

Approach to the 2011-12 CalWORKs Budget

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 1

On Health and Human Services

Hon. Holly Mitchell, Chair





Overview



Major Budget Solution. As shown in the table below, the Governor's budget proposes a series of California Work Opportunity and Responsibility to Kids (CalWORKs) solutions, which total about \$1.5 billion General Fund. If adopted, the savings would represent a 50 percent reduction in net General Fund costs for CalWORKs compared to the workload budget. When federal funds are included, the total reduction is about 25 percent of program costs.

| CalWORKs Program Governor's Proposed Solutions | | |
|---|----------------|----------------|
| <i>(General Fund Benefit, in Millions)</i> | | |
| Program/Solution | 2010-11 | 2011-12 |
| Establish 48-month time limit | — | \$833 |
| Reduce grants by 13 percent | \$14 | 405 |
| Reduce county block grants | — | 377 |
| Repeal July 2011 sanctions and time limits | — | -135 |
| Reduce age eligibility for child care | — | 34 |
| Totals | \$14 | \$1,514 |



Handout Organization. This handout (1) provides background on the CalWORKs program, (2) explains the funding structure, (3) reviews the state's compliance with federal work participation rules, (4) discusses each of the Governor's proposals, (5) presents alternative approaches to achieving savings, and (6) concludes with an alternative package which would achieve about \$850 million in General Fund solution.



CalWORKs Background: Participation Requirements, Services, Child Care, Sanctions, and Time Limits

- Participation Requirements.** The CalWORKs program requires adults in single-parent families to participate in work or approved education or training activities for 32 hours each week. An adult recipient in a two-parent family must participate for 35 hours per week. There are certain exceptions related to age or disability.
- Welfare-to-Work Services.** CalWORKs recipients receive services including: job search, assessment, welfare-to-work activities (education and training), and community service and work experience. Following the assessment, counties and recipients develop individualized welfare-to-work plans. Child care is provided when needed for participation.
- Sanctions.** The sanction for failure to participate in work activities or community service is removal of the adult portion of the grant.
- Five-Year Time Limit/Safety Net.** After five cumulative years on aid, the amount of the CalWORKs grant is reduced by the portion for the adult. After the adult is removed from the grant, the children continue to receive a “child-only” grant in a program informally known as the “safety net.”
- Federal Penalties.** Federal law requires states to have specified percentages of their caseloads engaged in work or work-related activities. Failure to meet these requirements results in penalties of up to 5 percent of a state’s federal block grant, with increasing penalties for consecutive failures.
- Earned Income Disregard.** By disregarding the first \$225 earned each month, as well as 50 percent of any further earnings, CalWORKs recipients can work and have combined income and benefit levels above the federal poverty guideline.



CalWORKs Funding

- Federal Block Grant.** Each year, California receives a \$3.7 billion federal Temporary Assistance for Needy Families (TANF) block grant. Unspent TANF block grant funds may be carried over indefinitely from one fiscal year to the next. The TANF funds may be expended on activities which are reasonably calculated to meet a purpose of the TANF program.
- TANF Purposes.** The four stated purposes of TANF are: (1) assisting needy families so that children can be cared for in their own homes; (2) reducing the dependency of needy parents by promoting job preparation, work, and marriage; (3) preventing out-of-wedlock pregnancies; and (4) encouraging the formation and maintenance of two-parent families.
- TANF Transfers.** States may also transfer some of their TANF funds into the Title XX Social Services Block Grant or the Child Care Development Fund. Although TANF is the primary federal source of funding for the CalWORKs program, the broad purposes of TANF and flexible transfer provisions allow states to use TANF funds for many different programs. In addition to existing transfers, the Governor's budget proposes to transfer approximately \$950 million to the Student Aid Commission to offset costs there.
- Maintenance-of-Effort (MOE).** To receive the block grant, California must expend \$2.9 billion annually. Typically, the General Fund appropriation for CalWORKs provides about \$2 billion of the required MOE. The remaining MOE funding comes from county expenditures and expenditures in other state departments, such as child care spending in the Department of Education.
- Conclusion: Block Grant and MOE Provide State Flexibility.** The block grant and MOE financing structure of TANF give states a lot of flexibility to spend on CalWORKs or other programs without losing federal funds.



Work Participation Status

| Federal Work Participation Requirement and California Work Participation Rate | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>2003-2008</i> | | | | | | |
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Federal requirement | 50.0% | 50.0% | 50.0% | 50.0% | 50.0% | 50.0% |
| Caseload reduction credit | -44.2 | -46.1 | -45.5 | -44.9 | -17.7 | -21.0 |
| Effective requirement | 5.8 | 3.9 | 4.5 | 5.1 | 32.3 | 29.0 |
| Work participation rate | 24.0 | 23.1 | 25.9 | 22.2 | 22.3 | 25.1 |
| Surplus/Shortfall | 18.2% | 19.2% | 21.4% | 17.1% | -10.0% | -3.9% |

- Recent History.** For the past five years, California's work participation rate has been in the mid-20s. The federal Deficit Reduction Act reduced a "caseload reduction" credit the state had received, and thus increased California's obligation to get recipients to participate in work or other allowable activities. For 2007 and 2008, California's participation rate was below the federal requirement.
- Penalty Status.** For 2007, the federal Administration for Children and Families (ACF) provided California with relief from work participation requirement penalties. For 2008, California is claiming "reasonable cause" for missing the federal requirement. To date, the ACF has not responded to California's May 2010 letter claiming reasonable cause.
- Focus First on Budget Solution, Secondly on Work Participation.** The TANF program is authorized through September 2011. Given the uncertainty regarding what actual participation rules and requirements may be in the future, we recommend that in the short term the Legislature focus primarily on finding budget solutions in CalWORKs that are consistent with the Legislature's program goals. With respect to work participation, we recommend that the Legislature take a longer-term view.



Governor's Proposal: Repeal July 2011 Sanctions and Time Limit Modifications

- Current Law.** As part of the 2009-10 budget plan, the Legislature created a system of shortened time limits for most families, increased sanctions, and new service obligations for families affected by these policies commencing July 1, 2011. These changes could reduce grant levels below those currently provided in the safety net, but all families would retain some level of assistance.

- Repeal Changes and Replace With New Time Limit.** The Governor proposes to repeal these changes. Their elimination would result in General Fund costs of approximately \$135 million in CalWORKs. (It also results in Stage 2 child care savings of about \$34 million, which are budgeted in the Department of Education.) As discussed below, the Governor proposes to replace these changes with a new time limit with substantially greater impacts on recipients and the budget.

- Recommendation.** We concur with the proposal to repeal the July 1, 2011 sanctions and time limits. We believe these changes would be confusing to clients and administratively cumbersome at the county level. In our view, there are better ways of achieving savings, as discussed below.



Governor's Proposal: Retroactively Establish 48-Month Time Limit for Children and Adults

- Summary of Proposal.** Effective July 1, 2011, the budget proposes to establish a 48-month time limit, applied retroactively, on the receipt of CalWORKs cash assistance for all recipients. This would apply to both adults and children, with narrow exceptions for non-needy caretaker relatives and adults receiving Supplemental Security Income/State Supplementary Program. Previous months of cash aid would count toward the 48-month limit, including months in which a recipient had been exempted from work participation requirements or was temporarily disabled. However, children in families in which the adult was meeting federal work participation requirements would be allowed to receive aid beyond 48 months.

Impacts of Proposal

- Fiscal Impact.** The proposed time limit results in savings of approximately \$833 million.
- Impact on Recipients.** The Department of Social Services (DSS) estimates that, under this proposal, approximately 115,000 families and 234,000 children would lose cash assistance. This proposal essentially ends the CalWORKs safety net for children unless their parents can meet federal work participation requirements.
- Impact on Work Participation.** This budget assumes that approximately 32,000 cases subject to the 48-month limit would meet federal work participation requirements. The DSS estimates that the proposal would raise the work participation rate by about 10 percent when fully implemented.
- Impact on General Assistance.** Under current law, children who lose benefits under this proposal would probably be eligible for county-funded General Assistance. We understand the administration intends to put forth a trailer bill proposal to restrict children's eligibility for General Assistance once they have



Governor's Proposal: Retroactively Establish 48-Month Time Limit for Children and Adults *(Continued)*

received 48 months of CalWORKs aid. If children are eligible for General Assistance, this proposal could result in county costs in the hundreds of millions of dollars.

- Impact on County Costs.*** Although the proposal assumes that about 32,000 families subject to the time limit will meet work participation requirements, there is insufficient funding available to provide child care and services for all of these families. Moreover, determining which families are eligible by meeting federal participation requirements would be administratively difficult for the counties because it would require some individualized case reviews.

Alternatives to the Proposal

- Prospective Implementation.*** The Legislature could implement the time limit prospectively for families that have not received 48 months of welfare-to-work services and child care. For families that have received nearly 48 months of services, the Legislature could provide at least one year of services before implementing the time limit on their children.
- Shorten the Time Limit Only for Adults.*** The Legislature could shorten the time limit to 48 months for adults, but maintain the safety net portion of the grant for the children.
- Reduce Safety Net Benefits for Families Not Meeting Participation Requirements.*** Rather than total benefit termination, the Legislature could impose a 50 percent grant reduction on safety net families in which the adult does not meet federal work participation requirements. Alternatively, the Legislature could remove a family from cash assistance if the adult refuses to participate in a community service or subsidized job.



Governor's Proposal: Reduce Grants by 13 Percent

- Proposal.** Effective June 2011, the budget proposes to reduce grants by 13 percent as shown in the table. This results in General Fund savings of \$14 million in 2010-11 and \$405 million in 2011-12. The table below shows the proposed grant levels.

| CalWORKs Maximum Monthly Grant and CalFresh Benefits | | | |
|---|--------------------|--------------------------|--------------------------------|
| <i>Family of Three</i> | | | |
| | Current Law | Governor's Budget | Change From Current Law |
| High-Cost Counties | | | |
| Grant | \$694 | \$604 | -\$90 |
| CalFresh benefits ^a | 460 | 485 | 25 |
| Totals | \$1,154 | \$1,089 | -\$65 |
| <i>Percent of Poverty</i> | <i>76%</i> | <i>71%</i> | |
| Low-Cost Counties | | | |
| Grant | \$661 | \$575 | -\$86 |
| CalFresh benefits ^a | 470 | 487 | 17 |
| Totals | \$1,131 | \$1,062 | -\$69 |
| <i>Percent of Poverty</i> | <i>74%</i> | <i>70%</i> | |

^a Formerly known as food stamps. Benefit amount is based on the average allotment for families with zero earned income.

Impacts of Proposal

- Impact on Poverty.** The proposal would reduce the combined grant and CalFresh benefit to the equivalent of just about 70 percent of the federal poverty guideline, depending on the county of residence. For the past few decades, California's combined grant and CalFresh benefits has typically been between 75 percent and 80 percent of the federal poverty guideline.
- Impact on Caseload.** The proposal would remove about 5,500 families from cash assistance. These would be families with earned income of about \$1,400 per month or higher, depending on county of residence.



Governor's Proposal: Reduce Grants by 13 Percent

(Continued)

- Impact on Work Participation.*** Due to the removal of the 5,500 families with earned income, the work participation rate would decrease by about 1 percent when fully implemented.

Alternative

- Phased Implementation.*** Historically, California has never reduced grants by more than 6 percent at one time. The Legislature could consider phasing in the 13 percent reduction over the next fiscal year, allowing aided families to adjust their spending commitments. For example the Legislature could reduce grants by 6.5 percent on June 1, 2011 and an additional 6.5 percent on January 1, 2012. This approach would reduce the savings in 2011-12 to about \$300 million.



Governor's Proposal: Continue County Block Grant Reduction While Repealing Participation Exemptions

- ☑ **Background.** For 2009-10 and 2010-11, the Legislature reduced the county block grants for welfare-to-work services and child care by approximately \$375 million each year. This two-year reduction was accompanied by additional exemptions from work participation requirements which allowed counties to manage the reduction by not providing services to the exempted families. Prior budget legislation also provided that, for any month for which a recipient has been excused from work participation requirements due to lack of support services, the case does not count toward the state's time limit for their receipt of cash aid.

- ☑ **Proposal.** The Governor's budget proposes to continue an unallocated reduction of \$377 million in county block grants while repealing the exemptions.

- ☑ **Impact of the Proposal.** During the past two years, counties exempted approximately 39,000 cases from participation in order to manage the reduction in funding. Absent the specific exemptions, counties will need to make case-by-case findings of "good cause" for nonparticipation in order to not provide services. This is administratively cumbersome.



Governor's Proposal: Continue County Block Grant Reduction While Repealing Participation Exemptions

(Continued)

Alternatives

- Provide County Flexibility.*** If the Legislature makes the unallocated reduction, we recommend adopting similar work participation exemptions or some other mechanism to allow counties more flexibility.

- Further Reductions to Welfare-to-Work Services.*** Another potential budget solution would be to increase the Governor's proposed \$377 million reduction in accordance with increased flexibility. Possible approaches include:
 - ***Expanding the Age Exemption.*** The age exemption could be increased to include children ages three and four.

 - ***Temporal Exemptions.*** Rather than creating additional exemption categories, the Legislature could create periodic exemptions. For example, after one year of services, recipients could be given a one-year exemption from participation and services followed by another year of services. In order to keep the welfare-to-work message strong from the start, all incoming adults would be provided services. This approach could balance the importance of providing access to services for recipients with the time limits imposed on them to move off of aid.



LAO CalWORKs Alternatives

Modify Earned Income Disregard

- Background.** Under current law, California “disregards” (does not count) the first \$225 of income and 50 percent of each dollar earned beyond \$225 when calculating a family’s monthly grant. This policy provides a work incentive for families.
- Proposal: Simplify the Disregard.** The Legislature could modify the disregard by eliminating the complete exclusion of the first \$225 of earned income. When fully implemented, savings in the range of \$200 million annually could be achieved by simplifying the disregard to a flat 50 percent of all income earned. These savings are based on current law grant levels. Savings would be less, if grants are reduced as the Governor proposes.
- Impact on Grants.** For families earning more than \$225 per month (about 125,500 cases), their grants would be reduced by \$112.50. For families with earnings below \$225 per month (about 16,500 cases), grants would be reduced by an amount equal to 50 percent of their earnings.
- Impact on Caseload.** Approximately 5,600 cases with incomes above \$1,200 per month would be removed from assistance.
- Impact on Work Participation.** Assuming no change in behavior, this proposal would reduce the work participation rate by about 1 percent.



LAO CalWORKs Alternatives

(Continued)

Expand Subsidized Employment

- Background.** During 2009 and 2010, counties used the federal TANF Emergency Contingency Fund (ECF), along with other county and private resources, to create approximately 20,000 subsidized jobs for CalWORKs recipients. The TANF ECF expired in September 2010. However, under current state law—Chapter 589, Statutes of 2007 (AB 98, Niello)—counties may receive a match from the state toward the cost of providing a subsidized job. The match is capped at 50 percent of the maximum grant. When a client receives a subsidized wage, their grant is reduced, in part offsetting the cost of the subsidy.
- Interaction With Earned Income Disregard.** If the Legislature increases the earned income disregard as described above, this would increase the state savings from providing subsidized employment positions. Essentially, the state could double the amount of available funding per job and the cost would be offset by grant savings. In order to hold the state costs harmless, counties would need to reprioritize within existing child care allocations.
- Benefits of Subsidized Employment.** When recipients participate in subsidized employment, they develop coping and life skills that allow them to compete for nonsubsidized jobs. They are also eligible for the federal Earned Income Tax Credit, which brings additional federal funds into California.
- Consider Expanding Subsidized Employment.** If the Legislature increases the earned income disregard, we would recommend expanding the “AB 98” subsidized employment program. Under this proposal, the state participation in wages would be capped at the maximum grant or 50 percent of the subsidized wage, whichever is less. This change would be budget neutral in the short run, with potential savings in the long run if recipients successfully transition into nonsubsidized jobs.



LAO CalWORKs Alternatives

(Continued)

Suspend Cal-Learn for Five Years

- Background.** The Cal-Learn program provides intensive case management to about 12,000 teen parents who remain in school. Depending on school performance, the teens may earn bonuses and sanctions.
- Proposal.** Suspending this program for five years would result in \$50 million in savings annually.
- Impact on Recipients.** Approximately 11,000 teen parents would not receive case management, or school performance related bonuses and sanctions. They would be eligible for regular welfare-to-work services to the extent there was sufficient funding in their county of residence.



Roadmap for the Legislature on CalWORKs Budget Reductions

Difficult Balancing Act

- Maintaining Program Goals.*** The Legislature's policy goal for CalWORKs has been to (1) maintain a safety net for low-income families with children who cannot support themselves; (2) encourage CalWORKs recipients to become self-sufficient through work, education, and training; and (3) preserve a county-run delivery system committed to these goals.

- Obtaining Significant Savings.*** The Legislature can control costs in CalWORKs through eligibility rules, grant levels, and the availability of welfare-to-work services to assist recipients in becoming self-sufficient. Because of the federal block grant, substantial General Fund savings can be achieved without a loss of federal funds. Given the state's budget deficit the Legislature must achieve substantial savings in all major program areas, including CalWORKs.

- Key Questions.*** As it evaluates the Governor's proposals and considers the tradeoffs between program goals and the need for savings, we suggest the Legislature focus on the following questions.
 - Do the proposals allow some level of core services to be maintained?
 - Do the proposals work together and complement each other?
 - Are the proposals consistent with program goals?



Roadmap for the Legislature on CalWORKs Budget Reductions *(Continued)*

- ☑ **Reconciling the Proposed Time Limit.** The Governor's proposed time limit raises serious fiscal and policy issues with respect to (1) ending CalWORKs support for children, (2) not funding services for families facing complete benefit termination, and (3) shifting costs to county general assistance programs. Addressing these issues would most likely result in General Fund costs that would partially offset the \$833 million in savings the Governor hopes to achieve. If the Legislature rejects the proposed time limit, there are still ways to achieve substantial savings in the CalWORKs program. Below, we present an alternative package which achieves about \$840 million in General Fund savings.

| CalWORKs Package | | |
|--|----------------|----------------|
| <i>General Fund Benefit (In Millions)^a</i> | | |
| Program/Solution | 2010-11 | 2011-12 |
| Phase in 13 percent grant reduction | \$7 | \$304 |
| Reduce county block grants with exemptions | — | 377 |
| Repeal July 2011 sanctions and time limits | — | -135 |
| Suspend Cal-Learn for five years | — | 50 |
| Reduce age eligibility for children | — | 34 |
| Modify earned income disregard to flat 50 percent | — | 180 |
| Reduce safety net benefits for those refusing community service or subsidized employment | — | 30 |
| Totals | \$7 | \$840 |

^a Preliminary estimates.