An LAO Report

CalWORKs Welfare Reform: Major Provisions and Issues

Background

In response to the federal welfare reform legislation, the California Legislature established the California Work Opportunity and Responsibility to Kids (CalWORKs) program in 1997.

LAO Findings

❖ ***Costs and Savings.*** Compared to prior law, CalWORKs will result in significant net costs in the initial years followed by longer term net savings. Because of savings not directly related to CalWORKs—for example, caseload reductions due to an improving economy—General Fund spending for this program will be lower than state spending on the prior AFDC program.

❖ ***Participation Requirements.*** CalWORKs exceeds the federal minimum participation requirements for families with children under age six. Conforming to the federal standard would reduce state costs substantially, but the impact on savings (from the employment effect) is unknown.

❖ ***Fiscal Incentives.*** The county fiscal incentives potentially expose the General Fund to substantial risk in the event of a recession, and rewards counties that do not improve their performance with respect to helping clients obtain jobs.

LAO Recommendations

❖ ***Participation Requirements.*** Evaluate the cost-effectiveness of reducing the required weekly hours of participation for families with a child under age six to 20 hours (the federal required level).

❖ ***Fiscal Incentives.*** Modify the county fiscal incentive structure so that incentive payments are tied more closely to improved outcomes.

❖ ***County Share of Costs.*** Make counties responsible for 7.5 percent of the costs for increases in employment services, so that counties will weigh both the costs and the benefits of services when developing welfare-to-work plans.

❖ ***Welfare-to-Work Block Grant.*** Appropriate sufficient matching funds, during the next four state fiscal years, to enable California to receive the maximum amount of federal block grant funds.

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January 23, 1998

BACKGROUND

On August 22, 1996, President Clinton signed into law H.R. 3734—The Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This federal welfare reform legislation eliminated the Aid to Families with Dependent Children (AFDC) program and replaced it with the Temporary Assistance for Needy Families (TANF) program.

While the federal law made numerous changes in the nation's welfare system, the most important changes under the TANF program include the following: the individual entitlement to a grant is eliminated; federal funding for the program is provided as a block grant; recipients are subject to a five-year time limit for receipt of federally funded aid; and states are subject to various penalties for failing to meet specified objectives, including work participation rates. To receive the block grant, states must meet a maintenance-of-effort (MOE) requirement that state spending on welfare for needy families be at least 80 percent of the federal fiscal year (FFY) 1994 level, which is $2.9 billion for California. (The MOE is set at 75 percent if the state meets the work participation requirements described below.)

Meeting the work participation requirements will be a challenge for the states. Specifically, the legislation requires that states have an increasing percentage of the TANF caseload engaged in work or some other type of work-related education, job training, or (with certain limits) job search activity. The overall caseload requirement is 25 percent in FFY 97, rising to 50 percent by FFY 02. The act also imposes a requirement specifically for *two-parent* TANF families—75 percent in FFY 97, rising to 90 percent in FFY 99 and thereafter. These participation rates are reduced based on a state's percentage reduction in its caseload since FFY 95.

Federal welfare reform simultaneously (1) offers states substantial flexibility to redesign their programs and (2) subjects states to substantial financial penalties for failing to meet work participation and other requirements. In response to this challenge, California created the California Work Opportunity and Responsibility to Kids (CalWORKs) program—Chapter 270, Statutes of 1997 (AB 1542, Ducheny, Ashburn, Thompson, and Maddy).

This report (1) reviews the legislative history leading up to the enactment of CalWORKs, (2) summarizes the key features of the CalWORKs program, (3) presents a multiyear fiscal analysis of CalWORKs, (4) describes recent federal changes in welfare reform, and (5) discusses welfare reform implementation issues facing the Legislature.

LEGISLATIVE HISTORY

On January 9, 1997, the Governor presented the California Temporary Assistance Program (CalTAP) (SB 1149, Brulte) for redesigning California's welfare program for families with children. The proposal included a 15 percent grant reduction after six months on aid; time limits of 24 months in any 36-month period (for existing recipients) and 12 months in any 24-month period (for applicants after January 1998); a five-year lifetime limit; participation mandates (work, education, or training activities) of 32 hours per week for single parents and 35 hours per week for two-parent families; a modified grant structure that resulted in lower grants for working recipients and an increased financial incentive to move from part-time to full-time work; and grant sanctions on families where paternity has not been established, regardless of the cooperation of the custodial parent. (Time limits in this and other proposals discussed below generally refer to elimination of aid *only to the adult* in the family.)

On January 23, 1997, our office released its *Welfare-to-Work Approach* to welfare reform. Our proposal (SB 934, Thompson) included a five-year time limit; a participation mandate pursuant to individual case plans; a minimum wage-paying community service job component after two years on aid; a modified grant structure (for working recipients) that would result in lower grants for recipients who remained on aid for more than one year after obtaining employment; and a revised cost-sharing arrangement whereby counties (the administrative agencies) would pay for higher shares of costs as recipients' time on aid increases. Two other proposals were subsequently introduced—one by a coalition of children's advocates and one by the California State Association of Counties (CSAC) in conjunction with the County Welfare Directors Association (CWDA).

The Legislature established a special Welfare Conference Committee for the purpose of reviewing these four proposals and developing its approach to welfare reform. On July 2, 1997, the Welfare Conference Committee completed action on four bills (AB 1006, AB 1501, SB 285, and SB 293). This legislative package included a five-year time limit, a participation mandate consistent with the weekly hours of work in the federal welfare reform legislation, a simplified grant structure generally resulting in higher grants for working recipients, and a community service job component that would pay a "comparable wage" (at or above the minimum wage) for recipients on aid more than two years. None of the four bills approved by the conference committee was enacted—one was vetoed, two were not sent to the Governor, and one did not receive the necessary two-thirds majority vote.

In mid-summer, the administration and the Legislature reached agreement on welfare reform and AB 1542 was signed by the Governor on August 11, 1997. Figure 1 (see page 4) summarizes the key features of CalTAP, the Legislative Analyst's Office *Welfare-to-Work Approach*, the Welfare Conference Committee legislative package, and the CalWORKs program. We note that both the Welfare Conference Committee legislative package and CalWORKs incorporated many of the features of the four major proposals.

KEY FEATURES OF CALWORKS

The major changes contained in the CalWORKs program compared to prior law are as follows:

Figure 1

AFDC/TANF Program
CalWORKs Compared With Selected Proposals
Major Provisions

	Governor (SB 1149)	LAO (SB 934)	Welfare Conference Committee (AB 1006, AB 1501, SB 285, SB 293)	CalWORKs (AB 1542)
Eligibility and Grants:				
Eligibility	No specific proposal, but new grant structure would increase income eligibility.	Retain current law.	Eliminate "look back" requirement (connection to labor force) for two-parent families. Eliminate asset limit for automobile.	Eliminate "look back" requirement. Increase asset limits to conform to Food Stamps program.
Maximum Grant	Make permanent the 4.9 percent reduction and eliminate COLA. Reduce grants 15 percent July 1998.	Retain current law, except minimum wage for participants in community service employment.	Continue 4.9 percent grant reduction and suspension of COLA for one year.	Continue 4.9 percent grant reduction and suspension of COLA for one year.
Income Disregard	Maximum Income Limit proposal (effect of 54 percent disregard).	Reduce $30 and 1/3 disregard after first year of employment and eliminate after two years. Retain "fill-the-gap" structure.	$350 and 50 percent disregard.	$225 and 50 percent earned income disregard.
Diversion	Up to 3 months lump-sum grant payment in lieu of going on aid.	No proposal.	Up to 3 months lump-sum grant payment in lieu of going on aid.	Up to 3 months lump-sum payment in lieu of going on aid.
Services:				
Welfare-to-Work Services	Job search, followed by education, training, community service, pursuant to case plan, for one year (new applicants) or two years (existing recipients).	Job search, followed by education and training, for two years.	Job search, followed by education and training, for two years.	Job search, followed by education and training, for 18 to 24 months.
Community Service Employment	No formal program, but counties permitted to provide during first year (work-for-grant).	Required for able-bodied adults on aid after two years. Minimum wage. Eligible for federal Earned Income Tax Credit (EITC).	Required for able-bodied adults on aid after two years. "Comparable wage"—at least minimum wage. Eligible for EITC.	Required for able-bodied adults after 18 months for new applicants (county can extend to 24 months) or 24 months for existing recipients.
Employment Retention Services	No new benefits.	Add one year of case management assistance.	One year of case management and other retention services.	One year of case management and other retention services.

Continued

	Governor (SB 1149)	LAO (SB 934)	Welfare Conference Committee (AB 1006, AB 1501, SB 285, SB 293)	CalWORKs (AB 1542)
Participation Requirements:				
Weekly Hours	32 hours for one-parent families; 35 hours for two-parent families	Job search, education, and training: pursuant to case plan. Community service job: 20 hours	One-parent families: 20 hours initially, increasing to 32 hours. Two-parent families: 35 hours. Community service job: generally up to 32 hours in conjunction with job search.	One-parent families: 20 hours, increasing to 26 hours in 1998-99, and 32 hours in 1999-00. Two-parent families: 35 hours.
Sanctions	Proportional reduction in grant for time failed to participate.	Proportional reduction in grant for time failed to participate.	Eliminate adult portion of grant, with good cause exceptions.	Eliminate adult portion of grant, with good cause exceptions.
Exemptions	Teen parent in school, disabled, elderly, caretaker relative, caretaker of disabled person, or child under age three months.	Teen parent in school, disabled, elderly, caretaker relative, caretaker of disabled person, or child under one year.	Teen parent in school, disabled, elderly, specified caretaker relatives, caretaker of disabled person, victim of domestic violence, or child is "infant," and various temporary deferrals similar to current law.	Teen parent in school, disabled, elderly, caretaker relative, caretaker of disabled person, parent of child under six months (county discretion 3 to 12 months). Temporary deferral for "good cause," including victim of domestic violence.
Time Limits:				
Time Limits	One year (2 years initially for existing recipients). Can return after 1 year on safety net, but not after 5 years.	Five years.	Five years.	Five years.
Time Limit Exemptions	Nonaided relative care takers, teen program participants, aged, families with severely disabled person.	Disabled, elderly, child-only case with disabled or relative caretaker, or recipient is relative caretaker or caretaker of disabled person.	Disabled, elderly, specified caretaker relatives, caretaker of disabled person. Exempts months when participant in Cal Learn.	Disabled, elderly, specified caretaker relatives, incapable of participating (pursuant to county assessment).
Safety Net (Post-Time Limit Aid)	Equivalent to child portion of grant, in non-cash assistance.	$300 for family of two, $375 for a family of three, and $450 for family of four or more.	Child's portion of grant.	Child's portion of grant (e.g., family of three would get $434 in low-cost counties). Counties permitted to use cash or vouchers.
County Administration:				
Funding	No change in state/county sharing ratio. Counties would share in up to 25 percent of program savings.	County share of program cost increases according to recipients' time on aid. Performance incentives could reduce county share up to 5 percentage points.	No change in state/county sharing ratio.	County costs fixed at 1996-97 levels. Counties receive 100 percent of grant savings from program exits due to employment, increased earnings, and diversion of applicants.

Eligibility. CalWORKs retains many aspects of prior law with respect to eligibility. In particular, families meeting specified income and asset tests are entitled to receive a grant. Major changes include:

- ***"Look Back" Provision***. Eliminates the requirement that two-parent families applying for assistance have a prior connection to the labor force.
- ***Resource Limits***. Conforms resource limits to the amounts permitted under federal law for the Food Stamps program. (This increases the asset limit for automobiles, as applied to applicants, from $1,500 to $4,650.)
- ***Diversion Program***. Permits counties to provide eligible applicant families with up to three months of aid payments in the form of a lump sum, for purposes of providing temporary assistance so that the family does not enter the program.
- ***Immunizations***. Requires recipients to document that all children required to attend school have received all age-appropriate immunizations. Failure to comply results in removal of the adult from the assistance unit for purposes of determining the family's grant. There are exemptions for good cause and for cases in which immunizations are contrary to the recipient's religious beliefs.
- ***School Attendance***. In order to receive a grant for all members of the assistance unit, all children for whom school attendance is compulsory must attend school.

Grants. The CalWORKs legislation continues the 4.9 percent statewide grant reduction and the suspension of the statutory cost-of-living adjustment (COLA) through October 31, 1998. The act also eliminates the *Beno* court case grant reduction exemptions that were imposed by the federal Department of Health and Human Services (DHHS) in order for the state to obtain federal approval of a waiver. As a consequence, the act had the effect of reducing grants for (1) teen parents in high school, (2) cases in which the adult caretaker has been determined to be temporarily incapacitated, and (3) cases in which the adult caretaker stays home to care for other household members who are ill or incapacitated. Together, these exemptions covered about 18 percent of the caseload.

Although maximum grants will remain at their 1997 levels through October 31, 1998, CalWORKs significantly changed the way in which grants are determined for families with earned and unearned income. Prior law contained two primary work incentives when determining grant levels: (1) the $30 and one-third disregard, whereby about one-third of the 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, whereby recipients can earn the "gap" between their grant ($565, family of three) and the need standard ($754, family of three) without having their grant reduced. Recipients could also "fill the gap" with unearned income, such as unemployment insurance benefits.

CalWORKs replaces both of these provisions with a $225 and 50 percent earned income disregard, whereby the first $225 of earnings plus 50 percent of each additional dollar of earnings are disregarded in determining the family's grant. Unearned disability-based income is also disregarded up to the $225 cap, but all other unearned income (for example, unemployment insurance payments) results in a one-for-one reduction in the recipient's grant.

Figure 2 (see page 8) provides examples of grant calculations for three different families with income, under both prior law and CalWORKs. Figure 2 shows that (1) families working half-time at the minimum wage had larger grants under prior law, (2) families working full-time have slightly larger grants under CalWORKs, and (3) families with nondisability based unearned income had substantially higher grants under prior law.

While Figure 2 focuses on the families' income and grant, Figure 3 (see page 9) shows the families' total resources (that is, the grant, earned income, *and* Food Stamps) for monthly earned incomes ranging up to $1,200. As shown in Figure 3, recipients earning up to $225 had the same total resources under prior law and CalWORKs; recipients earning between $225 and about $940 had more total resources under prior law; and recipients earning above $940 had more total resources under CalWORKs. Although recipients earning between $225 and $940 have less total resources under CalWORKs, the incentive to move toward full-time work for such recipients is stronger than under prior law because they keep 50 percent of additional earnings, rather than just 33 percent. We also note that the CalWORKs earnings disregard feature is easier to understand than prior law (by eliminating the "fill-the-gap" feature, for example), which may encourage more recipients to work.

Welfare-to-Work Services. CalWORKs recipients will receive welfare-to-work services in the following sequence: job search; assessment; welfare-to-work activities (education and training); and community service employment. (As regards community service employment, we note that counties presumably have the option of developing a wage-based program that would potentially allow the recipient to receive the federal earned income tax credit, as long as the total monthly wages do not exceed the amount of the grant.) Following the assessment, counties and recipients will develop individualized welfare-to-work plans. While grants remain an entitlement for eligible individuals and therefore funding is not capped, funding for welfare-to-work services is capped by the annual budget act appropriation.

Counties are also authorized to provide up to one year of case management and other job retention services for persons leaving aid due to employment.

Child Care. CalWORKs creates a three-stage child care delivery system administered by county welfare departments (CWDs) and the State Department of Education (SDE). Stage I child care is administered by CWDs and is provided during a recipient's first six months on aid or until the recipient's child care situation is stable. Stage II child care is administered by Alternative Payment Programs (organizations that coordinate the delivery of child care) under contract with the SDE, and may last no longer than two years after a family leaves assistance. Stage III is

Figure 2

Comparison of Monthly Grant Computations[a] CalWORKs and Prior Law

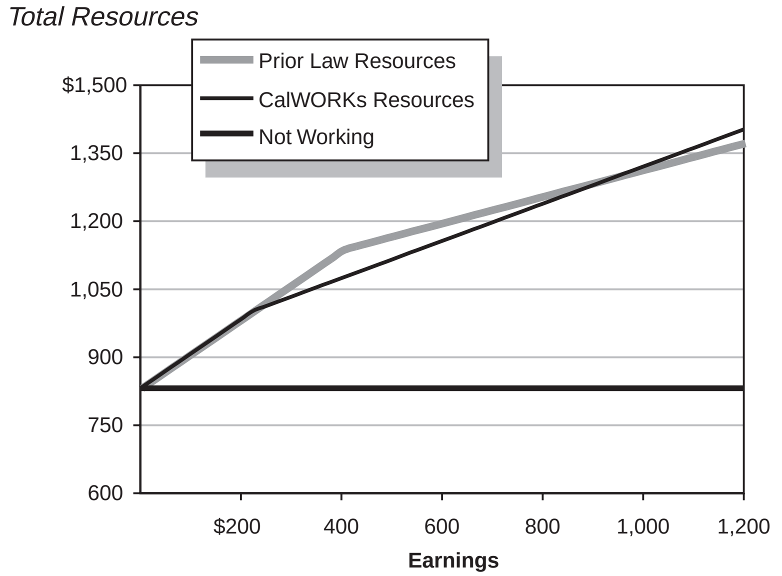
January 1998

Prior Law		CalWORKs		Impact of CalWORKs
Single parent with 2 children, working half-time[b]				
Earned income	**$498**	**Earned income**	**$498**	
Less work expense disregard	-90			
Less $30	-30	Less $225	-225	
and 1/3 disregard	-126	and 50 percent disregard	-137	
Net countable income	**$252**	**Net countable income**	**$137**	
Need standard for family of 3	$754	Maximum grant for family of 3	$565	
Less net countable income	-252	Less net countable income	-137	
Grant Amount	**$502**	**Grant Amount**	**$429**	**-$74**
Single parent with 2 children, working full-time[c]				
Earned income	**$998**	**Earned income**	**$998**	
Less work expense disregard	-90			
Less $30	-30	Less $225	-225	
and 1/3 disregard	-293	and 50 percent disregard	-387	
Net countable income	**$585**	**Net countable income**	**$387**	
Need standard for family of 3	$754	Maximum grant for family of 3	$565	
Less net countable income	-585	Less net countable income	-387	
Grant Amount	**$169**	**Grant Amount**	**$179**	**$10**
Single parent with 2 children, $250 in unemployment insurance benefits				
Earned income	—	**Earned income**	—	
Less work expense disregard	—			
Less $30	—	Less $225	—	
and 1/3 disregard	—	and 50 percent disregard	—	
Plus unearned income	$250	Plus unearned income	$250	
Net countable income	**$250**	**Net countable income**	**$250**	
Need standard for family of 3	$754	Maximum grant for family of 3	$565	
Less net countable income	-250	Less net countable income	-250	
Grant Amount	**$504**	**Grant Amount**	**$315**	**-$189**

a Examples are for Region 1 (high-cost counties) in which the maximum monthly grant for a family of three is $565.
b Half-time work at the minimum wage.
c Full-time work at the minimum wage.

Figure 3

Combined Monthly Resources[a]
Prior Law and CalWORKs
Family of Three, High-Cost County



[a] Consists of grant, Food Stamps, and earnings.

also administered by Alternative Payment Programs and begins as soon as space is available for recipients no longer on aid, subject to the condition that they earn less than 75 percent of the statewide median income.

Participation Requirements. CalWORKs requires recipients to be employed or participate in welfare-to-work activities, pursuant to their individualized case plans, for a specified number of hours per week. Specifically, adults in single parent families must participate in work or approved education or training activities for 20 hours per week effective January 1998, 26 hours effective July 1998, and 32 hours effective July 1999 and thereafter. Counties have the option of requiring up to 32 hours per week prior to July 1999. An adult recipient in a two-parent family must participate for 35 hours per week.

Participation Exemptions. The following individuals are exempt from the weekly participation requirements:

- Teen parents in the Cal-Learn program.
- Pregnant women for whom the pregnancy impairs the ability to participate.
- Individuals with a medically verified disability anticipated to last at least 30 days.
- Individuals with a child under six months of age, with county discretion to change this exemption to children as young as three months or up to twelve months.
- Individuals caring for ill or incapacitated members of the household.
- Individuals of "advanced age."
- Nonparent caretaker relatives caring for a ward of the court or a child at risk of placement in foster care, provided that the county determines that parenting responsibilities

impair the caretaker relative's ability to participate.

- Others excused at county discretion for good cause.

Sanctions. The sanction for failure to participate in work activities or community service is removal of the adult portion of the grant. After being sanctioned for three consecutive months, counties must convert all or part of the reduced grant into vouchers to cover at least rent and utilities, until the adult is no longer subject to the sanction. (Although the statute is unclear, presumably the intent is that total voucher payments are capped by the maximum grant for the sanctioned family.)

Time Limits. CalWORKs establishes the following time limits for services and receipt of aid by an adult, as well as certain exemptions from these limits.

- ***Welfare-to-Work Services***. New applicants are limited to 18 months of job training/education services. Existing recipients are limited to 24 months. Counties may extend the 18-month limit by six months if the extension is likely to lead to nonsubsidized employment or if no jobs are available. Able-bodied adults must commence community service employment at the end of this time period.

- ***Five-Year Time Limit/Safety Net***. After five cumulative years on aid, the amount of the grant is reduced by the portion for the adult. Counties have the option of providing the reduced level of aid in the form of cash or vouchers. The five-year clock does not start until January 1, 1998.

- ***Exemptions From Five-Year Limit***. Individuals exempt from the five-year limit are (1) certain nonparent caretaker relatives, (2) those age 60 or older, (3) those caring for ill or incapacitated household members, (4) recipients of Supplemental Security Income, In-Home Supportive Services, State Disability Insurance, or Workers' Compensation Temporary Disability, and (5) those determined by the county to be unable to participate, provided they have a history of cooperation with program requirements.

County Administration. The counties have significant discretion in designing their programs. They will administer CalWORKs pursuant to county plans that must be certified by the Department of Social Services (DSS). Counties also will determine what is "good cause" for nonparticipation, how many hours of participation will be required of individuals prior to July 1999 (within allowable ranges), the nature of the community service job, and up to what age of the child (3 months to 12 months) shall parents be exempted from the work participation requirement.

We also note that in creating a new system of county fiscal incentives, CalWORKs has changed the state/county fiscal relationship, potentially to great advantage by the counties. The major provisions governing this relationship are summarized below.

- ***County Fiscal Incentives***. The act provides 100 percent of certain grant savings to the counties. Specifically, counties will receive 75 percent of the state's share of grant savings resulting from (1) program exits due to employment lasting six months, (2) increased earnings due to employment, and (3) diversion of applicants from the program. The remaining 25 percent of such grant savings shall be allocated to counties that have not achieved these savings but have performed in a manner "worthy of recognition." Counties must use these savings in the CalWORKs program unless expenditure of these funds is not needed to meet the federal TANF MOE requirement.

- ***Federal Penalties***. Counties that fail to meet specified federal performance measures, such as work participation rates, shall share equally with the state in the cost of any penalty assessed by the federal government.

- ***Fraud Savings***. The act provides that 25 percent of the state's share of savings from fraud detection activities shall be reallocated to the counties.

- ***Single Allocation***. State and federal funding for administration of CalWORKs and for welfare-to-work services (including child care, mental health, and substance abuse treatment) are provided to counties in the form of a single block grant. Counties have the authority to move funds to where they are needed. For example, counties could shift funds from welfare-to-work services to child care. Finally, we note that unspent funds from 1997-98 and 1998-99 can be rolled over by the counties to subsequent years, until July 1, 2000.

- ***County Share of Costs Fixed at 1996-97 Level***. The county share of costs for CalWORKs administration, Food Stamps administration, and employment services is capped at its 1996-97 levels. Thus, additional funding above the 1996-97 level is funded 100 percent by the state with no county match.

CALWORKS MULTIYEAR FISCAL PROJECTION

Estimates Involve Margin of Error. As discussed above, the CalWORKs program made extensive changes in California's welfare system for families with children. As with any new program, multiyear expenditure projections for CalWORKs are subject to a substantial margin of error. This is because of uncertainty surrounding the program—for example the pace at which counties will implement it, how certain program provisions (such as the county fiscal incentive payments) will be implemented, and the behavioral impacts of the policy changes on recipients.

Estimates Are Compared to Prior Law. Figure 4 (see page 12) shows the incremental costs and savings of CalWORKs in comparison to the prior law baseline—the amount of state and county funds required to carry out statutory requirements. The purpose of Figure 4 is to isolate the fiscal impact of the CalWORKs program relative to prior law. Thus, by design, it does not include the savings associated with the "natural" caseload decline that has resulted from

Figure 4

CalWORKs (AB 1542)
Fiscal Impact Compared to Prior Law

1997-98 Through 2003-04 (In Millions)

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
State General Fund[a]							
Costs							
Employment services	$17	$597	$617	$585	$604	$484	$363
Mental health/substance abuse (net)	22	21	44	—	—	—	—
Child care (net)	106	534	655	647	635	471	310
County fiscal incentives	26	235	424	486	486	476	449
Asset tests	10	51	51	51	51	51	51
Eliminate look back	1	2	2	2	2	2	2
Lump sum income/earnings reporting	11	20	20	20	20	20	20
Retraining	42	—	—	—	—	—	—
Fraud incentives	13	13	13	13	13	13	13
Subtotal—Costs	$247	$1,471	$1,825	$1,804	$1,811	$1,516	$1,208
Savings							
Exits due to employment[b]	-$2	-$82	-$229	-$343	-$390	-$405	-$392
Increased earnings	-23	-169	-227	-188	-141	-113	-94
Safety net (five-year time limit)	—	—	—	—	—	-80	-163
Conciliation	-8	-35	-34	-31	-31	-26	-22
Failure to participate	-5	-63	-67	-66	-66	-59	-51
$225 and 50 percent disregard	-48	-91	-91	-91	-91	-91	-91
Eliminate Beno exemptions	-58	-95	-95	-95	-95	-95	-95
Eliminate child care disregard	-20	-39	-39	-39	-39	-39	-39
Extend 4.9 percent reduction to 10/31/98	-148	-75	—	—	—	—	—
Extend COLA suspension to 10/31/98	-69	-35	—	—	—	—	—
Subtotal—Savings	-$382	-$683	-$782	-$852	-$853	-$907	-$946
Fiscal Impact—State General Fund[a]	**-$135**	**$788**	**$1,043**	**$951**	**$958**	**$609**	**$261**
County Funds							
Net impact on county grant costs[c]	-$8	-$15	-$17	-$19	-$19	-$21	-$22
County fiscal incentives	-26	-235	-424	-486	-486	-476	-449
Incentives redirected into CalWORKs	26	8	—	—	—	—	—
Reallocation of fraud savings	-13	-13	-13	-13	-13	-13	-13
Fiscal Impact—County Funds	**-$21**	**-$255**	**-$454**	**-$519**	**-$518**	**-$510**	**-$484**
Total Funds							
Net Impact	**-$156**	**$533**	**$589**	**$432**	**$439**	**$99**	**-$223**

a Because federal funds are provided in a block grant, marginal costs and savings accrue entirely to the state and are treated as General Fund costs.
b Includes grant and administrative savings.
c County share of the net impact on grants from all AB 1542 policy changes.

improvements in the economy and prior state welfare reform initiatives, or the savings from the receipt of additional federal block grant funds. In other words, baseline General Fund spending is falling rapidly due to caseload reductions and increased federal funds.

Similarly, the costs shown are the incremental costs above projected baseline expenditures. For example, the estimated cost of employment services represents the increase above the projected expenditures under the former Greater Avenues for Independence program. Also, beginning in 2000-01 baseline funding for mental health/substance abuse costs will cover anticipated demand for services and would not require additional funds. Marginal cost increases generally are treated as General Fund costs because all federal funds are received as a block grant, regardless of program policy changes.

Calculating County Fiscal Incentives. A precise methodology for calculating the county fiscal incentives is not prescribed in AB 1542, and various reasonable interpretations can be made. Without regard to the merits of the administration's interpretation, our estimate for county fiscal incentives follows the approach assumed in the *1998-99 Governor's Budget*. Specifically, the budget assumes that county fiscal incentives are equal to the savings from exits due to employment and increased earnings that are attributable to CalWORKs services; and no incentive payments are allocated for the reduction in the basic caseload. (Later in this report, we discuss these incentives and make several recommendations for more closely tying these incentives to improved county performance.)

We note that in the county funds portion of the figure, we have assumed that the counties will redirect part of their fiscal incentives back into the program in 1997-98 and 1998-99, because without these county expenditures the state would be below the federal MOE requirement (assuming the 80 percent MOE level). (We also note that in the absence of the restoration of the 4.9 percent grant reduction and resumption of the statutory COLA in 1998-99 pursuant to current law, such redirection of county fiscal incentives back into the program would be necessary in some other years.)

Net Fiscal Impact. In summary, the net fiscal impact for CalWORKs looks somewhat similar to our earlier projections for other welfare reform proposals—short run net costs largely due to increases in services, followed by longer term net savings from program interventions and time limits. (We expect the savings to continue after 2003-04.)

The figure also illustrates that—under our current law assumptions—the counties will fare substantially better than the state, from a fiscal perspective, due to the CalWORKs program. Specifically, over the seven-year projection period, state spending will *increase* by approximately $4.5 billion in comparison to prior law, whereas county spending will *decrease* by $2.8 billion. The decrease in county spending is due in large part to the provisions that allocate 100 percent of the additional welfare-to-work costs to the state and almost all of the savings to the counties. We note, however, that this disparity would be substantially less if total state spending for CalWORKs were to be significantly lower than we project, to the point where counties would have to redirect their fiscal incentives into the program in order to meet the MOE requirement.

Finally, the Governor's budget proposal before the Legislature combines the incremental effects of CalWORKs, noted above, with the baseline program. General Fund spending in both 1997-98 and 1998-99 is estimated to be substantially less than in 1996-97, largely due to caseload reductions and the impact of the federal block grant. Moreover, General Fund spending is likely to remain below 1996-97 levels in the foreseeable future as well.

RECENT FEDERAL ACTION ON WELFARE REFORM

Below we discuss two recent actions at the federal level. On August 5, 1997, the President signed The Balanced Budget Act of 1997 (H.R. 2015), which significantly amended the 1996 welfare reform provisions. In November 1997, the federal DHHS issued its proposed regulations for the TANF program.

BALANCED BUDGET ACT (BBA) OF 1997

This legislation (1) created the new Welfare-to-Work block grant program for assisting hard-to-employ TANF recipients and (2) made several other substantive and technical changes to the TANF program. (We also note that the BBA made major changes in federal policy concerning the eligibility of noncitizens for Supplemental Security Income/State Supplementary Program (SSI/SSP). Specifically, the BBA reversed earlier federal policy and retains eligibility for all noncitizens in the U.S. who were receiving SSI/SSP as of August 22, 1996. The act also allows noncitizens in the U.S. prior to August 1996 who subsequently become disabled to obtain SSI/SSP benefits.)

Welfare-to-Work Block Grant Program. The BBA includes $1.5 billion in both FFY 98 and FFY 99 for Welfare-to-Work block grants administered by the Department of Labor. About 75 percent of these funds are allocated to states on a formula basis as "Formula Grants." The remaining 25 percent are available to specified local entities on a competitive basis.

Depending on whether California provides the required one-third match, the state is eligible to receive up to approximately $190 million in federal funds in FFY 98 and $173 million in FFY 99 for the Formula Grants. At least 85 percent of these federal funds must be allocated to PICs, which are regional organizations created pursuant to the Job Training Partnership Act. The remaining 15 percent (sometimes referred to as "discretionary funds") are to be spent on projects likely to help long-term welfare recipients. All Formula Grant expenditures are subject to state legislative appropriations, according to the following rules:

- ***Funds Must Be Spent on Eligible Individuals According to the 70/30 Rule***. At least 70 percent must be spent on TANF recipients on aid 30 or more months who meet two of three specified conditions (discussed below), or to certain noncustodial parents. Up to 30 percent must be spent on other TANF recipients who have characteristics associated with long-term welfare dependence. Once awarded, states have three years to spend the federal funds.

- ***Funds Must Be Spent on Allowable Activities***. These activities are: (1) community service or work experience programs; (2) job creation through public or private sector employment wage subsidies; (3) contracts with public or private providers of readiness, placement, and post-employment services; (4) job vouchers for placement, readiness, and post-employment services; or (5) job retention or support services if such services are not otherwise available.

- ***State Match***. States shall receive $2 in Welfare-to-Work formula grants for each $1 in state-matching expenditures (up to the state maximum allotment—approximately $190 million in FFY 98 and $173 million in FFY 99). State matching funds must be in excess of the funds spent to meet the TANF MOE requirement and must be spent on eligible individuals and activities. States have three years to spend the necessary match.

- ***Formula for Allocating Funds to PICs***. Federal law establishes three factors for states to use when allocating formula grant funds to PICs: (1) excess poverty (number of persons in poverty above a 7.5 percent threshold), (2) adults receiving TANF for 30 months or more ("long-term TANF recipients"), and (3) the number of unemployed persons. The first factor (excess poverty) must be weighted at least 50 percent. States may use excess poverty as the sole factor or may combine it with one or both of the other two factors.

  At the time this report was prepared, the state had not established its formula for allocating funds to the PICs. However, Figure 5 (see page 16) shows three potential allocations to the PICs that represent the range of potential allocation formulas. As the figure shows, the formula adopted would have a significant impact on the allocation of funds among the PICs.

Other Statutory Changes. In addition to the Welfare-to-Work block grant program, the BBA (1) allows states to count child support that is passed through to TANF families toward meeting the state MOE requirement and (2) adds and modifies federal penalties for not meeting specified performance measures. Figure 6 (see page 18) lists the penalties that were part of the original welfare reform act (H.R. 3734), the new or substantially modified penalties (as a result of H.R. 2015), and whether each penalty can be excused for good cause or reduced or avoided through a corrective action plan. As shown in the figure, none of the penalties pertaining to the MOE requirement can be mitigated through either good cause or a corrective

Figure 5

H.R. 2015 Welfare-to-Work Grant Program
Comparison of Potential Allocations to PICs[a]

PIC	Potential Allocation Assuming: Excess Poverty Factor Weighted 100%	50% Excess Poverty/ 50% Long Term TANF Recipient	50% Excess Poverty/ 50% Unemployed Persons
Alameda (excluding Oakland)	—	$1,521,614	$1,430,237
Oakland	$4,527,624	4,212,936	3,277,196
Mother Lode	191,573	413,068	440,769
Golden Sierra	—	618,064	955,887
Butte	2,193,177	1,904,228	1,628,436
North Central Counties	2,068,970	1,978,555	2,076,618
Contra Costa (excluding Richmond)	—	1,137,934	1,315,243
Richmond	814,602	798,821	716,347
Fresno	10,014,666	8,411,284	8,507,462
Humboldt	1,265,669	1,071,000	963,442
Imperial	1,918,947	1,669,231	2,181,284
Kern/Inyo/Mono	5,487,707	4,861,229	5,381,527
Kings	953,767	822,085	880,081
Nortec	1,309,546	1,427,511	1,351,924
Los Angeles County[b]	21,216,998	20,079,441	19,879,887
Foothill	986,232	953,775	1,089,647
Verdugo	1,304,893	2,150,369	1,392,720
Carson/Lomita/Torrance	—	321,049	524,660
Long Beach	4,153,563	3,886,213	3,205,160
Los Angeles City	42,370,397	30,485,159	33,058,325
Madera	947,673	816,024	997,778
Marin[c]	—	150,550	316,233
Mendocino	567,186	567,718	542,329
Merced	2,374,778	2,258,530	2,150,464
Monterey	1,345,556	1,318,604	2,095,828
Napa	—	133,099	251,549
Orange (excluding Santa Ana/Anaheim)	—	2,487,308	2,659,235
Riverside	4,865,121	5,640,749	6,069,245
Sacramento	5,395,078	7,442,796	5,069,289
San Benito[c]	—	129,102	247,262

Continued

PIC	Potential Allocation Assuming: Excess Poverty Factor Weighted 100%	50% Excess Poverty/ 50% Long Term TANF Recipient	50% Excess Poverty/ 50% Unemployed Persons
San Bernardino County	4,929,164	7,181,626	5,504,735
San Bernardino City	2,643,912	2,580,902	1,875,364
San Diego	9,311,529	10,699,970	9,370,517
San Francisco	3,958,001	3,186,890	3,337,367
San Joaquin	4,112,456	4,142,193	3,996,751
San Luis Obispo	1,117,086	865,513	968,209
San Mateo	—	418,494	912,765
Santa Barbara	1,939,334	1,520,150	1,753,063
Santa Clara (excluding Nova)	900,805	2,924,393	2,268,744
Nova	—	315,862	503,099
Santa Cruz	724,633	714,974	1,196,023
Shasta	976,370	1,133,852	998,471
Solano	—	775,435	948,700
Sonoma	—	579,673	725,899
Stanislaus	2,609,120	2,874,785	3,288,206
Tulare	5,066,999	4,159,724	4,366,216
Ventura	—	853,169	1,940,523
Yolo	1,416,801	1,127,846	1,103,692
South Bay	1,486,162	1,840,151	1,799,588
SELACO (Southeast Los Angeles County)	126,755	975,157	940,207
Anaheim	881,193	1,019,000	950,882
Santa Ana	3,302,286	2,296,193	2,448,914
Subtotal—Allocated to PICs	$161,776,329	$161,854,000	$161,854,000
Additional State Discretionary[c]	$77,671	—	—
Total Funds	**$161,854,000**	**$161,854,000**	**$161,854,000**

Source: Department of Social Services and Employment Development Department provided the factors used to calculate these potential allocations to PICs. Note that poverty data is based on 1990 census, TANF data is for recipients in FFY 1997 who had at least 30 months of aid since 1987. Unemployment data is based on 1996 annual averages.

a Assumes California receives the maximum grant of $190,417,000 for FFY 98 and allocates 85 percent to Private Industry Councils.

b Excluding allocations to other PICs within LA County shown in this table: LA City, South Bay, Carson/ Lomita/Torrance, Long Beach, Verdugo, Foothill, and SELACO.

c Pursuant to H.R. 2015, no allocation for PICs under $100,000; such funds redirected to state discretionary "15 percent" allocation.

Figure 6

Federal Penalties in the TANF Program

Penalty Description	Amount of Penalty[a]	Good Cause Exception?	Corrective Action plan?
Existing Penalties—H.R. 3734			
Misuse of federal TANF funds.	Amount misused	Yes	Yes
Intentional misuse of federal TANF funds.	5 percent	Yes	Yes
Failure to submit required report.	4 percent	Yes	Yes
Failure to meet work participation rate.	5 percent to 21 percent[b]	Yes	Yes
Failure to participate in Income and Eligibility Verification System.	Up to 2 percent	Yes	Yes
Failure to enforce penalties on recipients who do not cooperate with child support enforcement.	Up to 5 percent	Yes	Yes
Failure to repay a federal loan.	Amount of loan, plus interest	No	No
Failure to meet state maintenance-of-effort (MOE) requirement.	Amount underspent	No	No
Failure to comply with five-year limit on federal assistance.	5 percent	Yes	Yes
Failure to maintain 100 percent MOE when drawing federal contingency funds.	Amount of contingency funds	No	No
Failure to maintain assistance to single parent family with a child under age 6 who cannot obtain child care.	Up to 5 percent	Yes	Yes
New or Substantially Modified Penalties			
Noncompliance with state child support enforcement requirements.	1 percent to 5 percent	No	No
Failure to backfill with state funds the federal funds lost due to imposition of any federal penalties.	Up to 2 percent	No	No
Failure to meet MOE when state has been awarded welfare-to-work formula grant.	Amount of formula grant	No	No
Failure to reduce grant for the family on a pro rata basis when the adult recipient refuses to work without good cause.	1 percent to 5 percent	Yes	Yes

[a] Any reference to a percent means that percent of California's $3.7 billion TANF block grant. Each one percent represents approximately $37 million in potential penalties.

[b] The first year penalty is 5 percent, increasing 2 percent per year. Also, the penalty is to be based on the degree of failure.

action plan. Conversely, the penalty pertaining to work participation is subject to good cause exceptions and corrective action, thus providing the Secretary of the DHHS substantial flexibility to reduce this penalty.

PROPOSED FEDERAL REGULATIONS

On November 20, 1997, the DHHS issued proposed regulations for the TANF program. Although these regulations are subject to change by the department in the final rules, they give an indication of DHHS thinking on many issues, including the imposition of penalties. Some of the most significant regulations are summarized below.

- ***Work Participation Penalty***. The DHHS proposes that any states that meet the *overall* work participation requirement, but fail to meet the higher rate for *two-parent* families, should have their penalty based on the proportion of the caseload represented by two-parent families. Because approximately 14 percent of California's TANF cases are two-parent families, this would reduce the potential first-year penalty from $185 million (5 percent of the $3.7 billion block grant) to $26 million ($185 million times 14 percent) under these circumstances. States will be eligible for further reductions if they come within 90 percent of the required rates of work participation.
- ***Corrective Action Plans***. States that come into compliance within six months of acceptance of a corrective action plan by the DHHS will not be penalized. States that achieve a 50 percent or greater improvement within six months will have their penalties reduced.
- ***No Penalty Relief for States That "Game" the System***. States that attempt to evade work participation requirements or retain the federal share of child support collections—for example, through the creation of state-only funded programs—will be denied specified penalty relief (such as the pro-ration of the penalty for failure to meet the two-parent work participation rate).

ISSUES FOR LEGISLATIVE CONSIDERATION

Implementation of the CalWORKs program raises substantive policy issues as well as technical "clean-up" issues. The CalWORKs legislation establishes a steering committee to consider implementation issues as they arise. (The committee is comprised of representatives from the Health and Welfare Agency, the DSS, the Department of Finance, the County Welfare Directors Association, the California State Association of Counties, members of the Legislature, and two public members appointed by the Secretary of the Health and Welfare Agency). Below we discuss five issues with particularly significant fiscal implications.

REQUIRED HOURS OF PARTICIPATION EXCEED FEDERAL STANDARDS

We recommend that legislation be enacted requiring the Department of Social Services to contract for an evaluation of the cost-effectiveness of giving counties the discretion to reduce the required weekly hours of participation to 20 hours for families with a child under age six, rather than the 32 hours required beginning in 1999. This would conform to federal requirements and could facilitate the cost-effective use of CalWORKs resources.

Federal law requires that states have specified percentages of their caseload working at least 20 hours per week in FFY 97 and FFY 98, 25 hours per week in FFY 99, and 30 hours per week in FFY 00 and thereafter. However, the federal out-year requirement for more than 20 hours per week *does not apply to families with a child under six years of age*.

CalWORKs goes beyond the federal requirements for families with a child under age six with respect to weekly hours of participation. Specifically, CalWORKs requires 20 hours per week effective January 1998, 26 hours effective July 1998, and 32 hours effective July 1999 and thereafter, *with no exceptions for families with young children*. We note that over 60 percent of CalWORKs cases with an aided adult include a child under the age of six.

Child care for young children is relatively expensive because typically costs are higher and more hours of care are needed, compared to older children. If the participation requirement for these cases were maintained at a level of 20 hours per week, we estimate that annual spending for child care and welfare-to-work services would decrease by roughly $50 million in 1998-99 and $100 million annually thereafter. These avoided costs would be offset by an unknown amount of lost savings that may result from potentially lower employment impacts associated with the reduced participation mandate.

We believe that the local case managers who administer CalWORKs are in the best position to determine the appropriate hours of participation. Case managers can assess the needs of their clients and the availability of child care for young children, and can weigh the marginal benefit (if any) of requiring more than 20 hours of participation against the additional child care costs. We acknowledge, how ever, that available data may not be adequate to determine whether increasing the hours of participation will be cost-effective.

Considering the magnitude of the potential net savings, we recommend that legislation be enacted to evaluate the cost-effectiveness of providing counties with the flexibility to set weekly hours of participation for families with a child under age six at anywhere between 20 hours and 32 hours. More specifically, we recommend directing the DSS to contract for an evaluation of the cost-effectiveness of this policy change by means of an experimental/control group study in three pilot counties. Such an evaluation could be incorporated into the broader evaluation of CalWORKs required by current law.

COUNTY FISCAL INCENTIVES CREATE GENERAL FUND RISK

In order to more closely tie incentive payments to improved performance and to protect the state's General Fund liability, particularly during periods of recession, we recommend legislation be enacted to amend the county fiscal incentive provisions, as follows:

- ***Base each county's incentive payments for program exits (that result from employment lasting six months or more) on the increase in the number of such exits compared to the average number of such exists in 1994-95, 1995-96, and 1996-97.***
- ***In estimating county savings attributed to program exits and diversion, limit the duration of savings to the department's estimate of the average time on aid for all recipients who leave aid due to employment. In addition, the department should develop a system for comparing (1) the actual time on aid of the recipients who exit the program due to employment to (2) an "expected" time on aid, based on historical averages for recipients with similar demographic characteristics and on local economic conditions.***
- ***Revise the distribution of incentives between the two eligible groups of counties—those that actually achieved savings (currently 75 percent of the incentive payments) and those that did not achieve savings but are "worthy of recognition" (25 percent). The revision should provide that the former must receive at least 75 percent, with the latter receiving up to 25 percent as determined by the department. In addition, prohibit individual counties that did not achieve savings from receiving more in per-case incentive payments than counties that did achieve savings.***

Background. Prior to CalWORKs, the state and counties shared in any grant savings according to their respective shares of the grant costs—thus, the state received 95 percent of the nonfederal share of any grant savings. Under CalWORKs, counties continue to pay for 5 percent of grant costs but will receive 100 percent of grant savings resulting from (1) program exits due to employment that have lasted for a minimum of six months, (2) increased earnings by recipients due to employment, and (3) diversion of applicants from the program.

Seventy-five percent of these savings are paid to the counties where the savings occurred, and the remaining 25 percent are allocated to counties that did not achieve savings but performed in a manner "worthy of recognition." Counties must spend any fiscal incentive payments in a manner consistent with CalWORKs and TANF, unless the Director of Finance determines that these funds are not needed to meet the federal MOE requirement.

Fiscal incentives may encourage counties to help recipients make the transition from welfare to work, and may also be justified as a form of fiscal relief for the counties (in the event state/county spending is above the federal MOE requirement). At the same time, the incentive structure currently in CalWORKs could have a substantial negative impact on the state General Fund and may reduce the incentive for counties to consider the cost side of the cost-effectiveness equation.

We note that AB 1542 included legislative intent language that these provisions be revised pursuant to the recommendations of the steering committee. To facilitate this process, we examine some of the issues raised by the new fiscal incentives.

Issue #1: Limiting General Fund Risk and Tying Incentive Payments to Improved Performance. Under federal welfare reform, federal funding for CalWORKs is capped by the block grant. Accordingly, the state bears nearly all of the financial risk of increased grant payments in the event of recession. During a recession there is likely to be an increase in the caseload *despite* some "exits due to employment." Thus, the state General Fund would be responsible for covering both the costs associated with a caseload increase and the cost of the incentive payments to counties.

In addition to the General Fund risk described above, the proposed incentive structure is likely to reward counties when there has been no improvement in the number of clients leaving aid due to employment. Prior to CalWORKs, each county experienced some level of exits due to employment. As currently written, AB 1542 would pay counties incentives even if the number of such exits due to employment were to *decrease*. We believe that good performance would be rewarded in a more effective manner by providing these fiscal incentives only to counties that *increase* the number of exits due to employment, using the average number of exists in 1994-95, 1995-96, and 1996-97 as the base reference point.

Analyst's Recommendation. We recommend that each county's incentive payments for exits due to employment (lasting six months or more) be based on the increase in the number of such exits compared to the average number of such exists in 1994-95, 1995-96, and 1996-97. This should more closely tie incentive payments to improved performance and limit, to some extent, General Fund exposure during a recession.

Issue #2: Clarifying the Duration of Incentive Payments. Another area that may need statutory clarification is the number of months for which counties would be entitled to the fiscal incentive. Arguably, a county could demand the incentive payments for as long as the family remains off aid and employed (and includes children under age 18). We believe such an approach would be excessive because families that leave aid due to employment tend to have characteristics (such as relatively more education and employment experience) associated with short-term receipt of welfare.

Analyst's Recommendation. In order to conform the duration of incentive payments more closely to the likely duration of any grant savings, we recommend the following:

- In estimating county savings attributed to program exits and diversion, limit the duration of savings to the estimated average time on aid for recipients leaving aid due to employment, according to department surveys. To refine this approach, the department should develop a system in which incentives are based on a comparison of (1) the actual time on aid of recipients who exit the program due to employment to (2) an "expected" time on aid, based on historical averages for recipients with similar demographic characteristics and local economic conditions.

Issue #3: Incentives for Counties That Do Not Achieve Savings. The CalWORKs provision requiring that 25 percent of savings be allocated to counties that have not achieved savings, but have performed in a manner worthy of recognition, raises two concerns. First, if only a few small counties do not achieve savings, these few counties could receive proportionately *more* in incentive payments than the counties that actually achieved savings. For example, if 56 counties achieved savings, just two counties would split 25 percent of total savings. Second, the statute provides limited guidance to the administration (DSS) when determining what factors to consider in awarding these funds. Although we recognize that counties in areas with higher unemployment will have more difficulty in achieving increased exits due to employment, we believe that the amount of incentives for such counties should be tied to an estimate of cost avoidance resulting from program components deemed to be "worthy of recognition."

Analyst's Recommendation. With respect to the fiscal incentives for counties that do not achieve savings, we recommend legislation to:

- Authorize the DSS to provide *up to* 25 percent (rather than the current *fixed* 25 percent) of total savings to eligible counties that did not achieve savings, and prohibit a county that did not achieve savings from receiving more in per-case incentive payments than a county that did achieve savings. (We note that any reduction in incentive payments below the 25 percent limit would be reallocated to counties that did achieve savings.)
- Require the DSS to make a finding that any county that is to receive such incentive payments has operated a program that has resulted in cost avoidance.

COUNTIES SHOULD SHARE IN THE COST OF ADDITIONAL EMPLOYMENT SERVICES

We recommend that counties be responsible for 7.5 percent of the total costs for increases in employment services (over 1997-98) so that counties will weigh both the costs and the benefits of services when developing welfare-to-work plans for their clients.

As discussed above, counties will receive incentive payments for achieving savings based on caseload reductions and increased earnings by recipients on aid (potentially most of the state's normal share of total grant savings), but counties do not assume any of the incremental costs of welfare-to-work services because their share of these costs is frozen at the 1996-97 level. Thus, counties have no fiscal incentive to consider the cost side of the cost-effectiveness equation, with respect to potential program expansion activities. For example, counties might adopt a plan that includes additional high-cost service interventions (with the state paying 100 percent of the cost) even if the services are expected to result in relatively small savings from employment, in the hopes of obtaining a fiscal incentive payment.

Accordingly, we recommend that counties pay 7.5 percent of the total cost of increases (over 1997-98) in employment services (excluding child care). This is approximately one-half the pre-1996-97 county share of costs, and is set at a level that is designed to encourage efficiency but is not so high as to give counties an incentive to "underspend" for fiscal rather than policy reasons.

ACCESSING THE WELFARE-TO-WORK BLOCK GRANT

We recommend that the Legislature appropriate sufficient funds, during the next four state fiscal years, to enable California to receive the maximum amount of federal Welfare-to-Work block grant funds.

As discussed above, the state matching expenditures for the new federal Welfare-to-Work block grant must be (1) for eligible individuals and activities and (2) above the MOE requirement for the TANF program. The federal match is favorable in that the state only has to put up $1 to receive $2 in federal funds. The federal funds are available in FFY 98 and FFY 99, and California has three years (from the date of the initial grant awards) to spend both the federal funds and the required state match.

The Governor's budget for 1998-99 includes proposed expenditures for CalWORKs that are just sufficient to meet the TANF MOE requirement. In addition, the budget proposes an augmentation of $95 million for employment services to be used as the state match for the first $190 million in federal Welfare-to-Work block grant funds. We will discuss the Governor's proposal in the *Analysis of the 1998-99 Budget Bill* to be released in February.

State expenditures in CalWORKs from 1997-98 through 2001-02 cumulatively must be $182 million above the TANF MOE requirement, in order for California to be able to obtain the maximum federal funds allotment (approximately $363 million). We recommend that the Legislature appropriate sufficient additional General Fund monies to maximize receipt of the $2 for $1 federal match. The additional state expenditures could be made at almost any time over the next four state fiscal years. We note that the Governor's proposal to spend $95 million toward the state match in 1998-99 is consistent with our recommendation.

Subject to the requirement that any such augmentation be spent on eligible individuals and activities pursuant to the federal Welfare-to-Work statutory requirements, the specific nature of the augmentation would be a policy decision for the Legislature and the administration. One possibility would be to expand the employment services/ training program for noncustodial parents of CalWORKs recipients, initiated on a pilot basis in 1997-98. (Data from the pilot program in Los Angeles County indicate that the program may be cost-effective.) Another approach would be to provide any match augmentation to the PICs, on the condition that they agree to spend their federal Welfare-to-Work funds on specified legislative priorities. This could include funds to enhance the baseline budgeted activities and/or to replace those activities. In this respect, we note that if the new federal funds were to reduce the need to spend the regular federal TANF block grant funds, the state could carry over the latter funds indefinitely. These freed-up federal TANF funds could be used to build a TANF reserve (as a contingency against recession) or for some future CalWORKs program enhancement.

ALLOCATING WELFARE-TO-WORK FUNDS TO PICS

We recommend enactment of legislation providing that in the state's formula for allocating the new federal Welfare-to-Work funds to the PICs, the number of long-term TANF recipients be given a weight of at least 25 percent.

As discussed above, the three potential factors established by federal law for allocating Welfare-to-Work funds to the PICs are: (1) the incidence of poverty above a specified threshold, (2) the number of adults receiving TANF for 30 months or more, and (3) the number of unemployed persons. The law further provides that the poverty factor must be weighted at least 50 percent.

Because almost all of these funds must be spent on TANF recipients that have been on aid for 30 months or more, or on TANF recipients having characteristics associated with long-term welfare receipt, we believe that the number of long-term TANF recipients residing in each PIC should be one of the allocation factors. Specifically, we recommend enactment of legislation providing that the formula assign a weight of at least 25 percent to this factor. Figure 7 (see page 26) shows three examples of formulas that would meet this criterion.

Figure 7

H.R. 2015 Welfare-to-Work Grant Program
Examples of Allocations Based at Least 25 Percent on Long Term TANF Receipt[a]

PIC	Potential Allocation Assuming: 50% Excess Poverty/ 25% Long Term TANF Receipt/ 25% Unemployed Persons	50% Excess Poverty/ 50% Long Term TANF Receipt	75% Excess Poverty/ 25% Long Term TANF Receipt
Alameda (excluding Oakland)	$1,475,926	$1,521,614	$760,807
Oakland	3,745,066	4,212,936	4,370,280
Mother Lode	426,918	413,068	302,321
Golden Sierra	786,975	618,064	309,032
Butte	1,766,332	1,904,228	2,048,702
North Central Counties	2,027,586	1,978,555	2,023,763
Contra Costa (excluding Richmond)	1,226,589	1,137,934	568,967
Richmond	757,584	798,821	806,711
Fresno	8,459,373	8,411,284	9,212,975
Humboldt	1,017,221	1,071,000	1,168,335
Imperial	1,925,258	1,669,231	1,794,089
Kern/Inyo/Mono	5,121,378	4,861,229	5,174,468
Kings	851,083	822,085	887,926
Nortec	1,389,718	1,427,511	1,368,529
Los Angeles County[b]	19,979,664	20,079,441	20,648,220
Foothill	1,021,711	953,775	970,003
Verdugo	1,771,544	2,150,369	1,727,631
Carson/Lomita/Torrance	422,854	321,049	160,524
Long Beach	3,545,686	3,886,213	4,019,888
Los Angeles City	31,771,742	30,485,159	36,427,778
Madera	906,901	816,024	881,849
Marin[c]	233,392	150,550	-
Mendocino	555,024	567,718	567,452
Merced	2,204,497	2,258,530	2,316,654
Monterey	1,707,216	1,318,604	1,332,080
Napa[c]	192,324	133,099	-
Orange (excluding Santa Ana and Anaheim)	2,573,272	2,487,308	1,243,654
Riverside	5,854,997	5,640,749	5,252,935
Sacramento	6,256,043	7,442,796	6,418,937
San Benito[c]	188,182	129,102	103,386

Continued

PIC	Potential Allocation Assuming: 50% Excess Poverty/ 25% Long Term TANF Receipt/ 25% Unemployed Persons	50% Excess Poverty/ 50% Long Term TANF Receipt	75% Excess Poverty/ 25% Long Term TANF Receipt
San Bernardino County	6,343,180	7,181,626	6,055,395
San Bernardino City	2,228,133	2,580,902	2,612,407
San Diego	10,035,244	10,699,970	10,005,749
San Francisco	3,262,128	3,186,890	3,572,445
San Joaquin	4,069,472	4,142,193	4,127,325
San Luis Obispo	916,861	865,513	991,300
San Mateo	665,629	418,494	209,247
Santa Barbara	1,636,607	1,520,150	1,729,742
Santa Clara (excluding Nova)	2,596,569	2,924,393	1,912,599
Nova	409,480	315,862	157,931
Santa Cruz	955,498	714,974	719,803
Shasta	1,066,162	1,133,852	1,055,111
Solano	862,068	775,435	387,718
Sonoma	652,786	579,673	289,836
Stanislaus	3,081,495	2,874,785	2,741,953
Tulare	4,262,970	4,159,724	4,613,361
Ventura	1,396,846	853,169	426,585
Yolo	1,115,769	1,127,846	1,272,323
South Bay	1,819,869	1,840,151	1,663,156
SELACO (Southeast Los Angeles County)	957,682	975,157	550,956
Anaheim	984,941	1,019,000	950,097
Santa Ana	2,372,553	2,296,193	2,799,239
Subtotal—Allocated to PICs	$161,854,000	$161,854,000	$161,712,175
Additional State Discretionary[c]	—	—	$141,825
Total Funds	**$161,854,000**	**$161,854,000**	**$161,854,000**

Source: Department of Social Services and Employment Development Department provided the factors used to calculate these potential allocations to PICs. Note that poverty data is based on 1990 census, TANF data is for recipients in FFY 1997 who had at least 30 months of aid since 1987. Unemployment data is based on 1996 annual averages.

[a] Assumes California receives the maximum grant of $190,417,000for FFY 98 and allocates 85 percent to Private Industry Councils.

[b] Excluding allocations to other PICs within LA County shown in this table: LA City, South Bay, Carson/Lomita/Torrance, Long Beach, Verdugo, Foothill, and SELACO.

[c] Pursuant to H.R. 2015, no allocation for PICs under $100,000; such funds redirected to state discretionary "15 percent" allocation.

Acknowledgments

This report was prepared by Todd Bland under the supervision of Chuck Lieberman. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

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