



Welfare Reform in California: A Welfare-to-Work Approach

SUMMARY

The Issue: Welfare Reform

Welfare reform is one of the most important policy issues facing the Legislature and Governor this year. With federal enactment of the 1996 welfare reform law, the Aid to Families with Dependent Children (AFDC) program was repealed and replaced with a new Temporary Assistance for Needy Families (TANF) program. The decisions that the Legislature and Governor make in formulating a new TANF program in California will affect one out of 13 persons in the state, including 1.8 million children.

The dilemma facing any welfare reform proposal is that it must address at least three competing goals: provide support for children, establish incentives for their parents to work, and control public costs. There are few easy answers in resolving the conflicts among these goals.

Many different welfare reform models can be devised depending on which of the competing goals the Legislature wishes to emphasize. In this report, we offer one such alternative—a welfare-to-work approach—that attempts to strike a balance among these competing goals. Where possible, the model is based on research findings; but in some instances, research is not available to help make the necessary choices in formulating the approach. In those cases, we have had to rely upon our judgment and that of various practitioners in the field of welfare and employment programs. It is our hope that the model will serve as a starting point for legislative discussions of reforming California's AFDC and General Assistance (GA) programs, in response to the federal legislation.

An Approach

With respect to the goal of moving adults from welfare to work, our approach includes a wide array of employment preparation services, based largely on the existing Greater Avenues for Independence (GAIN) program but with participation mandates that affect more individuals. The most prominent of the new employment preparation services would require employable recipients, who are not otherwise working, to participate in community service jobs after two years on aid. These would generally be wage-paying jobs where an individual can get the practical experience of working and—in addition

to the wage—the financial benefit of qualifying for the Earned Income Tax Credit. In addition, the model continues various existing work incentives and adds new ones.

As regards providing assistance for children, our approach does not call for a cutoff of state aid at the end of five years, as the federal welfare reform act does with respect to federal TANF funds. Rather, families with children would continue to be eligible for state benefits at the end of five years, but at a reduced level. In addition, they would remain eligible for Medi-Cal and food stamp benefits. Thus, the model attempts to strike a balance between maintaining some of the behavioral effects associated with a time limit on aid while recognizing the importance of providing some support for needy families.

With respect to adults without children, the model calls for a two-year time limit on aid for able-bodied recipients. Under current state law, counties are authorized to limit GA to 3 out of every 12 months for employable recipients.

Our approach combines the state's AFDC/TANF and county-operated GA programs into a new program providing grants and services to families with children, as well as adults with no children. This is based on the premise that redistributive programs, such as AFDC and GA, represent statewide functions, where state policy control is needed to ensure uniform levels of support. The state would have responsibility for the program and would fund most of the costs. However, counties have an important role to play in delivering employment and related health and social services to low-income persons. Therefore, the counties generally would administer the program and would be given a financial incentive to get recipients off aid. In addition, counties would have the option of developing and implementing their own plan for providing services, instead of the approach encompassed by the model.

The Fiscal Effects

Projecting the fiscal effects of our welfare-to-work approach is difficult, in part because there is insufficient historical data from which to predict the effects of some of the program components. Nevertheless, given what is known about some of the program components, we project that the model would lead to a significant increase in the number of recipients who obtain nonsubsidized jobs and a significant reduction in the caseload. We also assume, however, that a number of recipients will have their grants reduced or, in the case of adults with no children, eliminated.

We estimate that the model would result in significant costs in the initial years offset by savings in subsequent years. The costs are due to the investment in services. Assuming that these services, and the behavioral effects of the work incentives, will lead to increased employment among recipients, we project that the model would result in long-term savings compared to current law. Due to the lack of research on the effects of provisions such as time limits, however, there is considerable uncertainty surrounding these projections.

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Chapter I: Background

Major Income Assistance Programs in California

California currently has three major income assistance programs that provide cash grants to poor persons and families: The AFDC program, which serves families with children; the Supplemental Security Income/State Supplementary Program (SSI/SSP), which serves aged, blind, and disabled persons; and the county General Assistance (GA) program, which serves indigents not eligible for AFDC or SSI/SSP (typically single adults). This report addresses reform of the AFDC and GA programs. Figure 1 provides data on grant expenditures, caseloads, and monthly grants for these programs in 1996-97.

AFDC. The AFDC program (excluding the foster care program) consists of two components: the

Family Group (FG) component, which consists of one-parent families and accounts for most of the cases (about 82 percent), and the Unemployed Parent (U) component, which consists of two-parent families. The number of persons in the assistance unit ranges from one to more than ten, with the average at three. In over 90 percent of the AFDC (FG) cases, the mother is the custodial parent. The average age of these women is 31 years. About 20 percent of the total AFDC caseload consists of child-only cases, such as children who are citizens but whose parents are undocumented persons and children whose caretakers are relatives. With respect to race and ethnicity, in October 1995 about 30 percent of the persons on aid were reported as white, 39 percent Hispanic, 19 percent black, and the remaining 12 percent primarily Asian.

Figure 1

Aid to Families With Dependant Children (AFDC) And General Assistance (GA) Programs 1996-97

Program	Expenditures for Grants (In Millions)				Cases	Monthly Grants
	Federal	State	County			
AFDC (FG&U) ^a	\$2,896	\$2,229	\$41	885,000	\$565/538 ^b	
GA	—	—	355 ^c	150,000 ^c	175-345 ^d	

^a Family Group and Unemployed Parent components.
^b Maximum grants for high-cost and low-cost counties, family of three.
^c Based on June 1996 data.
^d Based on 1995-96 data (grants for individuals) from reporting counties. Data for 1996-97 not available.

General Assistance. Statewide data on the GA program are not available. A survey conducted in March 1996 by Los Angeles County, which accounts for about 60 percent of the statewide GA caseload, indicates that about 62 percent of the county's GA recipients are male, the average age is about 40, and close to half of the recipients in the county are African-American. The county also reports that 58 percent of its GA recipients are classified as employable. A review of data provided by selected counties indicates that many GA recipients have potential barriers to employment, such as prior criminal convictions, substance abuse problems, or mental health problems.

Employment of Recipients. Because self-sufficiency is an overriding objective for programs that assist able-bodied persons, it is worth reviewing the data regarding the degree to which welfare recipients in California are employed. Statewide data are available only for the AFDC program. According to the October 1995 survey conducted by the Department of Social Services, 13 percent of the cases reported earned income during the month—9.6 percent of AFDC (FG) cases and 31 percent of AFDC (U) cases. These figures probably understate, to some extent, the actual number of AFDC cases where the parent is working, because of unreported income.

We also note that if the time frame is expanded beyond one month, a larger proportion of cases would be

shown as reporting earned income *at some time* during the period. Data from a study of California's GAIN program, for example, indicate that in the early 1990s about 35 percent of AFDC (FG) household heads (in those counties in the study) were employed at *some* time during a one-year period. (The sample in two of the counties was restricted to recipients on aid for more than two years, so the figure probably understates the proportion of working recipients.)

Thus, the data suggest that while a significant number of AFDC recipients work on a sporadic basis, a relatively small number work on a regular basis.

Federal Welfare Reform

In August 1996, Congress enacted federal welfare reform legislation. (For details, please see our policy brief *Federal Welfare Reform (H.R. 3734): Fiscal Effect on California*.) To summarize some of the key provisions related to the AFDC program, the new law:

- Repeals federal AFDC requirements and establishes a new TANF program, with no entitlement to benefits.
- Replaces federal matching funds with a block grant to the states.
- Requires that state plans include a provision that at least one adult in a family that has been receiving aid for more than two

years participate in work activities, as defined by the state.

- Requires states to reduce grants for recipients who refuse to engage in work (as defined by the state).
- Penalizes states for not meeting specified rates of participation by TANF recipients in work-related activities.
- Establishes a maintenance-of-effort requirement on state expenditures for needy families.
- Limits to five years the amount of time a family can receive federal TANF funds.

In October 1996, the Governor submitted a preliminary state plan to the federal government in order to implement the TANF program. By doing so, the state will receive federal block grant funds for 1996-97, resulting in increased federal funds of over \$300 million for the current year, compared to what the state would have received under the prior law. The plan, however, indicated that the state would continue to operate its AFDC program during 1996-97, as provided by current state law.

Governor's Welfare Reform Proposal

In January 1997, the Governor submitted a welfare reform proposal as part of his budget for 1997-98. We

will review the Governor's proposal in our upcoming *Analysis of the 1997-98 Budget Bill*.

Welfare Reform: Competing Goals

It is clear that welfare reform will be one of the major topics of debate in this new legislative session. One of the dilemmas the Legislature and the administration will face is that in welfare reform, the goals often are competing rather than complementary. Consider, for example, the following two goals of welfare reform:

- Ensure that individuals and families do not live in a condition of poverty—a goal that suggests the provision of sufficient aid to bring family income above the poverty line.
- Minimize welfare dependency and associated public costs—a goal that suggests the obligation to work and the use of work incentives such as low levels of aid and time limits on eligibility to encourage welfare recipients to work.

Generally, in developing welfare systems, policymakers strike some balance between these goals. It is important to recognize, however, that the emphasis given to one goal over another is often based on philosophy as well as on cost/benefit analysis.

Chapter II:

Overview of the Legislative Analyst's Office's Welfare-to-Work Approach

With the enactment of federal welfare reform, the state has considerable flexibility to revise its AFDC program and to develop a more comprehensive approach to the state's safety net programs for low-income persons. There are numerous ways in which this could be accomplished. Other states are crafting their plans in response to welfare reform, some of which include significant departures from the previous federal requirements for AFDC. Due to the absence of empirical research findings, however, on key provisions of welfare reform (for example, time-limited aid), it is impossible to predict the effects of many of these program components.

In order to assist the Legislature in its efforts to formulate a welfare reform plan, we offer a welfare-to-work approach (or "model") for consideration. We recognize that many different welfare reform plans can be drafted, depending on the Legislature's policy objectives. It is our hope that the approach we offer in this report will help to illustrate the various choices the state faces, given the interrelationship of elements that such a plan requires.

Our approach is based largely on the principles, or expectations, that

(1) the welfare system should assist and encourage recipients to achieve self-sufficiency and (2) recipients should, as a condition of receiving aid, participate in activities designed to move them toward self-sufficiency. Within the broader goal of self-sufficiency, the principal objective of the approach is to achieve a significant increase in the number of recipients who are employed.

A secondary objective is to organize the state's income assistance programs on a more uniform and rational basis. To accomplish this, the model combines the state's AFDC and county-operated GA programs into a single program with two components—one serving families with children and the other serving adults without children. The state would have responsibility for the program and would pay for most of the costs, but would contract with the counties for administration. Counties would have a share of the program costs. In order to give counties an incentive to take actions to help get program recipients off of aid, the county share of costs would increase as recipients' time on aid increases.

Figure 2 summarizes the roles of the state and counties in our approach.

Figure 2

Legislative Analyst's Office's Welfare-to-Work Approach State and County Roles

State role

- Set policy and funding levels for all welfare programs for able-bodied people in California, subject to the limits of federal law.
- Pay most of the nonfederal costs of welfare programs in California for a time period sufficient to allow recipients to become self-sufficient.
- Organize the economic incentives to local government to ensure that counties work to promote a welfare recipient's departure from welfare.
- Ensure compliance with federal welfare requirements.

County role

- Organize and deliver social services, mental health, job training, and other services to welfare recipients in a manner which promotes welfare recipients' self-sufficiency.
- Gradually face increased responsibility for paying a share of the costs to provide welfare as recipients' time on aid increases.

As the primary means to achieve the objective of self-sufficiency, the model includes various components designed to prepare recipients for employment and to give them greater incentives to work. Some of the employment preparation components—job search, basic education, and job training—are derived from the existing GAIN program, which has been found to be effective in increasing the level of employment among AFDC recipients.

The model also includes (1) a requirement for community service jobs for able-bodied adults not otherwise working and (2) provisions for time-limited aid. The time limit for families with children (with certain

exemptions) would be five years, but the limit would not result in the loss of aid altogether; rather, the grant would be reduced significantly. In contrast, the time limit would be two years for adults without children, and would result in the loss of eligibility for cash benefits. In both cases, time in which a recipient is working in a nonsubsidized job at least 20 hours per week would not count against the time limit, but time in community service jobs would count.

While the approach calls for the provision of services during specified time frames, it gives local administrators considerable discretion over how to allocate resources. Recognizing that local administrators might believe

that they can come up with a better plan, however, we also include a provision whereby the counties would have the option to provide services in a different manner, pursuant to a performance-based contract with the state.

Figure 3 summarizes the key features of our approach.

Figure 4 illustrates the major components and time frames of the model. It shows how a recipient would move through the components of the model based on the amount of time on aid. As we explain later in the report, the sequence and duration of the program components are designed to provide the services in the most cost-effective manner.

Figure 3

**Legislative Analyst's Office's Welfare-to-Work Approach
Key Features**

- Consolidates the state's major safety net programs—Temporary Assistance for Needy Families and General Assistance.
- Shifts responsibility for General Assistance to the state.
- Includes time limits, but provides a "safety net" for families with children.
- Builds on existing Greater Avenues for Independence employment model and infrastructure.
- Includes strong participation mandates—in employment preparation and work activities.
- Provides work incentives for welfare recipients.
- Establishes incentives for county administrators to operate cost-effectively.
- Provides for county flexibility in service delivery.

Figure 4

Legislative Analyst's Office's Welfare-to-Work Approach Major Program Components and Time Frames

Families With Children (TANF ^a)	Adults Without Children (General Assistance)
0 to 6 Months	
GAIN ^b orientation Job search/job club	GAIN orientation Job search/job club Community service jobs
7 to 24 Months	
Basic education Job training Services to address disabilities Voluntary work Job search	Community service jobs Basic education Job training Services to address disabilities Job search
25 to 60 Months	
Community service jobs— Minimum wage Job search	Aid discontinued (able-bodied recipients) Eligible for job search
Over 60 Months	
Significant grant reduction Eligible for job search	

^a Temporary Assistance for Needy Families.
^b Greater Avenues for Independence.

Chapter III: The Temporary Assistance For Needy Families Program

In this chapter, we discuss the TANF program—that is, the program for families with children. Figure 5 (see page 10) summarizes our approach for this component of the welfare reform program.

Program Eligibility

Under current state law, the AFDC program is available to all needy single-parent families (illegal immigrant parents are excluded but their children, if citizens, are provided with aid) and to certain two-parent families. Specifically, only those two-parent families in which the primary wage earner is unemployed and has accumulated a specified minimum amount of work history are eligible for AFDC.

Family income is the primary determinant of eligibility for grants under the AFDC program. Currently, eligibility is based mainly on an income “need standard,” also known as the Minimum Basic Standard of Adequate Care. The need standard for a family of three, as an example, is \$735 per month in the high-cost counties under California’s regional grant system.

Generally, eligibility for an AFDC grant depends on whether the family income—after excluding a portion of this income pursuant to an “earnings disregard” (discussed below in more

detail) and allowances for work-related expenses—exceeds the need standard. Because of the disregard and work-related allowances, families with incomes above the need standard can qualify for a grant. However, anyone with a gross income above 185 percent of the need standard is automatically ineligible for the program.

We note that the need standard is set above the maximum grant level. For example, the maximum grant for a family of three is \$565 (in high-cost counties), or \$170 below the need standard. This acts as a work incentive feature, by allowing working recipients to keep any earnings between the need standard and the maximum grant (\$170 in this case) without having their grant reduced or losing eligibility for the program. We assume, in our approach, the need standard as provided under current law.

Grant Levels

Maximum grants in California vary according to family size and whether the family lives in a high- or low-cost county. In the high-cost counties, for example, maximum monthly grants range from \$279 for a one-person (child-only) case to \$1,196 for a family of ten or more persons.

The existing grant structure contains the following work incentive features: (1) the \$30 and one-third disregard, whereby about one-third of work earnings are “disregarded” in determining the amount of a recipient’s income that offsets his or her grant, and (2) the “fill-the-gap” grant structure, in which there is a gap between the need standard and the maximum grant (as previously described).

Current state law also includes the Maximum Family Grant provision for the AFDC program. Under this provision, grants do not increase for additional children born while a recipient is on aid.

Finally, current law includes the Alternative Assistance Program, under which AFDC applicants or recipients with earned income are permitted to receive Medi-Cal benefits and child care payments if they choose to decline cash grants.

What is the Appropriate Grant Structure? A review of the research does not provide clear guidance as to what constitutes the “right” grant level. Increasing the maximum grant would help bring nonworking families out of poverty, but would reduce to some extent the financial incentive to work (and, of course, would increase costs). Conversely, reducing the grant would tend to have the opposite effects. After considering these factors—in the context of balancing the objectives of providing income support while maintaining

a work incentive and controlling costs—we chose to incorporate the grant levels under existing law, with certain exceptions discussed below.

Our approach retains the fill-the-gap budgeting structure but limits the \$30 and one-third disregard. Specifically, the disregard would be applied in full to a recipient’s first year of employment, reduced by half for the second year, and then eliminated. We include these modifications in light of research recently conducted in California and Minnesota.

California contracted for an evaluation of certain work incentive provisions enacted in 1991-92—(1) the expansion of the \$30 and one-third disregard, (2) the elimination of a provision that prohibited persons working more than 100 hours per month from eligibility for AFDC (U) benefits, and (3) the establishment (through maximum grant reductions) of a “fill-the-gap” grant structure in which there is a gap between the need standard and the maximum grant (as previously described). In a report submitted in January 1997, the evaluators found that the work incentives had a positive effect on employment among AFDC (U) recipients—possibly due to the elimination of the 100-hour rule—but did not show a positive impact among AFDC (FG) recipients, who comprise over 80 percent of the AFDC caseload.

If the \$30 and one-third disregard and the fill-the-gap structure do not

Figure 5

Legislative Analyst's Office's Welfare-to-Work Approach

TANF—Families With Children

Current Law	LAO Approach
Eligibility	
Income threshold based primarily on need standard— varies with family size and set above the maximum grant.	Same as current law.
Grants/Services	
No Time Limit:	0-6 Months:
Maximum grants vary with family size. About one-third of earnings disregarded in calculating grant (earnings do not offset grant). Maximum Family Grant provision—no increase for children born while parent is on aid. GAIN program: <ul style="list-style-type: none"> • Case management. • Job search/job club. • Basic education. • Job training. • Child care and transportation. • Exempt if child under three; child-only case, elderly, caretaker of disabled person, teen parent in school. 	Same as current law. Phase out "\$30 and one-third" disregard within first two years of employment. Same as current law. GAIN program: <ul style="list-style-type: none"> • Case management. • Job search/job club. — — • Child care and transportation. • Exempt if child under one year. • Other exemptions: same as current law.
Two years after initiating GAIN: county option to make work slot available if recipient not working.	7-24 Months: Maximum grants: same as current law. Case management. Assessment. Job search. <ul style="list-style-type: none"> • Exempt if child-only case, teen parent in school, recipient is elderly or caretaker of disabled person, or parent has child under one year. Other services as needed. <ul style="list-style-type: none"> • Basic education (if progress made). • Job training. • Counseling, treatment. Volunteer work positions. Child care and transportation. 25-60 Months: Case management. Community service job. <ul style="list-style-type: none"> • Exempt if working 20 hours/week in nonsubsidized job, recipient is teen parent in school, needy caretaker relative, caretaker of disabled person, or parent with child under one year, or for medically-verified disability or illness. • Required 20 hours/week in first year, increasing by 5 hours/week each year.

Continued

Current Law	LAO Approach
	<ul style="list-style-type: none"> Paid minimum wage plus Earned Income Tax Credit. Periodic job search. <p>Other services if needed. Child care and transportation.</p>
Sanctions for Nonparticipation	
GAIN Program:	
<ul style="list-style-type: none"> Grant reduction for nonparticipation. Deferred for reasons such as illness, family crisis. After two years, grant reduction if refuse work slot, if county makes a slot available. 	Proportional grant/wage reduction. Deferred for medically-verified illness or disability.
Transitional Benefits	
Child care: two years. Medi-Cal: two years.	Child care: same as current law. Medi-Cal: same as current law. Case management: one year.
Time Limits	
None.	Five years total time on aid: <ul style="list-style-type: none"> Exclude time if working 20 hours/week in nonsubsidized job. Exempt if child-only case with disabled or relative caretaker, or recipient is a relative caretaker or caretaker of disabled person. Extend limit if jobs not available or for medically-verified illness or disability.
After Five Years: Safety Net	
Not applicable (no time limits).	Monthly grants: \$300-\$450. Eligible for job search services.
Administration	
Counties.	State contracts with counties or private organizations.
Funding (Non-Federal Share)	
AFDC program	Grants: <ul style="list-style-type: none"> Cases 0-12 months: 100 percent state. Cases 13-24 months: 95 percent state, 5 percent counties. Cases 25-36 months: 90 percent state, 10 percent counties. Cases 37-48 months: 85 percent state, 15 percent counties. Cases 49-60 months: 80 percent state, 20 percent counties. Cases over 60 months: 75 percent state, 25 percent counties.
	Administration and services:
	<ul style="list-style-type: none"> 85 percent state, 15 percent counties.
	Performance incentives:
	<ul style="list-style-type: none"> Reduce county share up to 5 percentage points.

bring about increased employment among recipients, they will result in a cost to government. This is because they will result in higher grant payments to working recipients, and in some cases recipients will remain on aid for a longer period of time. The evaluation provides some evidence that this has been the case in California.

An interim evaluation of a welfare reform program in Minnesota, which includes financial work incentives similar to California's, had more mixed results: the program had the effect of increasing the number of persons on aid who were working, but kept working recipients on aid for a longer period of time. The program also had the effect of increasing average grant expenditures, but the long-term impact on cost-effectiveness is not known at this time. We note, moreover, that the evaluation does not isolate the impacts of the financial work incentives from the impacts of other program components.

Thus, the research suggests that the earnings disregard may not have the intended impacts. We believe that to the extent the disregard does affect a recipient's decision to obtain a job, phasing it out is unlikely to alter that initial decision or to cause the recipient to give up the job when the disregard is reduced and eliminated. This is primarily because recipients who lose the disregard would still retain a significant financial benefit from continuing to work (for example, from the Earned Income Tax

Credit [EITC], which provides a tax reduction or refundable credit for low-income working persons).

Wage Replaces Grant for Community Service Job Participants. Under our approach community service employment would be required for adult recipients who are on aid after 24 months and not working at least 20 hours per week. These participants would be paid the minimum wage and would be eligible for the EITC. For example, a person who works 20 hours per week would earn \$498 in an average month and be eligible for \$183 per month through the EITC (assuming a single parent with two children). After adjusting for social security taxes, the family's income would total \$643 per month. When combined with food stamps, this family would have a monthly income of \$953, or 88 percent of the federal poverty level. (We discuss community service employment in more detail below.)

Services

The principal employment-related services used by able-bodied adults on welfare consist of job search assistance, basic education (including English as a Second Language courses), and job training. Some AFDC and GA recipients, however, have disabilities that inhibit their prospects of obtaining employment, even though they do not qualify for aid under the SSI/SSP program (which requires a disability that continues for one year and prevents

gainful employment). Services to address these conditions include health and social services such as drug and alcohol abuse treatment and mental health counseling and treatment.

Currently, these employment, health, and social services are provided through a variety of programs, generally administered by counties, school districts, and community colleges. Counties indicate, however, that the availability of these services is limited and sometimes inadequate, due primarily to funding constraints; and there is relatively little coordination of such services for welfare recipients. The GAIN program provides some degree of coordination of job search, education, and job training services through its case management, but the program currently is available only to AFDC recipients and has never been funded to serve more than about 25 percent of eligible persons.

An independent evaluation of the GAIN program found that as implemented by Riverside County—one of the six counties studied—the program produced larger earnings gains and grant reductions than found in any previous large-scale study of welfare-to-work programs. The evaluation, as well as a related study covering programs in various states, found that an approach that emphasizes getting recipients into jobs as soon as possible—rather than one that emphasizes education and training—is more effective.

Even in the Riverside program, however, 41 percent of the participants were still on aid after three years. Nevertheless, the Riverside program was found to be cost-effective from the government's perspective, compared to the AFDC program without GAIN—generating \$2.84 in savings and revenues for every dollar spent.

What Services Should Be Provided?

The Riverside GAIN approach can be characterized as including a strong employment message to recipients, relatively more (and earlier) use of job search and job development activities, broader participation, and greater use of sanctions. Our model includes the basic features of the Riverside GAIN program, with some modifications, as summarized below. We note that the time lines for providing specific services are intended as norms, and case managers would have the flexibility to vary from these guidelines where it is determined that it would be cost-effective to do so.

- *Participation requirements would be broader.* All adults, with certain exceptions, would be expected to participate in activities designed to assist them in obtaining employment. The exceptions would be parents with children under age one, caretakers of disabled persons, and relatives who are the caretakers of children on aid. Under current law, parents with children under the age of three are exempt from the GAIN program.

We note, however, that nonwelfare parents with children one and two years old frequently have jobs. We also note that AFDC parents who have very young children when they go on aid tend to remain on assistance for a longer time, indicating the need to establish a connection with the labor force at an early stage of welfare receipt. Finally, under our model, deferrals would be more limited than under GAIN (which includes instances that are difficult to document, such as “family crises”—specifically, deferrals would be limited to medically-verified illnesses or disabilities.

- *All recipients would receive case management*, as in the GAIN program, with the amount depending on the needs of the clients. This would include a case plan designed to achieve self-sufficiency, based on the needs and abilities of the recipients.
- *During the first six months on aid, GAIN orientation would be followed by job search/job club services*—supervised and unsupervised activities focusing on making job contacts and interviewing for positions, as well as group job clubs which include a classroom instruction component. This time frame differs in some respects from GAIN currently, where recipients may be referred to basic education or job training during this period. As indicated above, evaluations have found that the “labor force attachment” approach (emphasizing up-front job search) is more effective than the “human capital development” approach (emphasizing education and training). In order to maximize efficiency, case managers would have flexibility to determine which recipients would need more intensive job search or group job club assistance, based on the recipients’ prospects of obtaining jobs without this level of assistance. The six-month time frame is established in recognition of the fact that a large number of recipients (about 25 percent historically) go off of aid without any services. Thus, in order to control program costs, case managers generally would delay the provision of more expensive services (such as assessment, education, and job training) until after six months.
- *Job developers would assist in finding jobs* by establishing direct contacts with potential private and public sector employers. This is a component of the Riverside program, but not used in many other counties.
- *For persons still on aid after six months, an employment assessment would be conducted*. Pursuant to the assessment, other services

would be provided to address barriers to employment, with periodic job search. These services could include basic education, English-as-a-Second Language courses, job training, and services—such as counseling, home visits, and drug or alcohol abuse treatment—designed to address certain problems or disabilities. Case managers would have discretion in determining what services are appropriate, taking into account the cost-effectiveness of these activities. This is similar to how the GAIN program operates, but we note that while case managers in GAIN currently may refer recipients to providers of health and social services, typically they confine their activities to basic education and job training services.

- *Basic education would be provided only through programs that can demonstrate that they are effective, and only to the extent progress is made by the recipient. Typically, basic education courses offered by adult education programs and community colleges are provided independently of vocational training courses. This delivery mode, however, generally has not been successful. For example, an evaluation of basic education provided to GAIN participants—typically through public education institutions—did not find significant*

educational achievement impacts in two of the three counties studied or welfare and employment impacts in any of the counties. An integrated approach appears to yield much better results—for example, the job training/basic education courses offered by the Center for Employment Training, a private organization based in San Jose.

- *Case managers and job developers would identify opportunities for volunteer work, and place recipients, on a voluntary basis, in such positions. While this is currently not part of the GAIN program, this activity is one of the components of a welfare-to-work program (Project Match) in Chicago. Program administrators indicate that there are a large number of such work slots available in local areas.*
- *Child care and transportation expenses would be provided as needed. Child care reimbursement, however, would cover costs up to the 75th percentile of regional costs, as provided under current law for non-GAIN AFDC recipients. The higher limit for the GAIN program—approximately the 93rd percentile—would be eliminated. (For a discussion of this issue, see our review of the GAIN program in the *Analysis of the 1995-96 Budget Bill*.)*

With respect to other services provided outside the context of the GAIN program, the model includes the following:

- *The Cal Learn Program would be retained, pending the results of an evaluation currently in progress.* This program serves teen parents on AFDC by providing case management and fiscal bonuses and penalties based on school attendance and performance.
- *A new service—one year of transitional case management for recipients going off of aid due to employment—would be provided.* This is designed to facilitate stable employment, in light of the relatively high rate of recidivism in the AFDC program. (For example, an estimated 26 percent of AFDC recipients in October 1995 had been on aid more than once.) The existing transitional child care and Medi-Cal benefits would be continued as provided by current state law—for up to two years after an AFDC recipient goes off of aid due to employment or marriage. (The second year of transitional Medi-Cal currently is subject to approval of a waiver of federal regulations.)

Community Service Employment

What is Community Service Employment? Community service jobs, in the context of this report, are jobs outside the “regular” labor market that are arranged by the government specifically for welfare recipients. Participants either work for their grant or are paid regular wages in lieu of their grant.

Under current state law, adult recipients who have been on AFDC for two years from the date of their GAIN assessment must participate in a work preparation assignment (similar to community service jobs) if made available by the county, unless they are working at least 15 hours per week. This provision became effective during 1995-96, so recipients will begin to be affected by the two-year time frame in 1997-98. It is important to recognize that the provision of work slots is at the *option* of the counties.

In addition, counties typically provide such jobs as part of a requirement that GA recipients work. Contra Costa County, for example, requires employable recipients (who are not otherwise working) to work in county-provided jobs within a few months of application for aid. A wide variety of county jobs are provided, such as paper recycling, clerical work, and roadside litter removal, as well as jobs in nonprofit organizations such as certain hospitals in the county.

Some other states have implemented, or plan to implement, welfare reform proposals that include community service employment as one of the components (Wisconsin and Vermont, for example). In fact, the federal welfare reform act requires states to include such provisions in their state plans, unless the Governor specifically chooses not to do so. (The Governor's 1997-98 welfare reform proposal would authorize counties to include community service as a work-related activity for recipients.)

The LAO Approach. In our approach, as noted above, parents (or household heads in the case of two-parent families) who have been on aid for 24 months, and not working at least 20 hours per week, would be placed in a community service job unless they have a child under one year, are caretaker relatives, are caretakers for a disabled person, or have a medically-verified illness or disability that precludes employment.

By design, the community service jobs would be operated in the same manner as nonsubsidized jobs. Recipients would be paid a wage, not given a welfare grant. The wage would be set at the minimum wage level (\$498 per month on average, for a 20-hour work week) and the employees would be eligible for the EITC (\$183 per month for a single parent with two children). They would also be eligible for Medi-Cal and food stamps.

Participation in these jobs would be supplemented by job search and other activities designed to address obstacles to obtaining nonsubsidized employment, if prescribed in the case plan. Work would generally be for 11 months, with periodic job search, followed by one month of intensive job search prior to placement in another work slot.

During the first year of community service jobs, recipients would work 20 hours per week. The number of hours would increase to 25 in the second year, and to 30 in the third year, with essentially no increase in the wage. This is designed to increase the incentive for recipients to find a nonsubsidized job. (In order to retain the federal EITC, this would be accomplished by reimbursing the recipient with a nominal grant—\$10 per month—for the additional hours worked.)

Under our approach, case managers could redirect a recipient from a community service job into a short-term intensive job training program, if the recipient could benefit from such training. For example, the Center for Employment Training, a private organization that operates job training programs in 19 sites in California, provides courses where the student attends full time for three to eight months, depending on the course. Such job training programs could also be operated directly by individual businesses.

The Pros and Cons of Community Service Employment. Community service jobs constitute just one of a variety of activities that could be adopted to facilitate the movement of recipients into private or public nonsubsidized employment. Proponents of community service employment generally cite two broad reasons for such an approach: (1) the monetary benefits of moving recipients off welfare and into employment, and (2) the nonmonetary benefits, to recipients and society alike, from engaging in work. The specific benefits are summarized below:

- It can help prepare participants for employment by teaching them good work habits.
- Similarly, it can increase participants' chances of obtaining nonsubsidized employment by giving them an opportunity to gain work experience and demonstrate a good work record.
- By requiring welfare recipients to participate in such work (and counting this time against time limits on aid), it can increase the incentive to seek nonsubsidized jobs, when compared to a system where no such participation mandate exists.
- When compared to not working, such jobs can contribute to participants' self-esteem and enhance their status as role models for their children. We note, in this respect, that participants in

unpaid work experience programs in the 1980s reported that the work was meaningful, not "make work" jobs.

- Some public value can be attributed to the work itself.
- It is consistent with the notion, held by many, that able-bodied welfare recipients should participate in work-related activities in exchange for the aid they receive.

Community service jobs, on the other hand, would result in significant administrative costs and additional costs for child care and transportation. It also may be difficult to develop enough work slots if implemented on a large scale.

Research on a few small "workfare" programs in the 1980s (in which recipients worked for their grant) did not find consistent positive effects on employment and earnings. The researchers indicated, however, that programs offered on a larger scale and with broader participation mandates could prove to be effective. We also note that better outcomes might be achieved if such programs were operated in the context of a time-limited aid environment, where the incentive to get a nonsubsidized job would be greater. Moreover, the research indicated that by assuming some public value from the output of the work, the benefits exceeded the costs, from the perspective of the taxpayer.

Finally, we note that the State of Virginia has implemented a community service job requirement for AFDC recipients who have been on aid for 90 days. This is part of a welfare reform program that includes a time limit of 24 months of assistance within any 60-month period. (Some recipients would be eligible for the state's General Relief program after the time limit.) Program administrators indicate that in those counties where the provision has been implemented, caseload reductions have occurred and many recipients found nonsubsidized employment prior to the time the community service job requirement took effect. Consequently, the state has had to develop a much smaller number of community service work slots than had been anticipated. The program, however, has not been evaluated.

On Balance, It's Worth Trying.

After considering the factors summarized above, we believe the potential benefits justify including this activity in our approach. This recognizes both the potential monetary benefits associated with moving recipients into nonsubsidized jobs, as well as the nonmonetary societal benefits from a program that requires able-bodied welfare recipients to work rather than remain at home.

Because studies indicate that from 40 percent to 50 percent of AFDC recipients leave aid within two years, the community service job requirement would not begin until a recipient has been on aid for two years.

This will help to control the costs of this component while targeting the activity to those recipients who are most likely to benefit from it. Maintaining the requirement until the time limit, moreover, will ensure that work-ready recipients of aid are participating in a work activity.

As is the case for most community service employment programs, there would be a provision that these jobs not displace workers in existing jobs. We estimate that approximately 93,000 community service work slots would need to be developed in the first year that the provision is implemented. To put this in some perspective, there are currently about 13 million jobs in California. Counties and cities are the employer for over 500,000 of these jobs, and over 700,000 persons are employed by nonprofit organizations.

Sanctions

The model assumes sanctions for failure to participate in activities prescribed in the case plan and community service jobs. The sanctions would be proportional reductions in the recipient's grant or wages, for hours of nonparticipation.

Time Limits

Federal Requirements versus State Discretion. As indicated previously, the federal welfare reform legislation sets a five-year lifetime limit on any family's use of federal block grant funds. The law also permits states to

exempt up to 20 percent of its cases for reasons of hardship.

It is important to note that the federal act places no time limits on the use of state funds. As a result, the state does not necessarily have to impose any time limits on recipients' eligibility for aid. Those on aid for more than five years could be funded entirely with state funds, and the federal funds that would have otherwise supported these recipients would, in effect, be shifted to other recipients. Thus, whether to impose a time limit on state funds is a key decision facing the Legislature.

How Many Persons Might Be Subject to Time Limits? As background for the consideration of time-limited aid, we note that according to the 1995 survey of AFDC recipients, 35 percent of the cases were on aid for five years or more. This consisted of 36 percent of AFDC (FG) cases and 29 percent of AFDC (U) cases. Viewed from a different perspective, the Department of Social Services estimates that of those AFDC (FG) recipients who began aid in 1988, about 30 percent were on aid five years later. Some other studies estimate that over 40 percent of the persons receiving AFDC eventually will accumulate five years of time on aid.

The large number of long-term recipients is probably related to the fact that these recipients tend to have lower levels of education and work experience prior to going on aid. The recent GAIN evaluation shows that

the program can increase the number of recipients who work—including long-term recipients—but a significant number still do not obtain employment. Even in the best-performing county, for example, 33 percent of the participants did not work at any time during the three years of the study.

Thus, it appears that support services *by themselves*—even with the potential to impose sanctions as provided under the GAIN program—will not be sufficient to move a high percentage of recipients into stable employment and off of welfare. Whether time limits would prove to be more successful is not known.

We note that estimates of the number of recipients who could be affected by a time limit, such as those cited above, assume a continuation of the AFDC program as it operated in past years. It is important to keep in mind that welfare reform interventions—such as the GAIN program, community service jobs, targeted tax credits, and time limits themselves—are designed with the intent of increasing the number of participants who obtain employment, thereby reducing the number of recipients who actually reach the time limit.

What Do We Know About the Effectiveness of Time Limits? Time-limited aid has the potential to act as a powerful work incentive—in terms of encouraging recipients to seek work and participate in work prepa-

ration activities—but carries the risk of depriving families of any source of income. While several states are beginning to implement various forms of time-limited aid, no evaluations have been completed on such provisions. An interim report on Florida's time-limited welfare program should be available within a few months, but the findings will be preliminary.

What Should the State Do? It is clear that time limits entail considerable risk, but there is also much that can be gained. The relatively large number of able-bodied welfare recipients who are not employed on a regular basis, even when GAIN services are provided, suggests that there is room for improvement. As indicated previously, time limits may prove to be effective when combined with other interventions designed to increase employment. The state savings resulting from time limits, moreover, could help to finance the costs of providing services to recipients. Based on these factors, we believe that some type of time-limited aid is worth trying.

How Should Time Limits Be Applied? In considering time limits, the state could adopt the premise that aid should not be provided past the time that a recipient could reasonably be expected to obtain employment. Of course, this would vary considerably among welfare recipients. One way to address this issue would be to give case managers discretion to decide when aid would be terminated. Such

discretion, however, would inevitably lead to problems of equitable treatment of recipients and possibly increased costs for administration. In addition, the behavioral effect on recipients (as a work incentive) might not be as great if they do not have a clear idea, from the outset, of when the limit will occur.

Another approach is to adopt differential time limits according to specific characteristics of recipients—for example, a shorter time limit for those who are the most "work-ready" based on measurable criteria. This approach may also lead to problems of equitable treatment (between those who fall just below and just above the threshold) and increased administrative costs to collect and verify the data on the criteria.

Given these difficulties—and after considering the time on aid data for AFDC recipients—our approach incorporates the same limit that applies to the federal funds—five years of total time on aid. (Time would be counted as of the date of program implementation.) Certain cases would be exempt—those where the adult recipient is caring for a disabled person or is a caretaker relative, and child-only cases with disabled parents or caretaker relatives. As discussed below, the model provides for a "safety net" for those families that reach the time limit.

The model assumes that time on aid is not counted against the limit

where (1) the adult recipient is working in a nonsubsidized job at least 20 hours per week or (2) the state does not provide services pursuant to the recipient's case plan, as determined by the case manager. (Note that time in community service jobs *would count against the limit.*) In addition, the time limit would be *extended* if (1) jobs are not available, according to specified local labor market measures, or (2) local administrators find that a recipient has a medically-verified health or psychological impairment that precludes employment, and the recipient has made a good faith effort to comply with case plan provisions to address these problems.

Even if time limits were to prove to be relatively successful, it is likely that some individuals and families will reach the limit without securing employment. This raises the question of how "hard" the limit should be. For example, should there be a "safety net" such as the one provided by the existing GA program? The dilemma confronting policymakers is that the more restrictive the time limit, the more likely it is to be successful in terms of the number of recipients who become employed (assuming the behavioral effects work as intended) but the greater the risk of adverse effects to the extent it is not successful.

Our approach does not include a strict time limit that would cut off cash assistance to families completely. Instead, after the five-year time limit

is reached for the TANF program, families would be eligible for cash benefits but at a much lower level. The grants would be set at \$300 per month for a family of two, \$375 for a family of three, and \$450 for a family of four or more (generally about two-thirds of the existing grant levels).

These families would remain eligible for Medi-Cal benefits and food stamps. In addition, they would be permitted to use job search services at their option.

By reducing, but not eliminating, grants for families after five years on aid, our model strikes a balance between the objectives of achieving the behavioral effects associated with time-limited aid and providing some income support for families with children. Figure 6 shows the change in monthly income when a family of three persons shifts from the community service job component to the five-year "safety net" program.

Tax Policies and Welfare Reform

Tax policies represent another potential means of reforming welfare. This can be accomplished through broad policies that affect the general population or through efforts targeted to welfare recipients. We do not propose changes in tax policies in our model. We include a brief discussion of such provisions, however, because they have received some attention from policymakers in the context of welfare reform.

Figure 6

**Legislative Analyst's Office's Welfare-to-Work Approach
Effect of Five-Year Time Limit on Monthly Family Income
Family of Three**

	Before Time Limit (Community Service Job)	After Time Limit (Safety Net)
Earnings ^a	\$460	—
Grant	—	\$375
Earned Income Tax Credit	183	—
Food stamps	310	315
Totals	\$953	\$690
Percent Change		-28%

^a After social security taxes.

There has been some discussion, for example, of the possibility of adopting a state EITC. As noted above, the federal ETIC provides a tax reduction or refundable credit for low-income working persons. Enacted in 1975, the EITC was expanded significantly in recent years.

Another alternative to consider is the adoption of targeted tax policies to bring about more employment among low-income persons. In August 1996, the President signed the Work Opportunity Tax Credit, which provides tax credits to employers who hire persons from specified target groups, including AFDC recipients. The program replaces the federal Targeted Jobs Tax Credit, which expired in 1994. These programs have the effect of subsidizing the wages paid to individuals in the target groups. Generally, research on the Targeted Jobs Tax Credit program indicates that it was not effective in increasing the employment of disadvantaged workers.

In addition, the President has proposed a new program in which employers could (1) claim a 50 percent tax credit on the first \$10,000 of wages paid to long-term welfare recipients and (2) treat employer-provided education and training, health care, and dependent care spending as wages for purposes of claiming the tax credit.

Targeted wage subsidies, in which the government would subsidize the wages of welfare recipients employed in the private sector, have also been proposed as a way to increase employment among recipients. A study of a targeted wage subsidy program for welfare recipients in Dayton, Ohio—and a separate study of a similar program in two cities in Wisconsin—found that the subsidy actually reduced the prospects of recipients obtaining employment.

Finally, we note that state law includes tax policies designed to increase the employment of certain

target groups and stimulate investment in depressed areas. This includes programs offering economic incentives—such as tax credits for hiring disadvantaged persons—for businesses in 29 designated “enterprise zones” throughout the state. A study by the Bureau of State Audits in 1995 indicated that data were not sufficient to determine whether the enterprise zone program was effective.

Administration

Currently, counties are responsible for administration of the AFDC program. Last year, in the Governor's 1996-97 proposal to redesign the program, the state would have contracted for administration. Counties would have been given first choice, and if they chose not to administer the program, other entities such as private organizations could have been selected—presumably with the state as the final option. If counties chose not to administer the program, they still would have been responsible for paying their share of the costs. We have adopted this approach in our model. (This is not part of the Governor's 1997-98 proposal.)

As Riverside County demonstrated in its implementation of the GAIN program, a successful welfare-to-work program requires local welfare departments to change the focus of their mission from one that emphasizes eligibility and grant determination to one that emphasizes employment. In this respect, it is important

to note that while the state would contract for administration, we envision that local administrators would have considerable discretion in how services are provided. The local administrators would develop case plans and would make decisions on resource allocation. For example, they would determine the distribution of funds allocated for services such as basic education and job training, and would have the option of contracting with public or private providers for such services. This allows for local innovation in areas such as developing collaborative arrangements between service providers (community colleges and private industry councils, for example) and ways to integrate services such as education and job training.

Funding Structure

Under current law, the state pays for 95 percent of the nonfederal costs of AFDC grants, and the counties pay for 5 percent. The state pays for 70 percent of the nonfederal costs of administration, and the counties pay for 30 percent.

Under our approach, the state would continue to have programmatic responsibility for the TANF program. Thus, one could argue that the state should also assume the full costs of the program. The advantages to such an arrangement would be that it would clarify that the state is responsible for program outcomes and would insulate the counties (which have a more limited revenue

base) from the fluctuations in costs due to the effects of economic cycles on program caseloads.

We also note, however, that under the model the counties would continue to be partners in the new program—not only as administrative agencies but also as providers of related services such as mental health and drug abuse treatment. In this situation, giving counties some share of program costs could act as an incentive for counties to take actions that would contribute toward positive program outcomes as well as efficient administration.

After considering these factors, our approach incorporates a funding structure as follows: For administration and services, the state would pay 85 percent of the nonfederal costs and the counties 15 percent. The county share of costs is set at a level that is designed to encourage efficiency but not so high as to give counties an incentive to “underspend” for fiscal rather than policy reasons.

For grants and community service job wages, the state would also pay for most of the costs but—in order to give counties an incentive to maximize their efforts to get recipients off of aid—the county share of costs would increase gradually as recipients’ time on aid increases, up to a limit. Specifically, for recipients on aid for up to one year (beginning with the date of implementation of the program), the state would pay for all of the grant costs. For recipients on

aid from 13 to 24 months, the county share would be 5 percent. The county share would increase in a similar manner by 5 percentage points as recipients’ time on aid increases in one-year increments, reaching a maximum of 25 percent for recipients on aid for more than five years.

In addition, the model includes a provision for performance incentives, whereby the counties would have their share of costs reduced by up to 5 percentage points for achieving positive program outcomes. The outcome measures, for example, could be based on employment and recidivism rates, possibly accounting for demographic and socioeconomic factors related to time on aid.

Basing the state and county shares of cost on recipients’ time on aid requires the means to track this time on a statewide basis. The state is currently in the process of implementing a statewide automation system. According to the Health and Welfare Agency Data Center, counties will be able to use an existing statewide data base (the MEDS file) in 1997-98 to track time on aid.

Program Implementation

There are many ways in which welfare reform programs can be implemented. They could be established as pilot projects, for example, or on a statewide basis. If implemented statewide, they could be made effective for all recipients immediately or they could be phased in. Phasing

could be accomplished by applying the changes only to new recipients as of the effective date of the program. Alternatively, the changes could be applicable to all cases in which the parent was born after a particular year. This approach was suggested by President Clinton in his 1994 welfare reform proposal. (For details of the President's proposal, please see our policy brief *The President's Welfare Reform Proposal: Fiscal Effect on California*, August 11, 1994).

A phase-in approach would reduce the initial costs needed to finance the services and make the community service job component more manageable from an administrative standpoint. On the other hand, it would delay the long-term savings that result from these components. A phase-in approach also would entail the operation of a dual system of TANF for an extended period of time.

We assume, in our estimates of the fiscal effects of the model (discussed below), that the program would be implemented on a statewide basis.

Program Evaluation

It will, of course, be important for the Legislature to assess the impact of any major changes to the state's welfare programs. Consequently, our model assumes a long-term evaluation of the new program, to be conducted by an independent evaluator.

Fiscal Effects of the Model

Below we summarize our estimate of the fiscal effects (on the state and county governments) of implementing our TANF approach. Before doing so, we must emphasize that because of the uncertain behavioral effects of provisions such as community service job requirements and time limits, it is impossible to make fiscal projections with precision. Thus, we had to rely on several assumptions. While we believe these assumptions are reasonable, they are also subject to a significant margin of error.

We base our cost estimates on data from a variety of sources, including the state's GAIN evaluation, the CALDATA study on drug and alcohol treatment, and research on community service employment. We assumed annual increases in employment—based in part on the GAIN evaluation—from the combined effect of the program components. We discuss these impacts below in more detail.

Fiscal Impact on State and Local Governments. As Figure 7 shows, we estimate that our TANF approach would result in net total costs initially (\$360 million in the first year) and net savings in later years (\$120 million in the fourth year, increasing to roughly \$650 million per year in the sixth and seventh years). The costs result primarily from the various services and the administrative and support costs of the community service jobs. The savings result from

Figure 7

Legislative Analyst's Office's Welfare-to-Work Approach
TANF^a—Families With Children
Fiscal Effects

(In Millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Seven-Year Total
Program impacts								
Costs/(savings)	\$360	\$290	\$70	(\$120)	(\$350)	(\$680)	(\$640)	(\$1,070)
Impact by level of government								
State costs/(savings)	\$450	\$290	(\$10)	(\$220)	(\$460)	(\$830)	(\$810)	(\$1,560)
County costs/(savings)	(90)	—	80	100	120	150	170	530

^a Temporary Assistance for Needy Families.
 Totals may not add due to rounding.

the effects of these interventions and the time limits (which result in increased employment and earnings). Considering the stream of total costs and savings to the state and counties, the “payback” period—after adjusting the future stream of costs and savings for inflation—would be 5.5 years. In other words, this is the point where the initial costs are offset by the savings generated in later years.

The figure also shows that the model is projected to result in net costs to the *state* in the first two years and net savings annually thereafter, with savings of about \$800 million annually in the sixth and seventh years. The model would result in net savings to the *counties* in the first year and net costs that increase annually thereafter to \$170 million in the seventh year. This pattern is primarily the result of the provisions whereby counties assume an increasing share of costs as recipients stay on aid longer. (The county costs, however,

would be more than offset by savings from the GA component of the model, as described later in this report.)

Looking more closely at the first full year of implementation, we estimate that state General Fund costs would amount to about \$450 million, and county savings would be about \$90 million. Of the General Fund costs, we estimate that about \$120 million would be for education and training services potentially eligible for Proposition 98 funds.

Caseload Impacts. Figure 8 (see next page) shows the projected outcomes of the model in terms of the impact on caseloads and the percentage of recipients who are working. It shows that by the end of the seventh year, the number of recipients who are on aid but working at least 20 hours per week in nonsubsidized jobs is expected to increase by about 77,000, or 84 percent, over the baseline projection. In addition, we project that about 101,000 families will go off

Figure 8

**Legislative Analyst's Office's Welfare-to-Work Approach
TANF^a—Families With Children
Projected Caseload Outcomes After Seven Years**

	Cases	Percent Change
Welfare caseload	-124,065	-14%
Employment in nonsubsidized job^b		
While on aid	+77,000	+84%
Left welfare	101,090	-11%

^a Temporary Assistance for Needy Families.
^b At least 20 hours per week.

aid by the end of the seventh year due to employment, representing an 11 percent caseload reduction from the baseline projection. This is a significant reduction when considering that a substantial portion of the caseload would not be provided services under the model because of exemptions—for example, child-only cases and cases with needy caretaker relatives.

Based on these projections, about 25,000 additional jobs, on average, would be filled by former welfare recipients per year. We note that given the size of the labor market in California (300,000 to 400,000 new jobs created annually), we would not expect job availability to present a major obstacle to achieving these results.

After accounting for caseload reductions due to both employment and nonemployment factors (such as failure to comply with community service job requirements), we estimate that the total welfare caseload reduction will be about 14 percent after

seven years. In addition, the model assumes that in the sixth year, 9 percent of the projected baseline caseload would be subject to grant reductions due to the five-year time limit.

How Can the Initial Costs Be Financed? As indicated, the model would result in significant General Fund costs in the first two years (about \$460 million and \$300 million, respectively). Therefore, if the Legislature should desire to adopt this approach, or any other welfare reform plan that requires a similar up-front investment of funds, it will have to consider some funding alternatives. These alternatives include:

- *Changes to current law that would generate savings that could be redirected to welfare reform.* Within the welfare area, two such options would be (1) postponement of the resumption of the statutory cost-of-living adjustment (COLA) for the AFDC program, for a General Fund

savings of \$75 million in 1997-98 and \$245 million in 1998-99, and (2) continuation of the statewide 4.9 percent grant reductions that are scheduled to be restored in November 1997, for a savings of \$168 million in 1997-98 and \$253 million in 1998-99. Outside the welfare area, one such option would be continuation of the suspension of the renters' tax credit, for a General Fund savings of \$525 million in 1997-98 and \$530 million in 1998-99.

- *Phasing in implementation* of the program in order to reduce initial costs. For example, applying the program only to new recipients as of the date of implementation would substantially reduce the first-year costs, but the savings would be delayed.
- *Increasing taxes* to raise additional revenue. Due to the provisions of Proposition 98, however, from 40 percent to 60 percent of such revenues would have to be allocated to education in grades K-14. (Some of these funds could be used for the costs of education services in the welfare program.)
- *Using available federal funds.* We estimate, for example, that about \$100 million in anticipated annual increases in federal child care funds could be made available to AFDC parents needing these services. Another possibility would be to give AFDC

recipients priority for federal Job Training Partnership Act funds, but this would result in reallocating such funds from other low-income persons.

- *New federal funds* may be made available in the future. President Clinton, for example, has proposed to make \$3 billion available nationwide to local communities over three years for a welfare-to-work jobs initiative.

Uncertainty in Projecting Savings.

It is important to recognize that from a fiscal standpoint, our approach entails an element of risk. Simply stated, the costs are more certain than the savings. We have provided the underlying rationale for assuming positive impacts from the welfare interventions in the model, and the research on the GAIN program helps guide us in making such assumptions. However, for some of the program components—for example, mandated community service employment when provided in the context of time-limited aid—the data are not adequate to estimate the impacts with a high degree of confidence. Thus, the actual impact on employment levels could be significantly less—or more—than we have projected; and as a result, the costs or savings could vary from our projections. This variation could be on the order of magnitude of several hundred million dollars in combined net state and county costs or savings over the seven-year period.

Chapter IV: The General Assistance Program

As indicated at the beginning of this report, the GA program in California is financed and operated by the counties. Currently, the counties serve about 150,000 cases, but the number is likely to increase due to the federal welfare reform legislation—particularly the provision denying SSI/SSP eligibility to legal noncitizens.

As part of our approach for welfare reform, the existing GA program would be integrated with the TANF program, with the state assuming responsibility for both program components. (Eligibility for Medi-Cal and indigent health care would remain the same as under current law.) The rationale for such a change can be summarized as follows:

- Both programs have the same basic objectives—to assist recipients in achieving self-sufficiency. Combining the programs would permit the state to maintain policy consistency across these income maintenance programs.
- Combining the programs would result in more equitable treatment of recipients. Under the current system, the level of aid provided to adults varies between the AFDC and GA programs and, within the GA system, among the different coun-

ties. Similarly, counties differ in how they administer their General Assistance programs.

- A uniform system of support would avoid “migration” effects where GA recipients move to counties that offer higher grants.

Summary of the Model for General Assistance

Under our approach, the provisions applying to adults without children (GA recipients) would be similar to the existing GA program, with the following exceptions: grants would be uniform across the state, with variations only for regional cost differences similar to the existing AFDC program; recipients would receive services commensurate with the services provided to TANF recipients; and there would be a limit of two years on total time on aid for able-bodied recipients. For reasons relating to costs, however, under the model the GA provisions would not begin until three years after implementation of the new program for families with children.

Figure 9 summarizes the GA component of the model, compared to current law.

Figure 9
**Legislative Analyst's Office's Welfare-to-Work Approach
General Assistance (GA) Component (Adults Without Children)**

Current Law	LAO Approach
Eligibility	
GA: Indigent persons not eligible for AFDC ^a /TANF ^b or SSI ^c (mainly single adults).	Same as current law. Combine AFDC and GA.
Grants/Services	
GA grants vary by county (on average, roughly \$225 per month). Services: <ul style="list-style-type: none">• Varies by county.• Job search.• Work requirement (county-provided jobs)—typically within a few months of application.• Other services—varies.	Uniform grant structure statewide, with regional variation based on cost of living. <ul style="list-style-type: none">• Grants of \$225 per month. GAIN ^d program: <ul style="list-style-type: none">• Services—same as TANF (families with children). Community service job: <ul style="list-style-type: none">• Begins within three months of application.• Same as current practice in GA.• Recipient works 15 to 20 hours per week in exchange for grant.• Not eligible for Earned Income Tax Credit.
Time Limits	
Counties authorized to limit aid for employable recipients to 3 out of every 12 months.	Two years total time on aid: <ul style="list-style-type: none">• Exclude time if working 20 hours/week in nonsubsidized job.• Exempt if recipient is elderly or caretaker of disabled person.• Extend limit if jobs not available or for medically-verified illness or disability.
Funding	
100 percent counties.	Grants: <ul style="list-style-type: none">• Cases 0-12 months: 80 percent state, 20 percent counties.• Cases over 12 months (until time limit): 70 percent state, 30 percent counties. Administration and services: <ul style="list-style-type: none">• 85 percent state, 15 percent counties. Performance incentives: <ul style="list-style-type: none">• Reduce county share up to 5 percentage points.

^a Aid to Families with Dependent Children.^b Temporary Assistance for Needy Families.^c Supplemental Security Income.^d Greater Avenues for Independence.

Grant Levels

General Assistance grants vary considerably among the counties. Based on county reports for 1995-96, the grants ranged from \$175 to \$345 for single persons. Counties are authorized to reduce grants for specified reasons, such as when recipients are living in a shared-housing arrangement. Pursuant to Ch 72/93 (SB 1033, Committee on Budget and Fiscal Review) and Ch 6/96 (SB 681, Hurt), the Commission on State Mandates may, on a finding that a county is in "significant financial distress," permit the county to reduce its grants by a specified amount for a period of three years.

Under our approach, grants for adults without children (GA recipients) would be uniform statewide, except there would be provision for variation according to regional cost differences, such as the existing adjustments for the AFDC program. The grants would be set at a level that approximates the projected average grants in the existing GA program—roughly \$225 per month. The grant levels are designed to maintain an incentive to obtain employment and to control the costs of the program.

Services and Community Service Jobs

Services for adults without children—and the related sanctions for nonparticipation—would essentially be the same as those available to

recipients with children. These services would include job search during the first six months on aid, and basic education, job training, and services to address disabilities in the following months. Community service jobs, however, would be required at an earlier stage—within a few months of application. This is currently the practice in most counties for GA recipients who are capable of working, and is consistent with findings indicating that GA recipients tend to stay on aid for shorter periods of time than do AFDC recipients, as we discuss below. To control program costs, the model assumes that participants in community service jobs would work for their grant. This is also consistent with current practice for GA recipients.

Time Limits

We have previously discussed the advantages and disadvantages of establishing time limits, and suggested a time limit—in the form of a significant grant reduction and referral to a county-operated "safety net" program—for families with children on aid more than five years. Regarding the existing GA program, current law authorizes counties to limit eligibility for employable recipients to 3 out of every 12 months.

Under our approach, any such time limit would be imposed on a statewide basis. Rather than impose a limit of 3 out of every 12 months, however, we suggest basing the limit for adults without children on continuous time

on aid, consistent with the type of limit applied to families with children. We believe that this approach would be more conducive to the establishment of a comprehensive case plan for these recipients (for example, a plan that includes a five-month job training program). The time limit, however, would differ from the limit on families with children in two respects.

First of all, we assume a substantially shorter time limit—two years of time on aid for able-bodied recipients, with essentially the same exceptions and extensions noted for the families with children. Our approach reflects a shorter time frame primarily on the basis of data indicating that GA recipients generally are on aid for a much shorter period of time than are AFDC recipients. Statewide data are not available, but a study conducted by San Francisco County indicates that of those GA recipients who entered the program in 1991, about 21 percent were on aid two years later (in contrast to about 50 percent in a similar study of AFDC recipients).

Secondly, our approach assumes a complete cut-off of cash assistance after the two-year limit. As indicated previously, our model does not have a strict cut-off for families, in large part because of our concern for the welfare of those children who might be affected. With respect to adults who have no children and are able to work, we believe that the balance shifts in favor of a strict time limit,

with the same qualifications for extensions as the TANF component.

Finally, we note that individuals who lose cash assistance due to the time limit would, under our model, continue to be eligible for job search services, as well as food stamps (subject to federal limitations) and indigent health services.

Funding Structure

Currently, counties pay for 100 percent of the costs of their GA programs. Under our model, the state would assume most of the costs of the program. Specifically, the state would pay for 80 percent of the costs of grants for each recipient's first year on aid, and the counties 20 percent. The county share would increase to 30 percent for recipients on aid more than one year, thereby giving counties a fiscal incentive to get recipients off aid. As is the case for the program with respect to families with children, the counties would pay for 15 percent of the costs of administration and services. In addition, counties would be eligible for a 5 percentage point reduction in their cost shares for positive performance.

Program Implementation

Under normal circumstances, we would suggest implementing the GA provisions simultaneously with the implementation of the new TANF program. As we noted above, however, the projected condition of the state's General Fund will likely make

it difficult to finance the costs required for the TANF model in the first two years. These problems would be exacerbated if the GA component were included, because (as we discuss below) it is expected to result in additional state costs. Consequently, we would delay the implementation of the GA component until three years after implementation of the program for families.

Fiscal Effects

Net Fiscal Effects. Figure 10 summarizes our estimate of the fiscal effects (on state and county governments) of our approach regarding the GA program. It shows that the model is projected to result in costs throughout the seven-year period—roughly \$250 million per year

in the first two years and about \$190 million per year for the remainder of the seven-year period. The additional costs result primarily from two factors: (1) savings from the two-year time limit are projected to be less than baseline savings from the 3-out-of-12 months limit authorized by current law (although this will depend on which counties elect to adopt this limit), and (2) our approach assumes the provision of more services than currently provided, such as education, job training, and treatment for disabilities.

Because of the characteristics of the GA population—a large proportion of recipients who have disabilities and other problems such as prior criminal convictions—we assume that

Figure 10

**Legislative Analyst's Office Welfare-to-Work Approach
General Assistance Component (Adults Without Children)
Fiscal Effects**

(In Millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Seven-Year Total
Program costs	\$240	\$270	\$190	\$190	\$190	\$190	\$190	\$1,460
Less SSP noncitizen savings ^a	(200)	(220)	(240)	(250)	(270)	(290)	(300)	(1,770)
Net costs/(savings)	\$40	\$50	(\$50)	(\$60)	(\$80)	(\$100)	(\$110)	(\$310)
Impact by level of government								
State costs	\$640	\$630	\$520	\$530	\$540	\$560	\$570	\$3,980
Less SSP noncitizen savings	(200)	(220)	(240)	(250)	(270)	(290)	(300)	(1,770)
Net state costs	\$440	\$410	\$280	\$270	\$270	\$270	\$270	\$2,210
County savings	(\$390)	(\$360)	(\$320)	(\$340)	(\$350)	(\$370)	(\$380)	(\$2,520)

^a State Supplementary Program (SSP) savings shown in Year 1 for the general assistance (GA) program corresponds to the fourth year of the SSP savings in order to be consistent with our proposed implementation schedule for the GA program component.
Totals may not add due to rounding.

it would be more difficult to bring about gains in employment than would be the case for AFDC recipients. We note, however, that our projections do not assume fiscal benefits outside the welfare arena that might result from the additional services that would be provided.

Even with this qualification, our fiscal projections raise the question as to whether GA recipients should be provided services that are commensurate with those provided to families with children. Our approach is based largely on the premise that it is both appropriate and consistent with the Legislature's policy (in authorizing local mental health and drug/alcohol abuse treatment programs, for example) for the government to provide services to its citizens to address disabilities. Should the Legislature choose to limit these costs, however, one option would be to cap the funding for this program element at a lower level.

The figure also shows the net fiscal impact if the state SSI/SSP savings resulting from the federal provision making noncitizens ineligible for SSI/SSP were applied toward the state cost of supporting these individuals in the GA component of the new program. For most years, these savings more than offset the increased program costs.

Fiscal Impact on the State and Counties. With respect to the impact on the state and county governments, we estimate that the model would result in significant costs to the state and savings to the counties, due to the change in cost sharing ratios that reflect state assumption of most of the program costs. Specifically, state costs are projected to be about \$600 million per year in the first two years and roughly \$500 million to \$575 million annually thereafter. By applying the state SSP savings from the change in noncitizen eligibility, the net state costs would be roughly \$400 million per year in the first two years and about \$275 million annually thereafter. (If the Legislature were to adopt a state-only program to retain SSP benefits for noncitizens, the costs of the GA component would be lower than estimated in our model and, of course, there would be no offsetting SSP savings.)

The county savings are projected to be about \$400 million in the first year and roughly \$350 million annually thereafter.

Impact on Caseload. With respect to the impact on caseload, we project that in the seventh year of implementation, the model would result in a caseload that is about 10 percent below the current-law baseline estimate. This occurs primarily because of the anticipated effects of the additional services that would be provided under the model.

Chapter V:

Summary of Fiscal Effects

Summary of Fiscal Effects Of the TANF/GA Model

Figure 11 summarizes the fiscal effects of the model, assuming implementation of the GA component (adults without children) three years after implementation of the TANF component (families with children).

As the figure shows, net costs would be incurred in the initial years—\$360 million in the first year and \$290 million in the second year—due to the investment in services. Savings from anticipated increases in employment would begin

to occur in the first year, but *net* savings for the program are not expected to be realized until the fourth year. Net savings would increase to a level of about \$700 million annually in the sixth and seventh year. On a cumulative basis over the seven-year period, we project net savings of about \$1 billion. The inflation-adjusted payback period (the point where the initial costs are offset by subsequent savings) is projected to occur midway through the fifth year. These fiscal projections assume that the state SSP savings from the federal provisions denying SSI/SSP eligibility to

Figure 11

Legislative Analyst's Office's Welfare-to-Work Approach Combined TANF^a and General Assistance (GA) Components Fiscal Effects

(In Millions)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Seven-Year Total
TANF^a (families with children)								
Costs/(savings)	\$360	\$290	\$70	(\$120)	(\$350)	(\$680)	(\$640)	(\$1,070)
GA (adults without children)^b	—	—	—	40	50	(50)	(60)	(20)
Costs/(savings)	—	—	—	40	50	(50)	(60)	(20)
Combined costs/(savings)	\$360	\$290	\$70	(\$70)	(\$300)	(\$720)	(\$710)	(\$1,090)
Impact by level of government								
State costs/(savings)	\$450	\$290	(\$10)	\$200	(\$50)	(\$550)	(\$530)	(\$200)
County costs/(savings)	(90)	—	80	(290)	(250)	(170)	(170)	(890)

^a Temporary Assistance for Needy Families.^b Net of State Supplementary Program noncitizen savings.

Totals may not add due to rounding.

noncitizens would be used to offset the state costs of the GA program, beginning in the fourth year when the GA program would be transferred to the state.

From the standpoint of the state and counties, we estimate that the model would result in state General Fund costs of about \$450 million in the first year and about \$290 million in the second year. As net costs continue to decline due to the effects of increased employment among recipients, some state savings are projected for the third year. State costs, however, would be incurred in the fourth year when the GA component is implemented (with the state assuming most of the costs of GA). As employment among recipients continues to increase, the model is projected to result in a small amount of net savings to the state in the fifth year and savings of about \$550 million annually in the following two years. Over the seven-year period, the state would realize net savings of about \$200 million (not adjusted for inflation).

We project that the counties would realize savings of about \$90 million in the first year. In the second year, the costs from increased services would generally be offset by savings from a somewhat lower net share of costs for the counties in this time period. Some costs would be incurred in the third year, primarily because the county share of costs for TANF recipients (families with children) increases for persons on aid more

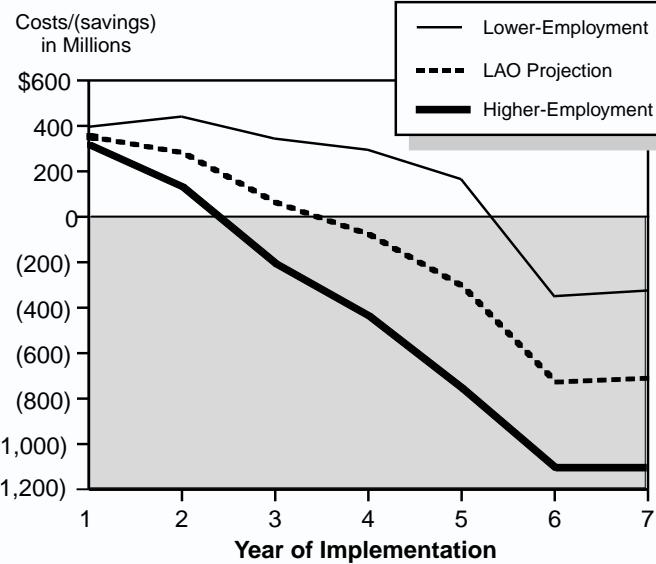
than one year and again for persons on aid more than two years. In the following years, counties would realize net savings, primarily because of the implementation of the GA component in the fourth year of the model. Over the seven-year period, we project that the counties would realize net savings of about \$900 million.

We note that our estimated savings are limited to the impacts on grant expenditures and the relatively small impacts on the Medi-Cal program. The government would also benefit from increased tax revenues due to the effect on employment earnings, which we have not calculated. In addition, some public value would accrue from the output of the newly-created community service jobs. Some of the studies of community work experience programs (discussed previously in this report) used 90 percent of the wages as the basis for measuring this value. If we assume, conservatively, that the productivity of these jobs is equal to 75 percent of the wages paid, the expected net value of these services to the employers (generally the government and nonprofit organizations) would amount to about *\$1.3 billion* over the seven-year period.

As we stated previously, there is considerable uncertainty in making these fiscal projections. In order to provide some indication of what, in our judgment, represents the range of possible outcomes, Figure 12 (see next page) displays the annual fiscal

Figure 12

**Legislative Analyst's Welfare-to-Work Approach
Annual Fiscal Effects
Higher- and Lower-Employment Impact Scenarios**



impacts if the employment and caseload outcomes were two-thirds of the levels that we project (the “lower-employment” scenario) and one-third better than we project (the “higher-employment” scenario).

Financing the Costs of the Approach

The means to finance the costs of the model in the initial years would essentially be the same as described earlier for the TANF program (families with children).

Chapter VI: County Option to Choose a Different Plan

In the course of describing our approach, we explained our rationale for establishing the various components and for providing them in a particular sequence. While the model gives local administrators considerable discretion in how to provide services, we recognize that a county might believe that it can develop a better plan. Consequently, counties would have the option to submit an alternative plan to the state. The state, in turn, would establish a performance-based contract with these counties, which would include fiscal incentives and penalties according to specified program outcomes. Counties that choose this option, in other words, would benefit financially from better-than-expected performance, but would also assume the risk of financial sanctions for performance that does not meet expectations.

This provision is designed to allow counties to provide services in a manner that differs from the one outlined in our approach. In order to provide equitable treatment of recipients and to avoid adverse inter-county migration effects, grants and time limits would not be subject to change.

Even with the restriction on grants and time limits, this provision would give the counties a great deal of latitude. Thus, the Legislature might wish to consider adding other requirements—for example, that there be some minimum provision of community service employment in order to provide some assurance that the program includes work participation mandates.

Chapter VII: Conclusion

As indicated earlier, one of the objectives of our approach is to achieve a significant increase in the number of welfare recipients who are employed, and to do so in a cost-effective manner. To accomplish this, we suggest certain components designed to prepare recipients for employment and other components designed to give them a greater incentive to work.

The *employment preparation* components are based largely on the GAIN program, but with more emphasis on mandated participation, up-front job search, and services to address disabilities that are barriers to employment. We also include some additional program elements, such as transitional case management to assist welfare recipients for a limited time after they go off of aid due to employment. In addition, participation in community service jobs would be required for work-ready recipients who are not otherwise employed.

We include *work incentive* features in our model *not* because of any belief that welfare recipients wish to avoid work, but because people in general respond to financial incentives. In fact, data from a pilot program in Canada (the Self Sufficiency Project) show that some welfare recipients have sought and obtained jobs solely in response to a particular financial

work incentive offered to the recipients by the government.

The principal employment preparation and work incentive features of our model (including those that would be continued under current law) are summarized in Figure 13.

In designing our approach, we attempted to reach a balance between the objectives of providing strong incentives to work and providing income support for recipients. Because of the employment preparation components and the emphasis on participation, the model is expected to result in significant "up-front" costs for additional services. These costs will be offset by savings that occur in later years, primarily from (1) additional nonsubsidized employment resulting from the impact of the services and activities provided and the behavioral effects of the work incentives, and (2) the reduced level of aid when the time limits are reached.

Even with significant increases in employment, it may take several years to recover the costs of a welfare-to-work program. There also is a risk that the employment impacts will not be achieved as projected.

Fiscal projections are obviously important, but the decision to establish social services programs typically

does not rest solely on cost/benefit criteria. In the final analysis, whether to adopt a welfare reform proposal with a strong service component may depend in large part on how much non-monetary value is attributed to program characteristics such as

creating and enforcing a participation expectation among welfare recipients (in work or work preparation activities); providing services to address disabilities; and ensuring that some level of income support is available to families with children.

Figure 13

**Legislative Analyst's Office's Welfare-to-Work Approach
Major Employment Preparation
And Work Incentive Features**



Employment Preparation Components

- Job search/job club
- Basic education
- Job training
- Services to address disabilities
- Community service jobs



Work Incentives

- Grant structure
 - Fill-the-gap grant determination
 - \$30 and one-third disregard (limited)
- Tax policies
 - Federal Earned Income Tax Credit
- Broad participation mandates
 - Expand mandatory participation in GAIN Program
- Work required after specified time on aid
 - Subsidized job if not working 20 hours/week
- Time limits
 - Families with children: significant grant reduction after five years on aid
 - Adults with no children: no cash benefits after two years on aid
 - Time in subsidized job counts against limit
 - Time in nonsubsidized job (if 20 hours/week) does not count
- Transitional benefits for recipients going off of aid
 - Continue Medi-Cal and child care benefits
 - One year of case management assistance

This report was prepared by Chuck Lieberman and Todd Bland.

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