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**DO PROPOSALS TO INCREASE FUNDING FOR NATIONAL EMERGENCY
GRANTS PROVIDE AN EFFECTIVE WAY TO MEET THE HEALTH INSURANCE
AND OTHER NEEDS OF LAID-OFF WORKERS?**

by Sandra Clark

Ensuring health insurance and other support for laid-off workers is an essential piece of any economic stimulus package. The Administration has proposed that \$3 billion be provided in National Emergency Grants for health insurance, income support, and job search assistance and training for unemployed workers. The stimulus package developed by the Centrist Coalition in the Senate includes \$5 billion for similar purposes.

These proposals stand in sharp contrast to other approaches to addressing these needs and fall short in two important ways. First, the funding levels under the both President's and the Centrist Coalition's plans are too low and will result in these funds being able to assist only a small fraction of unemployed workers (see box on next page). Second, even if the funding level were substantially increased, the National Emergency Grants program does not appear to provide an appropriate structure to accomplish these purposes. Both the Administration and Centrist Coalition proposals are short on details and leave unanswered a number of important questions concerning how these funds would be administered. It appears unlikely, however, that channeling these funds into the National Emergency Grants program would be an effective or expeditious way to meet the needs of unemployed workers.

Background on the National Emergency Grant Program

Under the Workforce Investment Act, 20 percent of the annual appropriation for the Labor Department's dislocated worker program currently is set aside to fund National Emergency Grants (NEG), pilot and demonstration projects, and technical assistance. The largest share of these reserve funds is earmarked for National Emergency Grants. For Program Year 2000, which covered the period from July 1, 2000 through June 30, 2001, National Emergency Grants received roughly \$220 million.

National Emergency Grant funds are available to help states respond to major, unexpected dislocation events, such as mass layoffs, plant closures, natural disasters, and dislocations resulting from federal actions such as defense downsizing. To receive a grant, a state must apply to the Secretary of Labor and demonstrate that the state's existing federal dislocated worker funds, which are allocated to all states by formula, are insufficient to meet the unexpected need for assistance. Grants are administered by local Workforce Investment Boards and currently may be used for job training, reemployment services, income support, and supportive services.

The Administration has proposed increasing funding for National Emergency Grants by \$3 billion and allowing these funds to be used for three purposes: (1) to pay up to 75 percent of health care premiums under COBRA for up to ten months for laid-off workers; (2) to provide additional weeks of income assistance for individuals enrolled in job training who exhaust their unemployment benefits or are ineligible for unemployment benefits but have a sufficient attachment to employment; and (3) to provide job search assistance and training.

The package developed by the Senate Centrist Coalition includes \$5 billion for income supplements, job training, and health coverage. The Centrist Coalition plan includes a separate provision to provide a refundable tax credit of up to 50 percent of health insurance premiums for COBRA-eligible workers. It appears that the funding increase for health insurance under the National Emergency Grants may be intended for use to offset all or a portion of the remaining health insurance costs for some COBRA-eligible workers with low incomes and to provide assistance to some workers who are not eligible for coverage under COBRA.

While details of both plans are lacking, it appears unlikely that the approach of channeling additional funds through the National Emergency Grants would adequately meet the health insurance and other needs of affected workers on a timely basis.

- **Since National Emergency Grant funds are not distributed on a formula basis, a number of states might not receive any grant funds, while other states could receive disproportionately small amounts.** The distribution of funds apparently would be determined in large part by the timing of states' applications. Presumably, funds would be distributed on a first-come, first-serve basis. As a result, states experiencing economic hardship later in the downturn

Funding Levels in the Administration and Centrist Coalition Plans are Insufficient to Meet the Stated Purposes

The economic stimulus packages proposed by the Administration and the Centrist Coalition include increased funding for National Emergency Grants to address health insurance, income support, and job training needs of laid-off workers. The Administration's plan provides \$3 billion for these purposes, while the Centrist Coalition provides \$5 billion. These amounts are not adequate to address the full range of purposes for which they are provided.

For health insurance alone, the increase falls well short of what is needed to cover affected workers. Yet the funds would be intended to address a range of other *non*-health insurance needs in addition to providing health care coverage. The estimated cost of paying 75 percent of the health insurance premiums of workers covered under COBRA is roughly \$7 billion, and that figure does not reflect the cost of assisting several million laid-off workers who do not qualify for COBRA coverage, including many low-income unemployed workers. In addition, there is a need for employment and training services to help laid-off workers quickly reenter the workforce. Under the Administration and Centrist Coalition plans, which provide limited unemployment benefit improvements, there also would be a need to supplement the incomes of unemployed workers

could receive less than states applying earlier. Funds could be exhausted before some states apply. As a result, the funds may be inequitably and arbitrarily distributed across states in a way that fails to reflect need.

- **State policies for requesting and distributing these funds vary, resulting in a long process in some states.** In some states, the legislature must either approve the initial application for a National Emergency Grant and/or appropriate the grant funds once the state receives them. According to a summary of state budget laws by the National Association of Budget Officers, more than one third of the states do not allow the Governor to spend unanticipated federal funds without the approval of the state legislature. These state laws consequently may slow down the application process or impede how quickly the funds can be used to provide needed services. Moreover, if some states must wait for their legislatures to act before receiving funds, this could contribute to the inequitable distribution of funds described above. This approach also runs counter to the underlying goals of an economic stimulus package, which should be to provide funds that will be spent quickly and to provide expeditious relief to workers who need it. By the time the National Emergency Grant funds actually are spent in some states, the relief may be too late and the recession may be over.
- **Expanding the scope of the National Emergency Grants to include health insurance could pose major administrative challenges and take a long time to implement.** The Administration's plan expands the scope of the National Emergency Grants to pay up to 75 percent of the cost of health insurance premiums for workers covered under COBRA. The Centrist Coalition package also expands the scope of the National Emergency Grants to encompass health insurance coverage. The Centrist Coalition apparently intends that these funds also could be used to provide health insurance for non-COBRA-eligible workers. (The Centrist plan provides a tax credit to cover 50 percent of COBRA premiums.) The provision of health insurance would be an entirely new function for the National Emergency Grant program and is a complex area with which state and local Workforce Investment Boards have no prior experience. It is questionable whether many of these local entities currently have the technical capacity to implement and administer health-insurance-related provisions or could build such capacity quickly enough to respond to the needs of unemployed workers on a timely basis.

In particular, if the purposes of the National Emergency Grants are expanded to include the provision of health insurance for laid-off workers who are not eligible for COBRA coverage, as is the case for the large majority of low-income unemployed workers, the challenges facing the local Workforce Investment Boards will be formidable. In these cases, the workers will not have existing health insurance and will have to obtain coverage. This will raise a number of

issues concerning the availability and quality of new health insurance policies and the role of state and local Workforce Investment Boards in establishing standards for new policies and addressing other complex issues on a timely basis. In some cases, it could take these local boards a number of months to resolve these issues; by the time the programs are implemented, the economy could be recovering. In contrast to this approach, the Senate Finance Committee legislation provides health insurance coverage to low-income unemployed workers through Medicaid, a proven public program that provides health care coverage to lower-income individuals and already has application processes and mechanisms in place, such as contracts with health care providers.

- **The large-scale increase in National Emergency Grant funding relative to its current level could limit the program's ability to respond on a timely basis.** The Administration's proposal increases funding for National Emergency Grants by 14-fold, from its current level of roughly \$220 million to \$3 billion. The Centrist Coalition plan increases it by \$5 billion, a 23-fold increase. There are serious questions about whether the program could rapidly absorb such a major funding increase and use these funds effectively in a prompt manner. State and local Workforce Investment Boards and other agencies would have to develop policies and procedures, contract with additional vendors to provide the expanded services, and train and hire staff — all of which will lengthen the time before assistance reaches workers in need. While the current structure for National Emergency Grants makes sense for current efforts to address problems caused by individual plant closings and other unforeseen needs on a modest scale, it is not a vehicle designed to carry out a large-scale response to a national recession.
- **Local Workforce Investment Boards have a fair amount of discretion in determining how NEG funds will be used, depending on the nature of the dislocation event (and affected workers) and the priorities of the local Workforce Investment Board.** States and local areas currently decide how to use National Emergency Grants. As a result, services vary across localities. The Administration's proposal expands the use of these funds to include health insurance but continues to allow states and local areas to determine what mix of services to provide. Some states and some local Workforce Investment Boards may place a higher priority on some types of activities than on others, leaving other forms of support shortchanged. In particular, since local Workforce Investment Boards are much more familiar with employment and training programs and have an existing infrastructure of staff and vendors to provide such services quickly, they may be inclined to use a larger share of the funds for these purposes, leaving a greater shortfall in the funding available to meet the health insurance needs of unemployed workers.

- **Recent attempts to provide significant funding increases for new services through the local Workforce Investment Boards have met with limited success.** The Welfare-to-Work Program provided \$1.5 billion in new funding in each of fiscal years 1998 and 1999 to help move hard-to-serve TANF recipients (and non-custodial parents of children receiving TANF) into the workforce. A large share of these funds were passed through to local Workforce Investment Boards to administer. This program has encountered problems in its implementation in a number of states and local sites, resulting in the slow spending of funds. To date, *only about half* of the total funds provided have been spent. Unlike the current stimulus proposals, which expand the role of local boards into new areas like health care, the Welfare-to-Work program built on a base of employment-related services that were already in place and with which the local Workforce Investment Boards already were familiar. This experience suggests that states and local Workforce Investment Boards may encounter problems in administering a significant funding increase for new services in a timely manner.