Appendix B
Administrative Cost Estimates of Implementing a Toll Discount Program for Low Income Customers

December 2014

Prepared by

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LOUISVILLE-SOUTHERN INDIANA OHIO RIVER BRIDGES PROJECT:
ADMINISTRATIVE COST ESTIMATES OF IMPLEMENTING
A TOLL DISCOUNT PROGRAM FOR LOW INCOME CUSTOMERS

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for:

Kentucky Transportation Cabinet
Indiana Department of Transportation

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1 PURPOSE

1.1 Introduction

The purpose of this report is to provide a preliminary estimate of initial capital costs and near-term operations and maintenance (O&M) costs for the implementation of a toll mitigation program for those identified as low-income residents in the Louisville–Southern Indiana Ohio River Bridges (LSIORB) Project area. The information in this report is intended to augment the information contained in the June 27, 2013, Draft Assessment of Economic Effects of Tolling and Potential Strategies for Mitigating Effects of Tolling on Low-Income and Minority Populations (Draft Economic Effects Assessment), and, thereby, to assist the Kentucky Transportation Cabinet (KYTC) and the Indiana Department of Transportation (INDOT) in evaluating the feasibility of implementing measures to help mitigate the potential adverse effects of tolling on Environmental Justice (EJ) populations.

Several toll mitigation programs and enrollment eligibility types were identified, and cost estimates were prepared for two programs that represent the range of potential program development, start-up, and operation and maintenance (O&M) costs. For purposes of developing the cost estimates, this report makes assumptions regarding Business Rules, Toll Policy, and Concept of Operations (ConOps) since none of these are as yet finalized. Finalization of these elements of the tolling process are in part dependent upon the decisions reached regarding measures to mitigate the disproportionately high and adverse impacts of tolling on EJ populations in the Project area, per the commitments made by the Federal Highway Administration (FHWA), KYTC, and INDOT in the Supplemental Final Environmental Impact Statement (SFEIS) and Revised Record of Decision (RROD) for the Project.

This report also outlines several start-up and operational risks potentially associated with implementing a toll mitigation program, and discusses the types of documentation and review that may be required with the eligibility determination process.

Section 2 of this report describes the mitigation programs and discusses the types of documentation and review that may be required with the eligibility determination process; Section 3 presents the preliminary cost estimates for two mitigation program scenarios; and Section 4 discusses potential risks associated with implementing a toll mitigation program.

1.2 Background

1.2.1 Toll Collection

The LSIORB Project includes construction of a new Downtown Bridge, immediately east of and adjacent to the existing Kennedy Bridge, to carry I-65 northbound traffic; reconstruction of the existing Kennedy Bridge to accommodate I-65 southbound traffic; reconstruction of the Kennedy Interchange (“Spaghetti Junction”) where I-64, I-65, and I-71 converge in Downtown Louisville; and construction of an East End Bridge connecting KY 841 in Kentucky to SR 265 in Indiana approximately six miles upriver from the Downtown I-65 crossings.

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1 Business Rules are policies that guide a company or organization in running its day-to-day business. A Toll Policy provides the basis for determining toll rates and methods for collection of tolls. For the LSIORB Project, the policy will include adoption of a plan for mitigating the effects of tolling on EJ populations. A Concept of Operations (ConOps) document describes the proposed system characteristics from the user organization’s (in this case, Tolling Authority’s) viewpoint. It describes the user organization, mission, and organizational objectives.
It is also important to note that of the five Ohio River bridges that will exist in the Louisville metropolitan area following construction, only the new East End Bridge and the Downtown I-65 bridges (new Downtown Bridge and reconstructed Kennedy Bridge) will be tolled. The Sherman Minton (I-64) and Clark Memorial (US 31) bridges will remain un-tolled following Project completion, providing two free options for cross-river travelers who wish to avoid a toll. Both of these cross-river connections are familiar and readily accessible to most residents of EJ areas in Louisville, Clarksville/Jeffersonville, and New Albany; and, in fact, both are located in close proximity to the largest concentrations of EJ populations in both Jefferson and Clark/Floyd counties. All planning for the Project, including traffic and financial studies, has been based on the Sherman Minton and Clark Memorial bridges remaining un-tolled.

An Open Road Tolling (ORT) system will be implemented for both the Downtown Crossing (I-65) and the East End Crossing. The following toll collection options will be offered:

- **Transponders.** The primary collection method will be with transponders. Toll rates for transponder-equipped vehicles will be based on frequency of use (i.e., one rate for frequent users and another rate for non-frequent users). To encourage the use of transponders, the States propose to provide, at no cost to any user, a transponder that is compatible with the local tolling system.

- **Video Toll.** For vehicles that are not equipped with transponders, the toll will be collected through video collection. For video collection, two options will be offered—pre-registered and standard video toll collection.
  - Pre-Registered Video Toll Collection—Motorists will register their license plate and fund an account which will be drawn from when their license plate image is captured by video equipment installed on the tolling gantries. Because of the greater cost associated with administering an image-capture system (as opposed to the use of transponders), an additional toll amount will be charged, on top of the transponder toll rate, to cover the additional costs of pre-registered video toll collection.
  - Standard Video Toll Collection—This collection method will involve capturing a license plate image, identifying the license plate, identifying the address corresponding to the license plate through Department of Motor Vehicle (DMV) records, and then mailing a bill to the address. Because of the greater costs associated with both administering an image-capture system and collecting tolls by mailed invoice, an additional toll amount will be charged, on top of the transponder rate, and greater than the pre-registered video toll rate, to cover the additional costs of standard video toll collection.

1.2.2 SFEIS/RROD

During the development of the SFEIS, which was signed on April 20, 2012, an evaluation of potential effects on EJ populations (i.e., low-income and minority populations) was conducted, per Executive Order 12898, *Environmental Justice*, FHWA Directive 6640.23, and USDOT Order 5610.2. That analysis reached the following conclusion:

*The analysis of the economic effects of tolling took into account both the actual cost of the toll and the non-toll costs incurred by vehicle users in making cross-river trips, including vehicle operating costs and the cost of time spent in traffic.*
These costs were identified for “EJ community cars” (defined as car trips that originated from an area identified as an EJ community) and “Non-EJ community cars” (car trips originating outside areas identified as EJ communities). The analysis of average user costs found that non-EJ community cars would experience an 11% ($0.98) increase in average cost per trip for Ohio River bridge crossings (from $9.15 to $10.13), while EJ community cars would experience a 21% ($1.41) increase in the average cost per trip for bridge crossings (from $6.75 to $8.16). The increase in the average cost per trip for EJ community cars is expected to be greater than the increase for non-EJ community cars.

Based on the vehicle user cost data...FHWA has concluded that the Modified Selected Alternative is likely to cause disproportionately high and adverse effect[s] on minority and low-income populations....Therefore, in accordance with FHWA Order 6640.23, it is necessary to consider strategies for minimizing and mitigating the economic effects of tolling on minority and low-income populations. (SFEIS p. 5-43)

The mitigation measures identified in the subsequent Revised Record of Decision (RROD) (pp. 64-65) signed June 20, 2012, include the following, which are applicable to the purpose of this report:

Prior to the implementation of tolling, the states of Indiana and Kentucky will adopt a policy that is sensitive and responsive to low-income and minority (environmental justice) populations (“Tolling Policy”). ... During the development of the Tolling Policy, KYTC and INDOT will:

- Conduct a detailed assessment of the potential economic effects of tolls on low-income and minority populations, using the latest publicly available population data, traffic forecasts, and community input.
- Identify and evaluate a range of measures for mitigating the effects of tolling on low-income and minority populations.

As part of the Tolling Policy, KYTC and INDOT will adopt a plan for mitigating the effects of tolling on low-income and minority populations (“Tolling Mitigation Plan”). The Tolling Mitigation Plan will:

- Include practicable measures for minimizing impacts of tolling on low-income and minority communities.

The Tolling Policy will be completed before tolling is allowed to be initiated on the LSIORB Project.

In determining practicability of measures to mitigate effects on low-income and minority communities, KYTC and INDOT may take into account the financial requirements of the project, the technical and logistical issues associated with toll collection methods, and other needs.

1.2.3 Post-SFEIS/RROD

One of the commitments made in the RROD was to further assess the Project’s potential effects on EJ populations, and to consider measures to minimize and mitigate those effects. Toward that end, the Draft Economic Effects Assessment was prepared and provided to the public, for review and comment, on June 27, 2013. The range of public outreach methods employed to obtain comments included posting the report on the Project website (www.kyinbridges.com); conducting three professionally administered public opinion surveys; holding open house meetings (July 22 and 23, 2013); and, prior to the meetings, distributing the report with the meeting notices at libraries,
community centers, and numerous other readily accessible sites throughout the Project area, including the EJ communities.

Section V of the Draft Economic Effects Assessment identified and evaluated several potential measures to mitigate the disproportionate and adverse effect of tolling on EJ populations. In addition to the commitment in the RROD to provide $20 million to the Transit Authority of River City (TARC) to enhance cross-river travel benefiting EJ communities (which was memorialized in a Memorandum of Agreement between TARC, KYTC, and INDOT), the Draft Economic Effects Assessment evaluated mitigation measures related to the following:

- Traffic control
- Transponder procurement cost, one-time credits, and methods of obtaining transponders
- User account management (including minimum balance in user’s accounts, locations for replenishing funds in a user’s account, and on-line account management)
- Cost of multi-system compatible transponders
- Discounted tolls

Toll discounts, both area-based and income-based, were considered but not recommended for further consideration due to then-undefined administration and enforcement challenges and costs, and potential loss of toll revenue.

After the Draft Economic Effects Assessment was issued, and after considering public comments on that report, KYTC and INDOT, conducted two additional analyses to consider the costs of toll discounts in greater detail. These additional analyses are intended to:

- Estimate the potential effect of a toll mitigation program on the revenue stream required to finance the Project, which is the subject of the Toll Discount Analysis prepared by Steer Davies Gleave (SDG), November 2014.
- Estimate the potential administrative costs of implementing a toll mitigation program, which is the subject of this report.

Section 2 of this report describes the mitigation program scenarios that form the basis for this report’s cost estimates.

## 2 Mitigation Programs

For this report, the following enrollment eligibility types and types of mitigation programs were initially selected as a framework for comparing the costs of administering various mitigation measures initially identified in the Draft Economic Effects Assessment:

Enrollment eligibility, based on one of following types—

- Individual / family income *(also referred to as “income-based”)*
- Residence in a defined low-income area *(also referred to as “area-based”)*
- Receipt of Federal Earned Income Tax Credit *(also referred to as “FEITC-based”)*

Mitigation program types—

- One-time transponder account credit *(also referred to as “one-time credit”)*
• Ongoing percentage toll rate discount (also referred to a “ongoing discount”)
• Ongoing state income tax credit (also referred to a “ongoing tax credit”)

For budgetary purposes, this report provides capital and O&M cost estimates for two of the mitigation program scenarios, both of which use income as the basis for determining eligibility: Scenario 1—One-time transponder account credit (per person) program, and Scenario 2—Ongoing percentage toll rate discount program. The cost estimates consider the initial development and start-up costs as well as staff for the ongoing administration, operation, maintenance, and oversight of both programs, where applicable, for the anticipated eight-year term of the initial Toll System Provider (TSP) contract. It is expected that these represent the range of costs that would be required to develop and implement the various options discussed in the following sections.

Section 2.1 describes the steps that would be taken to establish eligibility for either Scenario 1 or Scenario 2; and, in the case of Scenario 2, the annual process for renewing and re-verifying eligibility. Section 2.2 discusses the other eligibility and program types that were given consideration but for which costs were not estimated (i.e., area-base and FEITC-based eligibility, and the state income tax credit program). Cost estimates for Scenarios 1 and 2 are provided in Section 3, Preliminary Cost Estimates.

2.1 Mitigation Programs for which Cost Estimates Have Been Prepared

The Scenario 1—one-time transponder account credit and the Scenario 2—ongoing percentage toll rate discount are the two programs selected to represent the range of potential costs for a toll mitigation program for low-income populations in the Project area. Both programs would use income-based eligibility criteria, and both would require the use of a transponder. Low-income individuals who choose to use a video toll rate would not be eligible to receive a credit/discount.

Individual Income-Based Eligibility. The SFEIS defined “low-income” individuals as those living in households with a total income below the federal poverty threshold. The analysis did not address the administrative issue of how to determine each individual’s low-income status. In practice, it would be time-consuming and intrusive to set up a low-income toll mitigation program that would involve individually verifying the income of each person who applies for the program. Therefore, for purposes of estimating administrative costs, this report assumes the following for initially determining and for re-evaluating eligibility:

• A minimal low-income eligibility verification process, such as requiring proof of an individual’s participation in one or more existing, state/federal assistance programs that provide benefits to low-income individuals. Under this approach, the TSP would identify which specific state/federal assistance program (or programs) would be used. For example, eligibility for the low-income toll discount could be based on participation in programs such as Medicaid; Supplemental Security Income (SSI); Supplemental Nutrition Assistance Program (SNAP/Food Stamps); Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); Temporary Assistance to Needy Families (TANF); and/or Low-Income Home Energy Assistance Program (LIHEAP).

This approach would be more efficient and less intrusive because it would avoid the need for the Tolling Body to collect information regarding income from each person who applies for a toll discount. However, eligibility prerequisites for these programs are not all the same—the programs include different income levels for eligibility, and the thresholds for some programs are higher than the federal poverty levels established by the U.S.
Department of Health and Human Services (HHS). Therefore, if the Tolling Body were to align with a program with an eligibility threshold higher than the HHS poverty level, it would result in greater revenue loss than would be expected were eligibility based upon the federal poverty threshold.

- **Quality control checks** on randomly selected accounts to validate applicants’ eligibility. Due to the potential for long-term revenue loss, the process for an on-going program would be more robust than that for a one-time credit (Scenario 1). Furthermore, for an on-going program, recognizing that a person’s circumstances are not constant, monitoring to identify changes in eligibility would be required. Enforcement and audit capabilities to verify eligibility would require staff and programs dedicated to those tasks.

With either Scenario 1 or Scenario 2, it would also be necessary to develop and incorporate into the enrollment process for either scenario, and the renewal process for Scenario 2, methods of handling exceptions to the processes that would be likely to occur because of system or human errors, some customers’ atypical situations, or other circumstances. The administering agency would need leeway to exercise discretion and use judgment in determining each customer’s eligibility within the general framework of the mitigation program’s policies.

### 2.1.1 Scenario 1: One-Time Transponder Account Credit Program

The one-time credit program would provide a fixed dollar amount that would only be available to those who are identified as low-income under the income-based eligibility criteria and who establish and maintain a transponder account.

**Enrollment.** If the one-time transponder account credit program is chosen for implementation, an enrollment process will be required of those wishing to receive the credit. The process could involve the following steps:

- **Step 1.** Customer would obtain an application on-line, by visiting a staffed Walk-up Center, or by visiting another readily available governmental service location. If on-line, the customer could submit questions and receive information about the program, including instructions on how to complete the application. If at a Walk-up Center, a Customer Service Representative (CSR), dedicated to the task of implementing the low-income toll program, would be available to answer questions and provide assistance.

- **Step 2.** Customer would complete an application and bring it to the Walk-up Center, together with a valid driver’s license and verification of eligibility, which could consist of proof of participation in a specified state/federal government financial assistance program (SSI, SNAP, etc.).

- **Step 3.** At the Walk-up Center, a CSR would assess eligibility by reviewing with the customer the low-income application and other required documents. Those determined eligible would be asked to sign a statement attesting to the truth and accuracy of the information provided by the customer. Non-eligible customers would be directed to either provide additional information to qualify for the discount, or establish an account through the process established for the general public.

- **Step 4.** The CSR would enter into the LSIORB Toll Collection System the eligible low-income customer’s account information that reflects eligibility for the one-time credit, and file the applicant’s paperwork.
Step 5. The CSR would provide a transponder associated with the new low-income account or link an existing transponder already held by the person to the new low-income account.

The customers would then be able to sign up for a transponder account, either on-line or at the Walk-up Center, prior to or after the commencement of tolling. The credit would be applied to a user’s transponder account and would be used to offset tolls incurred by the user during the 90-day period following the date that toll collections begin on the Project. Any unused credit would expire at the conclusion of that 90-day period.

Because this scenario would provide a one-time credit, there would be no renewal/re-verification process.

2.1.2 Scenario 2: Ongoing Percentage Toll Rate Discount Program

This cost estimate scenario is based on an ongoing percentage toll rate discount, whereby the toll rates would be discounted by a fixed percentage of the applicable transponder toll rate established for frequent users or non-frequent users of the tolled bridges.

**Enrollment.** For Scenario 2, initial eligibility would be determined through enrollment Steps 1–5 identified for Scenario 1. If the enrollment created a new account, the individual would be required to deposit a minimum balance into the account.

**Renewal.** The expected administrative process to renew existing account holders in this program is summarized as follows:

Step 1. Two months prior to the date of the expiration of the customer’s enrollment in the discount program (i.e., 10 months after the initial acceptance or 10 months after each subsequent acceptance), the existing customer would be sent a renewal letter, accompanied by a renewal form, to (1) notify the customer that enrollment will expire at the 1-year anniversary, and (2) determine the customer’s interest in, and eligibility for, continued enrollment. The letter would explain the renewal process, noting that customers wishing to remain in the program must submit the renewal form, by mail or in person, by a given deadline. The renewal form would require the customer to:

- State the customer’s wishes to remain in the program.
- Provide an updated copy of proof of enrollment in previously identified, qualifying state/federal program or proof of residency, depending on the eligibility criterion chosen.
- Sign and date the form, which includes a statement regarding the veracity and accuracy of the information provided.

Step 2. Prior to the deadline stated in the letter, the customer would be required to return the completed renewal form and supporting information.

Step 3. If the deadline is met, the CSR would review the customer’s renewal form and assess whether the customer’s eligibility in the program had been maintained. The renewal of eligibility would be approved or denied and notification is sent to the customer. The CSR would then update the account by entering the determination into the toll discount program.

If the deadline is missed, the CSR would notify the delinquent customer, by letter, that the customer will be removed from the program upon expiration of the current 12-month...
eligibility period unless the customer responds within a predetermined number of days to submit a renewal form and supporting documentation. The letter would also notify the customer that their account would convert to a general (i.e., non-discounted) account.

Step 4. Additional interviews may be scheduled if more details about changes were needed to assess a customer’s continued eligibility, or if the customer wished to appeal a rejected eligibility application or discuss the case with the CSR.

**Verification for Quality Control.** Under Scenario 2, recurring due diligence would be performed for randomly selected accounts on an on-going basis to validate customers’ eligibility for this program. Through the duration of the low-income discount program, on a frequent and consistent basis, low-income accounts would be selected at random for verification of information provided by the customers. The sample size, confidence level, and confidence interval would be determined once the program is underway and adjusted as needed throughout the life of the program. This verification process would apply only to the ongoing discount program (Scenario 2), not the one-time discount type (Scenario 1). This quality control approach would result in a higher confidence level than the one-time quality control check proposed with Scenario 1.

The verification process would consist of contacting the office of the state or federal program that was used to demonstrate low-income eligibility in order to validate the individual’s current eligibility for that program. Agreements with these other government programs would likely be required for sharing of this information. If the individual’s low-income status is not validated by the applicable office, the applicant would be notified that additional verification of low-income status is needed or the low-income discount would be discontinued. Throughout the low-income discount program, samples would be recorded and evaluated to identify possible program errors.

### 2.2 Other Eligibility Types and Mitigation Programs Considered

#### 2.2.1 Area-Based Enrollment Eligibility

An alternative enrollment approach could be based on residency within a geographic area identified as low-income (see Figure 1). Census Block Groups based on current American Community Survey (ACS) income data would be used as the base geographic unit for determining residency in a low-income area. The low-income status of individual Block Groups would be determined based on the percentage of residents living in a Block Group in households with a total income below the federal poverty threshold. Block Groups would be deemed to be low-income if they meet any of the following criteria used in the 2012 SFEIS:

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2 For definitions and calculations of these variables see http://www.surveysystem.com/sscalc.htm
- The poverty rate of the Block Group is greater than 50%.
- The poverty rate of the Block Group is at least 10% higher than the poverty rate of the Louisville Metropolitan Planning Area (LMPA).
- The poverty rate of the Block Group is at least 10% higher than the poverty rate of the county in which the Block Group is located.

Under this enrollment approach, anyone living within a Census Block Group defined as low-income according to any of the foregoing criteria would be eligible for a low-income toll discount. According to the 2008-2012 ACS, 20.7% of the LMPA population lives in a Block Group that qualifies as low-income according to the criteria listed above. The figure illustrates the locations of the low-income Block Groups identified through this methodology.

An administrative cost estimate for this scenario has not been calculated, as the requirements (and therefore the cost) to administer the program would not be less than that of Scenario 1 or greater than that of Scenario 2. This approach could require a more robust verification method compared to Scenario 1, but not necessarily as robust as that of Scenario 2. To ensure that a customer is residing within the boundary of the area identified as low-income, validation methods could include review of a customer’s documents identifying residency (e.g., utility bills, driver’s license, rental agreement, etc.). Eligibility would be reviewed and validated through the initial enrollment steps identified in Section 5.1. A quality control check of randomly selected accounts would also be conducted to validate an applicant’s eligibility.

### 2.2.2 FEITC-Based Enrollment Eligibility and Ongoing State Income Tax Credit Program

Another alternative enrollment approach could be to provide a state tax credit that would reimburse a percentage of tolls paid in the tax year by an individual filing a state income tax return. Eligibility for the tax credit would ultimately be defined through each state’s legislative process. For the purpose of this analysis, it has been assumed that eligibility might be aligned with that of the Federal Earned Income Tax Credit (FEITC). It has been further assumed that only individuals taking the FEITC on their federal tax return would be eligible to claim the state tax credit.

To be eligible for the FEITC, a person must have earned income from employment, self-employment, or another source; meet rules for workers without a qualifying child or have a child that meets all the qualifying-child rules; meet other requirements such as having a Social Security Number; and file a federal income tax return. The 2011 income limits for FEITC eligibility are shown in Table 1, below.

<table>
<thead>
<tr>
<th>Children</th>
<th>Maximum Income (Earned or Gross Adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single filing</td>
</tr>
<tr>
<td>3 or more</td>
<td>$43,998</td>
</tr>
<tr>
<td>2</td>
<td>$40,964</td>
</tr>
<tr>
<td>1</td>
<td>$36,052</td>
</tr>
<tr>
<td>0</td>
<td>$13,660</td>
</tr>
</tbody>
</table>

*Source: IRS.gov*

Persons who meet these low-income eligibility criteria could receive toll relief in the form of a mitigation program that would offer a state income tax credit. The eligibility type associated with the receipt of the FEITC would apply only to this ongoing tax credit program. An individual seeking a tax credit would also be required to file a state income tax return. The state tax return would be
needed because the credit would be a state-provided credit on the income reported on the state tax forms. It is anticipated that most individuals who are eligible for the FEITC would be able to establish eligibility for a state income tax credit.

**Verification Procedures**—For a state income tax credit, verification of eligibility would potentially be much more involved than for the other methods. The sharing of FEITC information would require the approval of the Internal Revenue Service (IRS). Adherence to security standards and requirements of the IRS would be necessary. Modification of the tax forms, instructions, software, database, etc., would be required to manage this new tax credit. If the state taxing authorities were not responsible for verifying whether individuals claiming the state tax credit had also claimed the FEITC credit, this responsibility would fall to the TSP. Upon receipt of a statement identifying the person claiming the credit and the amount claimed, the TSP would need to verify the amounts claimed by reconciling with toll system records. Persons found to have claimed a credit without having claimed the FEITC on their federal return or who claimed more credit than that for which they were eligible would be reported to the state tax agency for appropriate action.

**Data Security**—Securing and properly handling sensitive and confidential income data would be essential, as any breach in this security could have a significant financial and non-financial cost. This would be especially true for the state tax credit approach if FEITC data is shared with the TSP. Sharing of this data would demand that all servers and storage systems meet IRS standards. Additional controls and possibly additional staff to provide for proper handling of this data may be required. (See Section 3.1, “Data Security,” for additional information.)

While providing an ongoing income tax credit program would be a potential method of mitigating the financial effect of tolling on low-income populations, the cost of implementing and maintaining this type of program has not yet been calculated. Evaluating the program requirements on which a cost estimate would be based—including making statutory changes in state tax laws within the two states, and working within the established policies and procedures of the two states’ taxing agencies, as well as the IRS—are beyond the expertise of the authors of this report.

### 3 Preliminary Cost Estimates

This section presents the preliminary cost estimates for the administrative and oversight functions related to low-income discount programs based on the eligibility and discount types described above. The two cost scenarios presented to represent the range of potential costs for a low-income toll discount program are based on the one-time account credit and an ongoing percentage toll rate discount program (Scenarios 1 and 2, respectively, described in Section 2). Note that the costs are in 2014 dollars and include initial capital investments, annual operations, and, in the case of the ongoing percentage toll rate discount program, lifecycle upgrades to the system. Adjustment for inflation would be needed to estimate program costs at the time tolling is initiated (anticipated

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3 Toward the goal of improving Indiana’s state income tax structure, in September 2014 the State published *Tax Competitiveness and Simplification Report: Recommendations from the Indiana Tax Competitiveness and Simplification Conference.* Identifying the state’s income tax return forms as “unwieldy and burdensome,” the report noted this complexity “creates a perception of unfairness...and imposes a high administrative burden on both taxpayers and the state...An ideal remedy would eliminate nearly all of the modifications, deductions, and [tax] credits,” including the FEITC. (p.30) Neither the likelihood nor effects of modifying/eliminating tax credit programs in Indiana can be known at present. However, it is probable that any changes to tax credits in general by the State would affect a tolling-related tax credit program.
Table 2 (p. 14) lists anticipated critical path milestones for implementing a low-income discount program. Tables 3 and 4 (pp. 15–16) provide the estimated nominal costs for each scenario’s administrative and oversight functions.

**Scenario 1: One-Time Transponder Account Credit Program.** This cost estimate for the one-time account credit is based on the enrollment steps described in Section 2.1.1, plus minimal quality control check for income eligibility verification. The estimated capital cost for this scenario is $1,713,450 and the one-year operation cost estimate is $487,000 for a total cost of approximately $2,200,000. This one-year operations cost includes approximately six months to plan the program and begin enrollments prior to the commencement of toll collections on the bridge, and another six months to implement and support the program.

**Scenario 2: Ongoing Percentage Toll Rate Discount Program.** This cost estimate scenario is based on an ongoing percentage toll rate discount. Eligibility would be reviewed and validated through the initial enrollment steps identified in Section 2.1.1, and recurring quality control checks, with a higher confidence level, for randomly selected accounts to validate a customer’s eligibility for this program. The estimated initial capital cost for this scenario is $2,522,000 and the on-going annual operation cost estimate is $737,500.

Tolling will continue until the project’s financing requirements have been met and the public private agreement between Indiana and its developer is terminated, approximately 35 years. It is assumed the capital investments for the ongoing percentage toll rate discount program would have an average of an eight-year life span as more efficient methods, Business Rules, and CONOPS are developed and new technology advancements are employed to realize efficiencies and cost savings. It is, therefore, anticipated that there would be approximately five life cycles during the expected 35-year tolling process. Table 5 (p. 16) provides a “low” and a “high” life-cycle cost estimate of $716,250 and $1,247,000, respectively. For budgetary purposes, an average eight-year capital investment life-cycle cost estimate of $1,000,000 is used (i.e., a mid-point of the range between the high and the low estimates). Assuming there would be five life cycles, the total estimated capital investment cost would be approximately $7,500,000 for Scenario 2 (i.e., an initial capital cost of approximately $2,500,000, plus approximately $5,000,000 in additional capital costs over the 35-year period). The total nominal cost over the 35-year period—including annual operating costs of approximately $737,000 and capital cost of approximately $7,500,000—would be approximately $33,000,000.

### 3.1 Cost Estimate Breakdown

Cost estimates are presented for both the one-time transponder account credit and ongoing percentage toll rate discount mitigation programs. The costs below are budgetary level costs as Business Rules, Toll Policy, and Concept of Operations (CONOPS) are not yet available. The major elements of work assumed for both cost estimates are listed below by categories identified on Tables 2 and 3.

**Mitigation Program Business Rules, Development, Integration and Documentation.** This task would require the planning, development, and implementation of the mitigation program chosen. This task, which would be directed by a Project Manager, would consist of the following major elements of work:

- Develop Business Rules and Toll Policy (Business Analyst)
- Determine Program and Technical Requirements (Technical Analyst)
• Develop Preliminary and Financial Design Documentation (Documentation Specialist, Technical Architect and Technical Analyst)

• Develop Low-Income Credit/Discount Program (or Modification of Existing to Meet Business Rules) (Technical Architect and Software Developer)

• Integrate Work Flow (and Program) with the Toll Collection System and External Agencies (Software Developer and Test Analyst)

• Document Credit / Discount Program Functionality and Operations Procedures (Business Analyst, Technical Analyst and Documentation Specialist)

The Project Manager would be involved in each of the six tasks outlined above, as well as in managing the schedule, budget, and scope in accordance with the requirements. The Project Manager would also be responsible for quality assurance review.

**Vendor Testing**. The Toll System Provider (TSP) would plan and test end-to-end functionality to assure the mitigation program and the toll collection system work in accordance with Business Rules, Toll Policy, and technical requirements. This testing would address all functional and performance elements to verify requirements, as outlined in the Business Rules task on Table 3. The major elements of work would include:

• Develop Test Plan (Test Manager Quality Assurance Analyst)

• Develop Test Procedures (Test Analyst)

• Conduct Test Procedures (Test Analyst, Test Manager, and Quality Assurance Analyst)

• Manage Defects and Close Out Issues (Test Analyst, Test Manager, and Quality Assurance Analyst)

**Independent Verification and Validation (IV & V) Testing and Certification.** An independent verification and validation test would be conducted by a third party to confirm that the toll collection system and toll mitigation program, operations procedures, and approach meet all stakeholder requirements. This test would provide an end-to-end user and program-level verification that all training is in place and the program conforms to the intended requirements, and that the toll collection system and toll mitigation program and processes provide an equitable low-income toll credit or discount (depending on which program is chosen) while safeguarding the states’ revenues. The major elements of work for the IV & V program are as follows:

• Training and Discovery (Test Manager and Test Analyst)

• Develop Test Plan (Test Manager Quality Assurance Analyst)

• Develop Test Procedures (Test Analyst)

• Conduct Test Procedures (Test Analyst, Test Manager, and Quality Assurance Analyst)

• Manage Defects and Close Out Issues (Test Analyst, Test Manager, and Quality Assurance Analyst)

All CSRs would attend two weeks of training to ensure consistent service and proper oversight of the program. If an ongoing percentage toll rate discount is chosen, follow-up training through operations would occur on a regular basis and as needed. The major elements of work for training would include:
• Develop Training Materials from Operations Procedures and Discount Program Documentation (Training Specialist, Documentation Specialist)

• Conduct Training Sessions (Test Conductor)

It is estimated that a facility would be rented for this two-week training and, while most of the training materials would be presented online and made available online, some job aids and other materials would be printed for training. An allocation for renting a training facility and nominal printing costs are included in this cost estimate.

Start-up and Support. Additional staff might be required to support the chosen mitigation program during the initial year. Any additional space or facility costs are not covered in this item. This cost includes a fully loaded rate for four (one-time credit program) and eight (ongoing discount program) staff to support the Walk-Up Centers. The additional staff would receive training, which is reflected in the hours allocated for the staff in this line item. For the purpose of this cost estimate, it is assumed that the same materials and facility would be used for all training activities.

Marketing, Communications, and Advertising. A tailored marketing, communications, and advertising plan would be required to identify and engage customers who are eligible to enroll in the selected mitigation program. This program would be designed to effectively reach out to eligible candidates based on the selected program, and provide information about how the program works and how the customers can benefit from such a program. The major elements of work for this program would be as follows:

• Develop Marketing Plan (Project Manager, Communications Specialist)

• Develop Advertising Plan (Project Manager, Communications Specialist, Designer, Graphics Artist, Advertising Specialist)

• Create and Develop Brochures and Other Promotional Materials (Communications Specialist, Designer, Graphics Artist, Advertising Specialist)

• Media Buys for Advertising in Newspapers, TV, Radio or Internet. A unit price savings is expected for a larger number of media buys

To save costs, it is assumed that information to be provided on the website would be added to the existing Customer Website for the LSIORB Project.

Dedicated Customer Service Center Representatives. The selected mitigation program would require a customer service center staff dedicated to the implementation of the program. The specially trained staff would address customers’ issues and assure resolution in a timely and appropriate manner. This staff would also research customer inquiries and issues, and determine customer eligibility according to the criteria chosen. It is estimated that a minimum of four staff members (one lead and three CSRs) would be required to provide support at each of two Walk-up Centers (one in each state). The ongoing discount program estimate also contemplates eight staff members who might be required due to the complexity of interactions necessary to do quality control checks to verify eligibility. The hourly loaded rate includes the contractor’s cost of supplying each staff member with a laptop computer. For the purpose of this estimate, it is assumed that the Walk-up Centers would be used to administer the selected mitigation program.

Dedicated State Oversight. Due to the unique nature of this program and sensitivity of use of confidential income data that would be required, two dedicated state program administrators are included in this cost estimate. The estimates are based on fully loaded rates that include benefits.
In addition to other duties, these program administrators would prepare an annual audit for each state to ensure the proper administration of the program.

**Annual Audit.** An external audit would also be required annually to ensure all operations, financial, and program processes are followed and all revenues are protected from fraud or loss. An independent accounting firm would perform the following tasks:

- Review Operations Processes and Procedures (Financial Consultant)
- Report Financial and Operations Reports (Financial Consultant)
- Interview Staff (Financial Consultant)
- Develop Report and Present Findings (Financial Consultant and Principal in Charge)

### 3.2 Milestones for Implementing a Toll Mitigation Program

The table below lists the critical path milestones for implementing the program, along with their estimated completion timeframes.

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<thead>
<tr>
<th>Milestones</th>
<th>Estimated Completion Timeframe</th>
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<td>Develop Concept of Operations for Toll Mitigation Program</td>
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<td>Develop Business Rules and Toll Policy</td>
<td>2 weeks after completion of CONOPS and must be coordinated with LSIRB TCS Business Rules and Toll Policy</td>
</tr>
<tr>
<td>Develop Program and Technical Requirements</td>
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</tr>
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<td>Preliminary and Detail Design Review</td>
<td>12 weeks after the completion of Program and Technical Requirements</td>
</tr>
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<td>Vendor Test Plan and Procedures</td>
<td>8 weeks after Preliminary and Detailed Design Review</td>
</tr>
<tr>
<td>Training Materials and Operations Procedures</td>
<td>4 weeks after Test Plan and Procedures</td>
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<tr>
<td>IV &amp; V Test Plan</td>
<td>4 weeks after Training Materials and Operations Procedures</td>
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<td>IV &amp; V Testing</td>
<td>4 weeks</td>
</tr>
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<td>8 weeks after completion of TCS Business Rules and Toll Policy.</td>
</tr>
<tr>
<td>Advertising Plan</td>
<td>4 weeks after Marketing and Communications Plan</td>
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<tr>
<td>Hire Operations Staff</td>
<td>4 weeks after completion of Vendor Testing</td>
</tr>
<tr>
<td>Train Operations Staff</td>
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<tr>
<td>Communicate Program and Begin Enrollment</td>
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Table 3: Estimated Capital Costs

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## Table 4: Estimated Annual Operation and Maintenance Costs

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### Table 5: Estimated Life-Cycle Capital Costs—Ongoing Discount Program

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<td>Hourly Rate</td>
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This table summarizes the expected lifecycle costs to integrate and test the discount program. The life cycle costs are based on the following assumptions:

- Replacement of existing Toll Collection System, and reuse of existing documentation for the Business Rules, policy and user manuals.
- Integration to new system with some documentation for Interface Control Documents and any minor updates to operations based on a new Toll Collection System.
- Vendor Testing and Independent Verification and Validation Testing and Certification required to integrate this module into the new systems.
- Existing Staff and training not needed as the User Interface is the same.

*NOTE: Average 8-year Life-Cycle Capital Cost Estimate, for budgetary purposes – $1,000,000 (approximately the mid-point between the “low” and “high” estimates).
4 IMPLEMENTATION RISKS

The following is a summary of potential risks associated with implementing a toll mitigation program. This list is an initial draft, and is not intended to be comprehensive. Should this program move forward, potential risks should be investigated further, as well as actions to mitigate the risks.

Non-Standardization among Existing Income-Eligibility Programs. While there are not data readily available in the toll industry regarding income verification processes, there are sufficient data, reports, and audits in other markets that have documented that income eligibility programs are not standardized, have numerous exceptions, and have a high cost of verification. The U.S. General Accountability Office Report, “WIC [Women, Infants, Children] Program Improved Oversight of Income Eligibility Determination Needed” (Appendix A), cites numerous examples in which discretion granted by federal law, regulations, and guidance has resulted in some variation in policy across states and localities. As a result, an individual deemed eligible for assistance in one jurisdiction may not meet eligibility requirements in another.

In the case of the LSIORB Project, two states would be involved in the planning, implementation, and operation of the program. This would require, at a minimum, consultation between the two states to identify differences in the eligibility status and verification process used by each state, and how to address them.

Administrative Cost vs. Revenue. For the one-time transponder account credit program addressed in Scenario 1, while the administrative costs may be less, the risk for errors in eligibility approvals may be higher due to limited verification efforts planned for this scenario. Limited verification could create an enforcement challenge for the States whereby persons not intended to receive the benefit of the discounted rate (i.e., those who are not low-income) could seek to acquire transponders that would allow them to enjoy the discount rate. This risk could result in a reduction of collected toll revenue.

For the ongoing percentage toll rate discount program addressed in Scenario 2, additional development of a systematic, repeatable, and enforceable eligibility verification is essential to ensure enrollment processes are followed and traceable. Scenario 2 has the higher administrative costs due to more rigorous quality control and auditing to reduce errors and validate eligibility with a higher level of confidence. In addition, it is expected that, for this ongoing discount, more customers would contact CSRs with inquiries about how the discount is applied or questions related to transactions. Although this approach would be expected to increase capital and O&M costs, it would also be expected to minimize the loss of toll revenue that might occur under Scenario 1.

Legal Concerns. Toll discount programs in other jurisdictions have been subject to litigation challenges. In some cases, the lawsuits have taken years to resolve. Implementing a toll discount program may involve litigation costs to defend the program.

Toll Enforcement. For the on-going discount, if large numbers of toll mitigation program customers dispute tolls or notices of violations, this could result in losses in toll fees and increased operational costs while account eligibility is verified through multiple agencies. The invoice, violations, and subsequent collections process would require additional workflows and quality assurance procedures to verify income eligibility prior to issuing notices such as invoices or violations to customers. This would increase operational costs to the program, delay the transfer of money owed to the states’ trustees, and limit timely enforcement actions by the states and the toll system provider.
**Data Security.** The mitigation program would be required to secure and properly handle sensitive and confidential income data. Any breach in this security could have a significant financial and non-financial cost. Program staff may require additional ongoing security training to protect personal and other confidential data collected for this program. Depending on the requirements, a set of specialized IT systems separate from the LSIORB Toll Collection System may be required to keep this data secure and protected to the applicable standard of care for this data. This would be especially true for the state tax credit approach if FEITC data is shared with the TSP. Sharing of this data would demand that all servers and storage systems meet IRS standards. Additional controls and possibly additional staff to provide for proper handling of this data may be required.

## 5 REFERENCES

1. Louisville-Southern Indiana Ohio River Bridges *DRAFT Assessment of Economic Effects of Tolling and Potential Strategies for Mitigating Effects of Tolling on Low-Income and Minority Populations*.

APPENDIX A

General Accountability Office Report:

WIC [Women, Infants, Children] Program

Improved Oversight of Income Eligibility Determination Needed
Improved Oversight of Income Eligibility Determination Needed
Why GAO Did This Study

WIC provides nutritious foods and assistance to low-income pregnant and postpartum women, infants, and young children. Research has shown that WIC helps to improve birth and dietary outcomes and contain health care costs. USDA’s FNS oversees the program, which is administered by state and local agencies. While federal regulations define criteria that must be used to determine applicants’ income eligibility for WIC, state and local agencies are also given some discretion. In addition, since 1989, federal law has allowed families who participate in other assistance programs, such as Medicaid, to be automatically income-eligible for WIC.

GAO was asked to provide information on WIC income eligibility determination. GAO assessed: (1) How do state and local criteria for determining WIC income eligibility vary? (2) To what extent are individuals who would otherwise be ineligible for WIC deemed eligible due to their participation in other programs? (3) How does USDA assist and monitor state determination of WIC income eligibility? GAO reviewed federal laws and regulations; analyzed USDA’s national data from 2010, recent survey findings, and monitoring reports; reviewed WIC policy manuals from 10 states chosen to provide population size and geographic diversity; and interviewed federal, state, and local officials.

What GAO Found

The discretion granted by federal law, regulations, and guidance in certain areas of income eligibility determination for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) has resulted in policy variation across states and localities. For example, while national survey data show that many states use an applicant’s current income to determine income eligibility, GAO’s review of 10 state policy manuals found that states differ in how they define the time period covered by current income, with some looking at income from the most recent 30 days and others using longer time periods. WIC administrators also have discretion in determining which members of an applicant’s household should be considered part of the applicant’s family, and both national data and state policy manuals suggest that states often provide local agencies with guidance in this area at the same time as they pass this flexibility to them. State policies also vary to some extent as to the sources of income that are included and excluded when determining an applicant’s income eligibility for the program, according to national survey data.

GAO’s analysis of administrative data found that 2 percent of WIC participants in 2010 were eligible solely because of their participation in another program, as they had incomes over the federal WIC income limit. Because income data were not available for an additional 7 percent of participants in 2010, GAO could not determine if these participants also had incomes over the federal WIC income limit. In recent years, some states have expanded Medicaid eligibility to pregnant women, infants, and children with incomes above the WIC income limit, and many WIC participants who are eligible for WIC due to their participation in another program receive Medicaid. However, the relationship between Medicaid expansions and WIC participation is unclear. While studies generally find that Medicaid recipients are more likely to participate in WIC than others, some suggest that expanded Medicaid income eligibility has not had a substantial effect on WIC participation because eligible families with relatively higher incomes are less likely to participate in WIC than lower-income families.

The U.S. Department of Agriculture’s (USDA) Food and Nutrition Service (FNS) regularly assists and monitors states’ administration of WIC, but it does not review monitoring results at the national level to target assistance to states. Although FNS regularly provides assistance to states in administering WIC, this assistance has generally not been focused on key income eligibility requirements, such as determination of family size and the time period of income assessed, in recent years. However, through its monitoring reports from the last few years, FNS has identified problems with or concerns about income eligibility determination policies or procedures in one-third of the states reviewed. Although FNS officials said that they plan to begin regularly reviewing monitoring findings at the national level to identify areas of program risk and target assistance to states accordingly, officials did not indicate when those reviews will begin. A timeline for reviewing monitoring reports to assess national program risks could better position FNS to show progress in completing its planned actions.

What GAO Recommends

GAO recommends that USDA develop a timeline for reviewing its monitoring reports to assess national program risks and target assistance. USDA agreed with GAO’s recommendation.

View GAO-13-290. For more information, contact Kay E. Brown at (202) 512-7215 or brownke@gao.gov.
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February 28, 2013

The Honorable John Kline
Chairman
Committee on Education and the Workforce
House of Representatives

The Honorable Robert Aderholt
Chairman
Subcommittee on Agriculture, Rural Development, Food
and Drug Administration and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Larry Bucshon
House of Representatives

The Honorable Jack Kingston
House of Representatives

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provided food, nutrition education, and health and social service program referrals to approximately 9 million low-income pregnant and postpartum women, infants, and young children in fiscal year 2011. The 2 million infants who receive WIC benefits annually account for about half of the infants born in the United States. WIC is overseen by the U.S. Department of Agriculture (USDA) and cost the federal government $7.2 billion in fiscal year 2011. Federal WIC appropriations and participation have generally increased since WIC was established as a national program in the mid 1970s, primarily because of federal funding decisions but also due to policy changes that have expanded access to the program. For example, although federal law generally requires that families applying for WIC have incomes below 185 percent of the federal poverty guidelines, the 1989 federal enactment of adjunctive eligibility modified that requirement. Under adjunctive eligibility, families applying for WIC who receive benefits from Medicaid, Temporary Assistance for Needy Families (TANF), or the Supplemental Nutrition Assistance
Program (SNAP)\(^1\) are automatically income-eligible for WIC. When adjunctive eligibility was enacted, these programs had income eligibility thresholds for pregnant women, infants, and children that were equal to or less than 185 percent of the poverty guidelines, and therefore, this policy simply eased the WIC application process and increased coordination between related programs. However, since then, some states have expanded eligibility for these programs to include those with incomes above the WIC eligibility threshold, thereby potentially increasing the population eligible for WIC.

For families not adjunctively eligible for WIC, federal law and regulations define certain criteria that state and local agencies administering the program must use to determine applicants’ income eligibility. However, state and local agencies have some discretion in assessing applicants’ income eligibility. Because of this discretion, the characteristics of households determined income-eligible for WIC may vary across and within states.

This report is in response to your request for information on WIC income eligibility determination. We assessed: (1) How do state and local criteria for determining WIC income eligibility vary? (2) To what extent are individuals who would otherwise be ineligible for WIC deemed eligible for the program under adjunctive eligibility? (3) How does the USDA assist and monitor states’ processes for determining WIC income eligibility?

As criteria for our review, we examined relevant federal laws as well as USDA regulations and guidance related to WIC income eligibility determination and administrative oversight. To answer our research questions, we collected and analyzed information through several methods. At the federal level, we analyzed WIC administrative data on participant characteristics from 2010 and USDA’s national survey data on state and local WIC policy variation,\(^2\) which we determined were

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\(^1\) Medicaid generally provides health insurance coverage for low-income families and low-income individuals who are aged or disabled, SNAP provides low-income families and individuals with benefits to purchase food, and TANF provides cash benefits and services to low-income families with children.

sufficiently reliable for the purposes of this report. We also examined USDA’s monitoring reports from all reviews conducted from fiscal years 2010 through 2012 that assessed states’ certification policies and procedures and interviewed USDA officials. At the state level, we collected WIC policy manuals from a nongeneralizable sample of 10 states that were selected to ensure diversity in population size and geography and reviewed sections related to income eligibility determination. We also interviewed state and local WIC administrators representing nine states, two Indian Tribal Organizations, and six local agencies, all of whom are members of the National WIC Association. To gather additional information on the effect of adjunctive eligibility on WIC participation, we conducted a literature review and examined six research studies that assessed the relationship between recent changes in income eligibility thresholds for Medicaid and WIC participation. We assessed the methodologies and findings of each of these studies and determined that they were sufficiently reliable for the purposes of this report.

We conducted this performance audit from October 2012 through February 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

3 We assessed the reliability of the WIC administrative data on participant incomes by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We assessed the reliability of the national survey data by reviewing existing information about the data and the system that produced them and interviewing agency officials knowledgeable about the data.

4 Throughout this report, our analyses of states reflect the 50 states, the District of Columbia, 34 Indian Tribal Organizations, and five U.S. Territories that administer WIC, unless otherwise noted.

5 We selected California, Connecticut, Georgia, Idaho, Kansas, Michigan, Texas, Utah, Virginia, and Washington.

6 National WIC Association staff assisted us in contacting these officials, most of whom are Association board members. While the administrators we interviewed represented a range of geographic locations, the views they shared are not generalizable to all states.
Established as a national program in the mid 1970s, WIC is designed to improve the health and nutritional well-being of pregnant and postpartum women, infants, and young children by providing nutritious supplemental foods, nutrition education, and referrals to health and social service programs. Research has shown that WIC helps to improve birth and dietary outcomes and contain health care costs, and USDA considers WIC to be one of the nation’s most successful and cost-effective nutrition intervention programs. The program is available in each state, the District of Columbia, 34 Indian Tribal Organizations, and five U.S. Territories. USDA’s Food and Nutrition Service (FNS) oversees the program, which is administered by state and local agencies through approximately 10,000 clinic sites.

Federal WIC appropriations and participation have generally increased since the program was established and totaled $7.2 billion and 9 million participants in fiscal year 2011 (see figure 1). WIC is almost entirely federally-funded. WIC is not an entitlement program; the federal government is not legally required to provide benefits to every eligible individual. Instead, WIC is a federal grant program for which Congress appropriates a specific amount of funds each year. In order to help inform budgetary decisions for the program, USDA annually estimates the number of people who are eligible for the program and the number who are expected to participate. Although federal funding has been sufficient to serve all eligible people who sought program benefits in recent years, some eligible people do not participate in WIC. Since 2000, WIC’s national coverage rate has been around 60 percent, but coverage rates vary by state and participant type. For example, in 2009, the coverage rate for children aged 1 to 4 was 51 percent, while the coverage rate for infants was 83 percent.

WIC began as a 2-year pilot program, the Special Supplemental Food Program, which was established in 1972. The program was renamed WIC in 1973, and legislation established WIC as a permanent national nutrition program in 1975.

USDA determines WIC coverage rates by dividing the number of program participants by the estimated number of people eligible for the program. Although WIC coverage rates have been estimated for many years, concerns that the estimates of people eligible for WIC did not reflect adjunctive eligibility and other eligibility factors led to recent changes. In 2003, the Committee on National Statistics of the National Research Council published a report outlining recommendations for improving WIC coverage rate estimates, and USDA has since modified its methodology based on those recommendations.
In enacting WIC, Congress intended the program to provide women, infants, and young children with supplemental foods during critical times of growth and development. WIC participants typically receive food benefits in the form of vouchers or coupons that they redeem at authorized retail vendors to obtain, at no cost to the participants, certain approved foods, including infant formula. State WIC agencies then reimburse the retail vendors for the food purchased by WIC participants. Since 1989, state WIC agencies have been required by law to contain the cost of infant formula using a competitive bidding process to award sole-source contracts. Under these contracts, formula manufacturers agree to provide a rebate to the state WIC agency for every container of infant formula purchased under the WIC contract. Infant formula rebates have become an important source of funding for the WIC program, and in fiscal year 2011, infant formula companies provided more than $1.3 billion in rebates to states. As a result, while the average monthly WIC benefit cost to the federal government was $47 per participant in that year, the average monthly benefit value per participant was $59.

Eligibility

Pregnant and post-partum women, infants, and children up to age 5 are eligible for WIC if they are found to be at nutritional risk and have incomes below a certain threshold. Federal law and regulations set the WIC
income eligibility threshold at a maximum of 185 percent of the federal poverty guidelines,⁹ specify certain income sources that must be included and excluded when determining income eligibility, and require applicants to provide proof of income. However, federal regulations also provide state WIC administrators with discretion to further define income eligibility criteria. For example, federal regulations indicate that state agencies have the flexibility to decide whether to use an applicant’s annual or current rate of income, as well as the specific time period that equals current income, when determining applicants’ income eligibility. In addition, federal regulations broadly define the family or economic unit to be used for WIC income eligibility determination purposes, and federal guidance provides further clarification of this definition while also acknowledging that an answer is not available for every question that may arise in a specific case. Because of this, federal guidance also indicates that state and local agencies need to exercise discretion and use judgment in determining each applicant’s income eligibility within the general framework of regulatory requirements and basic program policy.¹⁰

Applicants may also be deemed income-eligible for WIC if they receive benefits from certain other federal assistance programs for low-income families—a policy known as adjunctive eligibility. Adjunctive eligibility was created by the Child Nutrition and WIC Reauthorization Act of 1989, and it makes recipients of Medicaid, TANF, and SNAP automatically income-eligible for WIC.¹¹ In practice, once WIC applicants provide proof of their participation in one of these programs, they are determined income-

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⁹ States have the option of setting the WIC income eligibility threshold to equal either (1) the maximum income eligibility threshold specified in the National School Lunch Act for free and reduced price meals—185 percent of the federal poverty guidelines, or (2) the income eligibility threshold used for state or local free or reduced-price health care, as long as this guideline is at least 100 percent and no greater than 185 percent of the federal poverty guidelines. According to USDA, all states set the income eligibility threshold at 185 percent of the federal poverty guidelines. Federal poverty guidelines are determined annually by the U.S. Department of Health and Human Services.

¹⁰ For example, when assessing eligibility, local agencies may review families’ income from the last 30 days, 12 months, or another time period, or include the income of all members of an applicant’s household or just the income of the mother and child.

¹¹ Adjunctively-eligible applicants are still required to meet other WIC program eligibility criteria. When adjunctive eligibility was created, it made Medicaid, Aid to Families with Dependent Children (AFDC), and Food Stamp Program participants automatically income-eligible for WIC. However, TANF replaced AFDC in 1996, and the Food Stamp Program was renamed SNAP in 2008.
eligible and do not need to provide proof of their incomes. As a result, adjunctive eligibility streamlines the determination of income eligibility, easing the paperwork burden on both the applicant and the administrator. When adjunctive eligibility was enacted, income eligibility thresholds for Medicaid, TANF, and SNAP were below WIC’s income eligibility threshold of 185 percent of the federal poverty guidelines.

While WIC is not necessarily time-limited, because of the types of individuals it serves, it is generally a short-term program. WIC participants are certified as eligible for program benefits for time periods that vary based on the type of WIC participant—pregnant, post-partum, or breastfeeding woman; infant; or child—and state policy choices. The longest period for which any participant may be certified is 1 year. Once a participant’s certification period ends, the participant may reapply for benefits, at which time eligibility is redetermined. Between certification periods, WIC participants are generally not required to report changes in their circumstances—such as income or family size—that may affect their eligibility.

Program Oversight

Federal regulations require FNS to monitor state administration of WIC. To meet this requirement, FNS conducts Management Evaluations of states through its regional offices. The evaluations assess the accomplishment of program objectives and state and local agency compliance with federal requirements, including those related to income eligibility determination. FNS produces a report following each state evaluation that includes review findings and observations. If state or local program operations are found to be non-compliant with federal requirements, FNS identifies required corrective actions in the report.

12 Although adjunctively-eligible WIC applicants do not need to provide proof of their incomes, FNS asks states to obtain self-reported income information from these applicants.

13 Federal regulations establish timeframes for certification periods but also permit state agencies to make some limited policy decisions within the federal limits.

14 For example, states may establish 1 year certification periods for certain breastfeeding women, infants, and children.

15 However, federal regulations require local agencies to reassess participant income mid-certification if the agency receives information indicating the participant’s income has changed.
States are then required to develop a corrective action plan and implementation timeframes.

Federal regulations also require states to monitor all local agencies administering WIC biennially and define the minimum number of clinic sites that states must review for each local agency. Income eligibility determination must be reviewed. Similar to federal reviews of states, local agencies must be notified of areas in which they are found to be non-compliant with requirements and must develop and implement corrective action plans to address these findings. States must also require local agencies to establish a system for reviewing their own operations, including those at clinic sites.

The discretion granted by federal law, regulations, and guidance in certain areas of WIC income eligibility determination has resulted in some variation in policy across states and localities. As a result, a family may be correctly deemed income-eligible for WIC in one locality even though in another locality, the family would be considered ineligible. State and local WIC administrators we spoke to discussed the use of discretion in determining income eligibility and noted its importance because some WIC applicants have unique income and family situations that make income determination particularly difficult. Similarly, an FNS official noted that because of varied family circumstances, guidance cannot provide clarification on every situation that may arise. Federal guidance also states that discretion is necessary in part because the department does not intend WIC income eligibility determination to be a complicated and lengthy procedure.

The time period for which an applicant’s income is assessed is one area in which states are granted flexibility in federal regulations, and while there are some similarities in state policies, there are also some differences. Although federal regulations provide state agencies discretion to assess applicants’ current or annual income, the one example provided in regulations requires states to use current income when assessing the eligibility of unemployed applicants. According to
national survey data,\(^\text{16}\) most states assess current income to determine eligibility for all applicants.\(^\text{17}\) However, how states define current income differs. In 5 of the 10 state WIC policy manuals we reviewed, 2 define current income as income from the last 30 days, 1 defines it as income from the last 60 days, and 2 others do not clearly define it. In practice, this means families with a temporary drop in income—such as those in which a parent’s work hours have been reduced—may be found eligible for the program at the time of application, even if their annual incomes are above 185 percent of the federal poverty guidelines. The 5 other state manuals we reviewed indicate that local agencies may assess an applicant’s current or annual income, depending on which most accurately reflects the applicant’s income situation. For example, one state’s manual indicates that the decision of whether to use current or annual income should be made on a case-by-case basis. The policies of these 5 states indicate that these states chose to pass the discretion explicitly provided to them in federal regulations to their local agencies. This is consistent with national survey data, which show that about half of the states pass some of the federally-allowed discretion for WIC income eligibility determination on to their local agencies.\(^\text{18}\)

Another area in which states are given flexibility is in determining an applicant’s family size. Because the family’s total income is assessed to determine income-eligibility for WIC, and total income must fall below 185 percent of the federal poverty guidelines, determination of the applicant’s

\(^{16}\) National Survey of WIC Participants II (2012). Throughout our report, references to national survey results are based on the state agency survey results from this study. All state agencies administering WIC were surveyed—representing 50 states, the District of Columbia, 34 Indian Tribal Organizations, and five U.S. Territories. Survey respondents included 49 states, the District of Columbia, 27 Indian Tribal Organizations, and five U.S. Territories.

\(^{17}\) Sixty-two percent of states reported using current income for WIC income eligibility determination, 4 percent reported using annual income, and an additional 13 percent of states let local agencies define the income time period. Twenty-one percent of states responded “other” to this survey question.

\(^{18}\) Fifty-four percent of states give some discretion to local agencies regarding the determination of income eligibility.
family size directly impacts income eligibility. According to national survey data, 42 percent of states give additional discretion to local agencies in determining the WIC family or economic unit. In the 10 state WIC manuals we reviewed, 9 suggest that local agencies have discretion in defining the applicant’s family size, though all provide specific examples of family situations in order to assist local agencies with these determinations. For example, all 10 manuals clarify situations in which an applicant living in a household with other adults constitutes a separate economic unit from those adults. In such situations, a mother and infant living in a household in which total income is above 185 percent of the federal poverty guidelines may be found eligible for WIC if they are not receiving assistance from others in the household and if their own income is below that threshold. According to two WIC administrators we interviewed, determining a teenage mother’s economic unit can be particularly difficult if she is living with her parents or others. These administrators added that local staff ask these applicants many questions to try to determine whether the mother and her children are their own economic unit or whether they are part of a larger economic unit that includes the mother’s parents or other household members. Two additional WIC administrators echoed this statement more generally, noting that the varied household situations of WIC applicants sometimes require local agencies to make decisions about family size on a case-by-case basis. However, some added that discretion is generally not passed on to individual staff who determine eligibility. Rather, to facilitate consistent application of eligibility determination policies, all of the administrators we interviewed indicated that they provide specific protocols for staff to follow, and these protocols are often programmed into the computer system used for income eligibility determination.

Additionally, two administrators noted that when staff encounter a unique

19 Federal poverty guidelines are adjusted for the number of people within a family, and income that equals 185 percent of the poverty guidelines is greater as family size increases. For example, in 2012, a family of two with an annual income at or below $27,991 met the WIC income eligibility threshold in the 48 contiguous states, the District of Columbia, and the U.S. Territories, as did a family of three with an annual income at or below $35,317.

20 Federal regulations define a family to be a group of related or nonrelated individuals who are living together as one economic unit. Federal guidance adds that the production and consumption of goods or services are related in an economic unit, and therefore, it is possible for two separate economic units to reside under the same roof. Guidance also notes that state and local agencies will need to exercise judgment regarding the economic dependence or independence of each applicant.
case they are not able to resolve, they are instructed to seek supervisory review. Similarly, one of the state policy manuals we reviewed recommends supervisory review for all applicants who qualify as a separate economic unit within a household and notes that these applicants should be approved on an exception basis.

State policies also vary to some extent as to the sources of income that are included when determining an applicant’s income eligibility for WIC. Federal regulations include a list of income sources that must be included and excluded, but the list is not exhaustive, and some discretion is explicitly allowed. For example, national survey data show that only about one-quarter of states include energy, rental, or medical assistance (between 22 and 28 percent)—which are not directly mentioned in federal regulations—when assessing an applicant’s income. In contrast, there is significant consistency among states related to income sources that are included in federal regulations, as between 94 and 100 percent of states include wages, salaries, and fees; self-employment income; unemployment compensation; child support; or Social Security when assessing an applicant’s income. Federal regulations give states discretion regarding the exclusion of certain types of military compensation, and as a result, while 77 percent of states exclude the basic allowance for off-base and privatized housing in the United States, about half of states exclude certain other allowances for housing according to national survey data. As a result of the variation in income sources that are included when determining eligibility, one state could determine a family’s income to be under 185 percent of the federal poverty guidelines while another state could find that same family’s income to be over that level.

21 In addition, there is also notable variation based on the type of state agency. The states and the District of Columbia are more likely than Indian Tribal Organizations and U.S. Territories to include certain sources of income when determining income eligibility for WIC. For example, 90 percent of the states and the District of Columbia include federal Supplemental Security Income compared to 67 percent of Indian Tribal Organizations and 40 percent of U.S. Territories.

22 For example, 52 percent of states exclude Family Separation Housing provided to military personnel for overseas housing, and 55 percent of states exclude the Overseas Housing Allowance provided to military personnel living overseas.
Some adjunctively-eligible WIC participants have incomes greater than the WIC eligibility threshold and are therefore income-eligible for WIC solely because of their receipt of benefits from another program, though most adjunctively-eligible participants have incomes below the WIC threshold. In 2010, 69 percent of WIC participants were adjunctively eligible, with almost all of those participants eligible due to their receipt of Medicaid. Further, in some states, pregnant women, infants, and children with incomes greater than the WIC income eligibility threshold are eligible to receive Medicaid. According to national WIC administrative data, about 2 percent of all WIC participants were adjunctively eligible and had incomes over the WIC eligibility threshold of 185 percent of the federal poverty guidelines in 2010. Because income data were not reported for an additional 7 percent of participants who were adjunctively eligible, we could not determine if these participants were also eligible for WIC solely due to adjunctive eligibility in that year. (See table 1).

For many years, a substantial portion of WIC participants have been adjunctively eligible due to receipt of Medicaid, TANF, or SNAP, according to national WIC administrative data. For example, in 1996, 59 percent of WIC participants were adjunctively eligible due to their receipt of one of these programs.

Specifically, in 2010, 66 percent of WIC participants received Medicaid, either alone or in combination with SNAP or TANF. In addition to adjunctive eligibility linking Medicaid to WIC, federal law and regulations mandate coordination between the two programs. For example, WIC agencies are required to refer potentially eligible WIC participants to Medicaid. A 2007 report on coordination between the two programs found that 72 percent of state Medicaid agencies require their Managed Care Organizations to inform their members about WIC.

Each state operates its own Medicaid program within federal guidelines. Because the federal guidelines are broad, states have a great deal of flexibility in designing and administering their programs. Although certain mandatory populations must be covered by Medicaid for states to receive federal funding, states may choose to cover additional populations. As a result, Medicaid eligibility can and often does vary widely from state to state.
Table 1: Adjunctively-Eligible WIC Participants, 2010

<table>
<thead>
<tr>
<th></th>
<th>With Incomes Over 185 Percent of the Federal Poverty Guidelines</th>
<th>With No Income Data Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Participants</td>
<td>Number 166,289 Percentage 1.7%</td>
<td>Number 694,578 Percentage 6.9%</td>
</tr>
<tr>
<td>Pregnant Women</td>
<td>Number 17,731 Percentage 1.7%</td>
<td>Number 65,656 Percentage 6.5%</td>
</tr>
<tr>
<td>Breastfeeding Women</td>
<td>Number 10,464 Percentage 1.6%</td>
<td>Number 35,570 Percentage 5.4%</td>
</tr>
<tr>
<td>Postpartum Women</td>
<td>Number 9,686 Percentage 1.4%</td>
<td>Number 61,084 Percentage 9.0%</td>
</tr>
<tr>
<td>Infants</td>
<td>Number 35,621 Percentage 1.5%</td>
<td>Number 185,416 Percentage 7.8%</td>
</tr>
<tr>
<td>Children</td>
<td>Number 92,788 Percentage 1.8%</td>
<td>Number 346,852 Percentage 6.5%</td>
</tr>
</tbody>
</table>

Source: GAO analysis of USDA data on all WIC participants in April 2010.

Notes: “Participants” include all persons on WIC master lists or persons listed in WIC operating files who were certified to receive WIC benefits in April 2010. Adjunctively-eligible participants with no income data reported include those for whom data on income, income time period, or size of the economic unit were missing or reported as zero. Because adjunctively eligible participants do not need to provide proof of income, these income data have not been verified.

Although the national WIC administrative data are the best available for examining the income of the entire population of WIC participants, both federal WIC requirements and the exercise of state discretion affect these income data. For example, federal regulations require that income data be collected from WIC participants at one point in time, which is the date of application. As a result, these data generally do not reflect increases or decreases in income that may occur during the time period for which a participant has been certified as eligible. In addition, federal regulations do not require states to assess income data for adjunctively-eligible participants, but rather, USDA requests that states submit self-reported income information for these participants to the department. Consequently, these data do not have to be verified either through participant-provided documentation or other means, such as state wage

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26 This statement reflects our assessment of the administrative data. See Appendix I for an overview of other datasets that may be used to assess WIC participants’ incomes.

27 As previously noted, WIC applicants are generally not required to report changes in income that occur generally after a participant is determined to be eligible until the certification period ends. However, federal regulations require local agencies to reassess participant income mid-certification if the agency receives information indicating the participant’s income has changed. The longest time period for which a participant can be certified is 1 year.
results, and they are also not consistently reported by states. In 2010, income information was not available for 7 percent of adjunctively-eligible WIC participants. The share of participants with no reported income information varied significantly by state, which may reflect differences in state policy. The WIC director from one state that did not report income information for the majority of its participants told us that the state directs its local agencies not to enter income for adjunctively-eligible participants because self-reported income information does not reflect a full income assessment. The director explained that the state instead relies on the determination of income eligibility that has already been made by the program through which the applicant is adjunctively eligible, as that is the point of the adjunctive eligibility policy.

A review of state changes in income eligibility thresholds for the programs through which a WIC applicant can be deemed adjunctively eligible provides additional context for understanding the relationship between adjunctive eligibility and WIC participation. Since adjunctive eligibility was created, some states have increased the income eligibility thresholds for SNAP and Medicaid above the WIC income eligibility threshold of 185 percent of the federal poverty guidelines. For example, according to USDA, 13 states have increased SNAP income eligibility thresholds to

28 According to federal guidance, WIC administrators are not required to verify income information reported by adjunctively-eligible WIC participants because it is assumed that income was already verified by the program through which the participant is adjunctively eligible, such as Medicaid.

29 USDA officials told us that, over the years, they have worked with the states to increase the reporting of participant income data. The WIC administrative data show that this has improved. For example, while income information was not available for 16 percent of WIC participants in 2002, this percentage has steadily decreased since then. However, it is likely that there will always be some WIC participants with missing income information, as federal guidance provides states discretion to grant temporary benefits for 30 days to individuals who lack proof of income or adjunctive eligibility at the time of application.

30 For example, of the 90 state agencies administering WIC, 57 states—37 states, 15 Indian Tribal Organizations, and five U.S. Territories—reported income information for 90 percent or more of their WIC participants. In contrast, 10 states—3 states and 7 Indian Tribal Organizations—reported income information for less than half of their WIC participants. If WIC participants’ incomes were distributed similarly across states that reported participants’ incomes and those that generally did not report incomes, the share of adjunctively-eligible WIC participants who had incomes above 185 percent of the federal poverty guidelines would have been about 2 percent.
200 percent of the guidelines. For Medicaid, some states similarly increased income eligibility thresholds to 200 percent of the guidelines, while others increased thresholds up to 300 percent of the guidelines. Specifically, infants in families with incomes greater than 185 percent of the federal poverty guidelines were Medicaid-eligible in 25 states, pregnant women in such families were Medicaid-eligible in 23 states, and children aged 1 to 5 in such families were Medicaid-eligible in 14 states, as of January 2012. (See table 2.)

Table 2: Number of States with Medicaid Income Eligibility Thresholds Greater than the WIC Eligibility Threshold, as of January 2012

<table>
<thead>
<tr>
<th>Federal Poverty Guidelines</th>
<th>Infants</th>
<th>Pregnant Women</th>
<th>Children Aged 1-5</th>
</tr>
</thead>
<tbody>
<tr>
<td>186-200%</td>
<td>15</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>201-250%</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>251-300%</td>
<td>7</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>23</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Kaiser Family Foundation. Based on a national survey conducted by the Kaiser Commission on Medicaid and the Uninsured with the Georgetown University Center for Children and Families.

Notes: This analysis includes the 50 states and the District of Columbia. States included are those that have income eligibility thresholds for the specified groups set at levels above 185 percent of the federal poverty guidelines for Medicaid or Medicaid expansions funded by the Children’s Health Insurance Program. State income eligibility thresholds for separate state programs funded by the Children’s Health Insurance Program are not included in this analysis because recipients of these programs are not adjunctively eligible for WIC. We did not independently verify this information.

Although a number of states have expanded Medicaid income eligibility thresholds above the WIC threshold, the extent to which these expansions have increased WIC participation is unclear. While studies generally find that Medicaid recipients are more likely to participate in

31 As of November 2012, 13 states had implemented broad-based categorical eligibility policies for SNAP that increased the SNAP income eligibility limit to 200 percent of the federal poverty guidelines, according to USDA’s “Broad-Based Categorical Eligibility” table, which is available on the department’s website. The difference between 185 and 200 percent of the federal poverty guidelines was about $240 per month for a family of three in 2012. We recently reported on broad-based categorical eligibility for SNAP in Supplemental Nutrition Assistance Program: Improved Oversight of State Eligibility Expansions Needed, GAO-12-670 (Washington, D.C.: July 26, 2012).

32 The majority of states that increased SNAP income eligibility thresholds to 200 percent of the federal poverty guidelines also expanded Medicaid income eligibility above the WIC income eligibility threshold.
WIC than others, some studies suggest that expanded Medicaid income eligibility has not had a substantial impact on WIC participation because eligible families with relatively higher incomes are less likely to participate in WIC than lower-income families. For example, one study that focused on recent increases in WIC participation among children aged 1 to 4 found that those increases were not related to higher-income families receiving Medicaid.\(^{33}\) Another study noted that the connection is unclear, but it added that increases in states’ Medicaid income eligibility thresholds did not seem to change the proportion of WIC participants who were determined eligible for WIC due to adjunctive eligibility.\(^{34}\) Two of the state administrators we interviewed were from states that had recently expanded Medicaid eligibility above the WIC threshold, and they similarly noted that they did not see an increase in WIC participation after Medicaid was expanded.

FNS regularly provides assistance to states in administering WIC, though this assistance has generally not been focused on key income eligibility requirements, such as determination of family size and the time period of income assessed, in recent years. While FNS headquarters’ staff are responsible for formulating WIC policy and guidance, FNS’s regional offices are the primary federal contact for states on WIC administration.\(^{35}\) Regional office staff are responsible for regularly reviewing changes to each state’s WIC State Plan of Operation to ensure it is consistent with federal requirements and providing states with technical assistance. However, in recent years, FNS’s assistance to states on income eligibility determination has been focused primarily on clarifications of particular situations that have arisen. For example, FNS guidance from the last few years has clarified the exclusion or inclusion of income sources such as combat pay, compensation payments made to certain veterans, and earned income of temporary Census workers. Although FNS


\(^{35}\) According to FNS headquarters’ officials responsible for WIC, their primary role is to formulate WIC policy and guidance and disseminate this information to FNS’s seven regional offices and the states.
headquarters’ officials noted that questions regarding particular situations are frequently addressed. FNS has not recently clarified key income eligibility requirements. Rather, FNS’s primary policy guidance on those requirements was issued in 1988 and 1999. State WIC officials we interviewed indicated that FNS regional office staff are helpful and responsive to questions they raise regarding WIC administration, but none of the officials could recall asking FNS questions about key income eligibility requirements in recent years.

FNS regularly monitors state and local WIC administration through Management Evaluations conducted by its regional offices,36 and in one-third of the states reviewed since 2010, FNS found problems with income eligibility determination policies and procedures. Specifically, in the Management Evaluation reports we reviewed,37 regional FNS reviewers found problems with or expressed concerns about income eligibility determination policies or procedures in 23 states (including 15 states, 6 Indian Tribal Organizations, and 2 U.S. Territories), despite the flexibilities allowed in federal regulations in this area.38 The most common finding related to adjunctive eligibility was insufficient proof of adjunctive eligibility in participant case files (5 states). Concerning other aspects of income eligibility determination, problems were found related to a lack of required income information in participant case files (6 states),39 the income sources included or excluded (5 states), and the determination of an

36 Similar to FNS assistance to states, FNS headquarters officials produce Management Evaluation guidance that is distributed to FNS regional offices and the states.

37 To analyze monitoring findings related to income eligibility determination, we reviewed FNS’s reports from all Management Evaluations of states conducted from fiscal years 2010 through 2012 that addressed certification. These reports covered 68 of the 90 state agencies that administer WIC, though some states were reviewed more than once during this period. According to FNS officials, all states are to be reviewed at least once every 4 years. Some FNS regions review states once every 4 years, at which time they review all required areas. In other regions, states are reviewed annually only on a selection of required areas. Certification, which includes income eligibility determination, is one of the required review areas.

38 Some of these states had multiple findings related to income eligibility determination.

39 In two of these six states as well as two additional states, FNS reviewers also noted problems related to a lack of income information in adjunctively-eligible participants’ case files. While USDA requests that states submit self-reported income information for adjunctively-eligible participants, they are not required to do so. Therefore, these Management Evaluation findings suggest that there may be inaccurate interpretations of federal requirements in this area by FNS reviewers.
applicant’s family size (5 states). Other income eligibility determination policy and procedural issues were found in 13 states, such as a lack of procedures to follow when a participant’s income eligibility was in question and the provision of temporary certification without income proof for a period longer than the maximum 30 days. Because these Management Evaluations involve FNS review of state WIC administration, as well as administration in selected local agencies, some of the findings represent systemic problems within a state while others reflect more localized issues. For example, in some instances, FNS found that certain aspects of state income eligibility determination policies were not consistent with federal requirements, while in others, some local agencies’ procedures were not consistent with requirements.

FNS’s Management Evaluation reports also reflect that there are weaknesses in some states’ administration of WIC that may indirectly affect income eligibility determination. According to FNS headquarters’ officials, states have primary responsibility for overseeing and monitoring WIC administration through the dissemination of state policy and procedures and biennial reviews of all local agencies. However, the Management Evaluation reports we reviewed noted problems with staff training and state and local monitoring, which—while not directly related to income eligibility determination policy or procedures—are areas of weakness in the internal control system designed to ensure accomplishment of program objectives and compliance with federal requirements. For example, FNS reviewers found problems related to staff training in 16 states (including 9 states, 5 Indian Tribal Organizations, and 2 U.S. Territories). Although most of these findings related to insufficient training of state or local staff or a lack of documentation that staff had received training, in 2 of these 16 states, FNS reviewers noted that the state staff person responsible for monitoring local agencies had not received training on federal WIC requirements. The Management Evaluation reports we reviewed also included findings related to state or local monitoring of WIC administration in 17 states (including 12 states and 5 Indian Tribal Organizations). Within those states, a range of issues were found, such as state reviews of local agencies that did not assess all of the required review areas, states that did not review all local agencies within the required time period, and incomplete or missing local agency corrective action plans to address deficiencies found by state reviewers.

Although FNS plans to begin regularly reviewing Management Evaluation findings at the national level to identify areas of program risk and target assistance accordingly, officials had not previously done so because
findings were not easily compiled at FNS headquarters. Standards for Internal Control in the Federal Government call for management to comprehensively identify risks and indicate that methods to do so may include consideration of findings from audits and other assessments.40 Because Management Evaluations provide key information on WIC administration nationwide, upper management reviews of states’ actual performance cited in these Evaluations are essential to an effective internal controls system and FNS’s ability to take appropriate actions to address risks. However, FNS headquarters’ officials told us that, in the past, they have only reviewed regional offices’ monitoring findings on an ad hoc basis. Further, they have not reviewed findings on income eligibility determination, and, as a result, they have not focused their technical assistance in this area. Officials said that they plan to begin reviewing monitoring findings more regularly to help identify areas in which additional assistance may be needed, and the national Management Evaluation tool FNS implemented in 2010 will make this feasible. This electronic tool is accessible at FNS headquarters, and it includes findings from all Management Evaluations conducted by FNS regional offices nationwide. Officials said that they have been focused on ensuring that the tool is being implemented effectively, but they did not indicate when they plan to start using it to systematically analyze monitoring findings. A timeline for reviewing these evaluations, consistent with standard management practices for implementing programs, could better position FNS to demonstrate progress towards completing its planned actions.41 In addition, officials are also in the process of reviewing findings from the National Survey of WIC Participants II, which was released in April 2012, to determine areas in which additional clarification of federal requirements is likely needed.42


41 Standard practices for project management established by the Project Management Institute state that managing a project involves, among other things, developing a timeline to reassess efforts underway. The Project Management Institute, The Standard for Program Management © (2008).

42 Because FNS guidance is distributed by headquarters to both FNS regional offices and states, additional guidance clarifying federal requirements should improve both state WIC administration and the assistance states receive from FNS regional offices.
Conclusions

WIC provides essential nutrition and assistance to low-income families during pregnancy and in the important early years of a child’s development. Strong support for WIC over the years has led to increased federal funding that has enabled all eligible families who seek assistance from the program to receive benefits, but as the federal government continues to seek ways to manage with fewer resources, ensuring the program serves those it is intended to is critical. While state and local income eligibility determination policies for WIC differ to some extent and result in families’ eligibility for the program being somewhat dependent on where they live, the discretion granted in federal regulations and guidance suggests this result may be in line with program goals.

With adjunctive eligibility, however, whether program goals continue to be served is less clear. Adjunctive eligibility in WIC streamlines eligibility determination by allowing those eligible for another program that serves the low-income population to be deemed automatically income eligible for WIC—easing both administrative and client burden and improving program access. However, because programs change over time, it is important to continually assess the effect of these program interactions. In the case of WIC and Medicaid, two-thirds of WIC participants are now eligible for WIC benefits due to their receipt of Medicaid, and data show that increases in Medicaid’s income eligibility thresholds have enabled some women, infants, and children to receive WIC who would otherwise have been found ineligible. Given the current economic constraints, the impact of adjunctive eligibility may not be in line with program goals. However, if modifications to adjunctive eligibility are considered, because the policy currently eases administrative and participant burden for the majority of WIC participants, such changes should carefully weigh the potential benefits and costs.

Along with ensuring that WIC applicants’ income eligibility is determined consistent with program goals, it is important to ensure that the program operates effectively and in line with federal requirements. While federal regulations specify oversight and monitoring procedures aimed at ensuring requirements are met, as with any internal controls system, both the design and implementation of the system are key to its effectiveness. With WIC, FNS monitoring of states has identified areas related to income eligibility determination in which additional guidance and assistance may help improve WIC administration. To date, FNS has not taken advantage of available opportunities to improve program effectiveness by regularly reviewing monitoring results to identify and target assistance to states in these areas. Because officials have said they plan to do such reviews in the future, a timeline for reviewing its monitoring results could better
position FNS to demonstrate progress towards completing its planned actions. Although little has changed in federal income eligibility determination policies in recent years, the existence of monitoring findings in this area suggest additional assistance and clarification would be beneficial in ensuring overall program integrity.

<table>
<thead>
<tr>
<th>Recommendation for Executive Action</th>
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<tbody>
<tr>
<td>To improve WIC oversight and administration, we recommend that the Secretary of Agriculture direct FNS to develop a timeline for reviewing Management Evaluation reports to assess program risks at a national level and target assistance to states.</td>
</tr>
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<table>
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<tr>
<th>Agency Comments</th>
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<tbody>
<tr>
<td>We provided a draft of this report to USDA for review and comment. In oral comments, USDA officials concurred with our recommendation. Officials also provided technical comments, which we incorporated into the report as appropriate.</td>
</tr>
</tbody>
</table>

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Secretary of Agriculture, and other interested parties. In addition, this report will be available at no charge on GAO’s website at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-7215 or brownke@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in Appendix II.

Kay E. Brown
Director, Education, Workforce, and Income Security Issues
Appendix I: Other Datasets that Provide Information on WIC Participant Incomes

In addition to the national administrative data on participants in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), two Census Bureau datasets have been used by other researchers to examine WIC participant characteristics, including incomes.

- The Current Population Survey (CPS), Annual Social and Economic (ASEC) Supplement is an annual survey that collects data on household income, participation in federal programs, and demographic characteristics of the household. Over 70,000 housing units are sampled. The CPS ASEC Supplement collects detailed information about annual income for the previous year, but it does not collect monthly income data. It also collects information on household participation in WIC, as well as programs used to confer adjunctive eligibility for WIC, including Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF).

- The Survey of Income and Program Participation (SIPP) is a longitudinal household survey. The survey design is a continuous series of national panels, with sample sizes ranging from approximately 14,000 to 36,700 interviewed households. The duration of each panel ranges from 2½ years to 4 years. The first SIPP panel was in 1984, and the most recent panel began in 2008. Households in the panel are interviewed every four months. The SIPP collects detailed information on each household’s monthly income, as well as information on participation in federal programs. Specifically, data about monthly participation in WIC, Medicaid, SNAP, and TANF are collected.

In 2003, the Committee on National Statistics of the National Research Council published a report that reviewed the use of CPS and SIPP data for estimating WIC eligibility and participation.¹ The Committee found that WIC participation is underreported in both of these datasets. Despite this limitation, the Committee noted that research has shown that WIC participants’ characteristics are generally similar in the CPS, SIPP, and administrative data, with the exception of participants’ incomes, which

have been found to be higher in the CPS and SIPP than in the administrative data.\(^2\) The Committee concluded that this is not surprising given the flexibility that WIC administrators have in determining the time period for which income is measured to establish eligibility, as well as income variability over the course of a year, which has been found to be significant for the WIC-eligible population. As a result, researchers may reach different conclusions depending on the dataset analyzed.

Appendix II: GAO Contacts and Staff

Acknowledgments

GAO Contact

Kay E. Brown, (202) 512-7215 or brownke@gao.gov

Staff

Kathy Larin (Assistant Director), Rachel Frisk (Analyst-in-Charge), and Robert Campbell made significant contributions to all aspects of this report. Also contributing to this report were Carl Barden, Holly Dye, Chuck Ford, Ashley McCall, Sheila McCoy, Jean McSween, Dae Park, Kathy Peyman, Almeta Spencer, and Roger Thomas.
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