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Fiscal Effect on California:

Congressional Welfare Reform Reauthorization Proposals

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Congress currently is considering different approaches to the reauthorization of the Temporary Assistance for Needy Families program. We estimate that the House reauthorization bill (H.R. 4737) would result in net state costs of about $2.2 billion over the next five federal fiscal years. By contrast, we estimate that the version passed by the Senate Finance Committee would result in net state savings of $140 million over the same period.

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INTRODUCTION

In February 2002, President Bush released his plan for welfare reform reauthorization. In an earlier report (*President's Welfare Reform Reauthorization Plan—Fiscal Effect on California*), we estimated that his proposal, entitled *Working Toward Independence*, would result in net state costs of $2.8 billion over the next five federal fiscal years (FFYs). In May, the House passed H.R. 4737, the "Personal Responsibility, Work, and Family Promotion Act of 2002." The House bill largely reflects the principles and policies outlined in the President's plan, but has a slightly lower cost impact on California.

In June, the Senate Finance Committee, which has primary jurisdiction over federal welfare reform provisions, passed its version of H.R. 4737, the "Work, Opportunity, and Responsibility for Kids Act of 2002." Floor action on the Senate bill is anticipated in September 2002. The Senate version differs significantly from the House-passed bill. Hereafter we refer to these reauthorization proposals as the House and Senate bills or versions.

Both bills make substantial changes to the existing federal welfare block grant program—the Temporary Assistance for Needy Families (TANF) program. The two bills also propose changes to the child support enforcement system, as well as federal health care funding and health care coverage for legal immigrants and families leaving welfare. Because much of the fiscal impact of the two proposals is on the TANF program, this report focuses primarily on the net costs to the California Work Opportunity and Responsibility to Kids (CalWORKs) program, which is California's version of the federal TANF program. However, our fiscal estimates also include a fiscal assessment of the non-TANF provisions of the proposals.

Background

Previous Federal Welfare Reform. The 1996 federal welfare reform legislation substantially changed the American welfare system. The centerpiece of the law—the TANF block grant program—replaced the Aid to Families with Dependent Children (AFDC) entitlement program. Under TANF, states were given significant flexibility to establish their own eligibility rules and requirements, and to spend federal funds for purposes other than cash assistance.

In exchange for this increased flexibility, states were required to engage specified percentages of their caseloads in welfare-to-work activities, or face financial penalties. In order to receive the block grants, states must also meet a "maintenance-of-effort" (MOE) spending requirement. The TANF block grants were authorized through the end of FFY 2002 (September 2002). The federal TANF block grant to California is about $3.7 billion and the state's MOE requirement is $2.7 billion. The state's MOE requirement rises to $2.9 billion if the state fails to meet the required work participation rates.

California's Welfare Reform Program. In response to the 1996 federal welfare reform, the Legislature created the CalWORKs program, enacted by Chapter 270, Statutes of 1997 (AB 1542, Ducheny). CalWORKs is a welfare-to-work program that requires able-bodied adult recipients to work or engage in some type of work-related education or training activity in exchange for cash assistance. This county administered program serves families whose incomes are inadequate to meet their basic needs. Supportive services, such as child care and transportation, are provided to families making the transition from welfare to work.

CONGRESSIONAL PROPOSALS

While sharing some common elements, the House-passed version of H.R. 4737 differs significantly from the version passed by the Senate Finance Committee. As we discuss in greater detail below, the major differences revolve around the definition of participation and how states are credited for case exits. Figures 1 through 3 compare the major provisions of both bills to current law. Figure 1 focuses on the major work provisions of both bills.

Major Work Provisions

H.R. 4737 as Passed By the House. As noted in Figure 1, the House bill increases the state-

Figure 1

TANF Reauthorization Proposals
Major Work Participation Provisions

Provision	Current Law	House Bill	Senate Bill
Statewide participation rates	• 50 percent of all families and 90 percent of two-parent families must meet hourly participation requirements.	• Increases all families rate to 70 percent by FFY 2007 and eliminates two-parent rate.	• Increases all families rate to 70 percent by FFY 2007 and eliminates two-parent rate.
Caseload reduction/ employment credit	• Statewide participation rate requirements are reduced by the percentage point decline in a state's caseload since FFY 1995.	• Recalibrates caseload reduction credit so that by FFY 2005, it is based on caseload decline over the most recent four-year period.	• Replaces caseload reduction credit with employment credit, whereby participation rate requirement is reduced based on the number of families that are employed after leaving assistance, with extra credit for high earners.
Exclusion from participation rate	• States may exclude single-parent cases with a child under 12 months of age from the participation rate calculation.	• In addition, allows states to exclude cases in the first month of assistance.	• In addition, allows states to exclude single-parent cases with certain caretaking responsibilities, and to retroactively exclude cases that become eligible for SSI.
Universal engagement	• After 24 months of aid, every family must participate for some hours in welfare-to-work activities.	• Requires that every family with an aided adult participate and have a welfare-to-work plan within two months of receiving aid, effective FFY 2003.	• Requires that every family with an aided adult have a welfare-to-work plan within two months of receiving aid, effective FFY 2004.

Continued

wide participation rate requirement from 50 percent to 70 percent by FFY 2007, and recalibrates the "caseload reduction credit" to a state's caseload decline over the most recent four-year period. (Currently, a state's participation rate requirement is reduced by the percentage point reduction in the state's caseload since FFY 1995. As discussed later in this report, this change in the "look-back" period is very significant for California.)

Under the proposed "universal engagement" requirement, effective FFY 2003, states would be required to prepare welfare-to-work plans for all aided adult cases. Within two months of receiving aid, all such cases would be required to participate according to their individual plans. (Currently, California does not prepare plans for cases that are exempt from participation under state law, or for cases in which up-front job search results in immediate employment.)

In addition to increasing the percentage of families who must participate, the House bill also increases both the overall number of hours

Provision	Current Law	House Bill	Senate Bill
Participation hours	• 20 hours per week for single parents with a child under age six; 30 hours for single parents with older children; 35 hours for two-parent families.	• Increases requirement to 40 hours for all families.	• No change from current law.
Participation activities	• "Priority" activities—employment, work experience, on-the-job training, community service, job search, vocational education, and provision of child care services—must account for at least 20 hours per week. Remaining work hours may be met through any of the above activities, or job skills training or education related to employment.	• Increases hourly requirement for priority activities to 24 hours. Excludes job search and vocational education as countable priority activities. Gives states broad flexibility to count any state-approved activity toward the remaining hours.	• Increases hourly requirement for priority activities to 24 hours (except for single parents with a child under age six). Expands list of priority activities to include post-secondary education. Gives states flexibility to count certain "rehabilitative services" (adult basic education, mental health, substance abuse, or domestic violence treatment) toward the remaining hours.
Flexibility period	• No provision.	• Allows states to count any state-approved activity toward 24-hour priority activity requirement for up to three months in any two-year period.	• Allows states to count rehabilitative services toward 24-hour priority activity requirement for up to six months in any two-year period.
Partial credit	• No provision.	• Gives states pro-rata credit for families who do not meet the overall participation requirement but participate in qualifying activities for at least 24 hours per week.	• Gives states pro-rata credit for families who do not meet the overall participation requirement but participate in qualifying activities for at least 15 hours per week.

families must participate each week, and the number of hours they must participate in "priority" activities. (In general, the House bill limits priority activities to employment or community service.) All families would be subject to a 40-hour per week requirement, 24 hours of which must be in priority activities. (The increase to 40 hours is significant because under current law, single-parent families with a child under age six, representing nearly 50 percent of California's caseload, are required to participate only 20 hours per week.)

The House bill gives states the flexibility to count any approved state activity toward the 24-hour priority activity requirement for up to three months in any two-year period. Such

Figure 2

TANF Reauthorization Proposals Major Funding Provisions

Provision	Current Law	House Bill	Senate Bill
TANF block grant and maintenance-of-effort (MOE)	• To receive its $3.7 billion annual block grant, California must meet a $2.7 billion MOE spending requirement. Such spending is restricted to low-income families.	• Freezes block grant funding levels through FFY 2007. Allows any spending on family formation and nonmarital pregnancy reduction to count toward MOE.	• No change from current law. Freezes block grant funding levels through FFY 2007.
Contingency Fund	• Makes available $2 billion in matching grants to "needy" states in the case of a recession. To qualify, states must increase MOE spending.	• Provides $2 billion through FFY 2007. Retains current definition of needy state.	• Provides $2 billion through FFY 2007. Revises definition of needy, eliminates increased MOE spending requirement, and increases federal match for certain states including California.
Social Services Block Grant (SSBG)	• Provides $1.7 billion in FFY 2002 and each year thereafter. Allows states to transfer up to 4.25 percent of their TANF block grant to SSBG.	• No change from current law.	• Increases SSBG funding by $252 million in FFY 2005. (California would receive approximately $30 million.) Effective FFY 2003, allows states to transfer up to 10 percent of TANF block grant to SSBG.
Child care	• Provides $2.7 billion in FFY 2002. Of that amount, $1.5 billion requires a state match; $1.2 billion is unmatched.	• Increases matching child care funds by $200 million each year through FFY 2007 ($26 million annually for California).	• Increases unmatched child care funds by $1 billion each year through FFY 2007 ($71 million annually for California). Increases matching child care funds by $250 million each year in FFYs 2006 and 2007 ($32 million annually for California).

Continued

activities could include treatment for mental health, substance abuse, or domestic violence; education and training activities; English as a second language; or job search. Finally, the House bill would give states pro-rata credit for families who do not meet the overall 40-hour participation requirement but who do meet the 24-hour requirement.

H.R. 4737 as Amended in the Senate. Like the House-passed version, the Senate version increases the statewide participation rate requirement from 50 percent to 70 percent by FFY 2007. While the House retains the caseload reduction credit, the Senate bill replaces it with an employment credit. Under the Senate approach, the participation rate requirement would be reduced based on the number of families that are employed after leaving assistance. The Senate also includes a universal engagement requirement, effective FFY 2004. While the House bill allows states to determine the general content of the welfare-to-work plans, the Senate version requires that each family's plan include certain elements, such as an assessment of child well-being.

The Senate bill does not change the overall number of hours families must participate, but does increase the number of hours families must participate in priority activities. (The requirement for participation in priority activities increases from 20 to 24 hours, except for single-parent families with a child under age six.) The Senate bill expands the current list of countable priority activities to include post-secondary

Provision	Current Law	House Bill	Senate Bill
Legal immigrants	• Prohibits states from using TANF funds for legal immigrants who have lived in the United States for less than five years. States may count state spending on such immigrants toward their MOE requirement.	• No change from current law.	• Gives states option to use TANF funds for all legal immigrants.
Performance bonuses	• Provides $200 million annually for competitive "high-performance" bonus awards. Provides $100 million annually in competitive "nonmarital birth reduction" bonus awards.	• Reduces high-performance bonus funds to $100 million annually and eliminates nonmarital birth reduction bonus.	• Eliminates both the high-performance and the nonmarital birth reduction bonuses.
Family formation funds	• No dedicated TANF funding for family formation activities. $50 million provided annually for "abstinence-only" education.	• Provides $100 million annually for matching grants for marriage promotion activities. (States may use TANF funds to meet the match requirement.) Provides $100 million annually for research and technical assistance related to marriage promotion.	• Provides $200 million annually for matching grants for demonstration programs to promote marriage, reduce teen pregnancy, and reduce domestic violence. Provides an additional $50 million annually for "abstinence-first" education.

education. States are also given new flexibility to count certain "rehabilitative services," such as adult basic education, or mental health, substance abuse, or domestic violence treatment, toward the 24-hour requirement for up to six months in any two-year period. Finally, states would be given pro-rata credit for families who participate for at least 15 hour per week.

MAJOR FUNDING PROVISIONS

Figure 2 compares the major funding provisions of the House and Senate bills to current law. Under both versions, the TANF block grant funding levels remain frozen through FFY 2007, as do the states' MOE spending requirements. The House bill generally retains current law with respect to the Contingency Fund and the Social Services Block Grant (SSBG), while the Senate bill revises the Contingency Fund to make it more accessible to states, and increases SSBG funding in FFY 2005.

Both versions increase federal child care funding, though at significantly different levels. Specifically, the House bill increases matching child care funding by $200 million each year through FFY 2007. (In order to draw down its share of approximately $25 million, California would be required to increase state child care spending by approximately $35 million each year.) The Senate bill also increases matching child care funds, by $250 million each year in FFYs 2006 and 2007. (California's annual share would be approximately $30 million, with a corresponding match requirement of about $45 million.)

The Senate bill also increases *unmatched* child care funds by $1 billion annually through FFY 2007. Of that amount, California would receive approximately $70 million each year. This amount assumes that each state would receive an equal percentage increase to its current allocation of unmatched child care funding. We note there is some uncertainty about how the proposed funding increases would be allocated, so this amount could change depending on the ultimate allocation methodology.

While the House bill retains the current ban on using federal funds for recent legal immigrants, the Senate bill permits states to use TANF funds for all legal immigrants. Finally, both the House and Senate bills make changes to the current performance bonus awards, and create new grant programs focusing on family formation issues (such as promoting marriage and reducing teen pregnancy).

OTHER PROVISIONS

Figure 3 compares the major TANF eligibility, child support enforcement, and health care provisions of the House and Senate bills. As the figure indicates, under current federal law, states may apply stricter eligibility rules to two-parent TANF cases than to one-parent cases. To be eligible for aid in California, two-parent families must meet a "100-hour" rule, whereby the primary earner must have worked less than 100 hours in the last four weeks. The House bill requires that states encourage equitable treatment of two-parent families, while the Senate bill prohibits states such as California from applying stricter eligibility rules to such families.

Child Support. Both the House and Senate bills provide states new options to "pass through" child support collections to TANF and former TANF families. Under current California law, the first $50 of monthly child support collected on behalf of a TANF family is passed

Figure 3

TANF Reauthorization Proposals
Major TANF Eligibility, Child Support, and Health Care Provisions

Provision	Current Law	House Bill	Senate Bill
Eligibility for two-parent families	• States have flexibility to apply different TANF eligibility rules for one- and two-parent families.	• Encourages states to treat single- and two-parent families equitably.	• Prohibits states from imposing stricter eligibility rules on two-parent families than on single-parent families.
Child support enforcement	• The TANF recipients are required to assign their rights to unpaid child support to the states in order to repay the costs of cash assistance. States may "pass through" some or all of this support to the recipient, but must remit the federal share of all collections to the federal government. (California currently passes through the first $50 that is collected each month.)	• Requires the federal government to waive its share of limited pass-through increases (up to a $50 increase for California). Imposes an additional annual collection fee on families that never received TANF.	• Requires the federal government to waive its share of a pass-through of up to $400 for one-child families and up to $600 for families with two or more children. (The federal share of California's current $50 pass-through would be waived.)
Transitional Medical Assistance (TMA)	• States must provide temporary Medicaid coverage (up to 12 months) to certain families who would otherwise become ineligible due to increased earnings. The TMA is authorized through FFY 2002.	• Reauthorizes TMA through FFY 2003, and pays for the federal cost by reducing federal administrative funding for states.	• Reauthorizes TMA through FFY 2007. Permits states to extend eligibility for an additional 12 months and to simplify reporting requirements.
Medicaid administrative funding	• States receive federal funds to administer the Medicaid program.	• Reduces federal administrative funding.	• No change from current law.
Medicaid benefits for legal immigrants	• Prohibits states from using federal nonemergency Medicaid funds for legal immigrants who have lived in the United States for less than five years. (California uses state funds to provide Medicaid benefits to such immigrants.)	• No change from current law.	• Gives states option to use federal Medicaid funds for legal immigrant pregnant women and children.
State Children's Health Insurance Program (SCHIP) benefits for legal immigrants	• Prohibits states from using federal SCHIP funds for legal immigrants who have lived in the United States for less than five years. (California uses state funds to provide SCHIP benefits to such immigrants.)	• No change from current law.	• Gives states option to use federal SCHIP funds for legal immigrant pregnant women and children.

through to the family. California must pay the federal government its share of that pass-through (amounting to approximately $15 million annually). Under the Senate bill, the federal government would waive its share of California's current pass-through, as well as any additional pass-through amounts up to $600 per month. Under the House bill, the federal government would only waive its share of a pass-through *increase* of up to $50 per month. Finally, the House bill would impose a $25 annual collection fee for nonwelfare families for child support services.

Health Care. Currently, states are required to provide temporary Medicaid coverage, or Transitional Medical Assistance (TMA), to certain families who would otherwise become ineligible due to increased earnings. Authorization for TMA expires at the end of FFY 2002. The House bill reauthorizes TMA for one year (FFY 2003), and reduces federal Medicaid administrative funding for states. The Senate bill reauthorizes TMA through FFY 2007. The Senate bill also allows states to draw down federal funds to provide Medicaid and State Children's Health Insurance Program (SCHIP) benefits to legal immigrant pregnant women and children. (The Healthy Families Program is California's version of SCHIP.)

Impact of Increasing the Participation Mandate

As noted earlier, both the House and the Senate bills increase the statewide participation rate requirement from 50 percent to 70 percent by FFY 2007. However, the two bills differ significantly in terms of (1) the number of hours of participation required of individual families, (2) what activities are counted as participation, and (3) how states are credited for case exits. The different approaches taken by both houses would result in substantially different participation mandates for California.

Figure 4 shows our estimates of California's "effective" participation requirement (participation rate less caseload reduction/employment credit) under both measures. We then compare that requirement to our projection of California's likely participation rate under each proposal over the five-year reauthorization period. We note that it is difficult to predict with certainty the impact of the individual provisions under each bill. Our estimates are based on the most recent participation data available, conversations with county officials, and information from the California Department of Social Services.

Effective Participation Rate Requirements. As Figure 4 shows, we estimate that the House's recalibration of the caseload reduction credit to the most recent four-year period would effectively eliminate the benefit of this credit to California by FFY 2005. This is because receiving credit for caseload reduction under the House bill requires continuing caseload decline. Although California experienced significant caseload decline since FFY 1995, the caseload has recently started to grow and is projected to continue to increase in the near future due to the impact on employment from the slowdown of the state's economy. So, assuming no caseload reduction over the next five years, California would receive no credit beginning in FFY 2005. Thus, by FFY 2007, California's effective participation rate requirement would be 70 percent.

By contrast, under the Senate bill, the replacement of the caseload reduction credit with an employment credit would significantly reduce the statutory requirement over the five years. Specifically, we estimate that the employment credit would reduce the statutory rate by about 25 percentage points, until FFY 2007, when the credit would be capped at 20 percentage points. That year, California's effective rate requirement would be 50 percent.

Figure 4

TANF Reauthorization Proposals
Projected Impact on California's Work Participation Rates

H.R. 4737	Federal Fiscal Year 2003	2004	2005	2006	2007
House version					
Work participation requirement	50%	55%	60%	65%	70%
Less caseload reduction credit	-41	-25	—	—	—
Effective rate	9%	30%	60%	65%	70%
California's current participation rate	31%	31%	31%	31%	31%
Adjustments resulting from new provisions	—[a]	—[a]	—[a]	—[a]	—[a]
California's estimated participation rate under new provisions	31%	31%	31%	31%	31%
Participation gap	**—**	**—**	**29%**	**34%**	**39%**
Senate version					
Work participation requirement	50%	55%	60%	65%	70%
Less employment credit	-25	-25	-25	-25	-20
Effective rate	25%	30%	35%	40%	50%
California's current participation rate	31%	31%	31%	31%	31%
Adjustments resulting from new provisions	14	14	14	14	14
California's estimated participation rate under new provisions	45%	45%	45%	45%	45%
Participation gap	**—**	**—**	**—**	**—**	**5%**

[a] Although the House bill makes several changes to the definition of participation, we estimate that these changes tend to offset each other, resulting in no net impact to California's participation rate.

Changes to Definition of Participation. As shown in Figure 4, California's participation rate under current law is approximately 31 percent (based on the most recent federal participation data). We estimate that under the House bill, this rate would not change significantly. This is because the positive impacts of certain elements of the bill—specifically, excluding certain recipients from the rate calculation, allowing partial credit for families participating at least 24 hours, and giving states new flexibility to count other activities for up to three months—are offset by the negative impacts of increasing overall participation hours, increasing the priority activity hourly requirement, and limiting countable priority activities.

Conversely, we estimate that under the Senate bill, California's participation rate would increase by approximately 14 percentage points. Over half of the increase is attributable to the provision giving states partial credit for families participating part-time in qualifying activities (the threshold for partial credit is 15 hours per week, compared to 24 hours under the House bill). Other elements of the Senate bill that would increase California's rate include allowing post-secondary education to count as participation, excluding certain adults with disabilities or with significant caretaking responsibilities from the rate calculation, and providing a three-to six-month flexibility period for rehabilitative services. Overall, these positive impacts far outweigh any negative impact of increasing the hourly requirement for priority activities. Finally, although both bills increase the priority activity requirement to 24 hours, the negative impact would be smaller under the Senate bill because single-parent families with a child under age six would not be subject to the increase. In Figure 5, we compare the impacts on California of the proposed changes to the definition of participation.

Participation Gap. Figure 4 shows that, taken together, the work provisions of the House bill would result in a significant "gap" between California's estimated participation rate of 31 percent and the 70 percent effective rate requirement the state would face in FFY 2007. As early as FFY 2005 California would need to double its participation rate in order to avoid federal penalties. By contrast, under the Senate bill, we estimate that California's actual participation rate would *exceed* the effective rate requirement through FFY 2006. In FFY 2007, the state would face a participation gap of just 5 percentage points.

Figure 5

TANF Reauthorization Proposals
Projected Impacts on California's Work Participation Rate

	House Bill	Senate Bill
California's current participation rate	31%	31%
New provisions:		
Exclude first-month recipients from rate calculation	+	[a]
Exclude certain caretakers from rate calculation	[a]	+
Exclude certain disabled recipients from rate calculation	[a]	+
Partial credit for part-time participation	+	++
Increase overall hourly requirement to 40 hours	- -	[a]
Increase "priority activity" hourly requirement to 24 hours	-	-
Redefine countable "priority" activities	-	+
Three- or six-month flexibility period	+	++
Net impact	—[b]	14%
California's estimated participation rate under new provisions	31%	45%

[a] No provision.

[b] We estimate that the impacts of the new provisions tend to offset each other, resulting in no net impact to California's participation rate.

Key:

+ Small increase in participation rate (less than 3 percentage points).

+ + Significant increase in participation rate (more than 3 percentage points).

- Small decrease in participation rate (less than 3 percentage points).

- - Significant decrease in participation rate (more than 3 percentage points).

FISCAL IMPACT OF THE CONGRESSIONAL PROPOSALS

ESTIMATING METHODOLOGY AND KEY ASSUMPTIONS

We estimated the costs of meeting the participation requirements under both bills. Figure 6 (see page 14) summarizes the key assumptions we used to prepare both fiscal estimates. As the figure indicates, certain assumptions are common to both estimates, while other assumptions are specific to the particular House or Senate version. In preparing the estimate of the House bill, we assumed, based on California's experience to date, that meeting the higher participation mandate would require substantial investments in child care and employment services. Conversely, our estimate of the Senate bill assumed that closing the estimated 5 percentage point participation gap in FFY 2007 would require relatively modest program investments.

Our estimate of the fiscal impact of the House bill is conservative in that it reflects what we believe to be the *minimal* investment necessary for California to have a *reasonable chance* of meeting the proposed participation mandate.

ESTIMATED FISCAL IMPACT OF PROPOSED TANF CHANGES

House Reauthorization Proposal. Figure 7 (see page 15) summarizes the estimated costs and savings of implementing the House-passed welfare reform reauthorization bill. As the figure shows, total additional net TANF costs would be approximately $2.2 billion over the five-year period. This net figure represents employment services costs of about $1.5 billion and net child care costs of nearly $1.2 billion, partially offset by grant and administrative savings of about $0.5 billion. Most of the costs occur in FFY 2005 through FFY 2007, when California would face increasingly higher participation rate requirements.

Senate Reauthorization Proposal. Figure 8 (see page 16) summarizes the estimated costs and savings of implementing the welfare reform reauthorization bill passed by the Senate Finance Committee. As the figure indicates, total additional net TANF costs would be approximately $115 million over the five-year period. This figure represents employment services costs of $180 million, child care costs of about $130 million, and $225 million in grants, services, and administrative costs associated with a higher two-parent caseload (resulting from the elimination of California's current stricter eligibility rules for two-parent families). These costs are partially offset by the relatively large infusion of new federal child care funding (totaling $420 million over the five-year period).

As we later explain, the primary reason for the higher costs associated with the House bill is the large participation gap that California would have to close in order to avoid federal penalties.

ESTIMATED FISCAL IMPACT OF OTHER PROVISIONS

As noted earlier, both the House and Senate bills make changes to the child support enforcement system and federal health care funding. Figures 7 and 8 summarize the estimated costs and savings associated with the specific proposals in each bill.

Figure 6

TANF Reauthorization Proposals
Key LAO Estimating Assumptions

Common Assumptions

- ✓ ***Current Law***. With the exception of law changes necessary to implement the new requirements of each bill, we assume no changes to current state law.
- ✓ ***Current Caseload***. Our estimates are based on holding the caseload steady at its projected June 2003 level. Thus, any future changes in the caseload due to factors such as a recession or a recovery are not reflected in our estimates.
- ✓ ***Additional Investments Would Result in Grant and Administrative Savings***. Providing more families with child care and employment services would result in some offsetting savings in the form of lower grant payments and administrative costs due to higher levels of employment and eventual case exits due to higher earnings.
- ✓ ***Universal Engagement***. Meeting the "universal engagement" requirement under both bills would result in additional costs associated with preparing welfare-to-work plans for the entire adult caseload. (We note that because the Senate's requirement would require full family assessments, these costs would be higher than under the House bill.)

Assumptions Specific to the House Estimate

- ✓ ***Participation Must Increase Substantially***. California would face an increasingly large "participation gap" beginning in FFY 2005, which would require substantial investments in child care and employment services.
- ✓ ***Riverside County Is a Reasonable Starting Point***. Riverside County—a relatively large county with moderate costs in its welfare-to-work program—has one of the highest rates of participation across the state. Increasing the statewide participation rate to Riverside's rate would require bringing all counties up to Riverside's current welfare-to-work funding standard.
- ✓ ***Additional Investments Beyond Riverside***. Despite Riverside's success in engaging the majority of its caseload in unsubsidized employment and other welfare-to-work activities, its participation rates are still well below the proposed requirements. Thus, additional investments in child care, employment services, and community service activities would be necessary.

Assumption Specific to the Senate Estimate

- ✓ ***Modest Investments Needed to Close Participation Gap***. Moving from a 45 percent participation rate to the 50 percent required rate in FFY 2007 would require relatively modest investments in child care and employment services.
- ✓ ***Average Employment Services Costs Are a Reasonable Starting Point.*** Because no major program restructuring would be necessary, a proportional funding increase based on current statewide employment services expenditures would be reasonable.

Figure 7

House's TANF Reauthorization Proposal Estimated Major Fiscal Impacts on California

(In Millions)

	Federal Fiscal Year					Five-Year Impact
	2003	2004	2005	2006	2007	
TANF						
Employment services						
Increasing participation	—	$95	$380	$440	$505	$1,420
Universal engagement requirement	$35	15	15	15	15	95
Subtotals (nonadd)	($35)	($110)	($395)	($455)	($520)	($1,515)
Child care						
Costs associated with higher participation	—	$85	$340	$400	$455	$1,280
Less new federal funding	-$25	-25	-25	-25	-25	-$125
Subtotals (nonadd)	(-$25)	($60)	($315)	($375)	($430)	($1,155)
Automation	$10	$5	$5	$5	$5	$30
Savings (grants and administration)	—	-$35	-$140	-$165	-$190	-$530
Net TANF Impact	**$20**	**$140**	**$575**	**$670**	**$765**	**$2,170**
Other Programs						
Child support						
Increased fee revenues	—[a]	—[a]	—[a]	—[a]	—[a]	-$10
Health care						
Transitional Medical Assistance[b]	—	-$20	-$25	-$25	-$25	-$95
Reduced Medicaid administrative funding	$35	50	—	—	—	85
Net Impact to Other Programs	$35	$30	-$25	-$25	-$25	-$20
Total Net Impact	**$55**	**$170**	**$550**	**$645**	**$740**	**$2,150**

a Less than $5 million.

b Savings result from termination of program beginning in FFY 2004.

Child Support

Although both the House and Senate bills provide the states with many new options to pass through more child support collections to families, the only mandatory change under the House bill is the $25 annual collection fee for nonwelfare families. This fee would result in approximately $3.5 million in annual revenue that would be shared equally by California and the federal government. As shown in Figure 7, this fee would reduce state costs by about $10 million over the five-year period.

The only change in the Senate bill with an immediate significant fiscal impact is the waiver of the federal share of collections that states already pass through to TANF families. As Figure 8 indicates, this provision would result in total state savings of approximately $75 million over the five-year period.

Figure 8

Senate's TANF Reauthorization Proposal
Estimated Major Fiscal Impacts on California

(In Millions)

	Federal Fiscal Year					Five-Year Impact
	2003	2004	2005	2006	2007	
TANF						
Employment services						
Increasing participation	—	—	—	$15	$60	$75
Universal engagement requirement	—	65	20	20	20	125
Less federal implementation grant	-$5	-5	-5	-5	—	-20
Subtotals (nonadd)	(-$5)	($60)	($15)	($30)	($80)	($180)
Child care						
Costs associated with higher participation	—	—	—	$25	$105	$130
Less new federal funding	-$70	-$70	-$70	-105	-105	-420
Subtotals (nonadd)	(-$70)	(-$70)	(-$70)	(-$80)	(—)	(-$290)
Automation	$10	$5	$5	$5	$5	$30
Savings (grants and administration)	—	—	—	-$5	-$25	-$30
Two-parent eligibility	$45	$45	$45	$45	$45	$225
Net TANF Impact	**-$20**	**$40**	**-$5**	**-$5**	**$105**	**$115**
Other Programs						
Child Support						
Waiver of federal share of "pass-through"	-$15	-$15	-$15	-$15	-$15	-$75
Health Care[a]						
Federal Medicaid coverage for legal immigrant pregnant women and children	-$15	-$15	-$15	-$15	-$20	-$80
Federal SCHIP coverage for legal immigrant pregnant women and children[b]	-10	-15	-15	-15	-15	-70
Social Services Block Grant						
One-time increase	—	—	-$30	—	—	-$30
Net Impact to Other Programs	**-$40**	**-$45**	**-$75**	**-$45**	**-$50**	**-$255**
Total Net Impact	**-$60**	**-$5**	**-$80**	**-$50**	**$55**	**-$140**

[a] Costs for five-year reauthorization of Transitional Medical Assistance are reflected in current expenditures.

[b] Savings include tobacco settlement funds, which are generally fungible with the state General Fund.

Health Care

Figure 7 shows that the House proposal to reduce Medicaid administrative funding would result in total costs of about $85 million over the five-year period. The Senate proposal to permit federal financial participation for Medicaid and SCHIP benefits for legal immigrant pregnant women and children would result in total state savings of approximately $150 million over the five-year period, with about $80 million attributable to Medicaid savings, and $70 million attributable to SCHIP savings, as shown in Figure 8. Both versions reauthorize TMA. However, while the Senate reauthorizes the program for all five years, the House reauthorizes it only through FFY 2003. This results in state savings under the House version in each of the remaining four years, for a total savings of $95 million.

Total Fiscal Impact

Figure 7 shows that the House bill would result in total net costs of approximately $2.2 billion over the five-year period. This cost contrasts sharply with the estimated total net savings of approximately $140 million under the Senate bill, as shown in Figure 8.

OUTLOOK FOR CALIFORNIA

TANF Fiscal Implications

The House and Senate approaches to welfare reform reauthorization have sharply different fiscal implications for California. As discussed in the preceding section, the House version requires California to close a large "participation gap"—from a current participation rate of 31 percent, to a required rate of 70 percent in FFY 2007. Conversely, under the Senate approach, California would only need to increase participation from about 45 percent to 50 percent that year. Moreover, the Senate version provides a substantial infusion of new child care funds.

House Proposal. In order to have a reasonable chance of meeting the higher participation rates required under the House bill, we estimate that California would need to increase CalWORKs/TANF expenditures by approximately $765 million in FFY 2007 and a total of $2.2 billion over five years. Given that the state's current TANF reserve is only $60 million, the state would essentially have two options for funding the program to meet the participation mandate. The first option would be to fund the higher costs from the state General Fund and spend above the state's MOE requirement. The second option would be to shift funding within the program from cash grants to employment services and child care. We estimate that in FFY 2005, grants would need to be reduced by approximately 17 percent ($575 million) to fund the projected net increases in child care and employment services. Finally, we note that beyond the fiscal impact, the House bill would probably require substantial program changes, such as limiting participation exemptions and increasing the sanctions for noncompliance, in order to meet the participation mandate.

Senate Proposal. In contrast to the House bill, the Senate bill minimally increases the effective participation mandate for California. Specifically, the Senate bill's various changes to the definition of participation have the effect of raising California's current participation rate from 31 percent to about 45 percent. At the same time, the proposed employment credit would substantially reduce the statutorily required participation rate requirements (from 70 percent to 50 percent in FFY 2007). Thus, under the Senate version, California would need to increase participation by only 5 percentage points in FFY 2007.

We estimate that a 5 percentage point increase in participation could be achieved with a modest increase in funding for employment services and child care, and without major program changes. Additionally, although California would face only a modest participation gap by the end of the reauthorization period, under the Senate bill the state would receive a substantial new infusion of federal funding for child care. These new funds would more than offset the employment services and child care costs associated with meeting the higher participation requirements. However, the Senate prohibition on stricter eligibility rules for two-parent families would result in additional costs associated with a higher two-parent caseload. As a result, over the five-year period, we estimate a net TANF/CalWORKs cost of $115 million.

We estimate that the non-TANF provisions would provide a net benefit of $255 million to California over the same period. These savings would outweigh the net costs to the CalWORKs program, resulting in total net state savings of $140 million over the five-year period.

Chance of Success/Risk of Penalty. If states fail to meet the participation requirements of either the House or Senate reauthorization bills, they face penalties in the form of block grant reductions combined with corresponding increases in the MOE requirement. The first failure results in a penalty of up to 5 percent of the block grant, rising each year to a maximum of 21 percent per year for successive failures. For California, the maximum annual penalty would be about $750 million.

Although the penalty amount is identical under both bills, the risk of a penalty is much greater under the House version. In order to avoid a penalty under the House bill, California would have to close a participation gap of about 39 percentage points in FFY 2007. Reaching the 70 percent participation requirement will be difficult even if California were to make the $765 million investment we believe would be needed that year. We note that additional investments beyond our estimates would probably not significantly increase California's chance of success. Rather, success would most likely require significant program changes—for example, stricter sanction policies for failure to participate—in addition to the investment we have identified. By contrast, keeping the 5 percentage point participation gap under the Senate version presents only a minimal risk of a penalty, which we believe *would* be avoided given a modest investment in employment services and the new infusion of federal child care funding.

Implications for State Flexibility And Greater Incentives

Assuming that the Senate Finance Committee bill is ultimately passed by the entire Senate, differences between the bills would then be resolved by a joint House-Senate conference committee. In this section, we comment on those provisions of the measures which are likely to have the most significant impact on California's CalWORKs program. With one exception, we believe the Senate provisions provide states with more flexibility and greater incentives to successfully engage more families in work activities.

Caseload Reduction Credit Versus Employment Credit

Current federal law rewards states for moving cases off cash assistance. States are rewarded through the current caseload reduction credit, which the House retains, but modifies. The caseload reduction credit, however, does not distinguish between cases that leave aid due to employment and cases that leave for other reasons. By contrast, the employment credit proposed under the Senate bill focuses on "successful" case exits due to employment. This credit rewards states for moving recipients off cash assistance and toward self-sufficiency even when the *total* caseload may be level or rising. We believe such a credit would provide states an important incentive to engage their caseloads in activities that lead to successful case exits and long-term self-sufficiency.

Credit for Partial Participation

Both the House and Senate bills give states pro-rata credit for families who participate in qualified activities on a part-time basis. We believe a partial credit provision moves federal policy in the direction of rewarding states for their efforts to engage all families, even those unable to participate for a full work week (for example, due to caretaking responsibilities or other barriers to full-time employment). The difference between the two bills is in the minimum number of hours required to receive such partial credit (15 hours under the Senate bill versus 24 hours under the House bill). Our analysis of the CalWORKs participation data suggests that California has many families participating between 15 and 24 hours per week. The Senate bill would recognize California's efforts to engage such families.

Flexibility Period: Interaction With Partial Credit

Both the House and Senate bills provide states with "flexibility periods" during which participation in nonpriority activities may count toward a state's participation rate. (The House provides a three-month flexibility period, while the Senate provides a six-month flexibility period.) Such flexibility is important because some individuals face significant barriers to employment, and require specialized services—such as treatment for mental health, substance abuse, or domestic violence; English as a second language; or adult basic education—in order to become and/or stay employed.

The Senate's provision has a more significant positive impact on California's participation rate than does the House's provision, primarily due to the interaction with the partial credit provisions under each bill. Specifically, because the Senate's minimum hourly threshold (15 hours) for partial credit is lower than the House's (24 hours), more families receiving specialized services during the flexibility period would be counted toward California's participation rate under the Senate version. Depending on the nature of their barriers, it may be difficult for individuals requiring such services to participate for more than 15 hours per week. Further, addressing certain barriers often takes more than three months. For these reasons, we believe the Senate bill gives states more flexibility and a greater incentive to engage families with barriers to employment.

Participation Requirements for Families With Young Children

Current federal hourly participation requirements reflect different work expectations of families with varying levels of caretaking responsibilities—20 hours for single-parent families with a child under age six, 30 hours for all other single-parent families, and 35 hours for two-parent families. As discussed above, the House bill increases the hourly requirement to 40 hours for all families, while the Senate bill retains current law. The issue of how much work should be required of low-income parents in exchange for cash assistance is an important policy issue for the Legislature and the Governor. Current federal law gives states the flexibility to establish higher participation requirements than the minimum level required under federal law. In fact, in enacting CalWORKs, the state did establish hourly participation requirements for single-parent families that are higher than the federal standards (32 hours for all single-parent families, regardless of the age of the youngest child). Both the House and Senate bills retain this flexibility. However, because it does not raise the minimum federal requirements, the Senate bill gives the Legislature significantly greater flexibility in establishing participation requirements that it deems to be appropriate for recipients in different family situations.

Eligibility for Two-Parent Families

Both the House and Senate bills address the issue of different eligibility rules for two- and single-parent families. While the House encourages states to apply the same eligibility rules to both family types, the Senate bill prohibits states from applying different rules. This restriction runs counter to the flexibility provided under current federal law, which permits states to establish their own eligibility rules and requirements.

CONCLUSION

As discussed above, Congressional reauthorization of TANF has significant fiscal and programmatic implications for California. The Legislature should advise the Congressional delegation of its priorities as the process moves forward.