



Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 363 (Substitute S-1 as reported)
Sponsor: Senator Steven Bieda
Committee: Families, Seniors, and Human Services

Date Completed: 8-1-11

RATIONALE

The U.S. Department of Agriculture funds the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program, which is co-administered by states under various names. In Michigan, the Department of Human Services (DHS) Food Assistance Program (FAP) supplements the food purchasing power of low-income individuals and families. Eligibility for FAP generally depends on the financial situation of all members of a household. These benefits may be used to buy eligible food from authorized retail food stores and approved meal providers. Benefits are secured via electronic transfer through the use of a debit card, commonly known as a Bridge card, provided to FAP recipients. In recent months, there have been some widely publicized incidents of misuse of Bridge cards. Many feel that this type of misuse should be addressed through legislation.

In May 2011, there were several media reports of a Michigan man who remained eligible for FAP and continued to use a Bridge card, despite having won over \$2 million in a Michigan lottery game in July 2010. Because he had elected to receive his lottery winnings in a lump sum, rather than periodic payments, under FAP eligibility criteria the prize was deemed to be an asset and not income. In addition, there have been reports in recent months of FAP recipients' trading their food purchases for a percentage of cash value, or redeeming their Bridge card balances for cash, so they essentially could use FAP benefits to purchase unauthorized items. It has been suggested that lottery or gaming winnings should be counted as income for purposes of

determining eligibility for public assistance, and that a person who intentionally sells food purchased through SNAP benefits should be ineligible for future benefits.

CONTENT

The bill would amend the Social Welfare Act to do both of the following:

- **Require the DHS to include lottery or gaming winnings as income for purposes of public assistance eligibility.**
- **Provide that a person would be ineligible for benefits, for a period determined by the DHS, if a court or administrative agency found that he or she intentionally sold food that was purchased with supplemental nutrition assistance program benefits.**

Specifically, for the purpose of determining eligibility for public assistance under the Act, the DHS would have to include a recipient's lottery winnings or other gaming winnings as countable income regardless of whether the winnings were received in a lump sum payment or any type of periodic payment.

Subject to any requirements established in Federal statute, rule, or regulation, if a State or Federal court or administrative agency found in a hearing under the Act that a person intentionally sold any food that was purchased using SNAP benefits, the person would be ineligible for benefits for a period of time to be determined by the DHS.

Proposed MCL 400.10c & 400.14k

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

By requiring the DHS to include lottery or gaming winnings as income for purposes of public assistance eligibility, the bill would close a glaring loophole in eligibility criteria. Several media outlets have reported the case of Leroy Fick, a Michigan man who won a lottery game prize valued at over \$2 million, yet continued to be eligible for FAP benefits because he elected to receive the award in a lump sum rather than over time. Eligibility for food assistance is based on gross income and follows Federal guidelines. Lump sum lottery winnings evidently are considered liquid assets and do not count as income; therefore, as long as a person's gross income stays below the eligibility requirement, he or she can receive food assistance even if he or she has a large amount of money in the bank. People who win major cash prizes through the lottery or other forms of gaming are capable of providing for their own needs. Since public assistance under the Social Welfare Act is designed to supplement the basic needs of low-income people, lottery and other gaming winnings should be included as income to ensure that assistance programs do indeed target the needy.

Response: While the bill would address the recent case of one lottery winner, it is not sufficient to address the broader problem that case brought to light. According to a DHS official's testimony before the Senate Families, Seniors, and Human Services Committee, Federal regulations define income and asset for the purpose of determining eligibility. Rather than designating lottery winnings as income, the bill should specify that those prizes are an asset that will count toward income. In addition, without legal authorization, the Lottery Bureau cannot share information regarding prize winners with the DHS. While the DHS presumably could act on other information it received, such as media reports of winnings or tips from people who knew a lottery winner, authorizing the Lottery Bureau to share information with the DHS would be more effective and efficient and should be a part of this legislation.

In addition, the bill would address only lottery and gaming winnings. Other types of

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one-time, lump-sum financial gains, such as money gained from an inheritance or a lawsuit award or settlement, would not be covered by the bill.

Supporting Argument

Within the past year, there have been several reports of Bridge card misuse by people who bought food items and then sold them for a percentage of their value in order to exchange FAP benefits for cash. This practice essentially enables recipients to purchase unauthorized items, such as alcohol or tobacco, and may facilitate criminal activity involving the purchase of drugs and weapons. According to a *Grand Rapids Press* article, more than three dozen customers of a Grand Rapids gas station redeemed their Bridge cards for cash and faced felony charges ("38 Bridge Card customers at Grand Rapids marathon gas station face felony charges", 9-22-10). They allegedly traded the cards to get 50% of the cards' value back in cash. According to other reports, in June 2011, an Upper Peninsula man was charged with welfare fraud for misusing food assistance benefits. The man allegedly used a Bridge card to buy expensive items such as lobster tails and porterhouse steaks, which is not a FAP violation, but then sold the items for about 50% of their worth. Also in June, a Lansing party store was closed and its operators arrested because workers allegedly were trading Bridge cards for drugs and weapons. While all of these violations are being prosecuted, the bill would add to available sanctions by requiring the DHS to determine a person ineligible for food assistance benefits if a court or administrative agency found that he or she had intentionally sold food that was purchased with SNAP benefits. This would prevent those violators from reoffending and could deter other people from trading their FAP benefits for cash.

Response: This reflects current DHS policy.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

Senate Bill 363 (S-1) would result in Food Assistance Program savings that could reach a maximum of \$17.0 million Gross from reduced Federal food assistance spending in FY 2011-12. Lump sum lottery payments counted as income in the year that winnings are received would not be countable in subsequent years. As there are new

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winners each year, the State still could realize savings on an ongoing basis.

The bill would have no fiscal impact on local units of government.

Fiscal Analyst: Frances Carley

In calendar year 2010, 55,000 lottery winners accepted lump sum payments totaling \$323.0 million. Assuming that 25% of all Michigan households currently receive FAP benefits, 13,750 of these 55,000 lottery winners could be receiving FAP benefits. (In May 2011, 963,012 households received FAP benefits out of a total of 3.8 million households as of the last census.)

Out of 1,340 winners who received payments over \$5,000, 335 are possible FAP recipients. If these winnings were to place all 335 households above the eligibility threshold of 200% of the Federal poverty level, the recipients would no longer be eligible for FAP benefits. In this scenario, the State could expect maximum savings of \$1.1 million in Federal funding by disqualifying the households.

Out of 53,660 lottery winners who received lump sum payments under \$5,000, approximately 13,400 could be FAP recipients. Although it is unlikely that these winnings would disqualify a household, any increase in income would result in a decreased monthly FAP benefit. The total payments made for lump sum winnings under \$5,000 were \$205 million. Using the average payment of \$3,800 for each winner, the FAP payments that the winners would be eligible to receive could be reduced by as much as \$100 per person per month. The maximum Federal savings that could be realized as a result of the reductions are \$16.0 million. Actual savings in a given year, however, would vary depending on the number of winners and the amount of the payments.

Under current Department policy, people who are found to have used their Bridge cards and FAP benefits in a fraudulent way are sanctioned. Recipients involved in FAP trafficking (buying or selling food benefits for cash or consideration other than eligible food) over \$500 can face a lifetime disqualification when found guilty by a court judgment or individual admission. Recipients are disqualified for one year, two years, or a lifetime. Implementation of this portion of the bill therefore would not result in a significant fiscal impact.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.