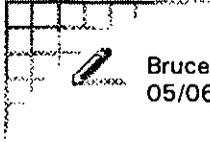


**NLWJC - Kagan**

**DPC - Box 059 - Folder-011**

**Welfare - Contingency Fund**

W2 - contingency fund



Bruce N. Reed  
05/06/98 01:28:32 PM

Record Type: Record

To: Diana Fortuna/OPD/EOP

cc: Elena Kagan/OPD/EOP, Cynthia A. Rice/OPD/EOP, Andrea Kane/OPD/EOP, Laura Emmett/WHO/EOP

Subject: Re: Outline of HHS report on the contingency fund

That sounds OK. I am strongly opposed to any hypothetical numbers on recessions and a contingency fund. I just don't believe that even in a bad downturn, the caseload is going to return to anywhere near FY94 levels, let alone exceed them by enough to blow through a \$2 billion cushion. If people want to worry about the contingency fund, let them worry about how to keep Congress from spending it on something else in the meantime.

Diana Fortuna

05/05/98 04:46:06

PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

cc: Cynthia A. Rice/OPD/EOP, Andrea Kane/OPD/EOP, Laura Emmett/WHO/EOP

Subject: Outline of HHS report on the contingency fund

HHS's report on the contingency fund is almost ready for prime time. It's required by Congress and was due April 1. We've worked with HHS in an effort to strike a good balance between an informative report that doesn't excessively dodge the questions and risks in this area, and yet is not unduly alarming about those risks. It should be issued in the next week or two. Below are highlights in case you are interested. If you see any problems, let me know in the next day or two.

- Under current national economic projections, the contingency fund is adequate. But any evaluation at this time is preliminary, since the economy is strong and TANF is just being implemented. So we have to keep watching.
- The report does not make any recommendations, but simply lists options for Congress to consider that we aren't endorsing at this time.
- Eight states actually qualified for contingency funds in FY97 (Alaska, Calif, DC, Hawaii, New Mexico, New York, North Carolina, and Washington). All of these states except New Mexico qualified based on the trigger that food stamp caseload had increased. New Mexico qualified based on the other trigger, that unemployment increased. However, only 2 of the 8 states actually requested contingency funds: North Carolina is getting \$15 million, while New Mexico is getting \$21 million. HHS assumes that the other states held back because they couldn't meet the 100% MOE test that contingency fund access requires.
- We project that \$210 million of the \$2 billion contingency fund will be spent under current economic conditions, while CBO projects \$435 million. However, these estimates are national in scope, and do not consider the possibility of a regional downturn that is not reflected in nation-wide figures. The report notes that at the moment most states have a cushion of unobligated TANF funds because of the economy and caseload drops.
- The only unresolved issue in the report is how to portray what a recession would do to the contingency fund. Levin specifically asked HHS to run a scenario on this. HHS estimates that a recession like the one in the early 90's would trigger a demand for contingency funds of \$6.7 billion, far exceeding the \$2 billion. HHS's estimate doesn't make sense to us at this point, so we are still looking at it. We are concerned about just dropping that number into the report, so if it doesn't change I'll let you know.
- One frustration is that HHS has nothing to say about whether the 2 triggers for the contingency fund (food stamp caseload and unemployment) are good, bad, or indifferent. To me, the fact that 8 states have qualified for funds during these stellar economic conditions must mean that the triggers are too easy, but HHS was terrible at analyzing this, and the report only says that it's too early to judge this question.
- The report examines state complaints that the contingency fund MOE is too high and that it isn't fair to exclude separate state programs from the contingency fund MOE. (As you recall, a state must spend 100% of historical spending to access the contingency fund, while TANF requires only 75/80%. Also, separate state programs count toward the TANF MOE, but not toward contingency MOE. We like this feature very much because it discourages separate state programs.) The report tiptoes through the option of letting states count separate state programs toward contingency fund MOE, but then points out all the pitfalls associated with doing so -- higher costs, no apparent benefit, encouraging separate state programs.

- Finally, the report recounts how last year's adoption bill cut \$40 million from the contingency fund, and how the first few states to access the fund could get screwed out of any money as a result. We are now arguing about whether to say that we might want to look for a new source for the \$40 million because this isn't fair to those states.



Cynthia A. Rice

02/03/98 08:09:36 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP  
cc: Diana Fortuna/OPD/EOP, Andrea Kane/OPD/EOP  
Subject: CEA welfare ideas-- see note below

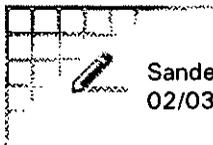
I will relay to CEA our long standing position not to re-open the definition of work, and I'll find out what they mean by #2, but the first issue -- issues related to recessions -- does raise a question:

The adoption law requires HHS by March 1st to "make recommendations to the Congress for improving the operations of the contingency fund for state welfare programs." Diana is checking into what they've done so far.

I think we may be wise to make changes while the economy is good and states are flush (we would need a legislative change, but CBO probably wouldn't score changes that would make it easier for states to draw down the funds, since I think they assume no one will meet the triggers).

Given CEA's interest in this issue, we will probably need to involve them in reviewing HHS' recommendations. What do you think?

----- Forwarded by Cynthia A. Rice/OPD/EOP on 02/03/98 07:53 PM -----



Sanders D. Korenman  
02/03/98 05:30:41 PM

Record Type: Record

To: Cynthia A. Rice/OPD/EOP, Diana Fortuna/OPD/EOP  
cc: Rebecca M. Blank/CEA/EOP  
Subject: brainstorming etc.

Cynthia and Diana,

I spoke with Rebecca Blank before today's meeting. There are three general areas of interest for possible initiatives that I did not get a chance to bring up at today's meeting.

1. Issues related to recessions
2. Issues related to links between TANF and other programs for the TANF population
3. Allowable work-related activities

We are interested in finding out whether DPC finds these to be important areas for discussion or policy development. At this point, the first two would mainly involve thinking and discussion. The third is narrower. Here the question is whether we would like to revisit the restrictions on states' ability to count education as a work-related activity in order to promote self-sufficiency. I think we