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A CONCISE HISTORY OF THE FOOD STAMP PROGRAM

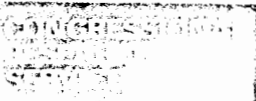
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ABSTRACT

The Food Stamp Program has undergone a number of major changes since its modern version was established in 1961. It is now one of the largest "welfare" programs and provides an income supplement to the food-purchasing power of more than 18 million persons each month, at a cost of nearly \$7 billion annually.

This paper traces the history of the program from 1961 through 1979, with an emphasis on how program rules, philosophy, participation, and costs have changed over the years.

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A CONCISE HISTORY OF THE FOOD STAMP PROGRAM

The modern Food Stamp Program began as a set of pilot projects initiated by an executive order in 1961. ^{1/} The original eight pilot projects, serving about 140,000 persons a month at a Federal cost of \$13.1 million a year (fiscal 1962), grew to 43 projects (cities or counties) spread across the country by 1964. The pilot project stage ended in 1964, with the enactment of the Food Stamp Act of 1964. At that point, the program was serving some 370,000 persons a month at an annual Federal cost of \$30.5 million (fiscal 1964).

THE FOOD STAMP ACT OF 1964: 1964-70

The Johnson Administration submitted a proposal for a Food Stamp Act to Congress in 1963. In August 1964, with minor changes from the Administration's proposal, the Food Stamp Act of 1964 was enacted to enable States to establish a program, if they chose to, in all or part of the State. Under the terms of the act, eligibility was to be determined by the States, using standards consistent with those used by each State in its cash welfare programs. Benefit levels were set by the Federal Government and the Department of Agriculture was to be the administering agency.

^{1/} From 1939 to 1943, an earlier version of the Food Stamp Program was in effect. This program cost about \$260 million over its 4-year existence, and, at its peak, reached some 4 million persons a month in almost half the counties in the country.

While the Federal Government paid 100 percent of the food stamp benefits, the cost of administering the program was shared between the States and the Federal Government. States and localities were responsible for roughly 70 percent of their overall administrative costs, under a rather complicated formula that had the Federal Government paying 62-1/2 percent of some State and local administrative costs and no share of other costs. The Federal Government was responsible for all benefit costs, roughly 30 percent of overall State and local administrative costs, and all Federal administrative costs, including the printing of stamps and Federal personnel.

After determination of eligibility under State-defined standards, eligible recipient households were allowed to "purchase" a monthly allotment of stamps. The allotments varied by household size and region of the country; 1/ they were set by the Department of Agriculture according to its Economy Food Plan. 2/ The "purchase requirement" that each participating household had to put up out of its own cash varied by income and household size and was also set by the Department of Agriculture, according to food consumption surveys indicating what lower-income households normally spent for food. The difference between a household's "purchase requirement" and its monthly allotment was termed the "bonus" (or benefit). The general theory behind the program at this stage was that participating low-income households should spend, out

1/ Two allotment schedules set differing allotments for Northern/Western States vs. Southern States (higher allotments for the Northern/Western States).

2/ Monthly dollar amounts determined to be adequate to purchase a minimally nutritious diet. After a court suit, the basis for monthly allotments was changed to a modified version of the Economy Food Plan called the Thrifty Food Plan, in 1975.

of their own income, an amount equivalent to their normal food purchases (as indicated by consumption surveys) and the Food Stamp Program would supplement that by giving a monthly allotment which was larger by the extent to which normal expenditures fell below the dollar amount determined to be adequate for a minimally nutritious diet (the Economy, later Thrifty, Food Plan).

Food stamp allotments and purchase requirements were fixed at the beginning of the program and did not vary over time, except that an individual household's benefit might change as its income or the number of persons in the household changed. In fact, food stamp benefits (bonuses) stayed at an average of \$6/\$7 per person per month until administrative revisions in late 1969.

From 1964 through 1969, the Food Stamp Program operated as originally conceived in 1964, with only minor changes. However, with geographic expansion of the program as more States chose to operate a program, participation and costs grew. Table I sets out the increase in costs during these years. These costs were incurred as the number of cities and counties (projects) participating grew from 110 in fiscal 1965 to 1,489 in fiscal 1969, and the number of participants grew from 424,000 persons a month in fiscal 1965 to almost 2.9 million persons in fiscal 1969. By 1969, the program was operating in roughly half of the country's 3,100 potential project areas (cities and counties).

TABLE I: Total Food Stamp Program Costs, 1965-69
(in thousands of dollars)

Fiscal year	Food stamp benefits	Federally paid administrative costs	Administrative costs paid by States and localities	Total
1965	\$32,494	\$2,641	\$1,377	\$36,512
1966	64,781	5,666	3,638	74,085
1967	105,455	10,067	7,047	122,569
1968	172,985	14,202	10,131	197,318
1969	228,587	21,817	15,356	265,769

NOTE: Federally paid administrative costs include direct Federal costs and the Federal share of State and local administrative costs. State and local administrative costs are not directly available for these years; they are assumed at 70 percent of overall State and local costs, given an assumed Federal share of 30 percent.

SOURCE: House Rept. No. 95-464.

In late 1969, the Administration decided, because of congressional and public concern over what was viewed as low participation in the program, that two substantial changes would be made in the system of determining benefits, both effective January 1970. The two separate benefit schedules (one for Northern/Western States and one for Southern States) were merged into a single allotment schedule. And, in so doing, "purchase requirements" were reduced for all households and monthly allotments increased in many instances. The result was a substantial increase in the average and maximum benefit levels. Whereas, average benefits had been \$6/\$7 per person per month under the pre-1970 rules, they climbed to about \$10/\$11 per person per month under the new unified system in 1970. Correspondingly, program costs rose as benefits increased and more States chose to enter the program due

to more attractive benefits. Fiscal 1970 costs more than doubled those of fiscal 1969:

Fiscal year	Food stamp benefits	Federal/State/local administrative costs	Total
1969	\$228.6 million	\$37.2 million	\$265.8 million
1970	550.8 million	48.9 million	599.7 million

NOTE: See note and source for Table I.

By the end of fiscal 1970, the Food Stamp Program was operating in about 1,750 project areas, up from under 1,500 in fiscal 1969. Participation had increased from just under 2.9 million persons a month to an average of 4.3 million persons.

RELATION TO THE FOOD (COMMODITY) DISTRIBUTION PROGRAM

As the Food Stamp Program grew in cost, geographic coverage, and participation, it gradually replaced the older Food (surplus commodity) Distribution Program which had been offering benefits in the form of surplus and price-support commodities since the Depression. Thus, to an extent, the costs and participation levels of the commodity program were transferred to the Food Stamp Program as States and localities chose to switch from one method of aid to the other.

When the Food Stamp Act was enacted, the commodity distribution program was serving some 5.2 million persons per month in about 1,800 localities, at a Federal cost of about \$200 million annually. The value of average benefits (in the form of a "package" of commodities) was half that in the Food Stamp Program, about \$3/\$4 per person per month.

By the end of fiscal 1970, participation in the commodity program had dropped to 3.9 million persons in about 1,350 localities. However, Federal costs had risen to some \$290 million annually as the value of benefits were doubled.

Thus, while food stamp participation grew by roughly 3.8 million persons between fiscal years 1965 and 1970, and food stamp costs grew about \$560 million (partly due to increased benefits), the commodity program lost some 1.3 million participants and increased in cost by about \$90 million (due to increased benefits). Geographic coverage of the Food Stamp Program grew by some 1600 counties between 1965 and 1970, while the number of localities operating a commodity program dropped by nearly 400 counties. Over one thousand counties with no program opted for food stamps.

THE 1970 AMENDMENTS: 1971-73

In late 1970, Congress enacted the first major amendments to the Food Stamp Act, after an Administration request for new legislation. The 1970 amendments (P.L. 91-671, signed in January 1971) accepted the administrative changes made in late 1969 (uniform and higher allotment schedules and lower purchase requirements, thus larger benefits) and made other substantial changes in the law that significantly liberalized the program. Food stamp allotments were to be annually indexed to the rate of food-price inflation. This automatically increased benefits annually since purchase requirement levels were left untouched and, because income eligibility standards were increased as food stamp allotments rose, eligibility standards were also automatically escalated with food-price inflation. Eligibility standards were taken out of State hands and required to be federally established and

nationally uniform, with variations allowed only for cash welfare recipients, and participants in Alaska, Hawaii, and the outlying territories. And, Puerto Rico, Guam, and the Virgin Islands were allowed to enter the program if they chose to. Other minor changes also expanded the program; for example, the 1970 amendments confirmed an earlier administration decision to grant food stamps without charge to very low income households with incomes less than \$30 a month and set maximum purchase requirements at 30 percent of income. The 1970 amendments were also the origin of the work registration rules requiring able-bodied adults, with certain exceptions, to register for and accept suitable employment in order to retain eligibility.

The result of this legislation was another substantial increase in food stamp costs and participation as benefits rose, eligibility was expanded, and geographic coverage increased. The annual indexing of allotments increased average benefits from \$10/\$11 per person per month in fiscal 1970 to \$13/\$14 in 1971. Average monthly participation climbed from 4.4 million persons in fiscal 1970 to 9.4 million persons in 1971 as the number of localities operating the program jumped by 275 to over 2,000 project areas, and uniform indexed income eligibility rules raised eligibility standards in many States.

From 1971 through 1973, the program continued to expand as more States and localities opted in and income eligibility standards climbed. By the end of fiscal 1973, the number of localities operating the program had risen to 2,225 and average participation had climbed to 12.2 million persons a month. Program costs also grew with larger benefits due to food-price inflation; by 1973, monthly average benefit levels were nearly \$15 per person.

TABLE II: Total Food Stamp Program Costs, 1970-73
(in thousands of dollars)

Fiscal year	Food stamp benefits	Federally paid administrative costs	Administrative costs paid by States and localities	Total
1970	\$550,806	\$27,185	\$21,737	\$599,728
1971	1,522,904	57,029	46,153	1,626,086
1972	1,794,875	73,582	62,363	1,930,820
1973	2,102,133	85,831	71,526	2,559,490

NOTE: See note and source for Table I.

THE 1973 AMENDMENTS: 1974-77

As part of the 1973 "farm bill" (P.L. 93-86), Congress enacted the second major set of amendments to the Food Stamp Act of 1964. These amendments required semi-annual (rather than annual) indexing of food stamp allotments according to food-price inflation, increased the Federal share of State and local administrative expenses to 50 percent (vs. roughly 30 percent under prior law), provided for nationwide operation of the program in all States and localities, and expanded program eligibility to several special recipient groups such as "meals-on-wheels" recipients and narcotics addicts and alcoholics in treatment programs.

Semi-annual indexing of stamp allotment levels meant that they could better keep pace with inflation and produced higher income eligibility levels, since they were tied to the allotment levels. The increase in the Federal share of State and local administrative expenses brought it into line with the law for cash welfare programs and made administration of the

program less onerous for States and localities. Nationwide operation of the program was accomplished by threatening to limit the availability of commodities for distribution and mandating that, if any area of a State operated a food stamp program, all localities must offer it; nationwide implementation was expected by mid-1974.

Nationwide operation of the program was affected in January 1975 when Puerto Rico entered the program, leaving less than 100,000 commodity recipients, mostly on Indian reservations. 1/

From fiscal 1974, through fiscal 1977, the program continued to grow. Participation rose from about 13.5 million persons a month in 1974 to just over 17 million persons in 1977; of this increase, 1.5 million persons were added when Puerto Rico entered the program in 1975. Geographic coverage became virtually nationwide, reaching all 3,100 localities. And, benefits rose about to \$25 per person per month, with inflation indexing.

However, for the first time, substantial reductions in participation and costs occurred as the recession ended. In mid-1975, as the unemployment rate reached nearly 9 percent, food stamp participation climbed to a peak of 19-1/2 million persons; program costs climbed with it. But, with the decline in the unemployment rate to below 7 percent in 1977, food stamp rolls dropped over 2 million persons by the spring of 1977.

1/ Some parts of Puerto Rico and several scattered counties actually entered later in 1975.

TABLE III: Total Food Stamp Program Costs, 1974-77
(in thousands of dollars)

Fiscal year	Food stamp benefits	Federally paid administrative costs	Administrative costs paid by States and localities	Total
1974	\$2,727,648	\$122,830	\$110,336	\$2,960,814
1975	4,387,530	267,397	164,227	4,819,854
1976	5,305,985	376,844	255,507	5,938,336
1977	5,037,520	399,080	272,238	5,708,838

NOTE: For fiscal 1974, the Federal vs. State/local share of State/local administrative costs was calculated as in earlier tables, 30 percent-Federal, 70 percent-State/local. For later years, the provisions of the 1973 amendments apply and the Federal Government and States and localities shared equally in State/local administrative costs, although Federal costs continued to be federally paid. The "transition quarter" (July/September 1976) is not shown in order to make expenditure data comparable by fiscal year.

SOURCE: House Rept. 95-464.

THE FOOD STAMP ACT OF 1977

As part of the 1977 "farm bill" (P.L. 95-113), the Administration proposed and Congress enacted a completely rewritten Food Stamp Act and repealed the 1964 act. Calls for food stamp reform had begun in 1975, when food stamp costs and participation escalated dramatically with unemployment, worsening economic conditions, and the entry of the remaining counties and territories (including Puerto Rico's large influx). Two years of legislative activity culminated in the Food Stamp Act of 1977; this act combined several measures restricting eligibility and benefits with a major liberalization, elimination of the purchase requirement. It was implemented in the States beginning in January 1979.

OPERATION OF THE FOOD STAMP PROGRAM--1971-78

Following the 1970 amendments and until the 1977 changes were implemented (January-July 1979), the program originally enacted in 1964 had the following features:

Eligibility ^{1/}

Eligibility was dependent upon meeting three tests: income, assets, and work registration. The most important, the income test, required that an eligible household's anticipated "net" monthly income fall under certain guidelines. These net income guidelines were roughly 10-15 percent above the "poverty level." They were calculated at approximately 3.3 times the food stamp allotment level for the household size on the assumption that an eligible household should be a household whose income did not enable it to spend 30 percent of its income and purchase a minimally adequate diet. Income eligibility levels varied by household size and were different for Alaska, Hawaii, Puerto Rico, and the outlying territories, as were the allotments. However, not all of a household's income was counted in determining eligibility (and benefits). Certain household expenses were "deductible" without limit. As a result, a household with a "gross" income substantially above the income guidelines could be eligible if it had shelter, medical, educational, and other allowable expenses sufficiently high enough to reduce its "income" to below the "net" income levels.

The assets test was set at \$1,500 for all households except those containing elderly members, for whom it was \$3,000. The home, one car, and

^{1/} "Automatic" eligibility was extended to cash welfare recipients.

furnishings and personal belongings were excluded from consideration and, thus, the assets test was, in reality, a "liquid" assets test counting, for the most part, things such as cash in the bank and other highly liquid holdings.

The work registration rules required that able-bodied adults between 18 and 65 years of age register for employment at State Employment offices and accept suitable employment if offered. Certain categories of recipients were excluded, such as mothers taking care of children under 18 and students.

Benefits 1/

Benefits were calculated using household size and anticipated monthly "net" income. Household size determined the food stamp monthly allotment; every household of the same size received the same allotment. Household "net" income determined the "purchase requirement" the household would have to pay to "buy" its food stamp allotment; the purchase requirements were those set in 1970 and varied by income and household size from as little as 10 percent of "net" income to nearly 30 percent in some cases. Allotments and purchase requirements were combined in "basis-of-issuance" tables that set forth the monthly purchase requirement and allotment for households by size and "net" income. Purchase requirements averaged just under 25 percent "net" income, or about 20 percent of "gross" income. The difference between a household's purchase requirement and its (higher) allotment was termed the

1/ For recipients of Supplemental Security Income (SSI) assistance in certain States, benefits are payable in cash as part of their SSI payment, under provisions of title XVI of the Social Security Act.

"bonus" and constituted the monthly benefit that supplemented its food purchasing power.

Administration

Administration was handled by State and local welfare departments under uniform nationwide rules promulgated by the U.S. Department of Agriculture. The Federal Government paid its own administrative costs, the cost of benefits, and 50 percent of State and local costs; States and localities bore the other 50 percent of their administrative expenses.

Use of Food Stamps

Food stamps were usable for food bought for home consumption in retail grocery stores (not alcoholic beverages or tobacco) and for prepared meals in some cases, such as elderly persons in special communal dining programs or narcotics addicts and alcoholics in treatment programs.

MAJOR CHANGES MADE IN THE 1977 ACT

The Food Stamp Act of 1977 kept some of the basic features of the old Food Stamp Program; however, it also made substantial changes.

Eligibility Changes

Income eligibility provisions were changed by lowering the "net" income eligibility standards and eliminating or restricting the use of "deductions" that could lower gross income to an eligible level. Specifically, the "net" income eligibility standards were lowered to the annually indexed "poverty level" (this represented a reduction in income standards of about \$100 per

month for a four-person household) and the eight unlimited deductions previously allowed were narrowed to:

1. A "standard" deduction claimable by all households, indexed semi-annually and now standing at \$70 per month;
2. A deduction equal to 20 percent of any earned income, to allow for taxes and work expenses; and
3. A combined shelter cost/dependent care deduction, neither of which, alone or in combination, could exceed an indexed ceiling now standing at \$90 per month. 1/

The result is that more income is counted, on average, and fewer households are eligible than under the old program--over 3 million fewer eligible persons. In effect, these changes put a gross income eligibility ceiling on the program where none had existed before. In 1977, that stood at the monthly equivalent of just under \$10,000 a year for a four-person household; with indexation, it now stands at just over \$11,000 a year.

Other eligibility changes include: (1) raising the assets limit to \$1,750 per non-elderly household, while increasing the degree to which the value of any car is counted as an asset; (2) making persons who voluntarily quit their job ineligible for 60 days; (3) tightening the work registration requirements by making more persons subject to them and requiring the conduct of "job searches"; (4) making the eligibility rules governing aliens more restrictive, and (5) eliminating the rule making cash welfare recipients "automatically" eligible.

1/ A shelter cost deduction is claimable to the extent that total household shelter costs (including heating and utilities) exceed 50 percent of income after all other deductions. A dependent care cost deduction is claimable for any expenditures on dependent care related to employment.

Benefit Changes

The same changes made in the counting of income (fewer and more restrictive deductions) for eligibility purposes apply to the counting of income for benefit purposes. This automatically results in more "net" income for many participating households and smaller benefits. However, it is not true for all households. The lower-income households that, under the old program, had not had the chance to "deduct" expenses because they did not have the income to spend on "deductible" expenses benefit by the "standard" deduction, since it is applied without regard to expenses and is automatically available to all households. As a result, the limitation on deductions in the new act tends to count more income among higher-income recipients and less income than before among lower-income recipients.

In addition, the new act eliminates the purchase requirement, as an incentive for participation among eligible households. Under the old law, it was estimated that participation among eligibles was about 55 percent and Congress judged, in eliminating the purchase requirement, that much of this relatively low rate of participation was due to the inability to come up with cash-in-hand to buy a monthly food stamp allotment. In removing the purchase requirement, the new act substitutes a "benefit reduction" that reduces a household's "maximum benefit" (the old "allotment") by 30 percent of any "net" income. Thus, rather than paying a purchase requirement, and receiving a full (nutritionally adequate) allotment, a participating household now receives only a "benefit" that is roughly equivalent to the old "bonus" and is expected to pay out 30 percent of its income in order to make up the full cost of an adequate diet at the grocery store, rather than at

the food stamp issuance office. It is expected the removal of the purchase requirement will eventually bring 3 million or more previously eligible persons onto the program and increase the participation rate to close to 70 percent.

However, the fact that the "benefit reduction rate" is set at a standard 30 percent of income, rather than the older schedule keyed to "normal" food expenditures and varying purchase requirements from 10 percent to just under 30 percent of income, means that households lose benefits where as much or more income is "counted" as under the old law.

Overall, the benefit provisions of the 1977 act are expected to reduce benefits for roughly one-quarter of the pre-existing recipients, hold benefits roughly constant for about half of the pre-existing recipients, and increase benefits for the remaining quarter. In addition, as mentioned above, a substantial number of new recipients are expected, representing almost a 20 percent increase in participation.

Administrative Changes

The new Food Stamp Act places a number of new responsibilities on States and localities with the goal of increasing their responsiveness to eligible applicants and recipients and encouraging better administration and the pursuit of fraud and abuse. Time limits for administrative action, a number of other recipient-oriented changes such as increased use of telephone interviews and mail application and issuance in certain cases, coupled with the greater simplicity (fewer deductions) of the new program, are intended to ensure that applicants and recipients get benefits and decisions in a timely and correct fashion. Financial incentives to States for improved

administration and pursuit of fraud cases are aimed at increasing State and local activity to reduce "error rates" and pursue and prosecute fraud cases.

In addition, pilot projects are authorized to test out new methods of administration--in particular, a number of "workfare" projects and projects to give cash benefits in lieu of food stamps to elderly and disabled households.

The Appropriations Ceilings

Due to the concern over Food Stamp Program costs, the new act placed dollar limits on annual food stamp appropriations and provides for reductions in benefits if "full entitlement" needs exceed these amounts. The program was authorized through fiscal 1981 and the appropriations ceilings for each year were set at roughly \$6.2 billion.

1978-79 TRENDS

Between the passage of the Food Stamp Act of 1977 and its implementation in early 1979, food stamp participation fell to an average of about 16 million persons per month, and program costs rose only slightly, due to food-price indexing of benefits, to about \$5.9 billion (including State and local costs) in fiscal 1978.

However, with implementation of the new act, beginning in January 1979 and completed in July, substantial changes in participation and costs, along with legislative revisions, have occurred.

Participation in the program has risen to well over 18 million persons per month and costs are estimated to total close to \$7 billion in fiscal 1979, including State and local expenditures. The increase in participation

is largely attributable to elimination of the purchase requirement, as mandated and expected under the 1977 act. 1/ However, cost increases have been the result of a number of factors, including new participants, the effect of inflation on indexed benefit levels and eligibility standards, the extent of unemployment, and the effect of general economic conditions.

In response to the growth of the program in 1979 and the perceived need for further revisions in the law, Congress moved in 1979 to raise the appropriations ceiling for fiscal 1979, restore some lost benefits to elderly and disabled recipients disadvantaged by provisions of the 1977 act, and initiate further program reforms.

The 1979 Food Stamp Amendments (P.L. 96-58) raised the appropriations ceiling on the fiscal 1979 program to \$6.8 billion, in response to estimates indicating that the cost of the program would substantially exceed the \$6.2 billion ceiling legislated in 1977; the ceilings (also \$6.2 billion per year) for fiscal 1980 and 1981 were left untouched. In addition, these amendments restored some lost benefits to elderly and disabled recipients who had been disadvantaged by the new act's elimination of "deductions" for medical costs and limits placed on the amount of any shelter cost "deductions"; medical costs above \$35 per month were made "deductible" for the elderly and disabled and the dollar limitation on any shelter cost "deduction" was removed for these recipients. Other program revisions included in the 1979 amendments included: (1) expansion of eligibility to certain disabled persons in small group living situations; (2) the authority to "carry over" unused funds from

1/ Although the initial rapid rise in participation that occurred in the early months of 1979 was not anticipated, and, therefore, added unexpected costs to the fiscal 1979 program.

year to year was removed; (3) a method for reducing benefits if funding is insufficient was established; (4) regular reporting on program costs and likely funding shortfalls was required; and (5) several provisions aimed at curbing fraud and abuse and strengthening State administrative control over the program were added.

As was the case during the earlier (1975-77) debate over food stamp reform, increasing food stamp costs in 1979 and current projections that they may go well over \$8 billion in fiscal 1980 have spurred a new debate over additional program reforms. The need for long-term program changes designed to tighten administration and reduce costs was emphasized both in Congress and the Administration during the 1979 debate over raising the fiscal 1979 appropriations ceiling, and estimates that fiscal 1980 and 1981 costs will be substantially over the \$6.2 billion ceiling have already resulted in preliminary House and Senate consideration of new reform legislation.