

*Cynthia
version*

**Temporary Assistance for Needy Families
(TANF)**

Report on Status of the Contingency Fund

Big Issues
→ ① fee scenario
→ ② triggers, nada

April 1998

✓ ③ MOE ease - if
there, what on
other side?

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Executive Summary

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA, P.L. 104-193) reformed the goals and structure of the nation's welfare system. In addition to establishing block grants for the States, PRWORA established a Contingency Fund for State Welfare Programs to assist States in meeting the need for welfare assistance during periods of economic downturn. The Contingency Fund would make additional Federal funds available on a matching basis to qualifying needy states that requested such funds.

Section 403(b)(8) of PRWORA directed the Secretary of the Department of Health and Human Services (HHS) to report annually to Congress on the status of the Contingency Fund. The Adoption and Safe Families Act of 1997 (section 404, P.L. 105-89) included an amendment to the Contingency Fund, and also directed the Secretary of HHS to report to Congress on recommendations for improvements. Pursuant to these requirements, this report examines the status and operation of the fund to date and considers whether changes or improvements are needed at this time.

Under current national economic projections, the Contingency Fund is fully adequate to meet the needs of qualifying States. Any evaluation of the Contingency Fund must be viewed as preliminary at this time, however, since the economy in most areas of the country is very strong, and States are in the early stages of implementing the new Temporary Assistance for Needy Families (TANF) program. The Contingency Fund has not yet been tested during the periods of economic downturn for which it was designed.

sure?
P. 8 ①

Therefore, it would be premature to assess the long-term effectiveness of the Contingency Fund. As States make further progress in implementing their TANF programs, and we gain more experience in implementation of the Contingency Fund, we will be in a better position to provide a more analytical assessment of the adequacy of the Contingency Fund and the need for changes in our future annual reports to Congress. Our goal for these future reports will be to provide sufficient information for Congress in its preparation for the reauthorization of the Contingency Fund for FY 2002 and beyond.

For our first annual report we were able to provide basic information on the operation of the Contingency Fund, examine possible changes in several of its provisions, and attempt to assess the costs associated with such changes. In particular the report analyzes five key components of the Contingency Fund:

- Total funding available for the Contingency Fund;
- How the eligibility triggers target needy States;
- What State expenditures count towards the Contingency Fund maintenance of effort requirements;
- Calculations under the reconciliation formula; and,
- Offsetting funds adjustments required by the Adoption and Safe Families Act of 1997.

make more
general
just MOE
along. 7

This report was prepared after extensive consultations about welfare reform, including the Contingency Fund, with State TANF agency representatives. In addition, the Administration on Children and Families (ACF) considered information and suggestions about the Fund offered by the National Governors' Association, the Congressional Budget Office, Congressional Research Service, and other interested groups and individuals.

We look forward to working with Congress, the States and other interested parties to more fully review the operation and adequacy of the Contingency Fund in the years ahead.

I. INTRODUCTION

A. Background

The PRWORA repealed the Federal Aid to Families with Dependent Children (AFDC) entitlement program. The new legislation replaced AFDC with the Temporary Assistance for Needy Families (TANF) program -- a block grant which provides each State with a fixed amount of Federal funds through the fiscal year 2002. To address concerns that a fixed block grant could threaten States' ability to meet increased needs for TANF during periods of economic downturn, a Contingency Fund for State Welfare Programs was also included in PRWORA (sections 403(b) and 409(a)(10)).¹

The Fund was designed to provide additional Federal support on a matching basis for States experiencing increased economic need. Specific statutory provisions were included to ensure that:

- Contingency Funds are targeted to "needy" States;
- States receiving such funds maintain their full level of historic State expenditures for welfare programs; and,
- Federal funds are appropriated for this purpose.

Under PRWORA, \$2 billion was appropriated for the Contingency Fund for fiscal years 1997 through 2001 for any of the 50 States and the District of Columbia that qualify. In order to offset \$40 million in expenditures for adoption and related activities, the Adoption and Safe Families Act of 1997 amended the Contingency Fund and changed the amount of funds that each qualifying State may retain.

In October 1997, ACF issued a Program Instruction (PI) establishing procedures for notifying States about eligibility and requests for Contingency Funds. See Appendix A. To date, two States (North Carolina and New Mexico) have formally requested Contingency Funds.

B. Statutory Requirements

Section 403(b)(8) of the Social Security Act as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 contained a provision that the Secretary of Health and Human Services should annually report to the Congress on the status of the Contingency Fund. In addition, the Adoption and Safe Families Act of 1997 required the Secretary to make recommendations to Congress for improving the operation of the Contingency Fund.

¹ Section 403 (b) was amended by P.L. 104-327 and P.L. 105-33. P.L. 104-327 permits the add on of funds to the State Family Assistance Grant (SFAG) for certain States for FY 1997 based on those States' ability to meet certain Contingency Fund requirements. P.L. 105-33 makes technical changes to the Contingency Fund MOE, the Federal Medical Assistance Percentage (FMAP) rate and the penalty provisions. These changes are discussed in more detail in Appendix A.

C. Scope of Report

Repeat Exec Summ.

This first Annual Report to Congress on the Contingency Fund examines what is known about the status and operation of the Contingency Fund and considers some possibilities for changing its operation. Under current economic projections, the Contingency Fund is fully adequate to meet the needs of qualifying States. However, any evaluation of the Contingency Fund must be viewed as preliminary at this time, since the economy in most areas of the country is very strong, and States are in the early stages of implementing the new Temporary Assistance for Needy Families (TANF) program. The Contingency Fund has not yet been tested during the periods of economic downturn for which it was designed.

Therefore, it would be premature to assess the long-term effectiveness of the Contingency Fund. As States make further progress in implementing their TANF programs, and we gain more experience in implementation of the Contingency Fund, we will be in a better position to provide a more analytical assessment of the adequacy of the Contingency Fund and the need for changes in our future annual reports to Congress. Our goal for these future reports will be to provide sufficient information for Congress in its preparation for the reauthorization of the Contingency Fund for FY 2002 and beyond.

D. Definition of Terms

Following are definitions of special terms related to the Contingency Fund as used in this report with relevant statutory references:

eligible month - - A month in the 2-month period that begins with any month for which the State is a needy State. Section 403(b)(5)

child care expenditures - - When referencing historic State expenditures, the term *child care expenditures* means the State and Federal share of child care expenditures in FY 1994 under Title IV-A of the Social Security Act, which includes AFDC/JOBS child care, Transitional child care and At-Risk child care.

contingency fund maintenance of effort (MOE) requirement -- In addition to qualifying as a needy State, a State's expenditures for the fiscal year must exceed 100% of a State's historic spending level in 1994. TANF MOE expenditures may be used to meet the Contingency Fund MOE requirement unless they are child care expenditures or expenditures made under "separate State programs." Section 403(b)(4)

historic State expenditures - - The State's share of AFDC benefit payments, AFDC administrative costs, Family Assistance Maintenance Information Systems (FAMIS), Emergency Assistance and JOBS expenditures during certain time periods. Section 409(a)(7)(B)

needy State - - A State is a needy State for a month if it meets either the Unemployment or Food Stamp trigger levels. Section 403(b)(6)

provisional payment - - A preliminary Federal Contingency Fund payment made to a State for an eligible month. Provisional payments are made when a State is notified of its eligibility for a month and then requests a payment. Section 403(b)(3)

reconciliation - - An annual calculation made at the end of the fiscal year to determine how much of the provisional payments a State must remit to the Federal government. Section 403(b)(4)

remittance - - The amount of Federal Contingency Funds paid to the State that must be returned to the Federal government, as calculated in the annual reconciliation.
Section 403(b)(4)

State - - Each of the 50 States of the United States and the District of Columbia.
Section 403(b)(7)

trigger - - A statutorially defined level for either the average rate of total unemployment in the State or the average Food Stamp caseload in the State. See Section II of this report for a more detailed definition of the triggers. Section 403(b)(6)

II. ACCESS TO CONTINGENCY FUNDS

The following explains the specific statutory requirements of the Contingency Fund and the calculation for providing Contingency Funds to a State. The discussion is arranged in the order in which the steps take place, from determining that a State qualifies as a "needy State" to final calculation of the amount of Contingency Funds to be retained by a State for a given fiscal year.

TRIGGERS

To receive Contingency Funds a State must first qualify as a needy State according to statutory definition, for one or more months in a fiscal year. A "needy State" is a State that has met either the Unemployment Trigger or Food Stamp Trigger.

Unemployment Trigger - - the State's average unemployment rate for the most recent 3-month period is at least 6.5 percent and at least equal to 110 percent of the State rate for the corresponding 3-month period in either of the two preceding calendar years.

Food Stamp Trigger - - the State's monthly average of individuals participating in the Food Stamp program (as of the last day of the month) for the most recent 3-month period is at least equal to 110 percent of its monthly average of individuals in the corresponding 3-month period in the Food Stamp caseload for FY 1994 or FY 1995, whichever is less, had the immigrant provisions of Title IV and the food stamp provisions under Title VIII of PRWORA been in effect in those years.

PROVISIONAL PAYMENTS

A State may request Contingency Funds for any month for which it qualifies as a needy State. Based on a request for Contingency Funds, the Secretary of Health and Human Services will provide a provisional payment of Federal Contingency Funds for each qualifying month, limited by statute to 1/12 of 20 percent of the State's family assistance grant (SFAG). This payment is provisional because at the end of the fiscal year an annual reconciliation must be conducted to determine the final amount of Contingency Funds a State may retain.

ELIGIBLE MONTHS

Once a State qualifies as needy and elects to receive Contingency Funds, the State will receive payment for a minimum period of two consecutive months. Payments are made for a 2-month period because the statute defines an eligible month as "a month in the 2-month period that begins with any month for which the State is a needy State" (Section 403(b)(5)). Note: While qualifying for a minimum 2-month period under the statute, a State has the option to request a payment for only one month.

RECONCILIATION PROCESS

After the close of the fiscal year, a reconciliation process must be conducted to determine whether a needy State may retain its provisional Contingency Fund payment or whether it must remit some, or all, of the provisional payment back to the Federal Treasury. In order to maintain any of the provisional payment, HHS initially must determine that the State has expended a sufficient amount of State funds in a manner that meets the Contingency Fund maintenance of effort requirement set forth in section 403(b)(4). Additional guidance concerning maintenance of effort requirements was issued by ACF in January 1997 (Policy Announcement No. TANF-ACF-PA-97-1).

If a State meets the Contingency Fund maintenance of effort requirement, then the amount of Contingency Funds it may retain is the lesser of two amounts. The first amount is the Contingency Funds paid to the State for the fiscal year. The second amount is the State expenditures above its MOE level, multiplied by: (1) the State's Federal Medical Assistance Percentage (FMAP) rate applicable for the year in which funds are awarded and (2) 1/12 times the number of months during the fiscal year that the State received Contingency Funds.

For example, a State's expenditures for FY 97 are \$103 million. This amount includes \$2.5 million in Contingency Funds that have been paid to the State for 8 months. The State's Contingency Fund MOE level is \$95 million. The State's FMAP for FY 97 is 50%. In determining how much a State may retain of its Contingency Funds, first subtract from the expenditures made by the State, the Contingency MOE level of expenditures; i.e., \$103 minus \$95 million. This difference of \$8 million must then be multiplied by the State's FY 97 FMAP rate of 50%. That amount is \$4 million. Next, multiply the \$4 million by 1/12 times 6 months. The result is \$2 million. This is the amount of Contingency Funds that may be retained by the State. Because the State had been paid \$2.5 million for the fiscal year, the State must remit \$500,000.

The Adoption and Safe Families Act of 1997 amended the annual reconciliation process by increasing the amount States receiving Contingency Funds must remit (repay) to the Federal government in FY's 1998-2001. In effect, this change decreases the amount of funds each State may retain after the reconciliation process. The amount of each State's increased remittance is based on its proportion of total Contingency Fund payments for the fiscal year. The increased remittance total is \$40 million over four years (\$2 million in FY 1998, \$9 million in FY 1999, \$18 million in FY 2000, and \$13 million in FY 2001).

See Appendix B for additional reconciliation examples.

*Odd that state may
get \$ before HHS
establishes that
met MOE*

III. ELIGIBILITY STATUS OF STATES IN FY 1997

In FY 1997, eight States met either the Unemployment or Food Stamp triggers for at least one month in the year. The eligible States are:

Alaska
California
District of Columbia
Hawaii
New Mexico
New York
North Carolina
Washington

Appendix C contains tables showing in which months these States met the Unemployment and/or Food Stamp Triggers. It is notable that in 1997 seven of the eight States met the Food Stamp trigger while only New Mexico met the unemployment trigger. In order to retain Contingency Funds, these States must also meet the Contingency Fund MOE requirement.

In October 1997, HHS issued a Program Instruction (PI), TANF-ACF-PI-97-8, to provide guidance to States on eligibility requirements and application procedures for Contingency Fund. **Appendix A** contains a copy of the PI. (The PI also describes the TANF grant add-on funds which are similar to Contingency Funds and which were available only for periods in FY 1997 before a State's implementation of the TANF program. See pages 9 and 10 of Appendix A.)

The PI advised States that they would be informed by letter about any months in which they qualified as a needy State for Contingency Funds. HHS will notify any State qualifying as needy on the basis of meeting either the Unemployment or Food Stamps trigger. The first such letters to the Governors were mailed in early March 1998. States had 15 days from receipt of those letters to request Contingency Funds. Two States, North Carolina and New Mexico, have formally requested Contingency Funds. North Carolina will receive State Family Assistance Grant add-on funds for three months totaling \$15.1 million. New Mexico will receive \$18.9 million of State Family Assistance Grant add-on funds for 9 months of eligibility prior to their TANF program implementation date and \$2.1 million of Contingency Funds for one month after their TANF program began. (See pages 7 and 8 of **Appendix A** for an explanation of how States can be eligible for add-on funds prior to their TANF implementation date.)

NC 13.1
NM 18.9 — not TANF
34.0
2.1
NM 36.1 m

IV. ANALYSIS OF THE OPERATION OF THE CONTINGENCY FUND

In order to examine the status and operation of the Contingency Fund to date and consider whether changes or improvements are needed at this time, this report analyzes five key components of the Contingency Fund:

- more general*
- Total funding available for the Contingency Fund;
 - How the eligibility triggers target needy States;
 - What State expenditures count towards the Contingency Fund maintenance of effort requirements;
 - Calculations under the reconciliation formula; and,
 - Offsetting funds adjustments required by the Adoption and Safe Families Act of 1997.

It should be noted that any evaluation of the Contingency Fund at this time must be viewed as preliminary since the economy in most areas of the country is very strong and States are in the early stages of implementing the new TANF program. The Contingency Fund has not yet been tested during the period of economic downturn for which it was designed. Therefore, it would be premature to assess the long-term effectiveness of the fund.

A. Total Funding Available for the Contingency Fund

Current Funding Needs

The PRWORA appropriated \$2 billion for the operation of the Contingency Fund for FY 1997 through FY 2001. The Adoption and Safe Families Act of 1997 reduced the \$2 billion appropriation for the Contingency Fund by \$40 million for a total of \$1.96 billion. Under current economic assumptions, all estimates indicate that the appropriated funds are more than adequate to meet the needs during this period.

To date, two States have requested \$17.2 million of provisional Contingency Fund payments--payments that must be reconciled under the process described later in this report. The tables in Appendix D provide a range of possible amounts payable to the States under the Contingency Fund, including the maximum amount of Contingency Funds that each State could claim if they met the trigger and MOE requirements for a full 12 months in a fiscal year.

The Administration projects Contingency Fund outlays at \$210 million for the period FY 1998-2003, while the Congressional Budget Office (CBO) budget baseline projects outlays at \$435 million for the same period. Under either projection, the appropriation is sufficient to meet projected outlays. It should be noted that these outlay estimates were prepared assuming that the current favorable economic climate would continue. Moreover, neither CBO nor OMB forecast economic assumptions on a regional basis. Therefore, if an unexpected economic downturn should occur, or if the economic conditions in specific States should deteriorate, then these budget estimates could change dramatically.

CEA?

In addition, the statutory procedure for recovering \$40 million from the Contingency Fund, as prescribed in the Adoption and Safe Families Act of 1997 will have a direct impact on the amount of funds available to needy States. Subsection D below, which focuses on the reconciliation process, outlines the circumstances under which the

Adoption and Safe Families Act provision could make funding unavailable or greatly reduced for needy States.

Finally, it is important to note that States may use TANF funds to create their own rainy day or contingency funds. Under PRWORA, States may reserve any unspent TANF funds indefinitely as a financial cushion for future periods of increased need. During the current period of declining caseloads, most States have some unobligated TANF funds that may be saved for future contingencies. In addition, PRWORA established a Welfare Reform Loan Fund with an appropriation of \$1.7 billion for five years in order to assist States during economic downturn. This Loan Fund can be accessed by a State in amounts not to exceed 10% of a State's Family Assistance Grant. We will need time to assess the choices States will make about how to use these funds, in addition to the Contingency Funds, during a recession. ✓

Future Funding Needs

It has been proposed that the Contingency Fund be adjusted to better accommodate national or regional recessions and increased welfare needs. Proposals have included the elimination of the current \$2 billion cap, i.e., an open-ended fund, and an automatic increase in the Contingency Fund level triggered by changes in specified economic indicators.

Proponents of these changes have pointed to the recession in the early 1990's and the inadequacy of the current Contingency Fund to address needs of such magnitude. For example, if all States meeting the unemployment trigger during the previous 5-year recession period (1990 through 1994) requested Contingency Funds the provisional payments to States would be approximately \$9.7 billion -- an amount far exceeding the \$2 billion now available for this purpose. While this \$9.7 billion figure represents the maximum amount of "provisional payments" that would be made to States under this scenario, it does convey the potential magnitude of the impact of a major recession.

HHS believes that these and other proposals to ensure that the Contingency Fund is sufficient to accommodate periods of poor economic conditions and increased needs should be thoroughly considered by the Administration and Congress when the Contingency Fund is reauthorized for FY 2002 and beyond. At that point, a complete analysis of the most up-to-date economic projections, state welfare needs, and the degree to which States have used TANF funds to establish contingency or rainy day funds should be conducted in order to determine the necessary level of funding for the Contingency Fund.

④ Sure we can wait that long?

B. Triggers

Targeting Needy States

Are the statutory trigger levels properly targeted to needy States given that the Contingency Fund was designed to help States that impacted by a recession or economic downturn? As discussed in Section II of this Report, in order to receive Contingency Funds a State must first qualify as a needy State for one or more months in a fiscal year. A "needy State" is a State that has met either the Unemployment Trigger or the Food Stamp Trigger. Therefore the triggers need to be evaluated to see if they effectively identify needy States.

⑤

in true need of add'l fed assistance

OK w/ Cynthia
Weird
say these proposals are from '96 (plus Levin 1-1 '97)

③ Problems here - we asked HHS to clarify but they haven't

This section of the report examines four topics related to operation of the triggers: level of the triggers, the duration of a State's eligibility, the "look back" trigger requirement and the lag in availability of the trigger data.

Level of the Triggers

One consideration in evaluating the effectiveness of the triggers is whether the level of the trigger is set at an appropriate point to identify or mirror changes in the economic cycle. Are the trigger levels good measures of an economic downturn? It is too soon to judge whether the State unemployment rate trigger and the Food Stamp trigger are serving this function adequately. *More analysis is needed on the sensitivity of TANF caseloads to each of these triggers.* *exp rephrase goofy* (6)

Duration of a State's Eligibility

States are eligible for Contingency Funds if they meet the Unemployment Rate or Food Stamp trigger for only one month (although the trigger is based on a comparison of 3-month averages of unemployment rates or Food Stamp caseloads). Since the State unemployment rate is an estimate based in part on a sample survey, some fluctuations in any monthly employment rates will occur simply because of survey sampling error. One issue is whether a 3-month average is sufficient to smooth such error so that fluctuations represent genuine changes in the state's economic situation. *Says nothing! Previous draft had mediocre stuff they dropped*

In other words, does meeting either the unemployment or Food Stamp trigger for only one month mean that a State has increasing welfare needs? Does meeting the 6.5% unemployment rate for a month or two reflect an economic trend or only some fluctuations in the unemployment estimates? Conversely, if a State meets either trigger for a significant number of consecutive months, would that be a better measure of a State experiencing an economic downturn?

In considering whether short term eligibility for Contingency Funds is desirable, one could examine the effect of a change in the qualifying requirements. For example, one option considered might require States to meet either trigger for three consecutive months to be eligible to receive Contingency Funds. Another option might allow a State that has met the trigger(s) for six consecutive months to become eligible to receive Contingency Funds for the entire fiscal year.

Another way to address the duration of need concern is to provide only one month's payment for each eligible month. Currently, the statute defines an eligible month as "a month in the 2-month period that begins with any month for which a State is a needy State." Therefore, a State that is needy in one month is deemed needy in the next month and may receive Contingency Fund payments for two consecutive months. This provision was designed to smooth the transition to recovery for States. An alternative, as noted, is to provide one monthly payment for one month of eligibility for Contingency Funds, thereby reducing the amount of Contingency Funds which a State meeting the trigger for one month will receive (but also reducing the amount the state would need to return to the Federal government in the reconciliation process).

The "Look Back" Trigger Requirement

Another triggering question relates to what might be called the "look back" provision in the unemployment rate trigger: the requirement that the State unemployment rate for a month be at least 110% of the level it was in a corresponding three month period in either of the preceding two years. In other words, a State's unemployment rate must not only be at a high level, but it must also be increasing over past levels. The Food Stamp trigger was designed, in part, to address this issue.

?

*This seems
pathetic/
inadequate
to me, but
HHS has
had a hard
time doing
anything
coherent.*

This definition excludes certain States with high welfare needs, namely, those States with consistently high, but level unemployment rates. For example, under the current trigger requirement a State with a 6.0% unemployment rate in one year and an increased rate of 6.6% in the second year would be eligible, while a State with a steady rate of 10% in three consecutive years might not be eligible. Eliminating this provision may allow some States to be eligible that have chronic unemployment problems even during a favorable economic climate. ² would

Lag in Availability of Trigger Data

There also is a question concerning implementation of the provision given the time lag in compiling and publishing trigger data. Once a State has qualified as a needy State and requested funds, it must expend the Contingency Funds within the fiscal year, as well as expend State funds to meet the Contingency Fund MOE level. For planning purposes, States need to be informed of their eligibility status prior to the end of the fiscal year. Due to the process the Department of Agriculture uses to collect monthly Food Stamp data, the data are not available until 90 to 120 days after the end of the month. For States meeting the triggers late in the fiscal year, there is little, if any, time to expend the Contingency Funds within that year or make expenditure decisions to satisfy Contingency Fund MOE requirements.

For example, if a State meets the Food Stamp trigger in August of FY 97, it would not be notified until the start of the next fiscal year. At that point the State would need to offset its previous year's State expenditures with the Contingency Funds for FY 97. A reduction in the State's expenditures for FY 97 would have an impact on the State's ability to meet the Contingency Fund MOE requirements.

One approach to resolving this problem would be to implement a deadline or cutoff date of May 31 for the expenditure of Contingency Funds in a Federal fiscal year. This would delay the required expenditure of Contingency Funds that the State was eligible for in June, July, August, and September until the next Federal Fiscal Year. For example, a State would meet the Food Stamp Trigger in June 1998, but would be eligible for Contingency Funds in October 1998, which is the beginning of FY 1999. Reconciliation of these funds would be at the end of FY 1999, September 30.

Restoring Food Stamps to Immigrants May Affect Trigger

In his FY 99 budget, President Clinton proposed to restore Food Stamps to legal immigrants who were cut off from Federal benefit rolls under PRWORA. This provision is currently being considered by the Congress. Such a provision, if enacted, would require a technical change in the Food Stamp trigger section of the statute, so as not to distort the Food Stamp trigger. The statute calls for comparing the current Food Stamp caseload with the Food Stamp caseload in FY 94 or FY 95, adjusted to remove legal immigrants. If legal immigrants are now returned to the caseload, the caseload will be larger than that of the look-back years. However, this would not reflect a downturn in a State's economic situation, but a change in eligibility. HHS would be prepared to work with the Congress in developing a technical change to PRWORA to address this issue.

This section
will likely
be
deleted.

because OMB is worried it could make
trouble in our efforts to restore food stamps.

C. Maintenance-Of-Effort (MOE) and Matching Requirements

The Contingency Fund MOE requirement differs from the TANF MOE requirement in the following ways:

- (1) States must expend 100% of historic State expenditures for FY 1994 to meet the Contingency Fund MOE requirement, whereas States must expend 75% or 80% to meet the TANF MOE requirement.
- (2) As authorized by the PRWORA statute, States may expend their own funds in separate State programs to serve TANF eligible individuals. State expenditures in separate State programs do not count toward the Contingency Fund MOE, while such expenditures do count towards the TANF MOE.
- (3) The Contingency Fund MOE excludes the State's child care expenditures under Title IV-A from the historic base level, while the TANF MOE includes the State's historic child care expenditures.

PRWORA included both the TANF and Contingency Fund MOE requirements in order to ensure that States continued their essential partnership role in support of welfare programs. A higher and more stringent MOE was required for the Contingency Fund so that States would meet key goals of the TANF program, while sharing the burden of increased needs during periods of recession or economic difficulties

There have been a range of concerns raised about the Contingency Fund MOE requirements – both from the perspective that TANF MOE and Contingency Fund MOE should be more consistent from the desire for greater Federal support to States during economic downturns by. Greater consistency in the MOE requirements could ease administrative burdens on the States and potentially make it easier for States to retain Contingency Funds by allowing States to count a broader range of State expenditures toward the Contingency Fund MOE.

Several alternatives could be considered to address these concerns. One approach would be to allow States to count expenditures for both child care and separate State programs toward the Contingency Fund MOE, thereby making the treatment of such expenditures consistent with the TANF MOE requirement. A second alternative would be to allow States to count only the expenditures on separate State programs toward the Contingency Fund MOE. A third possible alternative would be to count only child care expenditures towards the Contingency Fund MOE.

There are advantages and disadvantages to each of these alternatives. Making TANF and Contingency Fund MOE requirements similar, would provide administrative simplicity. However, since expenditures under the AFDC child care programs were excluded from the base as well as from the Contingency Fund MOE level, we assume that an adjustment would be required in the Contingency Fund MOE base level to reflect State child care expenditures made under the AFDC child care programs in 1994. This adjustment would produce a higher historical spending level and consequently a higher MOE requirement, as shown in the table in Appendix E.

Expanding the qualifying expenditures definition for the Contingency Fund MOE to include separate State program expenditures, but not child care expenditures, would not be equitable to all States. Currently, only 16 States are expending TANF funds in separate State programs. It is too early in the implementation of the TANF program to know if this number will increase or decrease. While offering the opportunity for a greater number of States to retain Contingency Funds, this alternative does not simplify

If we have to include this, we should say something about the minuses of separate state programs.

Another way feds over 100%, state must go 80-100%
In essence

jumbled??

This is where I've had the most problems.

Not sure what to do here weird word

definitely!

Why should we even discuss these?

What?

the Contingency Fund calculation because it does not treat TANF and Contingency Fund MOE requirements in the same manner. Further, it could provide unintended incentives to States to shift more resources from their TANF program to separate State programs. Similar arguments could be made for changing the definition to include child care, but not separate State program expenditures. While this alternative would benefit those States who spend relatively large amounts of their TANF funds on child care, it does not simplify the Contingency Fund calculation since there continue to be differences between the TANF and Contingency Fund MOE requirements.

*Where TANF
we need
to not apply*

Any changes to the definition of the Contingency Fund MOE requirements could result in significant increases in Federal costs.

D. Reconciliation Formula

Section 403(b)(6) of PRWORA provides that State expenditures above the Contingency Fund MOE level are to be matched, at the applicable FMAP rate, by Federal Contingency Funds. In the reconciliation procedure, the amount of matching funds a State may retain decreases for those States receiving Contingency Funds for less than 12 months in a fiscal year. The last step in the reconciliation formula reduces the Federal funds payable to the State to 1/12 times the number of months the State received Contingency Funds in the fiscal year (see page 7). Therefore, a State receiving Contingency Funds for only a portion of the year receives a smaller proportion of Federal funds than a State eligible for all twelve months.

For example, State expenditures in excess of the Contingency Fund MOE amount entitled the State to receive \$2 million at the FMAP rate. However, since the State was eligible for only 6 months in the year, the last step in the reconciliation formula reduced the \$2 million by 6/12ths or \$1 million, thereby cutting in half the amount of Federal funds received by the State.

The table below gives additional examples of the application of the reconciliation formula. In this table, the assumption is made that prior to the last step in the process in which the number of months adjustment is made, all States were retaining \$2 million. However, State A received Contingency Funds for 3 months; State B for 6 months; and State C for 12 months. Column three of the table illustrates the effect on funding to States under the current formula. In this example, assuming a State's FMAP rate is 50%, State A's final Federal matching rate is 12.5%, State B's is 25% and State C's remains at 50%.

	No. of Months	Paid Out If Adjustment is Eliminated	Paid Out Under Current Adjustment Process	Percentage Reduction
State A	3	\$2,000,000	\$500,000	75%
State B	6	\$2,000,000	\$1,000,000	50%
State C	12	\$2,000,000	\$2,000,000	0%
Total		\$6,000,000	\$3,500,000	

*OE A
values
"Effective
Match
Rate"
column*

Questions have been raised about whether the proportion of Federal funds finally retained by needy States, as determined by this reconciliation formula, is too low compared to the required State Contingency Fund MOE and matching expenditures. An alternative to consider would be the elimination of this final step in the reconciliation process. For States that met the trigger level requirements, this change would convert the Contingency Fund to a matching program for State expenditures in excess of the Contingency Fund MOE. Column two in the table demonstrates the impact on State funds if the reconciliation procedures were revised to eliminate the number of months adjustment. Under this alternative, each State in the example would retain a 50% Federal matching rate regardless of the number of months for which they received Contingency Funds. This alternative raises additional questions about whether the intention of the Contingency Fund is to treat all States 'equally' regardless of whether they met the triggers for 2 months or the entire year.

Any changes to the reconciliation formula could result in significant increases in Federal costs.

E. Adoption and Safe Families Act of 1997 Provision

States receiving Contingency Funds under provisional payments may have received overpayments, and may have to remit all or part of the funds. The Adoption and Safe Families Act of 1997 amendments to the Contingency Fund increased the State remittance amount in order to provide sufficient funding for this key adoption initiative. The provision increases the remittance amounts of all States drawing from the Contingency Fund. This increase, to be shared proportionally by all States drawing funds in a year, total \$2 million in FY 1998, \$9 million in FY 1999, \$16 million in FY 2000, and \$13 million in FY 2001. One result of this calculation is that the fewer the number of States receiving funds, the higher their proportionate share of the offset, and the more they will have to remit.

One way to address this issue would be to change the remittance formula in a way that spreads out the recovery of funds. For example, the additional remittance amount could be capped at some percentage, say 25% or 30%, of the Contingency Funds to which they would be otherwise entitled. Another alternative would be to look for other sources for this \$40 million offset in order to avoid such consequences for States meeting the triggers.

Can we say this??

Do we have an opinion?

Another - OK - let's

Cong decide
Perky - diff
match rate

Leg # most
but costs
\$....

Appendices

A - Contingency Fund Program Instruction (PI-97-8)

B - Reconciliation Examples

C - Needy States Exceeding the Food Stamp or Unemployment Trigger Levels in FY 97

D - Minimum and Maximum Payment Amounts

E - Comparison of TANF and Contingency Fund MOE Levels

Appendix A

Appendix B

RECONCILIATION EXAMPLES:

Example 1 for FY 1997

Assume: State A receives \$2.5 million in provisional Federal Contingency Fund payments for six months of eligibility in the year.

Total State expenditures = \$103 million (including \$2.5 million in Federal CF)
minus \$95 million (100% CF MOE level)
= \$8 million
x 50% FMAP rate
= \$4 million
x 1/12 x 6 months
= \$2 million in federal Contingency Funds that the State may retain.

Since the State originally received \$2.5 million, the State must remit \$500,000.

Example 2 for FY 1998

This example uses the same dollar amount assumptions as in the example above for State A. However, it takes into account the additional remittances beginning in FY 98 as required by the Adoption and Safe Families Act of 1997. After the reconciliation procedures shown in Example 1 above are completed, any amount remitted by State A for a fiscal year shall be increased by the lesser of:

EITHER:

- 1) The total adjustment in the Federal appropriation amount for the fiscal year (as mandated in the Adoption and Safe Families Act) multiplied by the adjustment percentage of State A for the fiscal year.

If we assume that only State A received Contingency Funds in the fiscal year, the total adjustment would be \$2 million. This was derived by multiplying \$2 million (the FY 98 appropriation adjustment mandated by the Adoption Act) by the adjustment percentage of 100% (since only one State received funds). The adjustment percentage for each State decreases as the number of States participating increases. If we assume that two States are eligible, and the unadjusted net payment to all States was \$4.5 million, then the adjustment percentage for State A would be only 44% (State A's net payment of \$2 million as shown above, divided by total net payments of \$4.5 million).

OR:

- 2) The unadjusted net payment to the State for the fiscal year.

The unadjusted net payment is equal to the total provisional payments to the State, minus the original remittance amount. In example 1, the provisional payment to State A was \$2.5 million and the original remittance amount was \$500,000. The unadjusted net payment to State A is therefore \$2 million.

In this example, both 1) and 2) equal \$2 million. Therefore, State A would have to remit an additional \$2 million plus the \$500,000 original remittance amount derived in example 1. The State would be ineligible to retain any Contingency Funds and would have to remit the entire provisional payment.

Appendix C

STATES ELIGIBLE FOR ADDITIONAL FUNDING UNDER P.L. 104-193 (CONTINGENCY FUND)

FOOD STAMP TRIGGER

	October 1996	Nov. 1996	Dec. 1996	Jan. 1997	Feb. 1997	March 1997	April 1997	May 1997	June 1997	July 1997	August 1997	Sept. 1997
ALABAMA						XX	**					
ALASKA												
ARIZONA												
ARKANSAS												
CALIFORNIA	XX	**	XX	**								
COLORADO												
CONNECTICUT												
DELAWARE												
DISTRICT OF COLUMBIA		XX	XX	XX	XX	XX	**					
FLORIDA												
GEORGIA												
HAWAII	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
IDAHO												
ILLINOIS												
INDIANA												
IOWA												
KANSAS												
KENTUCKY												
LOUISIANA												
MAINE												
MARYLAND												
MASSACHUSETTS												
MICHIGAN												
MINNESOTA												
MISSISSIPPI												
MISSOURI												
MONTANA												
NEBRASKA												
NEVADA												
NEW HAMPSHIRE												
NEW JERSEY												
NEW MEXICO												
NEW YORK			XX	**								
NORTH CAROLINA	XX	XX	**									
NORTH DAKOTA												
OHIO												
OKLAHOMA												
OREGON												
PENNSYLVANIA												
RHODE ISLAND												
SOUTH CAROLINA												
SOUTH DAKOTA												
TENNESSEE												
TEXAS												
UTAH												
VERMONT												
VIRGINIA												
WASHINGTON			XX	XX	XX	XX	**					
WEST VIRGINIA												
WISCONSIN												
WYOMING												

Total

3

4

6

6

3

4

4

1

1

1

1

1

** The State qualified for the previous month but did not qualify for the current month. As defined in 403 (b) (5) an "eligible month" is a month in a two month period that begins with any month for which the State is determined to be a needy State.

3/6/93

Table C-1

Appendix C

STATES ELIGIBLE FOR ADDITIONAL FUNDING UNDER P.L. 104-193 (CONTINGENCY FUND) UNEMPLOYMENT TRIGGER

	October 1996	Nov. 1996	Dec. 1996	Jan. 1997	Feb. 1997	March 1997	April 1997	May 1997	June 1997	July 1997	August 1997	Sept. 1997
ALABAMA												
ALASKA												
ARIZONA												
ARKANSAS												
CALIFORNIA												
COLORADO												
CONNECTICUT												
DELAWARE												
DISTRICT OF COLUMBIA												
FLORIDA												
GEORGIA												
HAWAII												
IDAH0												
ILLINOIS												
INDIANA												
IOWA												
KANSAS												
KENTUCKY												
LOUISIANA												
MAINE												
MARYLAND												
MASSACHUSETTS												
MICHIGAN												
MINNESOTA												
MISSISSIPPI												
MISSOURI												
MONTANA												
NEBRASKA												
NEVADA												
NEW HAMPSHIRE												
NEW JERSEY												
NEW MEXICO	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX		
NEW YORK												
NORTH CAROLINA												
NORTH DAKOTA												
OHIO												
OKLAHOMA												
OREGON												
PENNSYLVANIA												
RHODE ISLAND												
SOUTH CAROLINA												
SOUTH DAKOTA												
TENNESSEE												
TEXAS												
UTAH												
VERMONT												
VIRGINIA												
WASHINGTON												
WEST VIRGINIA												
WISCONSIN												
NG												
Total	1	1	1	1	1	1	1	1	1	1		

** The State qualified for the previous month but did not qualify for the current month. As defined in 403 (b) (5) an "eligible month" is a month in a two month period that begins with any month for which the State is determined to be a needy State.

3/6/98

Table C-2

Appendix D

Table D-1 STATE	ANNUAL SFAG Allocation	Contingency Fund Eligible One Month	Contingency Fund Eligible 12 Months
ALABAMA	93,315,207	1,555,253	18,663,041
ALASKA	63,609,072	1,060,151	12,721,814
ARIZONA	222,410,988	3,707,000	44,483,998
ARKANSAS	56,732,858	945,548	11,346,572
CALIFORNIA	3,733,817,784	62,230,296	746,763,557
COLORADO	138,056,690	2,267,612	27,211,338
CONNECTICUT	266,788,107	4,446,468	53,357,621
DELAWARE	32,290,981	538,183	6,458,196
DISTRICT of COL.	92,609,815	1,543,497	18,521,963
FLORIDA	562,340,120	9,372,335	112,468,024
GEORGIA	330,741,739	5,512,362	66,148,348
HAWAII	98,904,788	1,648,413	19,780,958
IDAHO	31,938,052	532,301	6,387,610
ILLINOIS	585,056,960	9,750,949	117,011,392
INDIANA	206,799,109	3,446,652	41,359,822
IOWA	131,524,959	2,182,083	26,304,992
KANSAS	101,931,061	1,698,851	20,386,212
KENTUCKY	181,287,669	3,021,461	36,257,534
LOUISIANA	163,971,985	2,732,866	32,794,397
MAINE	78,120,889	1,302,016	15,624,178
MARYLAND	229,098,032	3,818,301	45,819,606
MASSACHUSETTS	469,371,116	7,656,185	91,874,223
MICHIGAN	775,352,858	12,922,548	155,070,572
MINNESOTA	267,984,886	4,466,415	53,596,977
MISSISSIPPI	86,767,578	1,446,126	17,353,516
MISSOURI	217,051,740	3,617,529	43,410,348
MONTANA	45,534,008	758,900	9,106,801
NEBRASKA	58,028,579	967,143	11,605,716
NEVADA	43,976,750	732,945	8,785,350
NEW HAMPSHIRE	38,521,261	642,021	7,704,252
NEW JERSEY	404,034,823	6,733,914	80,806,965
NEW MEXICO	126,103,156	2,101,719	25,220,631
NEW YORK	2,442,930,602	40,715,510	488,586,120
N. CAROLINA	302,239,599	5,037,327	60,447,920
NORTH DAKOTA	26,399,809	439,997	5,279,962
OHIO	727,968,260	12,132,804	145,593,652
OKLAHOMA	148,013,558	2,466,893	29,602,712
OREGON	167,924,513	2,798,742	33,584,903
PENNSYLVANIA	719,499,305	11,991,655	143,899,861
RHODE ISLAND	95,021,587	1,583,693	19,004,317
S. CAROLINA	99,967,824	1,666,130	19,993,565
SOUTH DAKOTA	21,893,519	364,892	4,378,704
TENNESSEE	191,523,797	3,192,063	38,304,759
TEXAS	486,256,752	8,104,279	97,251,350
UTAH	76,829,219	1,280,487	15,365,844
VERMONT	47,353,181	789,220	9,470,636
VIRGINIA	158,285,172	2,638,086	31,657,034
WASHINGTON	404,331,754	6,738,863	80,868,351
WEST VIRGINIA	110,178,310	1,836,272	22,035,262
WISCONSIN	318,188,410	5,303,140	63,637,682
WYOMING	21,781,446	363,024	4,356,289
Total	16,488,667,235	274,811,121	3,297,733,447

Needs a
title
or
other
explanation

Table D-1

Appendix D**BIG EIGHT STATES' MINIMUM AND MAXIMUM
CONTINGENCY FUND AMOUNTS**

STATE	Annual SFAG Allocation	Contingency Fund Eligible One Month	Contingency Fund Eligible 12 Months
CALIFORNIA	3,733,817,784	62,230,296	746,763,557
FLORIDA	562,340,120	9,372,335	112,468,024
ILLINOIS	585,058,960	9,750,949	117,011,392
MICHIGAN	775,352,858	12,922,548	155,070,572
NEW YORK	2,442,930,602	40,715,510	488,586,120
OHIO	727,968,260	12,132,804	145,593,652
PENNSYLVANIA	719,499,305	11,991,655	143,899,861
TEXAS	486,256,752	8,104,279	97,251,350
Total	10,033,222,641	167,220,377	2,006,644,528

Table D-2

Appendix E

FY 98 TANF and Contingency Fund MOE LEVELS			
State	TANF MOE	Contingency Fund	DIFFERENCE
	AT 100%(1)	MOE at 100%	
Alabama	52,285,491	45,794,014	6,491,477
Alaska	55,256,536	62,517,375	2,739,161
Arizona	126,703,568	118,576,673	8,126,895
Arkansas	27,785,269	26,458,762	1,326,507
California	3,635,855,463	3,550,262,246	85,593,217
Colorado	110,494,527	102,241,173	8,253,354
Connecticut	244,561,409	229,355,622	15,205,787
Delaware	29,028,092	24,826,042	4,202,050
District of Columbia	93,931,934	90,201,740	3,730,194
Florida	494,558,734	464,904,063	29,654,671
Georgia	231,158,036	210,250,870	20,907,166
Hawaii	97,308,640	94,099,836	3,208,804
Idaho	18,238,307	17,062,488	1,175,819
Illinois	573,450,924	537,998,095	35,452,829
Indiana	151,367,364	139,732,426	11,634,938
Iowa	62,617,695	78,803,237	3,814,458
Kansas	82,332,787	75,659,762	6,673,025
Kentucky	89,891,250	83,039,582	6,851,668
Louisiana	73,886,837	70,041,372	3,845,465
Maine	50,031,924	48,441,897	1,590,027
Maryland	235,953,925	212,907,283	23,046,642
Massachusetts	478,598,697	440,518,485	38,078,212
Michigan	624,691,167	606,470,940	18,221,127
Minnesota	239,660,347	221,459,274	18,201,073
Mississippi	28,965,744	27,873,233	1,092,511
Missouri	160,161,033	146,584,409	13,576,624
Montana	20,954,588	19,743,737	1,210,851
Nebraska	38,172,585	31,673,586	6,498,999
Nevada	33,985,152	31,654,914	2,330,238
New Hampshire	42,820,004	38,506,356	4,313,648
New Jersey	400,213,342	381,329,402	18,883,940
New Mexico	49,794,841	46,899,680	2,895,261
New York	2,291,437,926	2,227,698,956	63,738,970
North Carolina	205,567,684	173,192,185	32,375,499
North Dakota	12,092,381	11,075,345	1,017,036
Ohio	521,108,327	487,533,531	33,574,796
Oklahoma	81,667,075	72,626,048	9,041,027
Oregon	123,006,454	111,855,595	11,150,859
Pennsylvania	542,834,133	505,165,268	37,668,865
Rhode Island	80,489,394	75,588,312	4,901,082
South Carolina	47,902,320	45,544,970	2,357,350
South Dakota	11,699,056	10,967,433	731,623
Tennessee	110,413,171	94,555,158	15,858,013
Texas	314,301,005	283,767,521	30,533,484
Utah	33,720,732	29,376,770	4,343,962
Vermont	34,066,533	31,400,210	2,666,323
Virginia	170,897,560	153,923,221	16,974,339
Washington	362,747,765	331,988,726	30,759,039
West Virginia	43,058,053	40,766,583	2,291,490
Wisconsin	225,638,309	213,889,808	11,748,501
Wyoming	14,220,435	12,746,217	1,474,218
State Total	13,911,582,525	13,189,549,411	722,033,114

Table E

(1) FY 1994 Historic State Expenditures

I hate this
chart. So far
all HHS has
agreed to do
is add federal
I wanted to
drop it.

**Temporary Assistance for Needy Families
(TANF)**

Andrea

Per my
email.

Diana

Report on Status of the Contingency Fund

Diana -
We need a
few comments --
nothing huge, &
my guess is that
my questions re:
your comments
have easy
answers. I
just haven't been
close to this.
I'd be glad to
discuss.
AKC

April 1998

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Executive Summary

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA, P.L. 104-193) reformed the goals and structure of the nation's welfare system. In addition to establishing block grants for the States, PRWORA established a Contingency Fund for State Welfare Programs to assist States in meeting the need for welfare assistance during periods of economic downturn. The Contingency Fund would make additional Federal funds available on a matching basis to qualifying needy states that requested such funds.

Section 403(b)(8) of PRWORA directed the Secretary of the Department of Health and Human Services (HHS) to report annually to Congress on the status of the Contingency Fund. The Adoption and Safe Families Act of 1997 (section 404, P.L. 105-89) included an amendment to the Contingency Fund, and also directed the Secretary of HHS to report to Congress on recommendations for improvements. Pursuant to these requirements, this report examines the status and operation of the fund to date and considers whether changes or improvements are needed at this time.

Under current national economic projections, the Contingency Fund is fully adequate to meet the needs of qualifying States. Any evaluation of the Contingency Fund must be viewed as preliminary at this time, however, since the economy in most areas of the country is very strong, and States are in the early stages of implementing the new Temporary Assistance for Needy Families (TANF) program. The Contingency Fund has not yet been tested during the periods of economic downturn for which it was designed.

Therefore, it would be premature to assess the long-term effectiveness of the Contingency Fund. As States make further progress in implementing their TANF programs, and we gain more experience in implementation of the Contingency Fund, we will be in a better position to provide a more analytical assessment of the adequacy of the Contingency Fund and the need for changes in our future annual reports to Congress. Our goal for these future reports will be to provide sufficient information for Congress in its preparation for the reauthorization of the Contingency Fund for FY 2002 and beyond.

For our first annual report we were able to provide basic information on the operation of the Contingency Fund, examine possible changes in several of its provisions, and attempt to assess the costs associated with such changes. In particular the report analyzes five key components of the Contingency Fund:

- Total funding available for the Contingency Fund;
- How the eligibility triggers target needy States;
- What State expenditures count towards the Contingency Fund maintenance of effort requirements;
- Calculations under the reconciliation formula; and,
- Offsetting funds adjustments required by the Adoption and Safe Families Act of 1997.

This report was prepared after extensive consultations about welfare reform, including the Contingency Fund, with State TANF agency representatives. In addition, the Administration on Children and Families (ACF) considered information and suggestions about the Fund offered by the National Governors' Association, the Congressional Budget Office, Congressional Research Service, and other interested groups and individuals.

We look forward to working with Congress, the States and other interested parties to more fully review the operation and adequacy of the Contingency Fund in the years ahead.

*Under any
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circumstances,
or just
right now?*

*Current ?
Sure?
P. 8*

*make more
general
just MOE*

I. INTRODUCTION

A. Background

The PRWORA repealed the Federal Aid to Families with Dependent Children (AFDC) entitlement program. The new legislation replaced AFDC with the Temporary Assistance for Needy Families (TANF) program -- a block grant which provides each State with a fixed amount of Federal funds through the fiscal year 2002. To address concerns that a fixed block grant could threaten States' ability to meet increased needs for TANF during periods of economic downturn, a Contingency Fund for State Welfare Programs was also included in PRWORA (sections 403(b) and 409(a)(10)).¹

The Fund was designed to provide additional Federal support on a matching basis for States experiencing increased economic need. Specific statutory provisions were included to ensure that:

- Contingency Funds are targeted to "needy" States;
- States receiving such funds maintain their full level of historic State expenditures for welfare programs; and
- Federal funds are appropriated for this purpose.

Under PRWORA, \$2 billion was appropriated for the Contingency Fund for fiscal years 1997 through 2001 for any of the 50 States and the District of Columbia that qualify. In order to offset \$40 million in expenditures for adoption and related activities, the Adoption and Safe Families Act of 1997 amended the Contingency Fund and changed the amount of funds that each qualifying State may retain.

In October 1997, ACF issued a Program Instruction (PI) establishing procedures for notifying States about eligibility and requests for Contingency Funds. See **Appendix A**. To date, two States (North Carolina and New Mexico) have formally requested Contingency Funds.

B. Statutory Requirements

Section 403(b)(8) of the Social Security Act as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 contained a provision that the Secretary of Health and Human Services should annually report to the Congress on the status of the Contingency Fund. In addition, the Adoption and Safe Families Act of 1997 required the Secretary to make recommendations to Congress for improving the operation of the Contingency Fund.

¹ Section 403 (b) was amended by P.L. 104-327 and P.L. 105-33. P.L. 104-327 permits the add on of funds to the State Family Assistance Grant (SFAg) for certain States for FY 1997 based on those States' ability to meet certain Contingency Fund requirements. P.L. 105-33 makes technical changes to the Contingency Fund MOE, the Federal Medical Assistance Percentage (FMAP) rate and the penalty provisions. These changes are discussed in more detail in Appendix A.

C. Scope of Report

Report: Exec Summary

This first Annual Report to Congress on the Contingency Fund examines what is known about the status and operation of the Contingency Fund and considers some possibilities for changing its operation. Under current economic projections, the Contingency Fund is fully adequate to meet the needs of qualifying States. However, any evaluation of the Contingency Fund must be viewed as preliminary at this time, since the economy in most areas of the country is very strong, and States are in the early stages of implementing the new Temporary Assistance for Needy Families (TANF) program. The Contingency Fund has not yet been tested during the periods of economic downturn for which it was designed.

Therefore, it would be premature to assess the long-term effectiveness of the Contingency Fund. As States make further progress in implementing their TANF programs, and we gain more experience in implementation of the Contingency Fund, we will be in a better position to provide a more analytical assessment of the adequacy of the Contingency Fund and the need for changes in our future annual reports to Congress. Our goal for these future reports will be to provide sufficient information for Congress in its preparation for the reauthorization of the Contingency Fund for FY 2002 and beyond.

D. Definition of Terms

Following are definitions of special terms related to the Contingency Fund as used in this report with relevant statutory references:

eligible month - - A month in the 2-month period that begins with any month for which the State is a needy State. Section 403(b)(5)

child care expenditures - - When referencing historic State expenditures, the term *child care expenditures* means the State and Federal share of child care expenditures in FY 1994 under Title IV-A of the Social Security Act, which includes AFDC/JOBS child care, Transitional child care and At-Risk child care.

contingency fund maintenance of effort (MOE) requirement -- In addition to qualifying as a needy State, a State's expenditures for the fiscal year must exceed 100% of a State's historic spending level in 1994. TANF MOE expenditures may be used to meet the Contingency Fund MOE requirement unless they are child care expenditures or expenditures made under "separate State programs." Section 403(b)(4)

historic State expenditures - - The State's share of AFDC benefit payments, AFDC administrative costs, Family Assistance Maintenance Information Systems (FAMIS), Emergency Assistance and JOBS expenditures during certain time periods. Section 409(a)(7)(B)

needy State - - A State is a needy State for a month if it meets either the Unemployment or Food Stamp trigger levels. Section 403(b)(6)

provisional payment - - A preliminary Federal Contingency Fund payment made to a State for an eligible month. Provisional payments are made when a State is notified of its eligibility for a month and then requests a payment. Section 403(b)(3)

reconciliation - - An annual calculation made at the end of the fiscal year to determine how much of the provisional payments a State must remit to the Federal government. Section 403(b)(4)

remittance - - The amount of Federal Contingency Funds paid to the State that must be returned to the Federal government, as calculated in the annual reconciliation.
Section 403(b)(4)

State - - Each of the 50 States of the United States and the District of Columbia.
Section 403(b)(7)

trigger - - A statutorially defined level for either the average rate of total unemployment in the State or the average Food Stamp caseload in the State. See Section II of this report for a more detailed definition of the triggers. Section 403(b)(6)

II. ACCESS TO CONTINGENCY FUNDS

The following explains the specific statutory requirements of the Contingency Fund and the calculation for providing Contingency Funds to a State. The discussion is arranged in the order in which the steps take place, from determining that a State qualifies as a "needy State" to final calculation of the amount of Contingency Funds to be retained by a State for a given fiscal year.

TRIGGERS

To receive Contingency Funds a State must first qualify as a needy State according to statutory definition, for one or more months in a fiscal year. A "needy State" is a State that has met either the Unemployment Trigger or Food Stamp Trigger.

Unemployment Trigger - - the State's average unemployment rate for the most recent 3-month period is at least 6.5 percent and at least equal to 110 percent of the State rate for the corresponding 3-month period in either of the two preceding calendar years.

Food Stamp Trigger - - the State's monthly average of individuals participating in the Food Stamp program (as of the last day of the month) for the most recent 3-month period is at least equal to 110 percent of its monthly average of individuals in the corresponding 3-month period in the Food Stamp caseload for FY 1994 or FY 1995, whichever is less, had the immigrant provisions of Title IV and the food stamp provisions under Title VIII of PRWORA been in effect in those years.

PROVISIONAL PAYMENTS

A State may request Contingency Funds for any month for which it qualifies as a needy State. Based on a request for Contingency Funds, the Secretary of Health and Human Services will provide a provisional payment of Federal Contingency Funds for each qualifying month, limited by statute to 1/12 of 20 percent of the State's family assistance grant (SFAG). This payment is provisional because at the end of the fiscal year an annual reconciliation must be conducted to determine the final amount of Contingency Funds a State may retain.

ELIGIBLE MONTHS

Once a State qualifies as needy and elects to receive Contingency Funds, the State will receive payment for a minimum period of two consecutive months. Payments are made for a 2-month period because the statute defines an eligible month as "a month in the 2-month period that begins with any month for which the State is a needy State" (Section 403(b)(5)). Note: While qualifying for a minimum 2-month period under the statute, a State has the option to request a payment for only one month.

RECONCILIATION PROCESS

After the close of the fiscal year, a reconciliation process must be conducted to determine whether a needy State may retain its provisional Contingency Fund payment or whether it must remit some, or all, of the provisional payment back to the Federal Treasury. In order to maintain any of the provisional payment, HHS initially must determine that the State has expended a sufficient amount of State funds in a manner that meets the Contingency Fund maintenance of effort requirement set forth in section 403(b)(4). Additional guidance concerning maintenance of effort requirements was issued by ACF in January 1997 (Policy Announcement No. TANF-ACF-PA-97-1).

If a State meets the Contingency Fund maintenance of effort requirement, then the amount of Contingency Funds it may retain is the lesser of two amounts. The first amount is the Contingency Funds paid to the State for the fiscal year. The second amount is the State expenditures above its MOE level, multiplied by: (1) the State's Federal Medical Assistance Percentage (FMAP) rate applicable for the year in which funds are awarded and (2) 1/12 times the number of months during the fiscal year that the State received Contingency Funds.

For example, a State's expenditures for FY 97 are \$103 million. This amount includes \$2.5 million in Contingency Funds that have been paid to the State for 6 months. The State's Contingency Fund MOE level is \$95 million. The State's FMAP for FY 97 is 50%. In determining how much a State may retain of its Contingency Funds, first subtract from the expenditures made by the State, the Contingency MOE level of expenditures; i.e., \$103 minus \$95 million. This difference of \$8 million must then be multiplied by the State's FY 97 FMAP rate of 50%. That amount is \$4 million. Next, multiply the \$4 million by 1/12 times 6 months. The result is \$2 million. This is the amount of Contingency Funds that may be retained by the State. Because the State had been paid \$2.5 million for the fiscal year, the State must remit \$500,000.

The Adoption and Safe Families Act of 1997 amended the annual reconciliation process by increasing the amount States receiving Contingency Funds must remit (repay) to the Federal government in FY's 1998-2001. In effect, this change decreases the amount of funds each State may retain after the reconciliation process. The amount of each State's increased remittance is based on its proportion of total Contingency Fund payments for the fiscal year. The increased remittance total is \$40 million over four years (\$2 million in FY 1998, \$9 million in FY 1999, \$16 million in FY 2000, and \$13 million in FY 2001).

See Appendix B for additional reconciliation examples.

but with lower
funds available
after the
fact

Odd that state may
get \$ before HHS
establishes that
- met MOE

III. ELIGIBILITY STATUS OF STATES IN FY 1997

In FY 1997, eight States met either the Unemployment or Food Stamp triggers for at least one month in the year. The eligible States are:

Alaska
California
District of Columbia
Hawaii
New Mexico
New York
North Carolina
Washington

Appendix C contains tables showing in which months these States met the Unemployment and/or Food Stamp Triggers. It is notable that in 1997 seven of the eight States met the Food Stamp trigger while only New Mexico met the unemployment trigger. In order to retain Contingency Funds, these States must also meet the Contingency Fund MOE requirement.

In October 1997, HHS issued a Program Instruction (PI), TANF-ACF-PI-97-8, to provide guidance to States on eligibility requirements and application procedures for Contingency Fund. Appendix A contains a copy of the PI. (The PI also describes the TANF grant add-on funds which are similar to Contingency Funds and which were available only for periods in FY 1997 before a State's implementation of the TANF program. See pages 9 and 10 of Appendix A.)

The PI advised States that they would be informed by letter about any months in which they qualified as a needy State for Contingency Funds. HHS will notify any State qualifying as needy on the basis of meeting either the Unemployment or Food Stamps trigger. The first such letters to the Governors were mailed in early March 1998. States had 15 days from receipt of those letters to request Contingency Funds. Two States, North Carolina and New Mexico, have formally requested Contingency Funds. North Carolina will receive State Family Assistance Grant add-on funds for three months totaling \$15.1 million. New Mexico will receive \$18.9 million of State Family Assistance Grant add-on funds for 9 months of eligibility prior to their TANF program implementation date and \$2.1 million of Contingency Funds for one month after their TANF program began. (See pages 7 and 8 of Appendix A for an explanation of how States can be eligible for add-on funds prior to their TANF implementation date.)

Is that the form normally used?
I thought it was Supplemental
all
counts
?

confusing -
add-on ≠ contingency
is this PI also
how states earned
they were eligible
for "add on" \$?

NC	15.1
NM	18.9
	34.0
	2.1
	36.1 m

not TANF?

APR-10-98 SAT - 2:41 PM RCP/LEU RTTGD02 FAX NO. 202 701 1000

IV. ANALYSIS OF THE OPERATION OF THE CONTINGENCY FUND

In order to examine the status and operation of the Contingency Fund to date and consider whether changes or improvements are needed at this time, this report analyzes five key components of the Contingency Fund:

- in general*
- Total funding available for the Contingency Fund;
 - How the eligibility triggers target needy States;
 - What State expenditures count towards the Contingency Fund maintenance of effort requirements;
 - Calculations under the reconciliation formula; and,
 - Offsetting funds adjustments required by the Adoption and Safe Families Act of 1997.

It should be noted that any evaluation of the Contingency Fund at this time must be viewed as preliminary since the economy in most areas of the country is very strong and States are in the early stages of implementing the new TANF program. The Contingency Fund has not yet been tested during the period of economic downturn for which it was designed. Therefore, it would be premature to assess the long-term effectiveness of the fund.

A. Total Funding Available for the Contingency Fund

Current Funding Needs

The PRWORA appropriated \$2 billion for the operation of the Contingency Fund for FY 1997 through FY 2001. The Adoption and Safe Families Act of 1997 reduced the \$2 billion appropriation for the Contingency Fund by \$40 million for a total of \$1.96 billion. Under current economic assumptions, all estimates indicate that the appropriated funds are more than adequate to meet the needs during this period.

current

To date, two States have requested \$17.2 million of provisional Contingency Fund payments--payments that must be reconciled under the process described later in this report. The tables in Appendix D provide a range of possible amounts payable to the States under the Contingency Fund, including the maximum amount of Contingency Funds that each State could claim if they met the trigger and MOE requirements for a full 12 months in a fiscal year.

The Administration projects Contingency Fund outlays at \$210 million for the period FY 1998-2003, while the Congressional Budget Office (CBO) budget baseline projects outlays at \$435 million for the same period. Under either projection, the appropriation is sufficient to meet projected outlays. It should be noted that these outlay estimates were prepared assuming that the current favorable economic climate would continue. Moreover, neither CBO nor OMB forecast economic assumptions on a regional basis. Therefore, if an unexpected economic downturn should occur, or if the economic conditions in specific States should deteriorate, then these budget estimates could change dramatically.

CEA?

In addition, the statutory procedure for recovering \$40 million from the Contingency Fund, as prescribed in the Adoption and Safe Families Act of 1997 will have a direct impact on the amount of funds available to needy States. Subsection D below, which focuses on the reconciliation process, outlines the circumstances under which the

Adoption and Safe Families Act provision could make funding unavailable or greatly reduced for needy States.

Finally, it is important to note that States may use TANF funds to create their own rainy day or contingency funds. Under PRWORA, States may reserve any unspent TANF funds indefinitely as a financial cushion for future periods of increased need. During the current period of declining caseloads, most States have some unobligated TANF funds that may be saved for future contingencies. In addition, PRWORA established a Welfare Reform Loan Fund with an appropriation of \$1.7 billion for five years in order to assist States during economic downturn. This Loan Fund can be accessed by a State in amounts not to exceed 10% of a State's Family Assistance Grant. We will need time to assess the choices States will make about how to use these funds, in addition to the Contingency Funds, during a recession. ✓

Future Funding Needs

It has been proposed that the Contingency Fund be adjusted to better accommodate national or regional recessions and increased welfare needs. Proposals have included the elimination of the current \$2 billion cap, i.e., an open-ended fund, and an automatic increase in the Contingency Fund level triggered by changes in specified economic indicators.

Proponents of these changes have pointed to the recession in the early 1990's and the inadequacy of the current Contingency Fund to address needs of such magnitude. For example, if all States meeting the unemployment trigger during the previous 5-year recession period (1990 through 1994) requested Contingency Funds the provisional payments to States would be approximately \$9.7 billion -- an amount far exceeding the \$2 billion now available for this purpose. While this \$9.7 billion figure represents the maximum amount of "provisional payments" that would be made to States under this scenario, it does convey the potential magnitude of the impact of a major recession.

HHS believes that these and other proposals to ensure that the Contingency Fund is sufficient to accommodate periods of poor economic conditions and increased needs should be thoroughly considered by the Administration and Congress when the Contingency Fund is reauthorized for FY 2002 and beyond. At that point, a complete analysis of the most up-to-date economic projections, state welfare needs, and the degree to which States have used TANF funds to establish contingency or rainy day funds should be conducted in order to determine the necessary level of funding for the Contingency Fund.

Sure we can wait that long?

B. Triggers

Targeting Needy States

Are the statutory trigger levels properly targeted to needy States given that the Contingency Fund was designed to help States that impacted by a recession or economic downturn? As discussed in Section II of this Report, in order to receive Contingency Funds a State must first qualify as a needy State for one or more months in a fiscal year. A "needy State" is a State that has met either the Unemployment Trigger or the Food Stamp Trigger. Therefore the triggers need to be evaluated to see if they effectively identify needy States.

in true need of add'l Fed assistance

This section of the report examines four topics related to operation of the triggers: level of the triggers, the duration of a State's eligibility, the "look back" trigger requirement and the lag in availability of the trigger data.

Level of the Triggers

One consideration in evaluating the effectiveness of the triggers is whether the level of the trigger is set at an appropriate point to identify or mirror changes in the economic cycle. Are the trigger levels good measures of an economic downturn? It is too soon to judge whether the State unemployment rate trigger and the Food Stamp trigger are serving this function adequately. More analysis is needed on the sensitivity of TANF caseloads to each of these triggers.

Duration of a State's Eligibility

States are eligible for Contingency Funds if they meet the Unemployment Rate or Food Stamp trigger for only one month (although the trigger is based on a comparison of 3-month averages of unemployment rates or Food Stamp caseloads). Since the State unemployment rate is an estimate based in part on a sample survey, some fluctuations in any monthly employment rates will occur simply because of survey sampling error. One issue is whether a 3-month average is sufficient to smooth such error so that fluctuations represent genuine changes in the state's economic situation.

In other words, does meeting either the unemployment or Food Stamp trigger for only one month mean that a State has increasing welfare needs? Does meeting the 6.5% unemployment rate for a month or two reflect an economic trend or only some fluctuations in the unemployment estimates? Conversely, if a State meets either trigger for a significant number of consecutive months, would that be a better measure of a State experiencing an economic downturn?

In considering whether short term eligibility for Contingency Funds is desirable, one could examine the effect of a change in the qualifying requirements. For example, one option considered might require States to meet either trigger for three consecutive months to be eligible to receive Contingency Funds. Another option might allow a State that has met the trigger(s) for six consecutive months to become eligible to receive Contingency Funds for the entire fiscal year.

Another way to address the duration of need concern is to provide only one month's payment for each eligible month. Currently, the statute defines an eligible month as "a month in the 2-month period that begins with any month for which a State is a needy State." Therefore, a State that is needy in one month is deemed needy in the next month and may receive Contingency Fund payments for two consecutive months. This provision was designed to smooth the transition to recovery for States. An alternative, as noted, is to provide one monthly payment for one month of eligibility for Contingency Funds, thereby reducing the amount of Contingency Funds which a State meeting the trigger for one month will receive (but also reducing the amount the state would need to return to the Federal government in the reconciliation process).

The "Look Back" Trigger Requirement

Another triggering question relates to what might be called the "look back" provision in the unemployment rate trigger: the requirement that the State unemployment rate for a month be at least 110% of the level it was in a corresponding three month period in either of the preceding two years. In other words, a State's unemployment rate must not only be at a high level, but it must also be increasing over past levels. The Food Stamp trigger was designed, in part, to address this issue.

*This seems
pathetic/
inadequate
to me, but
HHS has
had a hard
time doing
anything
coherent.*

experience??

*Says nothing! Previous draft had
mediocre stuff they dropped*

This definition excludes certain States with high welfare needs, namely, those States with consistently high, but level unemployment rates. For example, under the current trigger requirement a State with a 6.0% unemployment rate in one year and an increased rate of 6.6% in the second year would be eligible, while a State with a steady rate of 10% in three consecutive years might not be eligible. Eliminating this provision may allow some States to be eligible that have chronic unemployment problems even during a favorable economic climate.

should it be either? address issue of high/steady rates? those of lower but increasing rates?

Lag in Availability of Trigger Data

There also is a question concerning implementation of the provision given the time lag in compiling and publishing trigger data. Once a State has qualified as a needy State and requested funds, it must expend the Contingency Funds within the fiscal year, as well as expend State funds to meet the Contingency Fund MOE level. For planning purposes, States need to be informed of their eligibility status prior to the end of the fiscal year. Due to the process the Department of Agriculture uses to collect monthly Food Stamp data, the data are not available until 90 to 120 days after the end of the month. For States meeting the triggers late in the fiscal year, there is little, if any, time to expend the Contingency Funds within that year or make expenditure decisions to satisfy Contingency Fund MOE requirements.

For example if a State meets the Food Stamp trigger in August of FY 97, it would not be notified until the start of the next fiscal year. At that point the State would need to offset its previous year's State expenditures with the Contingency Funds for FY 97. A reduction in the State's expenditures for FY 97 would have an impact on the State's ability to meet the Contingency Fund MOE requirements.

One approach to resolving this problem would be to implement a deadline or cutoff date of May 31 for the expenditure of Contingency Funds in a Federal fiscal year. This would delay the required expenditure of Contingency Funds that the State was eligible for in June, July, August, and September until the next Federal Fiscal Year. For example, a State would meet the Food Stamp Trigger in June 1998, but would be eligible for Contingency Funds in October 1998, which is the beginning of FY 1999. Reconciliation of these funds would be at the end of FY 1999, September 30.

Restoring Food Stamps to Immigrants May Affect Trigger

In his FY 99 budget, President Clinton proposed to restore Food Stamps to legal immigrants who were cut off from Federal benefit rolls under PRWORA. This provision is currently being considered by the Congress. Such a provision, if enacted, would require a technical change in the Food Stamp trigger section of the statute, so as not to distort the Food Stamp trigger. The statute calls for comparing the current Food Stamp caseload with the Food Stamp caseload in FY 94 or FY 95, adjusted to remove legal immigrants. If legal immigrants are now returned to the caseload, the caseload will be larger than that of the look-back years. However, this would not reflect a downturn in a State's economic situation, but a change in eligibility. HHS would be prepared to work with the Congress in developing a technical change to PRWORA to address this issue.

This section will likely be deleted.

because OMB is worried it could make trouble in our efforts to restore food stamps.

C. Maintenance-Of-Effort (MOE) and Matching Requirements

The Contingency Fund MOE requirement differs from the TANF MOE requirement in the following ways:

- (1) States must expend 100% of historic State expenditures for FY 1994 to meet the Contingency Fund MOE requirement, whereas States must expend 75% or 80% to meet the TANF MOE requirement.
- (2) As authorized by the PRWORA statute, States may expend their own funds in separate State programs to serve TANF eligible individuals. State expenditures in separate State programs do not count toward the Contingency Fund MOE, while such expenditures do count towards the TANF MOE.
- (3) The Contingency Fund MOE excludes the State's child care expenditures under Title IV-A from the historic base level, while the TANF MOE includes the State's historic child care expenditures.

PRWORA included both the TANF and Contingency Fund MOE requirements in order to ensure that States continued their essential partnership role in support of welfare programs. A higher and more stringent MOE was required for the Contingency Fund so that States would meet key goals of the TANF program, while sharing the burden of increased needs during periods of recession or economic difficulties

There have been a range of concerns raised about the Contingency Fund MOE requirements – both from the perspective that TANF MOE and Contingency Fund MOE should be more consistent from the desire for greater Federal support to States during economic downturns by. Greater consistency in the MOE requirements could ease administrative burdens on the States and potentially make it easier for States to retain Contingency Funds by allowing States to count a broader range of State expenditures toward the Contingency Fund MOE.

Several alternatives could be considered to address these concerns. One approach would be to allow States to count expenditures for both child care and separate State programs toward the Contingency Fund MOE, thereby making the treatment of such expenditures consistent with the TANF MOE requirement. A second alternative would be to allow States to count only the expenditures on separate State programs toward the Contingency Fund MOE. A third possible alternative would be to count only child care expenditures towards the Contingency Fund MOE.

There are advantages and disadvantages to each of these alternatives. Making TANF and Contingency Fund MOE requirements similar, would provide administrative simplicity. However, since expenditures under the AFDC child care programs were excluded from the base as well as from the Contingency Fund MOE level, we assume that an adjustment would be required in the Contingency Fund MOE base level to reflect State child care expenditures made under the AFDC child care programs in 1994. This adjustment would produce a higher historical spending level and consequently a higher MOE requirement, as shown in the table in Appendix E.

Expanding the qualifying expenditures definition for the Contingency Fund MOE to include separate State program expenditures, but not child care expenditures, would not be equitable to all States. Currently, only 16 States are expending TANF funds in separate State programs. It is too early in the implementation of the TANF program to know if this number will increase or decrease. While offering the opportunity for a greater number of States to retain Contingency Funds, this alternative does not simplify

If we have to include this, we should say something about the minuses of separate state programs.

This is where I've had the most problems.

weird word

definitely!

Why should we even discuss these? implications being only #3 is it any?

but why should we treat them more harshly than for TANF MOE?

the Contingency Fund calculation because it does not treat TANF and Contingency Fund MOE requirements in the same manner. Further, it could provide unintended incentives to States to shift more resources from their TANF program to separate State programs. Similar arguments could be made for changing the definition to include child care, but not separate State program expenditures. While this alternative would benefit those States who spend relatively large amounts of their TANF funds on child care, it does not simplify the Contingency Fund calculation since there continue to be differences between the TANF and Contingency Fund MOE requirements.

Any changes to the definition of the Contingency Fund MOE requirements could result in significant increases in Federal costs.

D. Reconciliation Formula

Section 403(b)(6) of PRWORA provides that State expenditures above the Contingency Fund MOE level are to be matched, at the applicable FMAP rate, by Federal Contingency Funds. In the reconciliation procedure, the amount of matching funds a State may retain decreases for those States receiving Contingency Funds for less than 12 months in a fiscal year. The last step in the reconciliation formula reduces the Federal funds payable to the State to 1/12 times the number of months the State received Contingency Funds in the fiscal year (see page 7). Therefore, a State receiving Contingency Funds for only a portion of the year receives a smaller proportion of Federal funds than a State eligible for all twelve months.

For example, State expenditures in excess of the Contingency Fund MOE amount entitled the State to receive \$2 million at the FMAP rate. However, since the State was eligible for only 6 months in the year, the last step in the reconciliation formula reduced the \$2 million by 6/12ths or \$1 million, thereby cutting in half the amount of Federal funds received by the State.

The table below gives additional examples of the application of the reconciliation formula. In this table, the assumption is made that prior to the last step in the process in which the number of months adjustment is made, all States were retaining \$2 million. However, State A received Contingency Funds for 3 months; State B for 6 months; and State C for 12 months. Column three of the table illustrates the effect on funding to States under the current formula. In this example, assuming a State's FMAP rate is 50%, State A's final Federal matching rate is 12.5%, State B's is 25% and State C's remains at 50%.

label columns

	No. of Months	Paid Out If Adjustment Is Eliminated	Paid Out Under Current Adjustment Process	Percentage Reduction
State A	3	\$2,000,000	\$500,000	75%
State B	6	\$2,000,000	\$1,000,000	50%
State C	12	\$2,000,000	\$2,000,000	0%
Total		\$8,000,000	\$3,500,000	

CEA wants "Effective Match Rate" column

Questions have been raised about whether the proportion of Federal funds finally retained by needy States, as determined by this reconciliation formula, is too low compared to the required State Contingency Fund MOE and matching expenditures. An alternative to consider would be the elimination of this final step in the reconciliation process. For States that met the trigger level requirements, this change would convert the Contingency Fund to a matching program for State expenditures in excess of the Contingency Fund MOE. Column two in the table demonstrates the impact on State funds if the reconciliation procedures were revised to eliminate the number of months adjustment. Under this alternative, each State in the example would retain a 50% Federal matching rate regardless of the number of months for which they received Contingency Funds. This alternative raises additional questions about whether the intention of the Contingency Fund is to treat all States 'equally' regardless of whether they met the triggers for 2 months or the entire year.

Do we have an opinion?

Any changes to the reconciliation formula could result in significant increases in Federal costs.

E. Adoption and Safe Families Act of 1997 Provision

States receiving Contingency Funds under provisional payments may have received overpayments, and may have to remit all or part of the funds. The Adoption and Safe Families Act of 1997 amendments to the Contingency Fund increased the State remittance amount in order to provide sufficient funding for this key adoption initiative. The provision increases the remittance amounts of all States drawing from the Contingency Fund. This increase, to be shared proportionally by all States drawing funds in a year, total \$2 million in FY 1998, \$9 million in FY 1999, \$16 million in FY 2000, and \$13 million in FY 2001. One result of this calculation is that the fewer the number of States receiving funds, the higher their proportionate share of the offset, and the more they will have to remit.

This doesn't seem fair given the hardship we are in

One way to address this issue would be to change the remittance formula in a way that spreads out the recovery of funds. For example, the additional remittance amount could be capped at some percentage, say 25% or 30%, of the Contingency Funds to which they would be otherwise entitled. Another alternative would be to look for other sources for this \$40 million offset in order to avoid such consequences for States meeting the triggers.

Can we say this??

Appendices

A - Contingency Fund Program Instruction (PI-97-8)

B - Reconciliation Examples

C - Needy States Exceeding the Food Stamp or Unemployment Trigger Levels in FY 97

D - Minimum and Maximum Payment Amounts

E - Comparison of TANF and Contingency Fund MOE Levels

Appendix A

Appendix B

RECONCILIATION EXAMPLES:

Example 1 for FY 1997

Assume: State A receives \$2.5 million in provisional Federal Contingency Fund payments for six months of eligibility in the year.

Total State expenditures = \$103 million (including \$2.5 million in Federal CF)
minus \$95 million (100% CF MOE level)
= \$8 million
x 50% FMAP rate
= \$4 million
x 1/12 x 6 months
= \$2 million in federal Contingency Funds that the State may retain.

Since the State originally received \$2.5 million, the State must remit \$500,000.

Example 2 for FY 1998

This example uses the same dollar amount assumptions as in the example above for State A. However, it takes into account the additional remittances beginning in FY 98 as required by the Adoption and Safe Families Act of 1997. After the reconciliation procedures shown in Example 1 above are completed, any amount remitted by State A for a fiscal year shall be increased by the lesser of:

EITHER:

- 1) The total adjustment in the Federal appropriation amount for the fiscal year (as mandated in the Adoption and Safe Families Act) multiplied by the adjustment percentage of State A for the fiscal year.

If we assume that only State A received Contingency Funds in the fiscal year, the total adjustment would be \$2 million. This was derived by multiplying \$2 million (the FY 98 appropriation adjustment mandated by the Adoption Act) by the adjustment percentage of 100% (since only one State received funds). The adjustment percentage for each State decreases as the number of States participating increases. If we assume that two States are eligible, and the unadjusted net payment to all States was \$4.5 million, then the adjustment percentage for State A would be only 44% (State A's net payment of \$2 million as shown above, divided by total net payments of \$4.5 million).

OR:

- 2) The unadjusted net payment to the State for the fiscal year.

The unadjusted net payment is equal to the total provisional payments to the State, minus the original remittance amount. In example 1, the provisional payment to State A was \$2.5 million and the original remittance amount was \$500,000. The unadjusted net payment to State A is therefore \$2 million.

In this example, both 1) and 2) equal \$2 million. Therefore, State A would have to remit an additional \$2 million plus the \$500,000 original remittance amount derived in example 1. The State would be ineligible to retain any Contingency Funds and would have to remit the entire provisional payment.

This seems ridiculous

Appendix C

STATES ELIGIBLE FOR ADDITIONAL FUNDING UNDER P.L. 104-193 (CONTINGENCY FUND)												
FOOD STAMP TRIGGER												
	October 1996	Nov. 1996	Dec. 1996	Jan. 1997	Feb. 1997	March 1997	April 1997	May 1997	June 1997	July 1997	August 1997	Sept. 1997
ALABAMA						XX	**					
ALASKA												
ARIZONA												
ARKANSAS												
CALIFORNIA	XX	**	XX	**								
COLORADO												
CONNECTICUT												
DELAWARE												
DISTRICT OF COLUMBIA		XX	XX	XX	XX	XX	**					
FLORIDA												
GEORGIA												
HAWAII	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
IDAHO												
ILLINOIS												
INDIANA												
IOWA												
KANSAS												
KENTUCKY												
LOUISIANA												
MAINE												
MARYLAND												
MASSACHUSETTS												
MICHIGAN												
MINNESOTA												
MISSISSIPPI												
MISSOURI												
MONTANA												
NEBRASKA												
NEVADA												
NEW HAMPSHIRE												
NEW JERSEY												
NEW MEXICO												
NEW YORK			XX	**								
NORTH CAROLINA	XX	XX	**									
NORTH DAKOTA												
OHIO												
OKLAHOMA												
OREGON												
PENNSYLVANIA												
RHODE ISLAND												
SOUTH CAROLINA												
SOUTH DAKOTA												
TENNESSEE												
TEXAS												
UTAH												
VERMONT												
VIRGINIA												
WASHINGTON			XX	XX	XX	XX	**					
WEST VIRGINIA												
WISCONSIN												
WYOMING												
Total	3	4	6	6	3	4	4	1	1	1	1	1
** The State qualified for the previous month but did not qualify for the current month. As defined in 433 (b) (5) an "eligible month" is a month in a two month period that begins with any month for which the State is determined to be a needy State.												
3/6/98												

** The State qualified for the previous month but did not qualify for the current month. As defined in 403 (b) (5) an "eligible month" is a month in a two month period that begins with any month for which the State is determined to be a needy State.

3/6/99

Table C-1

Appendix C

STATES ELIGIBLE FOR ADDITIONAL FUNDING UNDER P.L. 104-193 (CONTINGENCY FUND) UNEMPLOYMENT TRIGGER

	October 1996	Nov. 1996	Dec. 1996	Jan. 1997	Feb. 1997	March 1997	April 1997	May 1997	June 1997	July 1997	August 1997	Sept. 1997
ALABAMA												
ALASKA												
ARIZONA												
ARKANSAS												
CALIFORNIA												
COLORADO												
CONNECTICUT												
DELAWARE												
DISTRICT OF COLUMBIA												
FLORIDA												
GEORGIA												
HAWAII												
IDAHO												
ILLINOIS												
INDIANA												
IOWA												
KANSAS												
KENTUCKY												
LOUISIANA												
MAINE												
MARYLAND												
MASSACHUSETTS												
MICHIGAN												
MINNESOTA												
MISSISSIPPI												
MISSOURI												
MONTANA												
NEBRASKA												
NEVADA												
NEW HAMPSHIRE												
NEW JERSEY												
NEW MEXICO	XX	XX	XX	XX	XX	XX	XX	XX	XX			
NEW YORK												
NORTH CAROLINA												
NORTH DAKOTA												
OHIO												
OKLAHOMA												
OREGON												
PENNSYLVANIA												
RHODE ISLAND												
SOUTH CAROLINA												
SOUTH DAKOTA												
TENNESSEE												
TEXAS												
UTAH												
VERMONT												
VIRGINIA												
WASHINGTON												
WEST VIRGINIA												
WISCONSIN												
NG												

Total 1 1 1 1 1 1 1 1 1 1 1 1

** The State qualified for the previous month but did not qualify for the current month. As defined in 403 (b) (5) an "eligible month" is a month in a two month period that begins with any month for which the State is determined to be a needy State

3/6/98

Table C-2

Appendix D

Table D-1. STATE	ANNUAL SFAG Allocation	Contingency Fund Eligible One Month	Contingency Fund Eligible 12 Months
ALABAMA	93,315,207	1,555,263	18,663,041
ALASKA	63,609,072	1,060,151	12,721,814
ARIZONA	222,419,988	3,707,000	44,483,998
ARKANSAS	56,732,858	945,548	11,346,572
CALIFORNIA	3,733,817,784	62,230,296	748,763,557
COLORADO	135,056,690	2,267,612	27,211,338
CONNECTICUT	266,788,107	4,446,468	53,357,621
DELAWARE	32,290,981	538,183	6,458,196
DISTRICT of COL.	92,609,815	1,543,497	18,521,963
FLORIDA	562,340,120	9,372,335	112,468,024
GEORGIA	330,741,739	5,512,362	66,148,348
HAWAII	98,904,788	1,648,413	19,780,958
IDAHO	31,938,052	532,301	6,387,610
ILLINOIS	585,056,960	9,750,949	117,011,392
INDIANA	206,799,109	3,446,652	41,359,822
IOWA	131,524,959	2,182,083	26,304,992
KANSAS	101,931,061	1,698,851	20,386,212
KENTUCKY	181,287,669	3,021,461	36,257,534
LOUISIANA	163,971,985	2,732,866	32,794,397
MAINE	78,120,889	1,302,016	15,624,178
MARYLAND	229,098,032	3,818,301	45,819,606
MASSACHUSETTS	469,371,116	7,656,185	91,874,223
MICHIGAN	775,352,858	12,922,548	155,070,572
MINNESOTA	267,984,886	4,466,415	53,596,977
MISSISSIPPI	86,767,578	1,446,126	17,353,516
MISSOURI	217,051,740	3,617,529	43,410,348
MONTANA	45,534,006	758,900	9,106,801
NEBRASKA	58,028,579	967,143	11,605,716
NEVADA	43,976,750	732,946	8,795,350
NEW HAMPSHIRE	38,521,261	642,021	7,704,252
NEW JERSEY	404,034,823	6,733,914	80,808,965
NEW MEXICO	126,103,156	2,101,719	25,220,631
NEW YORK	2,442,930,602	40,715,510	488,586,120
N. CAROLINA	302,239,599	5,037,327	60,447,920
NORTH DAKOTA	26,399,809	439,997	5,279,962
OHIO	727,968,260	12,132,804	145,593,652
OKLAHOMA	148,013,558	2,466,893	29,602,712
OREGON	167,924,513	2,798,742	33,584,903
PENNSYLVANIA	719,499,305	11,991,655	143,899,861
RHODE ISLAND	95,021,587	1,583,693	19,004,317
S. CAROLINA	99,967,824	1,666,130	19,993,565
SOUTH DAKOTA	21,893,519	364,892	4,378,704
TENNESSEE	191,523,797	3,192,063	38,304,759
TEXAS	486,258,752	8,104,279	97,251,350
UTAH	76,829,219	1,280,487	15,365,844
VERMONT	47,353,181	789,220	9,470,636
VIRGINIA	158,285,172	2,638,086	31,657,034
WASHINGTON	404,331,754	6,738,863	80,866,351
WEST VIRGINIA	110,176,310	1,836,272	22,035,262
WISCONSIN	318,188,410	5,303,140	63,637,682
WYOMING	21,781,446	363,024	4,356,289
Total	16,488,667,235	274,811,121	3,297,733,447

Needs a
title
or
other
explanation

Table D-1

Appendix D**BIG EIGHT STATES' MINIMUM AND MAXIMUM
CONTINGENCY FUND AMOUNTS**

STATE	Annual SFAG Allocation	Contingency Fund Eligible One Month	Contingency Fund Eligible 12 Months
CALIFORNIA	3,733,817,784	62,230,296	746,763,557
FLORIDA	562,340,120	8,372,335	112,468,024
ILLINOIS	585,058,960	9,750,949	117,011,392
MICHIGAN	775,352,858	12,922,548	155,070,572
NEW YORK	2,442,930,602	40,715,510	488,586,120
OHIO	727,968,260	12,132,804	145,593,652
PENNSYLVANIA	719,499,305	11,991,655	143,899,861
TEXAS	486,256,752	8,104,279	97,251,350
Total	10,033,222,641	167,220,377	2,006,644,528

Table D-2

Appendix E

FY 98 TANF and Contingency Fund MOE LEVELS			
State	TANF MOE	Contingency Fund	DIFFERENCE
	AT 100%(1)	MOE at 100%	
Alabama	52,285,491	45,794,014	6,491,477
Alaska	55,256,536	62,517,375	2,739,161
Arizona	128,703,568	118,576,673	8,126,895
Arkansas	27,785,269	26,458,762	1,326,507
California	3,635,855,463	3,550,262,246	85,593,217
Colorado	110,494,527	102,241,173	8,253,354
Connecticut	244,561,409	229,355,622	15,205,787
Delaware	29,028,092	24,826,042	4,202,050
District of Columbia	93,931,934	90,201,740	3,730,194
Florida	494,558,734	464,904,063	29,654,671
Georgia	231,158,036	210,250,870	20,907,166
Hawaii	97,308,640	94,099,836	3,208,804
Idaho	18,238,307	17,062,488	1,175,819
Illinois	573,450,924	537,998,095	35,452,829
Indiana	151,367,364	139,732,426	11,634,938
Iowa	62,617,695	78,803,237	3,814,458
Kansas	82,332,787	75,659,762	6,673,025
Kentucky	89,891,250	83,039,582	6,851,668
Louisiana	73,886,837	70,041,372	3,845,465
Maine	50,031,924	48,441,897	1,590,027
Maryland	235,953,925	212,907,283	23,046,642
Massachusetts	478,598,697	440,518,485	38,078,212
Michigan	624,691,167	606,470,040	18,221,127
Minnesota	239,660,347	221,459,274	18,201,073
Mississippi	28,965,744	27,873,233	1,092,511
Missouri	160,161,033	146,584,409	13,576,624
Montana	20,954,588	19,743,737	1,210,851
Nebraska	38,172,585	31,673,586	6,498,999
Nevada	33,985,152	31,654,914	2,330,238
New Hampshire	42,820,004	38,506,356	4,313,648
New Jersey	400,213,342	381,329,402	18,883,940
New Mexico	49,794,841	46,899,680	2,895,261
New York	2,291,437,926	2,227,698,956	63,738,970
North Carolina	205,567,684	173,192,185	32,375,499
North Dakota	12,092,381	11,075,345	1,017,036
Ohio	521,108,327	487,533,531	33,574,796
Oklahoma	81,667,075	72,626,048	9,041,027
Oregon	123,006,454	111,855,595	11,150,859
Pennsylvania	542,834,133	505,165,268	37,668,865
Rhode Island	80,489,394	75,588,312	4,901,082
South Carolina	47,902,320	45,544,970	2,357,350
South Dakota	11,699,056	10,967,433	731,623
Tennessee	110,413,171	94,555,158	15,858,013
Texas	314,301,005	283,767,521	30,533,484
Utah	33,720,732	29,376,770	4,343,962
Vermont	34,066,533	31,400,210	2,666,323
Virginia	170,897,560	153,923,221	16,974,339
Washington	362,747,765	331,988,726	30,759,039
West Virginia	43,058,053	40,766,583	2,291,490
Wisconsin	225,638,309	213,889,808	11,748,501
Wyoming	14,220,435	12,746,217	1,474,218
State Total	13,911,582,525	13,189,549,411	722,033,114

Table E

(1) FY 1994 Historic State Expenditures

why?
I hate this
chart. So far
all HHS has
agreed to do
is add footnote.
I wanted to
drop it.

I agree it's not
clear, but it
seems

seems
to illustrate the
2 different
MOE levels.

It is counterintuitive
that 100% is a
lower \$

(because some
things don't
count)

could put in
column in between
for "less child care"
state

**Temporary Assistance for Needy Families
(TANF)**

Report on Status of the Contingency Fund

*2 states
requested??*

I. Introduction

A. Background

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) repealed the open-ended entitlement welfare program, Aid to Families with Dependent Children (AFDC). Congress replaced AFDC with a block grant for Temporary Assistance for Needy Families (TANF) which was funded at a fixed level based on previous program costs. Sections 403(b) and 409(a)(10) of the law established the contingency fund for State welfare programs. Congress established the contingency fund to address a broad-based concern that economic downturns could threaten States' ability to meet increased needs for TANF assistance. The fund was designed to provide additional Federal funding to the States with the greatest need and require States to share in the burden of funding that increased need. Further, Congress included specific provisions in the statute to attain the following goals:

- Only needy States should receive contingency funds.
- States that receive Federal contingency funds should be required to expend State funds at a level comparable to the full level of historic State expenditures in the former AFDC program.
- The Federal funds appropriated for the contingency fund should be adequate to accomplish the purpose of the fund.

Up to \$2 billion in contingency funds were appropriated for fiscal years 1997 through 2001 for any of the 50 States and the District of Columbia that qualify as needy according to the statutory definition. However, the calculation of the amounts to be retained by qualifying States was changed by amendments in the Adoption and Safe Families Act of 1997. Those amendments require that States receiving contingency funds remit increased amounts to the Federal government. The increased remittances total \$40 million over four years.

1. Statutory Requirements

Section 403(b)(8) of the Social Security Act as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 contained a provision that the Secretary of Health and Human Services should annually report to the Congress on the status of the contingency fund. In addition, the Adoption and Safe Families Act of 1997 required the Secretary to make recommendations to Congress for improving the operation of the contingency fund.

sure if possible

2. Scope of this Report

In response to the Congressional directives mentioned above, this report summarizes the status of the contingency fund; provides an analysis of the effectiveness of the fund; and outlines some possibilities for changing the operation of the fund. ? less

During the debate over welfare reform in 1995, Congress recognized that States needed a "rainy day fund" to safeguard against ~~unforeseen~~ economic downturns that would exhaust their fixed block grant. An early version of welfare reform legislation (H.R. 4) passed by the House of Representatives provided additional funds to States in the form of a loan fund. The Senate version of this legislation (as well as the version eventually passed by Congress) included a matching grant Contingency Fund in addition to a loan fund. A

A matching grant program reflected a State-Federal partnership: Congress recognized that a loan fund alone was an inadequate buffer against recessions and would shift the cost burden of a recession entirely to States. However, ~~strict criteria~~ ^{criteria} for accessing the fund were included, such as a high level of required State spending (maintenance of effort), plus a tight definition of what counted toward this requirement. In exchange for the flexibility and increased funding provided by a block grant, Congress ~~believed~~ ^{intended} States would have to maintain high levels of their own spending in order to access additional Federal funds. say 100% based on reality

Later versions of welfare reform legislation in 1996 retained these features of the Contingency Fund and also doubled its funding to \$2 billion. However, one issue that continued to be raised during debate over final passage of PRWORA was whether the size of the Contingency Fund was adequate. PRWORA did contain a provision requiring the Secretary of the Department of Health and Human Services to report annually to Congress on the status of the fund.

In our first Contingency Fund Report to Congress we have focused our analysis on whether the fund achieves its goals by providing a framework for examining key components of the fund. Most of the alternatives evaluated in this report have a range of costs associated with them, so Congress will need to assess the advantages of such changes weighed against the potential costs. The goal of this report was to provide sufficient analysis for the Congress to make such an assessment. say Too early, so want to see?

3. Process for Gathering Information and Developing the Report

In 1997 Staff from DHHS/Administration for Children and Families (ACF) conferred with State TANF agency representatives at numerous meetings and conferences regarding welfare reform. The contingency fund was one of many topics discussed with the States at these meetings. Also, State staff from several of the eight States identified as "needy States" in 1997 contacted ACF regional and central offices to inquire about the amount of contingency funds their State was eligible to receive and about the operation of the fund. Through these communications, ACF gained an understanding of some of the concerns States have about the operation of the contingency fund. In preparing this report ACF also considered views expressed by the National Governors Association, the Center on Budget and Policy Priorities and other interest groups, the Congressional Budget Office, the General Accounting Office and the Office of Management and Budget. ?

CEA?

4. Definition of Terms

Following are definitions of special terms related to the contingency fund as used in this report with relevant statutory references:

eligible month - - A month in the 2-month period that begins with any month for which the State is a needy State. Section 403(b)(5)

child care expenditures - - When referencing historic State expenditures, the term *child care expenditures* means the State and Federal share of child care expenditures in FY 1994 under Title IV-A of the Social Security Act, which includes AFDC/JOBS child care, Transitional child care and At-Risk child care.

historic State expenditures - - The State's share of AFDC benefit payments, AFDC administrative costs, Family Assistance Maintenance Information Systems (FAMIS), Emergency Assistance and JOBS expenditures during certain time periods. Section 409(a)(7)(B)

needy State - - A State is a needy State for a month if it meets either the Unemployment or Food Stamp trigger levels. Section 403(b)(6)

maintenance of effort (MOE) - - A statutorially required level of State spending which is a contingency fund eligibility requirement. In addition to qualifying as a needy State, a State's expenditures (excluding child care expenditures) for the fiscal year must exceed the contingency fund maintenance of effort level which is 100% of a State's historic spending level in 1994. Section 403(b)(4)

provisional payment - - A preliminary Federal contingency fund payment made to a State for an eligible month. Provisional payments are made when a State is notified of its eligibility for a month and then requests a payment. Section 403(b)(3)

reconciliation - - An annual calculation made at the end of the fiscal year to determine how much of the provisional payments a State must remit to the Federal government. Section 403(b)(4)

remittance - - The amount of Federal contingency funds paid to the State that must be returned to the Federal government, as calculated in the annual reconciliation. Section 403(b)(4)

State - - Each of the 50 States of the United States and the District of Columbia. Section 403(b)(7)

trigger - - A statutorially defined level for either the average rate of total unemployment in the State or the average Food Stamp caseload in the State. See Section II of this report for a more detailed definition of the triggers. Section 403(b)(6)

II. ACCESS TO CONTINGENCY FUNDS

The following explains the specific statutory requirements of the contingency fund and the calculation for providing contingency funds to a State. The discussion is arranged in the order in which the steps take place, from determining that a State qualifies as a "needy State" to final calculation of the amount of contingency funds available to a State in a given fiscal year.

TRIGGERS

To receive contingency funds a State must first qualify as a needy State according to statutory definition, for one or more months in a fiscal year. A "needy State" is a State that has met either the Unemployment Trigger or Food Stamp Trigger.

Unemployment Trigger - - the State's average unemployment rate for the most recent 3-month period is at least 6.5 percent and at least equal to 110 percent of the State rate for the corresponding 3-month period in either of the two preceding calendar years.

Food Stamp Trigger - - the State's monthly average of individuals participating in the Food Stamp program (as of the last day of the month) for the most recent 3-month period is at least equal to 110 percent of its monthly average of individuals in the corresponding 3-month period in the Food Stamp caseload for FY 1994 or FY 1995, whichever is less, had the immigrant provisions of Title IV and the food stamp provisions under Title VIII of PRWORA been in effect in those years.

PROVISIONAL PAYMENTS

A State may request contingency funds for any month for which it qualifies. Based on a request for contingency funds, the Secretary of Health and Human Services will provide a provisional payment of contingency funds to a needy State for each qualifying month. This payment is provisional because at the end of the fiscal year an annual reconciliation must be conducted to determine the final amount of contingency funds a State may be permitted to retain for the fiscal year.

The provisional payment amount is independent of the amount spent by the State. Upon the State's request and in accordance with Section 403(b)(3), DHHS will make provisional contingency fund payments to a needy State on a monthly basis. The statute limits the amount of such monthly payments to 1/12 of 20 percent of the State's family assistance grant. In a program instruction issued in October 1997, DHHS established a procedure for notifying States of their eligibility for the contingency fund and a procedure for States to follow to request the funds. See Appendix A.

ELIGIBLE MONTHS

Once a State qualifies as needy and elects to receive contingency funds, the State will receive payment for a ~~minimum~~ period of two consecutive months. Payments are made for a 2-month period because the statute defines an eligible month as "a month in the 2-month period that begins with any month for which the State is a needy State," Section 403(b)(5).

RECONCILIATION PROCESS

In the annual reconciliation process that takes place after the close of the fiscal year, DHHS ensures that the following requirements have been met in order for needy States to retain contingency funds:

1. States must have expended State funds at a level that meets the contingency fund Maintenance-of-Effort (MOE) requirement.
2. State expenditures in excess of the contingency fund MOE may be matched by Federal funds at the current Federal Medical Assistance Percentage (FMAP) rate applicable for the year in which funds are awarded.

In the reconciliation process, DHHS calculates the amount of contingency funds a State may retain or must remit. The annual reconciliation calculation uses the following formula:

(Total FY State expenditures, plus Federal contingency funds expended, minus contingency fund MOE expenditures) x (FMAP rate) x 1/12 x (# of months the State received contingency funds in the FY)

See Appendix B for reconciliation examples.

The Adoption and Safe Families Act of 1997 added a requirement effective in FY 1998. The law increases the repayment amount for all States receiving contingency fund payments. The remittance amounts of all States drawing from the contingency fund are increased by proportional shares totaling \$2 million in FY 1998, \$9 million in FY 1999, \$16 million in FY 2000, and \$13 million in FY 2001.

Where is pb

IV. ANALYSIS OF THE OPERATION OF THE CONTINGENCY FUND

In order to examine the operation of the contingency fund and its adequacy to address potential future needs, several issues need to be considered: Is the operation of the contingency fund too complicated? Is the fund properly targeted to needy States? Are the total appropriated funds sufficient to help all needy States during a future recession? Is the Federal cost-sharing level adequate for States experiencing significant economic downturns? Should the States have more flexibility in what State expenditures qualify as contingency fund maintenance of effort expenditures?

This report provides the framework for examining some of these questions by discussing five key components of the contingency fund:

- Total funding available for the contingency fund;
- How the eligibility triggers target needy States;
- What State expenditures count towards the maintenance of effort requirements;
- Calculations under the reconciliation formula; and,
- Funds adjustments required by the Adoption and Safe Families Act of 1997.

As noted earlier, the status of the fund is difficult to evaluate at this time, because the nation has not been through an economic recession since the creation of the fund and many States are in the process of designing and implementing their Temporary Assistance for Needy Families programs. Further, while several options for change are presented for consideration by the Congress, it is difficult to estimate the costs of any changes given the interactive effects of each element of the contingency fund calculation. This Analysis of the Operation of the Contingency Fund should provide sufficient information to begin the dialogue in the Congress on whether there is a need for change in the contingency fund, the extent of those changes, and the potential costs associated with any changes.

A. Total Funding Available for the Contingency Fund

Appropriated Funds

The PRWORA appropriated \$2 billion for the operation of the contingency fund for FY 1997 through FY 2001. For discussion purposes, the tables in Appendix D provide a range of possible amounts payable to the States under the contingency fund. Table D-1 displays information about all the States, while Table D-2 focuses on the eight States with the largest welfare caseloads.

Current Funding Needs

Currently, the level of need for the contingency fund payments is low. In FY 1997, if all eight States qualifying as needy States requested contingency funds, they could receive a maximum amount of \$431 million. It is highly unlikely that the FY 1997 Federal contingency fund outlays will approach that level because to date only two of the eight States qualifying as needy have requested contingency funds.

The reason for their decision not to request funds probably reflects that the States will not have enough qualifying expenditures to meet the contingency fund MOE. This

may also reflect level of need ???!

or TANF reserves on p 9

and a lot of for add funds

bad word - implies only gd

should be more upfront Intro

current reqs be reduced or strengthened?

states growth + long c-l

circumstance underscores the importance of the MOE requirement as a feature of the contingency fund. While eight States met the trigger in FY 1997, most of them probably did not expend State funds at a rate that would make them eligible to retain contingency funds. Thus, meeting the trigger levels is just the first step a State must go through to qualify for additional funding. Once meeting the trigger levels, a State must also share in the cost of funding the increased need by meeting the statutory MOE requirements.

uneasy drop

Using current economic assumptions the Congressional Budget Office (CBO) and the Administration have estimated that the appropriated level of funding for the contingency fund will be more than adequate. The CBO budget baseline projects contingency fund outlays at \$435 million for FY 1998-2003, while the Administration projects outlays at \$210 million for the same period. Under either projection, Congress has already appropriated sufficient funds. However, it should be noted that these outlay estimates were prepared assuming that the current favorable economic climate would continue. If an unexpected economic downturn should occur, these budget estimates would likely change dramatically.

*OK
CEA?*

However, while overall funding is adequate, the statutory procedure for recovering \$40 million from the contingency fund, as prescribed in the Adoption and Safe Families Act of 1997 will have a direct impact on the amount of funds available to needy States. Subsection D below, which focuses on the reconciliation process, outlines the circumstances under which the Adoption and Safe Families Act provision could make funding unavailable or greatly reduced for needy States.

*why here?
not relevant*

Future Funding Needs

Is the total appropriated funding sufficient to meet the increased welfare needs of States during a recession? One measure of how welfare needs might increase in the future is to look back at the level of State unemployment rates in the recession in 1990 through 1994. Considering how many States had unemployment rates of 6.5% or higher during the previous recession is one measure of what the level of State need might be in a future recession of comparable magnitude.

Unemployment rate data for average three-month periods for 1990 through 1994 shows that unemployment rates were 6.5% or higher in 40% of the State/month periods.¹ (In comparison, in 1997 unemployment rates were 6.5% or higher in only 8% of the State/month periods.) For discussion purposes, if one assumed that all States meeting the trigger during the previous 5-year recession period requested contingency funds the provisional payments to States would be approximately \$9.7 billion.

*ok both
6.5% in 1990
ask*

*Orig assume
1/2, then....*

One possible funding alternative to cover the cost of a future recession was considered by Congress during the welfare reform debate and as recently as last summer. Representative Levin (D-MI) offered an amendment in June 1997 at a Human Resource Subcommittee markup that would have eliminated the \$2 billion appropriations cap. In addition, during the debate over welfare reform in 1996, a Castle-Tanner compromise bill contained a provision allowing States that qualified for contingency funds to receive funds even if the \$2 billion appropriation had been exceeded. The proposal would have allowed States to receive funds in such a circumstance only if there was an unexpected downturn in the national economy (defined as the national unemployment rate reaching 7%).

of course - crazy - + yet no for

¹ Average three-month data is available for each month in the year for every State. The datum for each of these monthly average rates is referred to as a State/month period. There are 612 State month periods in a year, that is, 12 months for each of 51 States.

Any potential change to the contingency fund appropriation should consider the current level of funding available to States under TANF. The contingency fund was designed to provide a reserve of funding to States when their basic TANF funding was insufficient to meet increasing needs. Due to the economic climate and declining caseloads, most States already have some reserves in the form of unobligated TANF funds. These reserves should be taken into account when considering any changes to the contingency fund.

B. Triggers

Targeting Needy States

Are the statutory trigger levels properly targeted to needy States given that the contingency fund was designed to help States that are impacted by a recession or economic downturn? As discussed in Section II of this Report, in order to receive contingency funds a State must first qualify as a needy State for one or more months in a fiscal year. A "needy State" is a State that has met either the Unemployment Trigger or the Food Stamp Trigger. Therefore the triggers need to be evaluated to see if they effectively identify needy States.

This section of the report examines four topics related to operation of the triggers: level of the triggers, the duration of a State's eligibility, the "look back" trigger requirement and the lag in availability of the trigger data.

Level of the Triggers

A consideration in how the triggers work is whether the level of the trigger is set at an appropriate point to identify or mirror changes in the economic cycle. Are the trigger levels good measures of an economic downturn? The current unemployment rate trigger is used in the Unemployment Insurance Extended Benefits program. Thus, it is likely to be a good indication of States experiencing difficulties due to high unemployment. The unemployment rate trigger is likely to be very sensitive to fluctuations in state economic conditions. For example, as mentioned above, an examination of State unemployment rate data from 1990 through 1994 shows that in 40% of the State/month periods State unemployment rates were at least 6.5%. More specifically, out of a total of 3060 State/months (51 States x 12 months x five years), the data shows that there were 1218 State/months in which unemployment rates were 6.5% or higher. This gives an indication of how the current unemployment trigger level might identify needy States in a future recession.

Good enough? more ec analysis

It is noteworthy that in 1997, meeting the Food Stamp trigger levels is what made States qualify for 77% of the needy months. During that year, there were 34 needy months as a result of the Food Stamp trigger and 10 needy months as a result of the unemployment rate trigger. It seems that during periods when the national economy is strong, it is more likely that States will qualify for contingency funds on the basis of the Food Stamp caseload trigger, rather than the unemployment rate trigger.

why? CEA

anything to suggest

Duration of a State's Eligibility

States are eligible for contingency funding if they meet the Unemployment Rate or Food Stamp trigger for only one month (although the trigger is based on a comparison of 3-month averages of unemployment rates or Food Stamp caseloads). Since the State unemployment rate is an estimate based in part on a sample survey, some fluctuations in any month will occur simply because of survey sampling error. One issue is whether a 3-month average is sufficient to smooth such error so that fluctuations represent genuine changes in the state's economic situation.

In other words, does meeting either the unemployment or Food Stamp trigger for only one month mean that a State has increasing welfare needs? Does meeting the 6.5% unemployment rate for a month or two reflect an economic trend or only some fluctuations

*it's too easy?
Are these states really suffering?*

and is 1 month need an adequately big need

CEA? true?

*look sep. ly
at food stamps*

in the unemployment estimates and samples? Conversely, if a State meets either trigger for a significant number of consecutive months, would that be a better measure of a State experiencing an economic downturn? *yes but all true*

If Congress should decide to reconsider whether short term eligibility for contingency funds is desirable, one alternative to be examined would be a change in the qualifying requirements. For example, the option might allow States to meet either trigger for three consecutive months to be eligible to receive contingency funds. Another option would be to allow a State that has met the trigger(s) for six consecutive months to become eligible to receive contingency funds for the entire fiscal year. ✓

Another way to address the duration of need concern is to provide only one month's payment for each eligible month. Currently, the statute defines an eligible month as "a month in the 2-month period that begins with any month for which a State is a needy State." Therefore, a State that is needy in one month is deemed needy in the next month and may receive contingency fund payments for two consecutive months. According to the conference report of H.R. 3734 (the final welfare reform bill signed by the President), this provision was designed to smooth the transition to recovery for States. An alternative, as noted, is to provide one monthly payment for one month of eligibility for contingency funds, thereby reducing the amount of contingency funds which a State meeting the trigger for one month will receive (but also reducing the amount the state would need to return to the Federal government in the reconciliation process). ✓

The "Look Back" Trigger Requirement

Another triggering question relates to what might be called the "look back" provision in the unemployment rate trigger: the requirement that the State unemployment rate for a month be at least 110% of the level it was in a corresponding three month period in either of the preceding two years. In other words, a State's unemployment rate must not only be at a high level, but it must also be increasing over past levels.

This definition excludes certain States with high welfare needs, namely, those States with consistently high, but level unemployment rates. For example, under the current trigger requirement a State with a 6.0% unemployment rate in one year and an increased rate of 6.6% in the second year would be eligible, while a State with a steady rate of 10% in three consecutive years could not be eligible.

However, eliminating this provision may allow some States to be eligible that have chronic unemployment problems even during a favorable economic climate. It is not clear whether the Contingency Fund was designed to help States in these circumstances. } ✓

Lag in Availability of Trigger Data

There also is a question concerning implementation of the provision given the time lag in compiling and publishing trigger data. Once a State has qualified as a needy State and requested funds, it must expend the contingency funds within the fiscal year, as well as expend State funds to meet the contingency fund MOE level. For planning purposes, States need to be informed of their eligibility status prior to the end of the fiscal year. Due to the process the Department of Agriculture uses to collect monthly Food Stamp data, the data are not available until 90 to 120 days after the end of the month. For States meeting the triggers late in the fiscal year, there is little, if any, time to expend the contingency funds within that year or make expenditure decisions to satisfy contingency fund MOE requirements.

One approach to resolving this problem would be to implement a deadline or cutoff date of May 31 for the expenditure of contingency funds in a Federal fiscal year. This would delay the required expenditure of contingency funds that the State was eligible for in June, July, August, and September until the next Federal Fiscal Year. For example, a State would meet the Food Stamp Trigger in June 1998, but would be eligible for contingency funds in October 1998, which is the beginning of FY 1999. Reconciliation of these funds would be at the end of FY 1999, September 30. ✓

Restoring Food Stamps to Immigrants May Effect Trigger

As this report was being written, Congress was set to debate legislation that would restore Food Stamps to 250,000 legal immigrants who were cut from federal benefit rolls under PRWORA. The immigrant provisions were part of a measure (S1150) to reauthorize federal agriculture research programs. If such provisions are enacted, Congress should consider the impact on the definition of the Food Stamp trigger in the contingency fund. The trigger in effect now requires a calculation of the Food Stamps caseload without including the ineligible legal immigrants in the count. If Congress acts to restore eligibility to these immigrants, a decision should be made about whether to redefine the Food Stamp trigger to include these individuals in the calculation.

- say clearer - states will hv no trigger elig not for ec reason

C. Maintenance-Of-Effort (MOE) and Matching Requirements

The contingency fund MOE requirement differs from the TANF MOE requirement in the following ways:

- (1) The contingency fund MOE level is 100% of historic State expenditures for FY 1994, whereas the TANF MOE is either 75% or 80% .
- (2) As authorized by the PRWORA statute, States may expend their own funds in separate State programs to serve TANF eligible individuals. State expenditures in separate State programs cannot count toward the contingency fund MOE, while such expenditures do count towards the TANF MOE.
- (3) The contingency fund MOE excludes the State's child care expenditures under Title IV-A from the historic base level, while the TANF MOE includes the State's historic child care expenditures.

why

As noted earlier, the definition of the contingency fund MOE as 100% of historic State expenditures and as excluding State spending outside the TANF program was incorporated in early versions of welfare reform legislation. Congress included these provisions due to a belief that additional Federal assistance would be provided only if States share the burden of paying for increased welfare needs during a recession. In addition, both requirements were designed as an incentive for States to maintain their historic funding levels on welfare programs. ✓

Some States have suggested that making the definition of qualifying expenditures for the contingency fund MOE consistent with that of the TANF MOE ~~would improve their flexibility~~ to define and operate separate State TANF programs. ~~These States would like to see~~ the definition of qualifying expenditures for the contingency fund changed to be more consistent with the TANF MOE definition. Following are three alternatives to consider.

increase their ability to

Why?

Say prob w/SSP!

One approach would be to allow States to count expenditures for both child care and separate State programs toward the contingency fund MOE, thereby making the treatment of such expenditures consistent with the TANF MOE requirement. If the TANF and contingency fund MOE requirements were defined similarly, operation of the fund would be greatly simplified. However, our analysis shows that if the MOE provision counted both child care and separate State program expenditures towards the 100% MOE level, the change would create a higher MOE level for the States. Since expenditures under the AFDC child care programs were excluded from the base as well as from the contingency fund MOE level, we assume that an adjustment is required in the contingency fund MOE base level to reflect State child care expenditures made under the AFDC child care programs in 1994. This adjustment produces a higher historical spending level and consequently a higher MOE requirement, as shown in the table in **Appendix E**.

so what

Say a minor: SSP

A second alternative would be to allow States to count only the expenditures on separate State programs toward the MOE. Expanding the qualifying expenditures definition for the contingency fund MOE to include separate State program expenditures, but not child care expenditures, would not be equitable to all States. Currently, only 16 States are expending TANF funds in separate State programs. It is too early in the implementation of the TANF program to know if this number will increase. While offering the opportunity for a greater number of States to qualify for contingency funds, this alternative does not simplify the contingency fund calculation because it does not treat TANF and contingency fund MOE requirements in the same manner. Further, it could provide unintended incentives to States to shift more resources to separate State programs.

True?

The third alternative is to count only the child care expenditures towards the MOE. In exploring this alternative of counting child care expenditures (but not separate State program expenditures) we found that, in general, States spending more on child care than in FY 1994 would have an easier time meeting the higher MOE. However, for those States which are expending at a lower level than in FY 1994, meeting the higher MOE could prove more difficult. In short, while instituting this change would not benefit all States equitably, it would benefit those States who spend relatively large amounts of their TANF funds on child care. As in the second option, this alternative does not simplify the contingency fund calculation since there continue to be differences between the TANF and contingency fund MOE requirements.

surprise

drop why not

no depends on what you think is equitable

It should be noted that any changes to the definition of the MOE would likely increase costs significantly. As noted previously, while 8 States met one trigger for FY 1997, only 2 States have requested such funds in all likelihood because of the MOE requirements.

D. Reconciliation Formula

No: need and avail of TANF
Maybe shows MOE is good (or trigger too high)

Section 403(b)(6) of PRWORA provides that State expenditures above the contingency fund MOE level are to be matched, at the applicable FMAP rate, by Federal contingency funds. In the reconciliation procedure, the amount of matching funds a State may retain decreases for those States receiving contingency funds for less than 12 months in a fiscal year. The last step in the reconciliation formula reduces the Federal funds payable to the State by 1/12 times the number of months the State received contingency funds in the fiscal year (see page 3). Therefore, a State receiving contingency funds for only a portion of the year receives a smaller proportion of Federal funds than a State eligible for all twelve months. For example, in the reconciliation Example 1 in **Appendix B**, the State expenditures in excess of the MOE amount entitled the State to receive \$4 million at the

FMAP rate. However, since the State was eligible for only 6 months in the year, the last step in the reconciliation reduced the \$4 million by 6/12ths or \$2 million, thereby cutting in half the amount of Federal funds received by the State.

During the debate over H.R. 3734, the American Public Welfare Association, the National Governors Association and the Clinton Administration voiced concerns that this provision effectively penalizes States that access the fund for less than a full fiscal year. The concern expressed most frequently by State TANF agency representatives is that the proportion of Federal funds available to needy States is too low compared to the required State MOE and matching expenditures. States understand that the TANF contingency fund is different from the Aid to Families with Dependent Children (AFDC) program where the basic match rate was 50/50. However, they are concerned that the very economic conditions that compelled the State to draw down contingency funds would make it difficult to fund the increased costs in the TANF program. ? ONE ?

Some States have suggested that the final step in the reconciliation process should be eliminated. For States that met the trigger level requirements, this change would convert the contingency fund to a matching program for State expenditures in excess of the contingency fund MOE. As shown in the table below, if the reconciliation procedures were revised to eliminate the number of months adjustment States could access more contingency funds.

For example: Assume that prior to the number of months adjustment, all States were retaining \$2,000,000. However, State A received contingency funds for 3 months; State B for 6 months; and State C for 12 months.

	No. of Months	Paid Out If Adjustment is Eliminated	Paid Out Under Current Adjustment Process	Percentage Reduction
State A	3	\$2,000,000	\$500,000	75%
State B	6	\$2,000,000	\$1,000,000	50%
State C	12	\$2,000,000	\$2,000,000	0%
Total		\$6,000,000	\$3,500,000	

E. Adoption and Safe Families Act of 1997 Provision

States receiving contingency funds under provisional payments may have received overpayments, and may have to remit all or part of the funds. The Adoption and Safe Families Act of 1997 amends to the contingency fund increase the State remittance amount. The provision increases the remittance amounts of all States drawing from the contingency fund. This increase, to be shared proportionally by all States drawing funds in a year, total \$2 million in FY 1998, \$9 million in FY 1999, \$16 million in FY 2000, and \$13 million in FY 2001. One result of this type of calculation is that the

fewer the number of States receiving funds, the higher their proportionate share of the offset, and the more they will have to remit.

One way to address this issue would be to change the remittance formula in a way that spreads out the recovery of funds. For example, the additional remittance amount could be capped at some percentage, say 25% or 30%, of the contingency funds to which they would be otherwise entitled.

or to any 1 state?

Appendices

A - Contingency Fund Program Instruction (PI-97-8)

B - Reconciliation Examples

C - Needy States Exceeding the Food Stamp or Unemployment Trigger Levels in FY 97

D - Minimum and Maximum Payment Amounts

E - Comparison of TANF and Contingency Fund MOE Levels

Appendix A

PI not included in
this fax

Appendix B

RECONCILIATION EXAMPLES:

Example 1 for FY 1997

Assume: State A receives \$2.5 million in provisional Federal contingency fund payments for six months of eligibility in the year.

Total State expenditures = \$103 million (including \$2.5 million in Federal CF)
minus \$95 million (100% CF MOE level)
= \$8 million
x 50% FMAP rate
= \$4 million
x 1/12 x 6 months
= \$2 million in federal contingency funds that the State may retain.

Since the State originally received \$2.5 million, the State must remit \$500,000.

Example 2 for FY 1998

Here is an example using the same dollar amount assumptions as in the example above for State A. Beginning in FY 1998 there are additional remittances required by the Adoption and Safe Families Act of 1997. After the reconciliation procedures as shown in Example 1 above are completed, any amount remitted by a State for a fiscal year shall be increased by the lesser of,

EITHER:

- 1) The total adjustment in the Federal appropriation amount for the fiscal year multiplied by the adjustment percentage for the State for the fiscal year.

1998 Example: Assuming that only 1 State received contingency funds in the fiscal year.

Total adjustment: \$2,000,000 x adjustment percentage of 100%
Equal to: \$2,000,000

Adjustment Percentage is equal to the unadjusted net payment to State divided by the sum of the unadjusted net payments to all States.

\$2,000,000 divided by \$2,000,000 (one State only) equals an adjustment percentage of 100%

We should also note that the adjustment percentage for each State decreases as the number of eligible States increase. For example if two States were eligible and the unadjusted net payment to all States were \$4.5 million:

\$2,000,000 divided by \$4,500,000 (unadjusted net payments to two States) equals an adjustment percentage of 44%

OR:

Appendix B

2) The unadjusted net payment to the State for the fiscal year.

Unadjusted net payment is equal to the total amount paid to the State minus the original remittance amount as per the annual reconciliation

Example: State A: \$2,500,000 - \$500,000 = \$2,000,000

ANALYSIS OF EXAMPLE 2

In this example of the FY 1998 reconciliation procedure, State A was the only State receiving contingency fund payments for the fiscal year. If State A had to remit \$500,000, that amount would be increased by the lesser of (1) FY 1998 offset share of \$2 million, or (2) the unadjusted net payment amount, or the contingency fund award less the original remittance amount. In this case, both amounts are equal to \$2 million. Therefore, the original remittance amount of \$500,000 would be increased by an additional \$2 million, which totals \$2.5 million. In this example the State only received \$2.5 million in contingency funds. Therefore, the impact of the additional remittance required by the Adoption Assistance amendment is to make State A ineligible for any Federal contingency funds.

Appendix C

STATES ELIGIBLE FOR ADDITIONAL FUNDING UNDER P.L. 104-193 (CONTINGENCY FUND)												
FOOD STAMP TRIGGER												
	October 1996	Nov. 1996	Dec. 1996	Jan. 1997	Feb. 1997	March 1997	April 1997	May 1997	June 1997	July 1997	August 1997	Sept. 1997
ALABAMA												
ALASKA						XX	**					
ARIZONA												
ARKANSAS												
CALIFORNIA	XX	**	XX	**								
COLORADO												
CONNECTICUT												
DELAWARE												
DISTRICT OF COLUMBIA		XX	XX	XX	XX	XX	**					
FLORIDA												
GEORGIA												
HAWAII	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
IDAHO												
ILLINOIS												
INDIANA												
IOWA												
KANSAS												
KENTUCKY												
LOUISIANA												
MAINE												
MARYLAND												
MASSACHUSETTS												
MICHIGAN												
MINNESOTA												
MISSISSIPPI												
MISSOURI												
MONTANA												
NEBRASKA												
NEVADA												
NEW HAMPSHIRE												
NEW JERSEY												
NEW MEXICO												
NEW YORK			XX	**								
NORTH CAROLINA	XX	XX	**									
NORTH DAKOTA												
OHIO												
OKLAHOMA												
OREGON												
PENNSYLVANIA												
RHODE ISLAND												
SOUTH CAROLINA												
SOUTH DAKOTA												
TENNESSEE												
TEXAS												
UTAH												
VERMONT												
VIRGINIA												
WASHINGTON			XX	XX	XX	XX	**					
WEST VIRGINIA												
WISCONSIN												
WYOMING												
Total	3	4	6	5	3	4	4	1	1	1	1	1

** The State qualified for the previous month but did not qualify for the current month. As defined in 403 (b) (5) an "eligible month" is a month in a two month period that begins with any month for which the State is determined to be a needy State.

3/5/98

Table C-1

Appendix C

STATES ELIGIBLE FOR ADDITIONAL FUNDING UNDER P.L. 104-193 (CONTINGENCY FUND)

UNEMPLOYMENT TRIGGER

	October 1996	Nov. 1996	Dec. 1996	Jan. 1997	Feb. 1997	March 1997	April 1997	May 1997	June 1997	July 1997	August 1997	Sept. 1997
ALABAMA												
ALASKA												
ARIZONA												
ARKANSAS												
CALIFORNIA												
COLORADO												
CONNECTICUT												
DELAWARE												
DISTRICT OF COLUMBIA												
FLORIDA												
GEORGIA												
HAWAII												
IDAHO												
ILLINOIS												
INDIANA												
IOWA												
KANSAS												
KENTUCKY												
LOUISIANA												
MAINE												
MARYLAND												
MASSACHUSETTS												
MICHIGAN												
MINNESOTA												
MISSISSIPPI												
MISSOURI												
MONTANA												
NEBRASKA												
NEVADA												
NEW HAMPSHIRE												
NEW JERSEY												
NEW MEXICO	XX	XX	XX	XX	XX	XX	XX	XX	XX			
NEW YORK												
NORTH CAROLINA												
NORTH DAKOTA												
OHIO												
OKLAHOMA												
OREGON												
PENNSYLVANIA												
RHODE ISLAND												
SOUTH CAROLINA												
SOUTH DAKOTA												
TENNESSEE												
TEXAS												
UTAH												
VERMONT												
VIRGINIA												
WASHINGTON												
WEST VIRGINIA												
WISCONSIN												
NG												
Total	1	1	1	1	1	1	1	1	1	1		

** The State qualified for the previous month but did not qualify for the current month. As defined in 403 (b) (5) an "eligible month" is a month in a two month period that begins with any month for which the State is determined to be a needy State.

3/6/98

Table C-2

Appendix D

Table D-1 STATE	SFAG From Allocation Table	Contingency Fund Eligible One Month	Contingency Fund Eligible 12 Months
ALABAMA	93,315,207	1,555,253	18,663,041
ALASKA	63,609,072	1,060,151	12,721,814
ARIZONA	222,419,988	3,707,000	44,483,998
ARKANSAS	56,732,858	945,548	11,346,572
CALIFORNIA	3,733,817,784	62,230,296	746,763,557
COLORADO	136,056,690	2,267,612	27,211,338
CONNECTICUT	266,788,107	4,446,468	53,357,621
DELAWARE	32,290,981	538,183	6,458,196
DISTRICT of COL.	92,609,815	1,543,497	18,521,963
FLORIDA	562,340,120	9,372,335	112,468,024
GEORGIA	330,741,739	5,512,362	68,148,348
HAWAII	98,904,788	1,648,413	19,780,958
IDAHO	31,938,052	532,301	6,387,610
ILLINOIS	585,056,960	9,750,949	117,011,392
INDIANA	206,799,109	3,446,652	41,359,822
IOWA	131,524,959	2,192,083	26,304,992
KANSAS	101,931,061	1,698,851	20,386,212
KENTUCKY	181,287,669	3,021,461	36,257,534
LOUISIANA	163,971,985	2,732,866	32,794,397
MAINE	78,120,889	1,302,015	15,624,178
MARYLAND	229,098,032	3,818,301	45,819,606
MASSACHUSETTS	459,371,116	7,656,185	91,874,223
MICHIGAN	775,352,858	12,922,548	155,070,572
MINNESOTA	267,984,886	4,466,415	53,596,977
MISSISSIPPI	86,767,578	1,446,126	17,353,516
MISSOURI	217,051,740	3,617,529	43,410,348
MONTANA	45,534,006	758,900	9,106,801
NEBRASKA	58,028,579	967,143	11,605,716
NEVADA	43,976,750	732,946	8,795,350
NEW HAMPSHIRE	38,521,261	642,021	7,704,252
NEW JERSEY	404,034,823	6,733,914	80,806,965
NEW MEXICO	126,103,156	2,101,719	25,220,631
NEW YORK	2,442,930,602	40,715,510	488,586,120
N. CAROLINA	302,239,599	5,037,327	60,447,920
NORTH DAKOTA	26,399,809	439,997	5,279,962
OHIO	727,968,260	12,132,804	145,593,652
OKLAHOMA	148,013,558	2,466,893	29,602,712
OREGON	167,924,513	2,798,742	33,584,903
PENNSYLVANIA	719,499,305	11,991,655	143,899,861
RHODE ISLAND	95,021,587	1,583,693	19,004,317
S. CAROLINA	99,967,824	1,666,130	19,993,566
SOUTH DAKOTA	21,893,519	364,892	4,378,704
TENNESSEE	191,523,797	3,192,063	38,304,759
TEXAS	486,256,752	8,104,279	97,251,350
UTAH	76,829,219	1,280,487	15,365,844
VERMONT	47,353,181	789,220	9,470,636
VIRGINIA	158,285,172	2,638,086	31,657,034
WASHINGTON	404,331,754	6,738,863	80,866,351
WEST VIRGINIA	110,176,310	1,836,272	22,035,262
WISCONSIN	318,188,410	5,303,140	63,637,682
WYOMING	21,781,446	363,024	4,356,289
Total	16,488,667,235	274,811,121	3,297,733,447

Table D-1

?

What
does
this
mean?

Appendix D

STATE	SFAG From Allocation Table	Contingency Fund Eligible One Month	Contingency Fund Eligible 12 Months
CALIFORNIA	3,733,817,784	62,230,296	746,763,557
FLORIDA	562,340,120	9,372,335	112,468,024
ILLINOIS	585,056,960	9,750,949	117,011,392
MICHIGAN	775,352,858	12,922,548	155,070,572
NEW YORK	2,442,930,602	40,715,510	488,586,120
OHIO	727,968,260	12,132,804	145,593,652
PENNSYLVANIA	719,499,305	11,991,655	143,899,861
TEXAS	486,256,752	8,104,279	97,251,350
Total	10,033,222,641	167,220,377	2,006,644,528

Table D-2

Appendix E

FISCAL YEAR 1998 TANF and Contingency Fund MOE LEVELS			
State	TANF MOE AT 100%	Contingency Fund MOE at 100%	DIFFERENCE
Alabama	52,285,491	45,794,014	6,491,477
Alaska	65,266,536	62,517,375	2,739,161
Arizona	126,703,568	118,576,673	8,126,895
Arkansas	27,785,269	26,458,762	1,326,507
California	3,635,855,463	3,550,262,246	85,593,217
Colorado	110,494,527	102,241,173	8,253,354
Connecticut	244,561,409	229,355,622	15,205,787
Delaware	29,028,092	24,826,042	4,202,050
District of Columbia	93,931,934	90,201,740	3,730,194
Florida	494,558,734	464,904,063	29,654,671
Georgia	231,158,036	210,250,870	20,907,166
Hawaii	97,308,640	94,099,836	3,208,804
Idaho	18,238,307	17,062,488	1,175,819
Illinois	573,450,924	537,998,095	35,452,829
Indiana	151,367,364	139,732,426	11,634,938
Iowa	82,617,695	78,803,237	3,814,458
Kansas	82,332,787	75,659,762	6,673,025
Kentucky	89,891,250	83,039,582	6,851,668
Louisiana	73,886,837	70,041,372	3,845,465
Maine	50,031,924	48,441,897	1,590,027
Maryland	235,953,925	212,907,283	23,046,642
Massachusetts	478,596,697	440,518,485	38,078,212
Michigan	624,691,167	606,470,040	18,221,127
Minnesota	239,860,347	221,459,274	18,201,073
Mississippi	28,965,744	27,873,233	1,092,511
Missouri	150,161,033	146,584,409	13,576,624
Montana	20,954,588	19,743,737	1,210,851
Nebraska	38,172,585	31,673,586	6,498,999
Nevada	33,985,152	31,654,914	2,330,238
New Hampshire	42,820,004	38,506,356	4,313,648
New Jersey	400,213,342	381,329,402	18,883,940
New Mexico	49,794,841	46,899,580	2,895,261
New York	2,291,437,926	2,227,698,956	63,738,970
North Carolina	205,567,664	173,182,185	32,375,499
North Dakota	12,092,381	11,075,345	1,017,036
Ohio	521,108,327	487,533,531	33,574,796
Oklahoma	81,667,075	72,626,048	9,041,027
Oregon	123,006,454	111,855,595	11,150,859
Pennsylvania	542,834,133	505,165,268	37,668,865
Rhode Island	80,489,394	75,568,312	4,901,082
South Carolina	47,902,320	45,544,970	2,357,350
South Dakota	11,699,056	10,967,433	731,623
Tennessee	110,413,171	94,555,158	15,858,013
Texas	314,301,005	283,767,521	30,533,484
Utah	33,720,732	29,376,770	4,343,962
Vermont	34,066,533	31,400,210	2,666,323
Virginia	170,897,560	153,923,221	16,974,339
Washington	352,747,765	331,988,726	30,759,039
West Virginia	43,058,053	40,766,563	2,291,490
Wisconsin	225,638,309	213,889,808	11,748,501
Wyoming	14,220,435	12,746,217	1,474,218
State Total	13,911,592,525	13,169,549,411	722,033,114

Table E

Drop

III. ELIGIBILITY STATUS OF STATES IN FY 1997

In FY 1997, eight States met either the Unemployment or Food Stamp triggers for at least one month in the year. The eligible States are:

Alaska
California
District of Columbia
Hawaii
New Mexico
New York
North Carolina
Washington

Appendix C contains tables showing which months these States met the Unemployment and/or Food Stamp Triggers. It is notable that in 1997 seven of the eight States met the Food Stamp trigger while only New Mexico met the unemployment trigger. In order to qualify for Contingency Funds, these States must meet the MOE requirement.

In October 1997, DHHS issued a Program Instruction (PI), TANF-ACF-PI-97-8, to provide guidance to States on eligibility requirements and application procedures for Contingency Fund.

Appendix A contains a copy of the PI. (The PI also describes the TANF grant add-on funds which are similar to Contingency Funds and which were available only for periods in FY 1997 before a State's implementation of the TANF program. See pages 9 and 10 of Appendix A.)

The PI advised States that they would be informed by letter about any months in which they qualified as a needy State for Contingency Funds. DHHS will notify any State qualifying as needy on the basis of meeting either the Unemployment or Food Stamps trigger. The first such letters to the Governors were mailed in early March 1998. States had 15 days from receipt of those letters to request Contingency Funds. Only two States, North Carolina and New Mexico, have formally requested Contingency Funds. North Carolina will receive provisional payments for three months totaling \$15.1 million. New Mexico will receive \$18.9 million of State Family Assistance Grant add-on funds for 9 months of eligibility prior to their TANF program implementation date and \$2.1 million of Contingency Funds for one month after their TANF program began. (See pages 7 and 8 of **Appendix A** for an explanation of how States can be eligible for add-on funds prior to their TANF implementation date.)

No MOE @ now?