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Federal and State Welfare Reform Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Budget and Fiscal Review Committee

Hon. Denise Moreno Ducheny, Chair





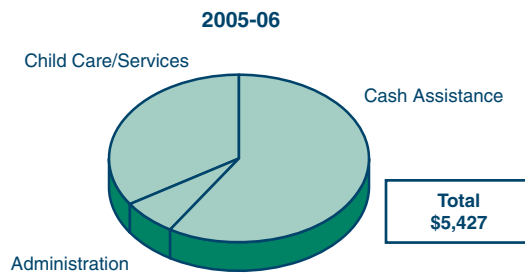
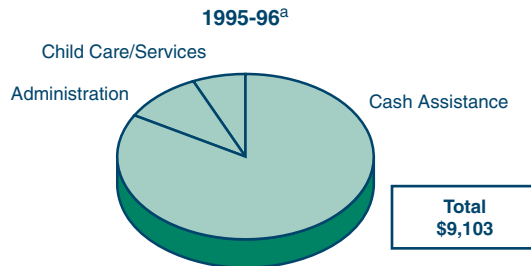
CalWORKs Budget Overview

- Total Budget.** In 2007-08, the California Work Opportunity and Responsibility to Kids (CalWORKs) budget includes \$5.2 billion for grants, administration, welfare-to-work services, and child care. This funding supports approximately 460,000 families comprised of 1,140,000 individuals.
- Funding Sources.** For 2007-08, the CalWORKs budget is comprised of the following funding sources: \$3.5 billion in federal Temporary Assistance for Need Families (TANF) block grant funds, \$1.5 billion from the state General Fund, \$125 million in county funds, and \$45 million from the Employment Training Fund.
- Block Grant.** The annual federal TANF block grant is \$3.7 billion. Unspent funds may be carried over to future years indefinitely.
- Maintenance-of-Effort (MOE).** To receive the TANF block grant, California must expend \$2.9 billion in state and county funds. This requirement is met by CalWORKs spending within the Department of Social Services as well as countable expenditures in other departments.
- Flexibility.** Both federal TANF funds and state MOE funds may be expended on CalWORKs and on other related programs.



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.



CalWORKs Grants

- Entitlement.** Grants are an entitlement to eligible individuals. The budget for cash assistance is based on the average grant and caseload.
- Amount.** In 2007-08, CalWORKs grant costs are estimated to be \$3 billion, with \$1.8 billion TANF, \$1.1 billion state General Fund, and \$0.1 billion from the counties.
- Grant Levels.** CalWORKs recipients receive grants based on family size and county location. In addition, recipients receive food stamps in amounts which depend on their grant and earnings.

CalWORKs Maximum Monthly Grant and Food Stamps 2007-08 and 2008-09 Family of Three				
	2007-08	2008-09 ^a	Change	
			Amount	Percent
High-Cost Counties				
Grant	\$723	\$761	\$38	5.0%
Food stamps	361	344	-17	-4.9
Totals	\$1,084	\$1,105	\$21	1.9%
<i>Percent of poverty^b</i>	<i>73.9%</i>	<i>75.3%</i>		
Low-Cost Counties				
Grant	\$689	\$725	\$36	5.0%
Food stamps	377	360	-17	-4.7
Totals	\$1,066	\$1,085	\$19	1.8%
<i>Percent of poverty^b</i>	<i>72.7%</i>	<i>74.0%</i>		

^a Based on a grant COLA of 5.26 percent resulting from the actual change in the California Necessities Index.

^b Federal fiscal year 2008 federal poverty guidelines.



Key Features of 1996 TANF Program

- ☑ **Block Grant and MOE.** The previous entitlement program was replaced with a TANF block grant of \$3.7 billion. To receive the block grant, states must meet an 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 Federal 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. These required rates are reduced by the percentage point reduction in the caseload since 1995. This is known as the caseload reduction credit.
- ☑ **Federal Penalties.** 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.



CalWORKs Eligibility Changes

The CalWORKs program 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.



CalWORKs Participation Requirements, Services, Child Care, and Sanctions

- Participation Requirements.** CalWORKs requires adults in single-parent families to participate in work or approved education or training activities for 32 hours each week. An adult recipient in a two-parent family must participate for 35 hours per week. CalWORKs participation requirements are similar, but not identical, to federal requirements.
- Participation Exemptions.** Certain individuals are exempt from the weekly participation requirements including: teen parents, pregnant women for whom the pregnancy impairs the ability to participate, those with a medically verified disability, most parents with a child under six months of age, individuals caring for ill or incapacitated members of the household, and nonparent caretaker relatives caring for a ward of the court or a child at risk of placement in foster care.
- Welfare-to-Work Services.** CalWORKs recipients receive 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.
- Child Care.** CalWORKs has a three-stage child care delivery system administered by county welfare departments (CWDs) and the State Department of Education (SDE). Stage 1 child care is administered by CWDs and is provided until the recipient's child care situation is stable. Stage 2 child care is administered by SDE, and may last no longer than two years after a family leaves assistance. Stage 3 is also administered by SDE and is available for recipients no longer on aid, so long as 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.



CalWORKs Five-year Time Limit

- 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.

- 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/State Supplementary Program, 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.



CalWORKs Work Incentive

- ☑ ***New Work Incentive.*** 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.

- ☑ ***Earned Income Disregard.*** By disregarding \$225 and 50 percent of earnings, CalWORKs recipients can work while on aid and have combined income and benefit levels above the federal poverty guideline, as shown below.

CalWORKs Earned Income Disregard Family of Three, \$1,375 in Earnings	
Disregard Calculation	Amount
Earnings	\$1,375
Initial disregard of \$225	225
Remainder	\$1,150
Apply 50% disregard to remainder	50%
Additional earnings disregarded	\$575
Initial disregarded from above	225
Total Earnings	
Disregarded	\$800
Counted	\$575
Grant Calculation	
Maximum grant	\$723
Less countable earnings	575
Grant	\$148
Income Calculation	
Earnings	\$1,375
Grant	148
Food stamps	125
Total	\$1,648



Key Federal Changes in the Deficit Reduction Act (DRA) Affecting CalWORKs

- Resetting the Base Period for the Caseload Reduction Credit (CRC).*** 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 Regulations Concerning Work Participation.*** The act authorized the Secretary of the U.S. Department of Health and Human Services to promulgate regulations concerning "verification of work and work eligible individuals." Both the interim regulations (issued in summer 2006) and the final regulations (issued on February 5, 2008) substantially expanded the definition of which adults are subject to the federal work participation calculation. Specifically, the regulations made unaided adults in the CalWORKs safety net and adults who have been sanctioned for more than three months subject to work participation.
- Federal Regulations Curtail Flexibility Provided by DRA.*** 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. *On February 5, 2008, the federal government issued new regulations which largely eliminate this flexibility.*



California's Work Participation Status and Projected Shortfalls

Impact of DRA and Associated Regulations

Work Participation Status—All Families ^a			
	Prior Law and Regulations	Current Law/DRA Regulations	Change From Prior Law
Families meeting requirements ^b	49,473	59,742	10,269
Families subject to participation ^c	201,076	281,925	80,849
	=	=	
Participation rate	24.6%	21.2%	-3.4%

^a Most recent data are from FFY 2006.
^b This is the numerator of the participation rate calculation.
^c This is the denominator of the participation rate calculation.

Projected Participation Shortfalls. California's current participation rate is about 21.2 percent. Based on current law, the administration estimates that this will increase to 31.2 percent by FFY 2009. Even with this projected 10 percent increase, California faces substantial participation shortfalls.

Estimated Work Participation Shortfalls					
Current Law					
	Federal Fiscal Year (FFY)				
	2007	2008	2009	2010	2011
Federal Participation Requirement	50.0%	50.0%	50.0%	50.0%	50.0%
Caseload Reduction Credits					
“Natural” caseload decline ^a	-3.5%	-6.8%	-6.5%	-7.3%	-7.3%
Excess MOE reduction	-6.3	-10.9	-8.4	—	—
Total Credit	-9.8%	-17.8%	-14.9%	-7.3%	-7.3%
Net Participation Requirement	40.2%	32.2%	35.1%	42.8%	42.8%
Work participation rate	21.2%	25.2%	31.2%	31.2%	31.2%
Participation Shortfall	-19.0%	-7.0%^b	-3.9%^b	-11.6%	-11.6%

^a Since FFY 2005.
^b Shortfalls increase if Proposition 49 after school funds cannot be counted as MOE.



Governor's CalWORKs Proposals

Governor's CalWORKs Package Summary of Fiscal and Work-Related Impacts					
<i>(Dollars in Millions)</i>					
Component	2008-09			Change in WPR ^a	
	Grants/ Administration	Child Care/ Services	Net Fiscal Impact	FFY 2009	FFY 2010
Graduated full-family sanction	-\$61.7	\$82.7	\$21.1	3.7%	5.7%
Modified safety net (5-year time limit)	-256.7	-2.5	-259.2	5.1	5.1
Work Incentive Nutritional Supplement (WINS) ^b	8.4	—	8.4	0.9	9.0
Child-only time limit	-241.5	—	-241.5	—	—
Totals	-\$551.5	\$80.2	-\$471.3	9.7%	19.8%

^a WPR = Work Participation Rate.
^b In 2008-09, \$8.4 million for automation, rising to about \$24 million in 2010-11.

- Total Impact.** The Governor's package would increase the work participation rate by about 20 percent when fully implemented. For 2008-09, the package would result in estimated savings of \$471 million.
- Higher Work Participation Outcomes Are More Costly.** The Work Incentive Nutritional Supplement (WINS) program and the graduated full-family sanction would increase participation by almost 15 percent while resulting in net costs of over \$50 million when fully implemented. Conversely, the modified safety net increases participation by about 5 percent with savings of about \$260 million. The child-only time limit also results in substantial savings, but has no impact on the work participation rate.



Governor's CalWORKs Proposals (Continued)

Governor's Proposals Result in Participation Surplus. If adopted, the Governor's proposals are estimated to increase work participation by an amount sufficient to meet federal requirements, even without excess MOE CRC in FFY 2010 and FFY 2011.

Governor's CalWORKs Reforms Estimated Participation Shortfall(-)/Surplus				
	Federal Fiscal Year			
	2008	2009	2010	2011
Federal Participation Requirement	50.0%	50.0%	50.0%	50.0%
Caseload Reduction Credits				
"Natural" caseload decline ^a	-6.8%	-6.5%	-7.3%	-7.3%
Excess MOE reduction	-10.9	-7.4	—	—
Total Credit	-17.8%	-13.8%	-7.3%	-7.3%
Net Participation Requirement	32.2%	36.2%	42.8%	42.8%
Current-Law Work Participation	25.2%	31.2%	31.2%	31.2%
Policy Changes				
Graduated full-family sanction	0.4%	3.7%	5.7%	5.7%
Modified safety net	1.6	5.1	5.1	5.1
Work Incentive Nutritional Supplement	—	0.9	9.0	10.4
Participation Rate^b	27.2%	40.9%	51.0%	52.4%
Participation Shortfall(-)/Surplus	-5.0%^c	4.7%^c	8.2%	9.6%
^a Since FFY 2005. ^b Includes estimated affect of policy changes on participation rate. ^c Shortfalls increase or emerge, respectively if Proposition 49 after school funds cannot be counted as MOE.				



LAO CalWORKs Reform Package

Adopt the Governor's WINS Program

- Provides \$40 in additional monthly food stamps to about 40,000 working families not currently on CalWORKs.
- Increases work participation by an estimated 10.4 percent when fully implemented.

Adopt the Pre-Assistance Employment Readiness System (PEARS)

- Requires recipients to either meet federal work participation requirements or sign a welfare-to-work plan in order to receive benefits for more than four months.
- Takes advantage of federal flexibility to provide up to 4 months of aid without having recipients be part of the federal work participation rate.
- Increases work participation by an estimated 1.9 percent when fully implemented.
- Results in a caseload decline which offsets the caseload increase from the WINS program, thereby allowing the state to obtain the full benefit of WINS.



LAO CalWORKs Reform Package (Continued)

Adopt a Community Service Requirement After Five Years

- After five years of assistance, each safety net adult would be required to work in non-subsidized employment for 20 hours per week, participate for sufficient hours to meet federal participation requirements, or accept a subsidized employment or community service job for 20 hours per week arranged by his/her county.

- After every three months of community service or subsidized employment, each client would be placed in a job club/job search program for one month. Some would find non-subsidized employment and thus meet their participation requirement.

- Increases work participation by an estimated 2.9 percent when fully implemented.



LAO CalWORKs Reform Package *(Continued)*

Impacts of LAO Reform Package

- Net savings of about \$12 million per year.
- Work participation surplus of over 3 percent when fully implemented.
- Fewer children lose aid than under the Governor's proposals.

LAO CalWORKs Package			
	Federal Fiscal Year (FFY)		
	2009	2010 ^a	2011
Federal Participation Requirement	50.0%	50.0%	50.0%
Caseload Reduction Credits			
"Natural" caseload decline since FFY 2005	-6.5%	-7.3%	-7.3%
Excess MOE reduction	-8.4%	—	—
Total Credit	-14.9%	-7.3%	-7.3%
Net Participation Requirement	35.1%	42.8%	42.8%
Current-Law Work Participation	31.2%	31.2%	31.2%
Policy Changes			
Work Incentive Nutritional Supplement	0.9	9.0	10.4
Pre-Assistance Employment Readiness system	1.6	1.9	1.9
Community service requirement for safety net	1.5	2.9	2.9
Participation Rate^b	35.2%	45.0%	46.4%
Participation Shortfall(-)/Surplus	—^c	2.2%	3.6%
^a Assumes zero CRC from excess MOE beginning in FFY 2010 pursuant to February 2008 federal regulations. ^b Includes estimated affect of policy changes on participation rate. ^c Drops to -7 percent if Proposition 49 after school funds cannot be counted as MOE.			



Addendum

Excess Maintenance of Effort (MOE) And Caseload Reduction Credit (CRC)

- Advantage of Excess MOE.*** States that spend above their required MOE may exclude the cases funded by “excess” MOE from their caseload and therefore earn a CRC. From federal fiscal year (FFY) 2007 through 2009, California could be eligible for CRCs ranging from 6.3 percent to 10.9 percent.
- Recent Federal Regulations Effectively End “Excess MOE CRC” In 2010.*** By severely limiting the types of expenditures which may be counted as MOE, the February 5, 2008 regulations effectively end the ability of California to find excess MOE spending beginning in FFY 2009. Because the excess MOE CRC is based on spending in the prior year, these regulations have the impact of eliminating the excess MOE CRC beginning in FFY 2010, based on current expenditure patterns.
- Proposition 49 After School Spending Probably Not Countable as MOE.*** The administration has recently learned that approximately \$462 million in after school expenditures during 2007-08 may not be countable toward the MOE because it is already being used to obtain federal No Child Left Behind funds. This substantially reduces and may even eliminate the MOE CRC for FFY 2007 or FFY 2008.
- Potential Base MOE Shortfall.*** Assuming the Proposition 49 monies cannot be counted as MOE, the Governor’s budget for 2008-09 is about \$421 million below the base MOE requirement. This shortfall could potentially be addressed through fund shifts, the identification of other countable MOE sources, or changes in the CalWORKs General Fund appropriation.