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Federal and State Welfare Reform Overview

LEGISLATIVE ANALYST'S OFFICE

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Assembly Budget Subcommittee No. 1

Hon. Patty Berg, Chair





Key Features of 1996 Temporary Assistance for Needy Families (TANF) Program

- ☑ **Block Grant and Maintenance-of-Effort (MOE).** The previous entitlement program was replaced with a TANF block grant of \$3.7 billion. To receive the block grant, states must meet a 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 (75 percent, if the state meets the federal work participation requirement discussed below).
- ☑ **Elimination of Entitlement.** By eliminating Aid to families with dependent children as a federal entitlement, states have the flexibility to redesign their welfare systems, thereby determining who is eligible for benefits, the duration of benefits (with certain limits on federal funding), and the amount of benefits. The previous MOE on individual grant levels is eliminated.
- ☑ **Work Requirements.** The act requires that states have an increasing percentage of their TANF caseload (families with an adult receiving aid and children over age one) engaged in work or some other type of work-related education, job training, or job search activity. For all families the required rate is 50 percent and the rate for two-parent families is 90 percent. States must reduce grants for recipients who refuse to engage in work (as defined by the state). Failure to meet the work requirements subjects a state to a penalty of up to 5 percent of its block grant (increasing 2 percent per year for consecutive failures, with a cap of 21 percent).
- ☑ **Time Limits.** The federal welfare reform legislation sets a five-year lifetime limit on any family's use of federal block grant funds. The law also permits states to exempt up to 20 percent of its cases for reasons of hardship. It is important to note that the federal act places no time limits on the use of state funds.



Major Features of CalWORKs

- Eligibility.** The California Work Opportunity and Responsibility to Kids (CalWORKs) program retained many aspects of prior law with respect to eligibility. In particular, families meeting specified income and asset tests are entitled to receive a grant. However, major changes included: (1) conforming resource limits to the amounts permitted under federal law for the Food Stamps program, (2) permitting counties to “divert” eligible applicant families with up to three months of aid payments in the form of a lump sum, (3) requiring recipients to document that all children required to attend school have received all age-appropriate immunizations, and (4) requiring all children for whom school attendance is compulsory to attend school.
- Making Work Pay.** The CalWORKs program replaced the \$30 and one-third disregard and the “fill-the-gap” grant structure with a \$225 and 50 percent disregard, whereby the first \$225 of earnings plus 50 percent of each additional dollar of earnings are disregarded in determining the family's grant.
- Participation Requirements.** The 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 32 hours. An adult recipient in a two-parent family must participate for 35 hours per week. The CalWORKs legislation also created participation exemptions for individuals temporarily unable to participate.
- Welfare-to-Work Services.** The CalWORKs recipients receive welfare-to-work services including: job search, assessment, welfare-to-work activities (education and training), and community service and work experience. Following the assessment, counties and recipients will develop individualized welfare-to-work plans.



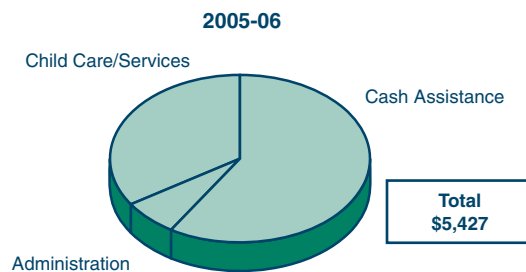
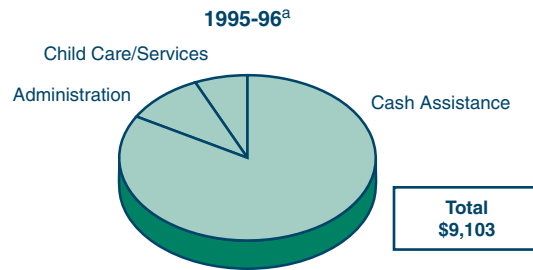
Major Features of CalWORKs *(Continued)*

- Child Care.** The 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 SDE, and may last no longer than two years after a family leaves assistance. Stage III is also administered by SDE and is available for recipients no longer on aid, subject to the condition that they earn less than 75 percent of the statewide median income.
- Sanctions.** The sanction for failure to participate in work activities or community service is removal of the adult portion of the grant.
- Five-Year Time Limit/Safety Net.** After five cumulative years on aid, the amount of the CalWORKs grant is reduced by the portion for the adult. Counties have the option of providing the reduced level of aid in the form of cash or vouchers.



Budget Trends

Expenditures in Millions



^aAdjusted for inflation.

- ☑ **Overall Spending.** Total spending for CalWORKs (in constant 2005-06 dollars) has declined from \$9.1 billion in 1995-96 to \$5.4 billion in 2005-06.
- ☑ **Shift From Cash Assistance to Services.** The share of spending dedicated to services and child care has increased from 7 percent to 34 percent.



Perspectives on Reauthorization

- ☑ The TANF program was originally authorized through FFY 2002.
- ☑ National Conference of State Legislatures task force on reauthorization began meeting in October 2001 and adopted multiple policy statements stressing the need to retain state flexibility.
- ☑ States were largely successful in reducing caseload and increasing employment. Since the enactment of federal welfare reform, California's caseload has declined by approximately 45 percent. During the same time period, the percent of cases with earnings increased from approximately 17 percent to over 43 percent.
- ☑ President Bush, The U.S. House of Representatives, and the Senate all put forward different reauthorization plans.
- ☑ The final version of TANF reauthorization adopted in the Deficit Reduction Act of 2005 included higher effective work participation rates and less state flexibility than any of the previous proposals.



Key CalWORKs Changes in the Federal Deficit Reduction Act

- Resetting the Base Period for the Caseload Reduction Credit.*** Previously, the caseload reduction credit was determined by finding the state's percentage reduction in the caseload since 1995. Beginning in FFY 2007, the act resets the base period for the caseload reduction credit to 2005.
- Cases in Separate State Programs No Longer Excluded From Work Participation Calculation.*** The act makes cases served in separate state funded MOE programs subject to the work participation calculation. Accordingly, California will no longer be able to avoid the 90 percent rate for two-parent families by using a state-only MOE funded program.
- New Regulatory Authority Concerning Work Participation.*** The act gives the Secretary of the U.S. Department of Health and Human Services new authority to promulgate regulations concerning "verification of work and work eligible individuals." This gives the Secretary specific authority to define work participation activities, how participation in these activities is documented, how participation is reported, and whether nonaided adults residing with children that are aided with TANF or MOE funds may be subject to work requirements.
- More Spending Countable Toward the MOE Requirement.*** The act expands the definition of what types of state spending may be used to meet the MOE requirement. Currently, countable state spending must be for aided families or for families who are otherwise eligible for assistance. The act allows state expenditures designed to prevent out-of-wedlock pregnancies or promote the formation of two-parent families to count toward the MOE requirement even if the target population is not otherwise eligible for aid.



California's Work Participation Rate

| | Federal Fiscal Year | |
|---|---------------------|--------------|
| | 2007 | 2008 |
| Estimated Work Participation Rates— Based on Current Law | | |
| Base participation rate | 23.3% | 23.3% |
| Projected increase from policy changes | | |
| Homeless assistance | 0.2% | 0.5% |
| Ending durational sanctions | 1.0 | 1.0 |
| All other policies | 4.0 | 10.0 |
| Subtotals | 5.3% | 11.4% |
| Total Estimated Participation Rate | 28.6% | 34.7% |
| Totals may not add due to rounding. | | |

- California's work participation rate is projected to exceed the required federal rate by 1.7 percent in FFY 2008.
- Risks and Caveats.** Meeting participation depends on obtaining an "excess MOE" caseload reduction credit of 12.9 percent and achieving a 10 percent increase in participation based on recent program changes that will implement over the coming years.