

## Federal Welfare Reform (H.R. 3734): Fiscal Effect on California

### SUMMARY

#### **Federal Welfare Reform**

*In August 1996 the Congress passed, and President Clinton has indicated he will sign, H.R. 3734—The Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This measure repeals and amends several major public assistance programs and replaces certain of these programs with block grants.*

#### **Impact on California**

*In this policy brief, we summarize the key features of H.R. 3734 and its potential fiscal effects on federal funds to California. We estimate that the act would likely result in a net reduction of \$6.8 billion in federal funds to California over the first six years of implementation. About two-thirds of this loss in federal funds is due to eliminating federal aid to certain noncitizens legally residing in the state. At the same time, we estimate that the state will receive additional federal funds under the new Block Grants for Temporary Assistance for Needy Families (formerly the Aid to Families with Dependent Children program).*

*The fiscal estimates that we present in this policy brief represent our best initial projection of how H.R. 3734 will impact federal funds to the state. They are not predictions of future policy decisions by the Legislature and administration in implementing this measure in California. Our estimates, especially those for 1996-97, are sensitive to assumptions concerning implementation dates, the state's caseload growth as affected by economic and demographic trends, and the extent to which noncitizens become citizens. In addition, the act contains a number of penalties for state failure to comply with federal requirements, the imposition of which could further reduce the amount of federal funds to the state.*

## Introduction

The act consists of the following nine titles:

- Title I: Block Grants for Temporary Assistance for Needy Families (TANF)
- Title II: Supplemental Security Income (SSI)
- Title III: Child Support
- Title IV: Restricting Welfare and Public Benefits for Aliens
- Title V: Child Protection
- Title VI: Child Care
- Title VII: Child Nutrition Programs
- Title VIII: Food Stamps and Commodity Distribution
- Title IX: Miscellaneous

**Effect on Federal Funds.** Figure 1 summarizes the effect of H.R. 3734 on federal funds allocated to California. It assumes for illustration purposes that California elects to implement the TANF block grant of H.R. 3734 in 1996-97. It shows that the net fiscal effect is estimated to be a loss of \$51 million in federal funds in 1996-97 (state fiscal year) and \$6.8 billion over the first six years. Most of this net reduction results from federal restrictions on assistance to noncitizens, including SSI, Food Stamps, and Medicaid (Medi-Cal in California) benefits.

**Effect on State Funds.** This policy brief does not estimate the fiscal impact of H.R. 3734 on state and county funds. The potential impact on state and county funds depends on a number of factors including:

- Whether the state elects to backfill for the reduction in federal funds (in which case there would be state costs).
- Whether the state exercises federal options to deny eligibility of legal noncitizens for certain programs (in which case there would be state savings).
- The extent to which individuals are ineligible for state and federal programs and use county general assistance and indigent health services.

Although we have not compiled a complete list of impacts on state funds, we have identified the following major impacts in 1996-97:

- A loss in budgeted savings of \$268 million because H.R. 3734 does not provide the maintenance-of-effort relief assumed in the 1996 Budget Act for the State Supplementary Program (SSP).
- Net General Fund savings of approximately \$130 million due to certain noncitizens losing eligibility for SSP and Medi-Cal (those arriving after enactment of the federal law and former SSI/IHSS recipients).

Additionally, to the extent that the state implements the TANF block grant in 1996-97, there would be unknown costs for various activities (including mandatory employability assessments, employment assistance for recipients, and improved tracking of recipients' time on aid), potentially offset by any administrative savings attributable to greater state flexibility.

**Key State Decisions.** Although the state will be faced with a multitude of decisions in implementing H.R. 3734, we believe that there are several key issues which it must address. Figure 2 (next page) highlights these issues.

The state's decision on these issues, as well as others, will affect the future shape of California's safety net programs. In addition, these decisions will impact the state and local fiscal condition. Consequently, the state should proceed deliberately in fashioning its plan to implement federal welfare reform.

<b>Figure 1</b>			
<b>Personal Responsibility and Work Opportunity Reconciliation Act Impact on Federal Funds to California</b>			
(In Millions)			
<b>Program</b>		<b>1996-97</b>	<b>Six-Year Impact</b>
Title I:	Temporary Assistance for Needy Families <sup>a,b</sup>	\$286	\$1,350
Title II:	Supplemental Security Income (SSI)	—	-524
Title III:	Child Support	25	28
Title IV:	Restricting Welfare for Noncitizens	-282	-5,863
	SSI <sup>c</sup>	(-176)	(-3,746)
	Food Stamps <sup>d</sup>	(-90)	(-1,563)
	Medi-Cal/In-Home Supportive Services <sup>c</sup>	(-10)	(-291)
	Medi-Cal/Newcomer Noncitizens <sup>c</sup>	(-6)	(-263)
Title V:	Child Protection	20	21
Title VI:	Child Care	55	525
Title VII:	Child Nutrition	—	-340
Title VIII:	Food Stamps	-105	-1,679
Title IX:	Miscellaneous	-50	-302
<b>Totals</b>		<b>-\$51</b>	<b>-\$6,784</b>

<sup>a</sup> For illustration purposes only, we have assumed implementation on November 1, 1996.  
<sup>b</sup> Assumes no state penalties, including failure to meet work participation requirement.  
<sup>c</sup> Assumes eight-month phase-in beginning January 1, 1997.  
<sup>d</sup> Assumes 11-month phase-in beginning October 1, 1996.

<b>Figure 2</b>	
<b>Personal Responsibility and Work Opportunity Reconciliation Act of 1996</b>	
<b>Key State Decisions</b>	
<b>Block Grants for Temporary Assistance for Needy Families (TANF)</b>	
<b>Timing of the block grant</b>	<ul style="list-style-type: none"> <li>The state must implement the block grant by July 1, 1997, but it can do it sooner upon submission of a revised state plan. This date is important because it triggers a host of changes including: (1) reducing the state's maintenance-of-effort requirement, thereby allowing the state to reduce its grants, including previously enacted reductions, (2) subjecting the state to the work requirements and potential related penalties, and (3) beginning the five-year time limit for cash assistance.</li> </ul>
<b>Five-year time limit exception</b>	<ul style="list-style-type: none"> <li>The state can exempt up to 20 percent of recipients from the five-year time limit. Who, if anyone, should the state exempt and what criteria should it use?</li> </ul>
<b>Work requirements</b>	<ul style="list-style-type: none"> <li>Can the state continue its existing federal waivers for current work programs in lieu of the work requirements in H.R. 3734? In any event, how can the state structure its work program and requirements in order to satisfy the work participation rates? Also, should the state exercise its option to exempt families with a child under age one from participating in work activities?</li> </ul>
<b>Entitlement status</b>	<ul style="list-style-type: none"> <li>Should certain state and county benefits—for example, cash assistance—continue to be an entitlement? In the absence of an entitlement, funds available for a program (such as cash assistance) would be capped at the amount contained in the budget.</li> </ul>
<b>Noncitizens Legally Residing in the State</b>	
<b>Federal benefits</b>	<ul style="list-style-type: none"> <li>California could deny the following benefits to noncitizens currently residing in the state who do not meet certain exemption criteria: (1) TANF (formerly AFDC), (2) Social Services, and (3) Medicaid.</li> </ul>
<b>State/local-only funded benefits</b>	<ul style="list-style-type: none"> <li>The state could deny state and local-only funded benefits to these noncitizens. Also, the state could elect to apply the stronger deeming provisions for federal programs to state and local programs.</li> </ul>
<b>In-Home Supportive Services (IHSS)</b>	<ul style="list-style-type: none"> <li>The loss of SSI/SSP eligibility means that noncitizens are no longer eligible for IHSS. Changing state law to eliminate the categorical link to SSI/SSP would allow these individuals to remain eligible for IHSS while retaining federal funds for these services.</li> </ul>
<b>Illegal Immigrants Residing in the State</b>	
<b>Prenatal services</b>	<ul style="list-style-type: none"> <li>The state can provide these benefits, but it must pass a law after enactment of H.R. 3734 authorizing such benefits. (Proposition 187 may limit the state's ability to provide these benefits.)</li> </ul>
<b>Nutrition services</b>	<ul style="list-style-type: none"> <li>The state has the option to deny nutrition benefits, other than school lunch and breakfast, to these individuals.</li> </ul>
<b>State-Only Funded Programs</b>	
<b>Individuals losing federal eligibility</b>	<ul style="list-style-type: none"> <li>Should California establish state only programs using existing or additional state funds for individuals (such as TANF recipients reaching time limits, certain noncitizens, and teen parents not in school) barred from receiving federal funds?</li> </ul>

## Title I—Block Grants for Temporary Assistance for Needy Families

Title I of The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 eliminates all existing federal requirements in the:

- Aid to Families with Dependent Children (AFDC) program (assistance payments and administration).
- Job Opportunities and Basic Skills Program (GAIN Program).
- Emergency Assistance Program.

In addition, it consolidates federal funding for these programs into a TANF block grant.

Figure 3 summarizes the major program changes and Figure 4 summarizes the work participation requirements under the block grant. Figure 5 describes the principal fiscal provisions of Title I. Finally, Figure 6 summarizes the effect of Title I on federal funds for California.

**Figure 3**

**Personal Responsibility and Work Opportunity Reconciliation Act of 1996  
Title I: Block Grants for Temporary Assistance for Needy Families  
Major Program Provisions**

**Major Provisions**

<b>Entitlement to cash grant</b>	• Removes the entitlement to AFDC effective October 1, 1996.
<b>Maintenance of effort</b>	• States cannot reduce nonfederal spending below 80 percent of FFY 94 levels (75 percent, if the state has met work participation requirement).
<b>Effective date and transition</b>	• July 1, 1997, but states may implement the block grant upon submission of a revised state plan. Regardless of start date, federal funding for FFY 97 is capped by the block grant.
<b>Cash grant to noncitizens</b>	• States have an option to deny cash assistance to noncitizens legally residing in the state.
<b>Cash grant to minor parent</b>	• Prohibits use of block grant funds for minor parents under age 18 unless they are: (1) attending school or participating in specified educational activities and (2) living in an adult supervised setting.
<b>Work requirements</b>	• Requires a specified percentage of families to participate in work activities. (See Figure 4.)
<b>Employability assessment</b>	• States must assess the skills, work experience, and employability of each adult recipient.
<b>Time limits</b>	• Five-year lifetime limit on family use of block grant funds. States may exempt up to 20 percent of families for hardship.

*Continued*

Major Provisions	
<b>Additional child born while on aid</b>	<ul style="list-style-type: none"> <li>• State option to deny cash benefits for child born while parent is on aid.</li> </ul>
<b>Paternity establishment</b>	<ul style="list-style-type: none"> <li>• States must reduce a family's grant by 25 percent if the individual is not cooperating (without good cause) in establishing paternity. District Attorney's Office determines whether recipient is cooperating.</li> </ul>
<b>Interstate migration</b>	<ul style="list-style-type: none"> <li>• Authorizes state to limit benefits for persons from another state to the grant level of the former state.</li> </ul>

<b>Figure 4</b> <b>Personal Responsibility and Work Opportunity Reconciliation Act of 1996</b> <b>Title I: Block Grants for Temporary Assistance for Needy Families</b> <b>Work Requirements</b>	
Provisions	
<b>Work requirements on total caseload</b>	<ul style="list-style-type: none"> <li>• Total number of families participating in work activities must increase from 25 percent (of federally funded cases) in federal fiscal year (FFY) 97 to 50 percent in FFY 02.</li> <li>• Requires that at least one adult in a family that has been receiving aid for more than 24 months participate in work activities.</li> </ul>
<b>Exemption for families with infant</b>	<ul style="list-style-type: none"> <li>• State option to exempt families with a child under age one.</li> </ul>
<b>Work requirements on two-parent families</b>	<ul style="list-style-type: none"> <li>• Requires 75 percent of two-parent families to participate in work activities in FFY 97 and FFY 98, increasing to 90 percent in FFY 99 and thereafter.</li> </ul>
<b>Work hours</b>	<ul style="list-style-type: none"> <li>• Single-parent families—20 hours per week in FFY 97 and FFY 98, increasing to 30 hours in FFY 2000 and thereafter (20 hours for families with a child under age six).</li> <li>• Two-parent families—35 hours per week, with 30 hours being in specified work activities.</li> </ul>
<b>Work activities</b>	<ul style="list-style-type: none"> <li>• Work activities include: employment, on the job training, community service programs (including the provision of child care to other participants), vocational educational training (not to exceed 12 months), and up to six weeks of job search.</li> </ul>
<b>Sanctions on states</b>	<ul style="list-style-type: none"> <li>• States could lose up to 5 percent of their block grant for failure to meet work participation requirement. For consecutive failures, penalty increases 2 percent each year (with a cap of 21 percent).</li> </ul>
<b>Sanctions on individuals</b>	<ul style="list-style-type: none"> <li>• Requires states to reduce grants to recipients who refuse to engage in work activities.</li> </ul>

**Figure 5****Personal Responsibility and Work Opportunity Reconciliation Act of 1996****Title I: Block Grants for Temporary Assistance for Needy Families****Major Fiscal Provisions**

Provisions	Amounts
<b>Federal funds</b>	<ul style="list-style-type: none"> <li>• \$16.39 billion available annually nationwide in federal fiscal year (FFY) 97 through FFY 02 for block grants to the states.</li> </ul>
<b>State's share of federal funds</b>	<ul style="list-style-type: none"> <li>• Each state's block grant based on the greater of: (1) average federal expenditures from FFY 92 to FFY 94, (2) FFY 94 federal expenditures (with certain adjustments), or (3) FFY 95 federal expenditures.</li> </ul>
<b>Potential adjustments to state share of federal funds</b>	<ul style="list-style-type: none"> <li>• States with high population growth and lower grant amounts per poor person may qualify for an annual funding increase equal to 2.5 percent of their block grant.</li> <li>• Beginning in FFY 1999, the five states that achieve the greatest reduction in the rate of out-of-wedlock births without increasing abortions are eligible to receive annual grants of \$20 million to \$25 million.</li> <li>• Beginning in FFY 99, \$1 billion per year shall be available to states that meet the definition of "high performing states." The Secretary of Health and Human Services (HHS) in conjunction with the National Governor's Association and the American Public Welfare Association, shall develop performance criteria.</li> </ul>
<b>Administrative cap</b>	<ul style="list-style-type: none"> <li>• 15 percent of block grant, excluding information technology for tracking of recipients.</li> </ul>
<b>Federal loans</b>	<ul style="list-style-type: none"> <li>• Establishes a \$1.7 billion federal revolving loan fund for states that have not incurred any penalties. Loans may not exceed 10 percent of a state's block grant and must be repaid with interest within three years.</li> </ul>
<b>Contingency fund</b>	<ul style="list-style-type: none"> <li>• For FFY 97 through FFY 01, provides \$2 billion in federal matching funds for states with high unemployment or high food stamp utilization.</li> </ul>
<b>State penalties</b>	<ul style="list-style-type: none"> <li>• From 5 percent to 21 percent for failing to meet work participation requirements.</li> <li>• From 2 percent to 5 percent for failing to follow various other program requirements. There is a 5 percent additional penalty for intentional violations.</li> <li>• States may avoid or delay penalties if HHS accepts a corrective action plan. Penalties based on degree of noncompliance.</li> </ul>

**Figure 6**

**Personal Responsibility and Work Opportunity Reconciliation Act of 1996  
Title I: Block Grants for Temporary Assistance for Needy Families  
Effect on Federal Funds to California**

<b>Block grant</b>	<ul style="list-style-type: none"> <li>Assuming no recession, estimated cumulative increase of \$1.4 billion (6.4 percent) in federal funds over six years (1996-97 through 2001-02—see Figure 7).</li> </ul>
<b>Reduction in illegitimacy</b>	<ul style="list-style-type: none"> <li>Up to \$100 million in additional federal funds (cumulative over six years) if California is annually one of the top five states in reducing the number of out-of-wedlock births.</li> </ul>
<b>High performance bonus</b>	<ul style="list-style-type: none"> <li>Unknown, potentially in the low hundreds of millions, additional federal funds if California meets definition of high performance state.</li> </ul>
<b>Sanctions</b>	<ul style="list-style-type: none"> <li>Potential loss of federal funds due to various sanctions (including up to \$1.7 billion cumulative in the first six years for failure to meet work participation requirements).</li> </ul>

**Figure 7**

**Personal Responsibility and Work Opportunity Reconciliation Act of 1996  
Federal Funds Allocated to California  
Temporary Assistance for Needy Families Block Grant (Formerly AFDC)**

(In Millions)

	1996-97 <sup>a</sup>	1997-98	1998-99	1999-00	2000-01	2001-02	Totals
Block grant	\$3,655	\$3,734	\$3,734	\$3,734	\$3,734	\$3,734	\$22,324
Current law	3,369	3,414	3,479	3,521	3,568	3,623	20,974
<b>Fiscal impact</b>	<b>286</b>	<b>320</b>	<b>255</b>	<b>213</b>	<b>166</b>	<b>111</b>	<b>1,350</b>

<sup>a</sup> For illustration purposes only, we have assumed implementation on November 1, 1996.

## Title II—Supplemental Security Income

Title II of the act makes significant changes in the SSI program. Figure 8 summarizes the major provisions and the federal fiscal effects on California.

**No Repeal of Federal Maintenance-of-Effort (MOE) Requirement.** Although previous versions of welfare reform legislation repealed the federal MOE requirement for the SSP, H.R. 3734 includes no such repeal. The 1996 Budget Act assumed that effective November 1, 1996, the federal MOE would be eliminated and that SSP grants could be reduced by 4.9 percent statewide and an additional 4.9 percent in low-cost counties. The state's inability to implement these grant reductions would result in a net General Fund cost of \$268 million in 1996-97.

**Figure 8**

**Personal Responsibility and Work Opportunity Reconciliation Act of 1996**  
**Title II: Supplemental Security Income**  
**Major Provisions and Effect on Federal Funds to California**

**Program and Fiscal Provisions**

<b>Disabled children</b>	<ul style="list-style-type: none"> <li>• <b>Eligibility.</b> Eliminates benefits to children who are relatively less disabled. (Currently, children may be eligible on the basis that an impairment exists that precludes them from performing age-appropriate activities.)</li> <li>• <b>Effective Date:</b> <ul style="list-style-type: none"> <li>— Pending and new cases—upon enactment of H.R. 3734.</li> <li>— Current cases—July 1, 1997 or upon annual redetermination, whichever is later.</li> </ul> </li> </ul>
<b>Inmates</b>	<ul style="list-style-type: none"> <li>• In order to avoid SSI payments to recipients incarcerated for more than 30 days, the Social Security Administration (SSA) will provide payments to states and locals for the names of incarcerated individuals found by SSA to be receiving SSI benefits.</li> <li>• Payment is \$400 per individual if a name is provided within 30 days of becoming an inmate, or \$200 per individual if a name is provided after 30 days but within 90 days.</li> </ul>

**Effect on Federal Funds to California**

<b>Disabled children</b>	• Reduction in federal funds of \$3 million in 1996-97 and \$542 million over the first six years of the act.
<b>Inmates</b>	• Increase in federal funds of \$3 million in 1996-97 and \$18 million over the first six years of the act.

## Title III—Child Support Enforcement

Title III of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 includes numerous provisions related to child support enforcement. Figure 9 summarizes the key provisions and Figure 10 summarizes the fiscal effect on California.

<b>Figure 9</b>	
<b>Personal Responsibility and Work Opportunity Reconciliation Act of 1996</b>	
<b>Title III: Child Support Enforcement</b>	
<b>Major Provisions</b>	
<b>Program Provisions</b>	
<b>Case registry and disbursement system</b>	<ul style="list-style-type: none"> <li>Requires a centralized registry of child support cases and, by October 1998, a centralized system of disbursement and collection of payments.</li> </ul>
<b>New hire directory</b>	<ul style="list-style-type: none"> <li>Requires implementation of a new hire directory for all occupations, effective October 1997, designed to assist in locating noncustodial parents. California currently requires a directory for some occupations.</li> </ul>
<b>Financial institution data</b>	<ul style="list-style-type: none"> <li>Requires states to adopt procedures under which financial institutions provide to the child support agencies data on noncustodial parents who have past-due obligations.</li> </ul>
<b>Interstate enforcement</b>	<ul style="list-style-type: none"> <li>Includes provisions to enhance interstate coordination.</li> </ul>
<b>Fiscal Provisions</b>	
<b>\$50 pass-through</b>	<ul style="list-style-type: none"> <li>Eliminates the requirement that the first \$50 of monthly collections for needy families (known as the pass-through) be distributed to the custodial parent, effective October 1996. (Instead, the \$50 would offset governmental grant expenditures.)</li> </ul>
<b>Arrearage payments</b>	<ul style="list-style-type: none"> <li>Requires that collections on arrearages in specified cases be paid to the custodial parent rather than used to offset governmental expenditures for cash grants.</li> </ul>
<b>Federal incentive payments</b>	<ul style="list-style-type: none"> <li>Replaces the collections-based incentive system with a system based on performance measures, to be developed by the Secretary of Health and Human Services by March 1, 1997 and implemented October 1999. The new system will be "revenue neutral" with respect to total federal expenditures.</li> </ul>
<b>Paternity establishment requirements</b>	<ul style="list-style-type: none"> <li>Expands the requirement on states for meeting specified paternity establishment rates. (States that do not meet specified rates of improvement may be penalized.)</li> </ul>
<b>Automation funding</b>	<ul style="list-style-type: none"> <li>Extends by two years (to October 1997) the time period for providing enhanced (90 percent) matching federal funds for statewide automated child support systems.</li> </ul>

**Figure 10**

**Personal Responsibility and Work Opportunity Reconciliation Act of 1996**

**Title III: Child Support Enforcement**

**Major Effects on Federal Funds to California**

**Effect on Federal Funds to California**

<b>Incentive payments and paternity establishment provisions</b>	<ul style="list-style-type: none"> <li>• Unknown fiscal impact, beginning in 1999-00, depending on (1) the effect of the new incentive payment system and (2) whether the state will meet the expanded paternity establishment requirements.</li> </ul>
<b>Automation funding</b>	<ul style="list-style-type: none"> <li>• Increase of \$25 million in 1996-97 to provide enhanced federal funding for current and prior years. Additional increase of \$3 million in 1997-98.</li> </ul>

**Title IV—Restricting Welfare and Public Benefits for Noncitizens**

H.R. 3734 makes current immigrants (with exceptions for refugees, veterans, asylees, and those who have worked 40 quarters) ineligible for SSI and Food Stamps. Also, states can elect to deny TANF, Social Services Block Grant (Title XX), and Medicaid services to current immigrants. Immigrants arriving in the United States after enactment of this measure (with certain exceptions) are ineligible for *all* means-tested federal benefits for five years, except for emergency medical services and certain child nutrition and educational programs.

Figure 11 summarizes the major program and fiscal provisions pertaining to restricting welfare for noncitizens. Figure 12 summarizes the fiscal effects on federal funds to California.

<b>Figure 11</b>	
<b>Personal Responsibility and Work Opportunity Reconciliation Act of 1996</b>	
<b>Title IV: Restricting Welfare and Public Benefits for Noncitizens</b>	
<b>Major Provisions</b>	
<b>Restrictions on Federally Funded Programs</b>	
<b>Legal noncitizens in U.S. prior to enactment</b>	<ul style="list-style-type: none"> <li>• Ineligible upon enactment (except as noted on page 13) for SSI and Food Stamps (or upon annual redetermination if currently receiving benefits).</li> <li>• Upon enactment, states have the option to deny benefits under the TANF program (formerly AFDC), the Title XX Social Services Block Grant, and nonemergency Medicaid. Current recipients are covered until January 1, 1997.</li> </ul>
<b>Legal noncitizens arriving after enactment</b>	<ul style="list-style-type: none"> <li>• Ineligible for <i>all</i> federal means-tested federal benefits for five years. (Certain child nutrition and education programs are excepted from this ban as well as the exceptions noted on page 13.)</li> </ul>
<b>Illegal immigrants</b>	<ul style="list-style-type: none"> <li>• Ineligible for <i>all</i> federal benefits, except as noted on page 13.</li> </ul>
<b>Restrictions on State- and Local-Only Funded Programs</b>	
<b>Legal noncitizens</b>	<ul style="list-style-type: none"> <li>• States are authorized to deny state-only funded public benefits to legal noncitizens (except as noted on page 13). However, current recipients are covered until January 1, 1997.</li> </ul>
<b>Illegal immigrants</b>	<ul style="list-style-type: none"> <li>• Ineligible (except as noted on page 13) for all state and local benefits.</li> <li>• States may elect to provide eligibility for illegal immigrants through state laws enacted after enactment of H.R. 3734.</li> </ul>
<i>Continued</i>	

<b>Exceptions to Restrictions</b>	
<b>Individuals</b>	<ul style="list-style-type: none"> <li>• Those serving in the armed forces, veterans, and their respective dependents.</li> <li>• Refugees and asylees within the first five years of U.S. residency.</li> <li>• Those who have worked 40 quarters.</li> </ul>
<b>Programs</b>	<ul style="list-style-type: none"> <li>• Emergency medical services, emergency noncash disaster relief, treatment for communicable disease, immunizations, certain housing programs, and other programs specified by the U.S. Attorney General that provide basic in-kind services without a means test, such as soup kitchens.</li> </ul>
<b>Sponsorship for Immigrants Arriving After Enactment of H.R. 3734</b>	
<b>Sponsorship provisions</b>	<ul style="list-style-type: none"> <li>• Extends period of time for deeming sponsor's income until noncitizen has worked 40 quarters or obtained citizenship.</li> <li>• Extends deeming provisions to <i>all</i> federal means-tested programs.</li> <li>• Eliminates certain deemed income exemptions.</li> <li>• Makes sponsorship a legally binding requirement.</li> <li>• Authorizes government agencies to recoup from sponsors most governmental benefits paid to immigrants.</li> </ul>

<b>Figure 12</b>	
<b>Personal Responsibility and Work Opportunity Reconciliation Act of 1996</b>	
<b>Title IV: Restricting Welfare and Public Benefits for Noncitizens</b>	
<b>Effect on Federal Funds to California</b>	
<b>SSI program</b>	<ul style="list-style-type: none"> <li>• Reduction in federal funds of \$176 million in 1996-97 and \$3.7 billion over the first six years of the act.</li> </ul>
<b>Food Stamps</b>	<ul style="list-style-type: none"> <li>• Reduction in federal funds of \$90 million in 1996-97 and \$1.6 billion over the first six years of the act.</li> </ul>
<b>Medi-Cal</b>	<ul style="list-style-type: none"> <li>• Reduction in federal funds of \$10 million in 1996-97 and \$291 million over the first six years due to noncitizens losing their SSI categorical eligibility for IHSS.</li> <li>• Reduction in federal funds of \$6 million in 1996-97 and \$263 million over the first six years due to denial of eligibility of noncitizens arriving after enactment of H.R. 3734.</li> </ul>
<b>Deeming provisions</b>	<ul style="list-style-type: none"> <li>• Unknown reductions in federal funds due to strengthening of deeming provisions.</li> </ul>

**Title V—Child Protection**

Title V extends the period for allowing states to receive enhanced federal matching funds for the development of statewide automated child welfare information systems. The federal match rate will decrease from 75 percent to 50 percent on October 1, 1997, rather than on October 1, 1996. We estimate that California will receive approximately \$20 million more in federal funds in 1996-97 and \$21 million over the first six years of the act for the development of its Child Welfare Services Case Management System.

**Title VI—Child Care**

Title VI reauthorizes the Child Care and Development Block Grant (CCDBG) and consolidates existing Title IV-A child care programs (AFDC/JOBS Child Care, At-Risk Child Care, and Transitional Child Care) into an expanded CCDBG. Figure 13 summarizes the major program changes, and Figure 14 summarizes the fiscal effects.

<b>Figure 13</b>	
<b>Personal Responsibility and Work Opportunity Reconciliation Act of 1996</b>	
<b>Title VI: Child Care</b>	
<b>Major Program Changes</b>	
<b>Program Provisions</b>	
<b>Existing set-asides</b>	<ul style="list-style-type: none"> <li>Eliminates existing set-asides in the CCDBG for program improvement (5 percent of the state grant) and for specific center-based care (20 percent).</li> </ul>
<b>Administrative cap</b>	<ul style="list-style-type: none"> <li>Sets a state administrative cap of 5 percent on all child care block grant funds. Under current law most services are allowed 15 percent for state and local administration.</li> </ul>
<b>Other changes</b>	<ul style="list-style-type: none"> <li>Increases reporting requirements and reduces the time the state may take to obligate and expend mandatory matching funds described in Figure 14.</li> </ul>

Figure 14

**Personal Responsibility and Work Opportunity Reconciliation Act of 1996**
**Title VI: Child Care**
**Summary of Fiscal Effects**
**Fiscal Provisions**

<b>Funding streams</b>	<ul style="list-style-type: none"> <li>• <b>Overview.</b> Creates a child care funding allocation to the state consisting of existing CCDBG funds and two additional funding streams that are mandated to be spent on recipients of assistance or recipients at risk of needing assistance.</li> <li>• <b>The CCDBG Funds.</b> These funds can be used for state discretionary purposes and will be distributed to the states under the current CCDBG formula.</li> <li>• <b>Mandatory Basic Allocation.</b> States will be entitled to a basic allocation based on a state's share of federal Title IV-A child care expenditures.</li> <li>• <b>Mandatory Matching Funds.</b> States may draw down additional matching child care funds (at Medicaid sharing rates) if they maintain state child care spending at 100 percent of the greater of federal fiscal year (FFY) 94 or FFY 95 levels.</li> </ul>
<b>Spending authorizations</b>	<ul style="list-style-type: none"> <li>• <b>The CCDBG.</b> The CCDBG is authorized at \$1 billion per year.</li> <li>• <b>Mandatory Basic Allocation.</b> \$1.2 billion per year is set aside as a capped allocation for the states.</li> <li>• <b>Mandatory Matching Funds.</b> Total matching funds for the states are authorized at \$760 million in FFY 97, rising each year to a total of \$1.5 billion in FFY 02. Funds will be distributed based on the current at-risk formula.</li> </ul>
<b>Uses of funds</b>	<ul style="list-style-type: none"> <li>• States must use at least 70 percent of mandatory child care funds on recipients of cash assistance, those attempting to transition off of assistance, and those at risk of needing assistance.</li> <li>• States must use at least 4 percent of all child care block grant funds on activities designed to improve the quality of child care.</li> </ul>
<b>Effect on Federal Funds to California</b>	
<b>Gain in federal funds</b>	<ul style="list-style-type: none"> <li>• Federal funding will increase by about 24 percent, or \$55 million, in 1996-97 and 35 percent, or \$525 million, over the six-year period.</li> </ul>

**Title VII—Child Nutrition Programs**

Title VII reforms the reimbursement rate structure of the family day care home component of the Child and Adult Care Food Program in order to target benefits to low-income children and to achieve savings. Additionally, it gives the state the option to deny certain child nutrition program services to illegal immigrants and eliminates start-up and expansion grants for school breakfast and summer food service programs. Figure 15 summarizes the major provisions of the title and their impact on federal funds to California.

**Figure 15**

**Personal Responsibility and Work Opportunity Reconciliation Act of 1996**

**Title VII: Child Nutrition Programs**

**Major Provisions and Effect on Federal Funds to California**

<b>Program Provisions</b>	
<b>Illegal immigrants</b>	<ul style="list-style-type: none"> <li>• Provides state the option to deny nutrition benefits, other than school lunch and breakfast, to illegal immigrants.</li> </ul>
<b>Grant changes</b>	<ul style="list-style-type: none"> <li>• Eliminates start-up and expansion grants for school breakfast and summer food service programs.</li> </ul>
<b>Fiscal Provisions</b>	
<b>Child and Adult Care Food Program</b>	<ul style="list-style-type: none"> <li>• Establishes a two-tier reimbursement rate structure with the effect of lowering the rate for families with incomes above 185 percent of the poverty level. Under current law, all beneficiaries are reimbursed at the same rate.</li> </ul>
<b>Summer Food Program</b>	<ul style="list-style-type: none"> <li>• Reduces the reimbursement rates for breakfast and lunch by less than 10 percent.</li> </ul>
<b>Nutrition Education and Training Program</b>	<ul style="list-style-type: none"> <li>• Changes to discretionary funding, dependent on annual appropriations.</li> </ul>
<b>Major Fiscal Effects on California</b>	
<b>Federal funds</b>	<ul style="list-style-type: none"> <li>• There is no fiscal impact in 1996-97. For the period 1998 to 2002, federal funding to the state would be reduced by about 12 percent, or \$340 million, on a cumulative basis. This loss is due primarily to the change in the rate structure for the Child and Adult Care Food Program.</li> </ul>

## Title VIII—Food Stamps and Commodity Distribution

Title VIII of the act reduces Food Stamp benefits, limits receipt of food stamps to three months for most able-bodied recipients who are not working and have no children, and modifies regulations concerning electronic benefit transfer programs. Figure 16 summarizes the major program and fiscal provisions and Figure 17 summarizes the title's impact on federal funds to California.

**Figure 16**

### Personal Responsibility and Work Opportunity Reconciliation Act of 1996

#### Title VIII: Food Stamps and Commodity Distribution

##### Major Provisions

##### Program Provisions

##### Work requirement

- Able-bodied recipients age 18 to 50 without dependents may receive benefits for a maximum of three months out of any three-year period, unless they are working a minimum of 20 hours per week. Recipients who lose their job may be eligible for one additional three-month period.
- Secretary of Agriculture may authorize a waiver of the work requirement if (1) the unemployment rate exceeds 10 percent in all or part of the state or (2) the state does not have enough jobs to provide employment for the individuals subject to the requirement.

##### Electronic Benefit Transfer (EBT)

- Requires all states to implement EBT by October 1, 2002, unless a waiver is obtained from the Secretary of Agriculture.
- Exempts all state and local EBT systems from responsibility for replacing lost benefits in excess of \$50.

##### Fiscal Provisions

##### Reduction in maximum benefit

- Reduces the maximum food stamp benefit by about 3 percent.

##### Income deductions and resource limits

- Freezes the standard deduction at \$134 and specifies limited increases in the excess shelter deduction.
- Energy assistance counts as income in the food stamp benefit determination process.
- Freezes the vehicle allowance at \$4,650 for purposes of determining eligibility.

##### Definition of household

- Children under 21 who are married or have their own children may no longer be treated as a separate Food Stamps household.

**Figure 17**

**Personal Responsibility and Work Opportunity Reconciliation Act of 1996  
Title VIII: Food Stamps and Commodity Distribution  
Effect on Federal Funds to California**

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<b>Reduction in maximum benefit</b>	<ul style="list-style-type: none"><li>• Reduction in federal funds of \$58 million in 1996-97 and \$491 million over the first six years of the act.</li></ul>
<b>Deductions and resource limits</b>	<ul style="list-style-type: none"><li>• Reduction in federal funds of \$32 million in 1996-97 and \$776 million over the first six years of the act.</li></ul>
<b>Work requirement</b>	<ul style="list-style-type: none"><li>• Reduction in federal funds of \$8 million in 1996-97 and \$300 million over the first six years of the act.</li></ul>
<b>Household definition</b>	<ul style="list-style-type: none"><li>• Reduction in federal funds of \$7 million in 1996-97 and \$113 million over the first six years of the act.</li></ul>

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**Title IX—Miscellaneous**

Title IX includes a provision that reduces the allocation of Social Services Block Grant (Title XX) funds to states by 15 percent for federal fiscal years 1996 through 2002. In 1996-97, California is using its Social Services Block Grant funds primarily to support regional centers through the Department of Developmental Services and the IHSS. We estimate a reduction in federal funds to California of \$50 million in 1996-97 and \$302 million over the first six years of the act. We note that the Budget Act of 1996 includes a General Fund appropriation to backfill for the loss in federal funds.

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