$ $\frac{(\text{projected participants per month} \times \text{projected avg. benefit per month} \times 12 \text{ months}) - \$1.03 \text{ billion}}{(\text{projected participants per month} \times 12 \text{ months})}$ |
|---|

<sup>6</sup> California’s projected CalFresh caseload for FY 2012 is 3,348,658 persons. The projected loss of economic activity (assuming a cut to CalFresh benefits) is calculated by multiplying the estimated number of persons participating by the estimated \$55 lost in economic activity per month over the course of a year.

## Analysis: Limits on CalFresh Enrollment

If program eligibility, or rather, the number of persons the program was able to serve, were scaled back in an effort to maintain benefit levels for the most vulnerable families, reduced eligibility would need to equate to a cut of about \$1.03 billion in CalFresh spending each year. To model how many eligible Californians would be shut out of CalFresh under these conditions, CFPA conducted an analysis that eliminated \$1.03 billion from the annual federal allotment for CalFresh benefits but maintained the projected average benefit level. The results, shown in Table D, **indicate that an average of 580,000 eligible Californians would miss out on CalFresh benefits each year.** In other words, by limiting federal funds for CalFresh benefits and maintaining average benefit levels, nearly 600,000 Californians would be deprived of much-needed nutrition assistance each year from FY 2012 to FY 2021.

Figure 2 .Formula used to calculate projected number of persons cut from the CalFresh caseload after a cut of \$1.03 billion from projected federal spending on CalFresh benefits

|  |   |   |
|--|---|---|
| $\frac{\text{total projected CalFresh benefit spending per year} - \text{federal CalFresh cut per year}}{\text{(projected avg. benefit per month x 12 months)}} = \text{Projected persons served per month after CalFresh funding cut}$ <p style="font-size: small; margin: 0;">             total projected CalFresh benefit spending per year<br/>             (projected participants per month x projected avg. benefit per month x 12 months) - \$1.03 billion         </p> | = | Projected persons served per month after CalFresh funding cut |
|--|---|---|

Though it is not clear what choices would need to be made to achieve such significant funding cuts, both of the above estimates demonstrate the severe potential harm posed by the House budget resolution. Even if taken in combination, both decreasing benefit levels and decreasing the number of individuals served would result in a significant number of low-income Californians’ losing critical nutrition benefits. Moreover, the positive impact of CalFresh on state and local economies would be significantly reduced.

## Understanding the Proposed Changes to SNAP/CalFresh Program Structure

In addition to funding cuts, the House budget resolution proposes to convert SNAP from a federal entitlement program to a state block grant by 2015. Under a block grant structure, California would receive a capped amount of federal funding each year to provide CalFresh benefits. The resolution states that the block grant would be adjusted



by “inflation and eligibility,” but further details are not provided. Converting SNAP to a block grant presents several challenges.

Because funding levels for state block grants will likely be established according to a predetermined time frame (e.g., every X number of years), SNAP would lose its ability to respond rapidly to economic fluctuations, both on a national and local scale. This lack of flexibility would be especially harmful in states like California where ongoing state budget crises would likely inhibit state contributions to supplement the program. In addition, the block grant funding structure is likely to deter state and local efforts to increase SNAP/CalFresh participation because additional funding would not be available to accommodate the enrollment of additional eligible applicants. Due to California’s perpetually low participation rate this could hurt California more than most other states; with a 50 percent participation rate California has the most to gain from increasing participation. As discussed above, this growth would support low-income Californians and contribute to the state economy in the short and long term. If increased enrollment is not readily matched by adequate federal funds for CalFresh benefits, there is no incentive to serve all eligible Californians.

By funding SNAP with block grants, individual states will be given increased autonomy in administering the program. This level of autonomy has been presented by supporters of the House budget resolution as a means of providing opportunities to improve program efficiency. However, combining this funding structure with funding cuts will likely result in SNAP serving fewer low-income Americans in need and providing less support to each participant. These changes will ultimately weaken the positive impacts of SNAP benefits, not only for those who receive benefits, but for the nation as a whole. SNAP benefits all Americans with its current ability to respond to economic hardships and provide much-needed economic stimulus in times of fiscal crises.

## **Conclusion**

As more details emerge regarding Congressional negotiations to close the federal budget deficit, CFPA will continue to assess the potential impact of entitlement cuts on low-income Californians – with a particular emphasis on the nutrition assistance provided by SNAP/CalFresh. While the House Budget Resolution is not likely to pass a floor vote in the Senate, there remain important actions that advocates can take in communicating to key stakeholders and policymakers the potentially negative impacts

that such funding cuts and program restructuring would have on low-income individuals and families across the country.

### **(1) A Call to Congress**

Inform California representatives that they should not support federal deficit reduction efforts that cut SNAP funding or restructure the program. During any negotiations regarding entitlement reductions, California's policymakers should insist on maintaining the program's current size and structure.

### **(2) Raising Awareness among SNAP/CalFresh Supporters**

Many stakeholders in California, including retailers, growers, and chambers of commerce have unique interests in supporting increased CalFresh access and participation. All stakeholders should be made aware of the economic and programmatic threats presented by any cuts to or restructuring of SNAP.

### **(3) Engaging CalFresh Participants**

Currently, more than three million Californians receive assistance through SNAP/CalFresh. These individuals and families would face a significant loss of food purchasing power if SNAP benefit funding were cut or if the program's entitlement status were threatened. CalFresh participants should be informed of this threat. CalFresh participants should also be engaged in the process of educating policymakers about the impacts of any proposed changes on the lives of low-income Californians.

**Table A. National Projections of SNAP Participation and Average Monthly Benefit (FY 2011-2021)\***

| Year   | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     | 2017     | 2018     | 2019     | 2020     | 2021     |
|--|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| National Average Monthly Benefits (dollars per person) | \$133.79 | \$133.79 | \$133.79 | \$122.14 | \$125.21 | \$129.30 | \$133.49 | \$138.12 | \$142.88 | \$147.77 | \$152.80 |
| National Percent Change in Average Monthly Benefits    | -        | 0%       | 0%       | -8.7%    | 2.5%     | 3.3%     | 3.2%     | 3.5%     | 3.4%     | 3.4%     | 3.4%     |
| National Participation (millions of people)            | 44.5     | 46.01    | 45.9     | 44.0     | 42.2     | 40.1     | 37.8     | 35.6     | 33.6     | 32.1     | 30.5     |
| National Percent Change in Participation               | -        | 3.4%     | -.02%    | -4.2%    | -4.1%    | -4.9%    | -5.7%    | -5.8%    | -5.6%    | -4.4%    | -4.9%    |

\*Supplemental Nutrition Assistance Program CBO Baseline, March 2011, <http://cbo.gov/budget/factsheets/2011b/nutrition.pdf>

**Table B. Projections of CalFresh Participation and Average Monthly Benefit (FY 2011-2021)**

*These projections are calculated by applying national program projections to FY 2011 CalFresh statistics.*

| Year   | 2011      | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      | 2019      | 2020      | 2021      |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Projected CalFresh Average Monthly Benefits (dollars per person) | \$146.52  | \$146.52  | \$146.52  | \$133.77  | \$137.12  | \$141.64  | \$146.17  | \$151.29  | \$156.43  | \$161.75  | \$167.25  |
| Projected CalFresh Percent Change in Average Monthly Benefits    | -         | 0%        | 0%        | -8.7%     | 2.5%      | 3.3%      | 3.2%      | 3.5%      | 3.4%      | 3.4%      | 3.4%      |
| Projected CalFresh Participation (millions of people)            | 3,238,548 | 3,348,658 | 3,281,685 | 3,143,854 | 3,014,955 | 2,891,342 | 2,726,536 | 2,568,397 | 2,424,566 | 2,317,885 | 2,204,309 |
| Projected Percent Change in CalFresh Participation               | -         | 3.4%      | -.02%     | -4.2%     | -4.1%     | -4.9%     | -5.7%     | -5.8%     | -5.6%     | -4.4%     | -4.9%     |

**Table C. Estimated Impact of House Budget Resolution on Projected CalFresh Benefit Levels**

| Year   | 2011            | 2012            | 2013            | 2014            | 2015            | 2016            | 2017            | 2018            | 2019            | 2020            | 2021            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| CalFresh Average Benefit Per Person With Current Funding                           | \$146.52        | \$146.52        | \$146.52        | \$133.77        | \$137.12        | \$141.64        | \$146.17        | \$151.29        | \$156.43        | \$161.75        | \$167.25        |
| Total Benefit Spending with Current Funding  | \$5,694,144,636 | \$5,887,744,442 | \$5,769,989,834 | \$5,046,640,195 | \$4,960,927,555 | \$4,914,356,171 | \$4,782,453,205 | \$4,662,873,386 | \$4,551,298,313 | \$4,499,014,785 | \$4,424,048,163 |
| Total Projected Benefit Spending with Proposed Cuts                                | \$4,664,144,636 | \$4,857,744,442 | \$4,739,989,834 | \$4,016,640,195 | \$3,930,927,555 | \$3,884,356,171 | \$3,752,453,205 | \$3,632,873,386 | \$3,521,298,313 | \$3,469,014,785 | \$3,394,048,163 |
| Average Benefit Per Person with Proposed Cuts                                      | \$120.02        | \$120.89        | \$120.36        | \$106.47        | \$108.65        | \$111.95        | \$114.69        | \$117.87        | \$121.03        | \$124.72        | \$128.31        |
| Difference in Average Benefit with and without Proposed Cut (Per Person Per Month) | -\$26.50        | -\$25.63        | -\$26.16        | -\$27.30        | -\$28.47        | -\$29.69        | -\$31.48        | -\$33.42        | -\$35.40        | -\$37.03        | -\$38.94        |

**Table D. Estimated Impact of House Budget Resolution on the Number of Californians Served by CalFresh**

| Year  | 2011            | 2012            | 2013          | 2014          | 2015          | 2016          | 2017          | 2018          | 2019          | 2020          | 2021          |
|---|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| CalFresh Average Participation with Current Funding         | 3,238,548       | 3,348,658       | 3,281,685     | 3,143,854     | 3,014,955     | 2,891,342     | 2,726,536     | 2,568,397     | 2,424,566     | 2,317,885     | 2,204,309     |
| Total Benefit Spending with Current Funding                 | \$5,694,144,636 | \$5,887,744,442 | 5,769,989,834 | 5,046,640,195 | 4,960,927,555 | 4,914,356,171 | 4,782,453,205 | 4,662,873,386 | 4,551,298,313 | 4,499,014,785 | 4,424,048,163 |
| Total Benefit Spending with Proposed Cuts                   | 4,664,144,636   | 4,857,744,442   | 4,739,989,834 | 4,016,640,195 | 3,930,927,555 | 3,884,356,171 | 3,752,453,205 | 3,632,873,386 | 3,521,298,313 | 3,469,014,785 | 3,394,048,163 |
| Average Benefit with Current Funding (per person per month) | \$146.52        | \$146.52        | \$146.52      | \$133.77      | \$137.12      | \$141.64      | \$146.17      | \$151.29      | \$156.43      | \$161.75      | \$167.25      |
| Number of Persons Who Could Continue Receiving Benefits     | 2,652,735       | 2,762,845       | 2,695,872     | 2,502,205     | 2,388,983     | 2,285,346     | 2,139,320     | 2,001,054     | 1,875,865     | 1,787,231     | 1,691,105     |
| Difference in participation with and without Proposed Cuts  | 585,813         | 585,813         | 585,813       | 641,649       | 625,972       | 605,996       | 587,216       | 567,343       | 548,701       | 530,654       | 513,204       |