

March 1, 2012

# Analysis of the Governor's CalWORKs Proposal

---

LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Senate Budget and Fiscal Review Committee  
Hon. Mark Leno, Chair





## Overview

---

- Governor Proposes Significant Budget Reductions in CalWORKs.*** The Governor proposes a package of California Work Opportunity and Responsibility to Kids (CalWORKs) budget reductions which total \$985 million General Fund. The bulk of these savings (\$890 million) are achieved by a reduction in cash grants for the majority of recipients and restricted eligibility for welfare-to-work services. These policy changes are encompassed in a redesign of the CalWORKs administrative structure.
  
- Handout Organization.*** This handout (1) provides background on the CalWORKs program, (2) reviews recent program history including work participation and budgetary reductions enacted in recent years, (3) discusses and assesses each of the Governor's proposals, (4) presents some other options not proposed by the Governor to achieve savings in CalWORKs, and (5) concludes with illustrative budget packages which would achieve three levels of savings (\$500 million, \$750 million, and \$1 billion).



## CalWORKs Background: Program Benefits and Eligibility Requirements

---

- ☑ ***CalWORKs Supports Low-Income Families.*** The CalWORKs program provides cash grants and welfare-to-work services for families whose income is inadequate to meet their basic needs.
- ☑ ***Cash Grants Levels Vary by Family Size and Place of Residence.*** Maximum monthly cash grants, known as the maximum aid payment (MAP), vary by family size and place of residence. The current MAP for a family of three living in a high-cost county is \$638 per month.
- ☑ ***Recipients May Remain Eligible Despite Having Earned Income.*** Once on CalWORKs, a family may remain eligible despite having additional earnings, as a portion of earned income (the first \$112 plus 50 percent of additional income) is not counted when determining a family's cash grant. Aid is discontinued when a family's earned income (minus the earned income disregard) exceeds its cash grant.
- ☑ ***Recipients Must Meet Work Requirements.*** The CalWORKs program requires adults in single-parent/two-parent families to participate in certain categories of work activities (including approved education or training activities) for 32/35 hours per week. However, some adults can be exempted from work requirements when disabled, of advanced age, or caring for a very young or ill child. Children in families without a work-eligible adult (such as children of undocumented immigrants or recipients of Supplemental Security Income) may still receive aid and are referred to as "child-only" cases.
- ☑ ***Welfare-to-Work Services Are Provided to Assist With Work.*** CalWORKs recipients are eligible to receive employment services (such as assessment and development of a welfare-to-work plan), subsidized child care, and additional funding for transportation and ancillary work expenses.



## CalWORKs Background: Program Benefits and Eligibility Requirements *(Continued)*

---

- Recipients That Do Not Meet Work Requirements Are Subject to Sanctions.*** The sanction for failure to participate in work activities is elimination of the adult portion of a family's cash grant.
  
- Adult Aid Is Time Limited.*** After four cumulative years on aid, a family's cash grant is reduced by the portion for the adult. After the adult is removed from the grant, the children continue to receive aid and are informally referred to as "safety-net" cases.



## CalWORKs Funding

---

- Three Sources of Funding Support the CalWORKs Program.** The CalWORKs program is supported by a combination of federal, state (General Fund), and local funds—in that order of magnitude.
- State Receives a Federal Block Grant.** Each year, California receives a \$3.7 billion federal Temporary Assistance for Needy Families (TANF) block grant. The TANF funding can be used on any activities that are reasonably calculated to meet the four purposes of the TANF program. To continue receiving its full TANF block grant, the state must meet maintenance-of-effort (MOE) and work participation requirements, described further below.
- TANF Program Has Four Purposes.** The four purposes of TANF are: (1) assisting needy families so that children can be cared for in their own homes; (2) reducing the dependency of needy parents by promoting job preparation, work, and marriage; (3) preventing out-of-wedlock pregnancies; and (4) encouraging the formation and maintenance of two-parent families.
- California Must Meet an MOE Requirement.** To receive its full TANF block grant, California must expend \$2.9 billion annually on specified activities. The MOE requirement is primarily met through expenditures in the CalWORKs program. Some state expenditures on subsidized child care also count towards the state's MOE.
- Federal Law Requires the State to Meet Work Participation Requirements.** Federal law requires states to have 50 percent of their overall TANF caseload (and 90 percent of their two-parent TANF caseload) engaged in work activities for a specified number of hours. States can receive caseload reduction credits that reduce these requirements. Failure to meet these requirements results in penalties of up to 5 percent of the state's TANF block grant (increasing in subsequent years).



## Work Participation Status

| <b>Federal Work Participation Requirement and California Work Participation Rate</b> |              |              |              |               |              |              |
|--|--------------|--------------|--------------|---------------|--------------|--------------|
| <i>2004 Through 2009</i>   |              |              |              |               |              |              |
|  | <b>2004</b>  | <b>2005</b>  | <b>2006</b>  | <b>2007</b>   | <b>2008</b>  | <b>2009</b>  |
| Federal requirement  | 50.0%        | 50.0%        | 50.0%        | 50.0%         | 50.0%        | 50.0%        |
| Caseload reduction credit  | -46.1        | -45.5        | -44.9        | -17.7         | -21.0        | -21.0        |
| Effective requirement  | 3.9          | 4.5          | 5.1          | 32.3          | 29.0         | 29.0         |
| Work participation rate  | 23.1         | 25.9         | 22.2         | 22.3          | 25.1         | 26.8         |
| <b>Surplus/Shortfall</b>   | <b>19.2%</b> | <b>21.4%</b> | <b>17.1%</b> | <b>-10.0%</b> | <b>-3.9%</b> | <b>-2.2%</b> |

- In Recent Years, California's Work Participation Rate (WPR) Has Averaged 24 Percent.*** Since 2004, California's WPR has been in the mid-20s. As a result of the federal Deficit Reduction Act, California's caseload reduction credit was reduced dramatically beginning in 2007. Since that time, California has failed to meet its federal work requirement. For the foreseeable future, California is expected to fall significantly short of its federal work participation requirement by having a WPR in the range of 25 percent to 30 percent.
  
- California Has Been Assessed Penalties for 2008 and 2009.*** California has been notified that it will be assessed penalties of \$47 million and \$113 million for failure to meet federal work requirements in 2008 and 2009, respectively. The state has appealed these penalties and to date no penalties have been collected.



## Recent CalWORKs Reductions

---

- CalWORKs Has Experienced Significant Reductions in Recent Years.*** During the past three years, the state has made significant reductions (\$780 million in ongoing reductions) to the CalWORKs program, including the following savings measures:

  - Lowering cash grants for families (total of a 12-percent reduction).
  - Reducing employment services and child care funding.
  - Shortening the adult time limit for assistance from 60 months to 48 months.
  - Reducing the earned income disregard.
  - Suspending intensive case management for pregnant and parenting teens.
  - Reducing funding for substance abuse and mental health treatment.
  
- Despite Rising Caseloads, CalWORKs Expenditures Have Been Relatively Flat Over Past Three Years.*** Total CalWORKs expenditures (all funds) remained relatively flat between 2008-09 (\$5.3 billion) and 2011-12 (\$5.4 billion), as the above noted savings measures largely offset the growth in costs due to rising caseloads.



## Governor’s Proposed CalWORKs Redesign



**Governor Proposes Three Significant Policy Changes.**

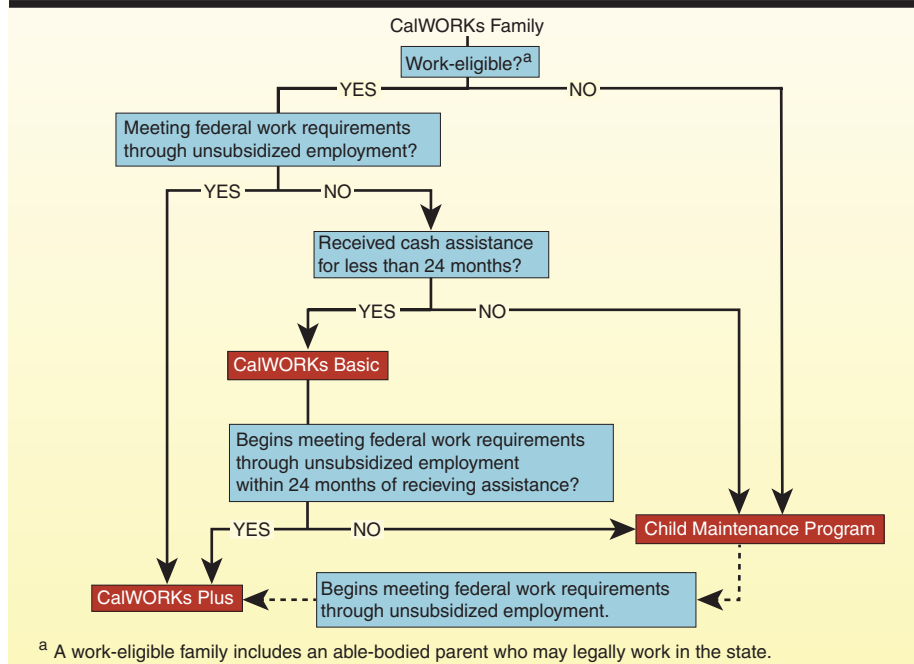
To achieve \$890 million (out of a total of \$985 million) in budget-year savings in the CalWORKs program, the Governor has proposed three major policy changes: (1) reducing cash grants for the majority of recipients, (2) shortening the adult time limit, and (3) modifying work requirements. We discuss each of these policy changes in subsequent pages.



**Policy Changes Accompanied by a Redesign of the CalWORKs Administrative Structure.**

The Governor’s proposed policy changes are accompanied by an administrative redesign of CalWORKs that would replace the current CalWORKs program with a three-part system, consisting of two CalWORKs subprograms—CalWORKs Basic and CalWORKs Plus—and a Child Maintenance program. The figure below provides a flowchart of the Governor’s proposed administrative restructuring.

**Flowchart of Restructured CalWORKs Program**







## Governor's Proposed CalWORKs Redesign

*(Continued)*

---



***Recommend Rejecting Administrative Structure Changes as They Are Unnecessary to Implement Governor's Proposed Policy Changes.***

The Governor's proposed policy changes could be adopted and associated savings achieved without changing the administrative structure of the program. We believe that the proposed changes to the administrative structure do not yield any apparent programmatic benefits in and of themselves.



## Governor's Proposed Cash Grant Reduction

---

- Governor's Proposal.*** The Governor proposes to reduce the MAP by 27 percent for child-only, safety-net, and chronically sanctioned (sanctioned three or more months in a 12-month period) families, resulting in full-year savings of approximately \$610 million.

### LAO Assessment

- Reduced Cash Grant Combined With CalFresh (Food Stamps) Benefits Put Average Child-Maintenance Family at 56 Percent of the Federal Poverty Level (as Compared to 65 Percent Currently).***
- Proposed Reductions Could Increase the Incentive for Recipients to Work...***By increasing the difference in cash assistance between families that are working and those that are not, the Governor's proposal could increase the incentive for families to work.
- ...But Target Population May Face More Barriers to Employment.*** However, our review of caseload characteristics and relevant research suggests that child-only and safety-net families may face more barriers to self-sufficiency, such as limited education or work experience, physical or mental health problems, or issues with transportation, than other CalWORKs families. These barriers dampen the potential for the Governor's proposed cash grant reduction to serve as a work incentive.

### Options to Consider

- An Across-the-Board Reduction Would Avoid Concentrating the Impact on a Particular Set of Cases.*** A 17 percent reduction in MAP levels for all current families would achieve roughly the same level of savings as the Governor.



## Governor's Proposed Cash Grant Reduction (Continued)

---

- Phased-In Reduction Could Mitigate Immediate Impact on Recipients.*** Phasing in a 27 percent reduction in MAP levels for child-only, safety-net, and chronically sanctioned families over a six-month period would result in budget-year savings of roughly \$390 million (\$70 million less than under the Governor's proposed time line).



## Governor's Proposed Shortening of the Adult Time Limit

---

- Governor's Proposal.*** The Governor proposes to shorten the adult time limit to 24 months, except for those meeting federal work requirements through unsubsidized employment, resulting in full-year savings of \$380 million.

### LAO Assessment

- An Estimated 131,050 Adults Would Lose Aid.*** In April 2013, 131,050 adults that have received aid for more than 24 months and are not working sufficient hours in unsubsidized employment would lose aid.
- Shortened Time Limit Will Likely Have Positive, but Limited, Effect on Employment of CalWORKs Recipients.***
- Recommend Not Counting Prior Months in Exemption Toward Time Limit.*** Counting prior months in exemption would be inconsistent with prior policy under which exempt recipients may have elected not to volunteer for welfare-to-work with the understanding that employment and child care services would be available in the future.

### Option to Consider

- Adult Time Limit Could Be Aligned With Average Time on Aid.*** Reducing the adult time limit to 36 months—roughly the historical average time on aid among CalWORKs recipients—without counting prior months in exemption would result in annual savings of \$140 million.



## Governor's Proposed Changes to Work Requirements

---

- Governor's Proposal.*** The Governor proposes to align the current CalWORKs work requirements with federal TANF work requirements. This proposal would reduce required hours of participation for single parents (a majority of the caseload) but restrict the scope and time line for higher education activities and mental health, substance abuse, and domestic violence treatment.

### LAO Assessment

- Fiscal Impact Is Difficult to Determine.*** The Governor's budget does not directly attribute any fiscal effect to this proposal. The ultimate fiscal effect is difficult to predict due to uncertain behavioral responses. However, it would likely somewhat reduce the risk of future federal WPR-related penalties.
- Governor's Proposal Would Likely Increase the State's Ability to Meet Federal Work Requirements.***
- Recommend Not Adopting Federal Limitations for Mental Health, Substance Abuse, and Domestic Violence Treatment.*** Federal time limitations for mental health, substance abuse, and domestic violence treatment are impractical and detrimental to the successful implementation of these treatments. We therefore recommend rejection of the proposal to align the state with this component of federal work requirements.



## Alternative Options for Achieving Savings In CalWORKs

---

- Continue the Current-Year Single Allocation Reduction.*** A reduction in county single allocation funding for employment services and child care and associated work exemptions will expire at the end of 2011-12, resulting in increased CalWORKs expenditures of \$377 million in the budget year. These expenditures could be avoided by continuing the single allocation reduction. This option would not result in a new service level reduction, but would likely have a negative effect on CalWORKs work participation.
- Reduce the Earned Income Disregard.*** Modifying the earned income disregard to not count the first \$225 and 25 percent of all other earned income would result in savings of roughly \$70 million. This option would reduce or eliminate assistance for CalWORKs families with the highest levels of earned income while maintaining roughly the same disregard for families with lower levels of earned income.
- Increase the Severity of Sanctions.*** Reducing a family's cash grant by 50 percent after three months in sanction would result in savings of roughly \$40 million. This option would involve the trade-off of likely increases in work participation with equally likely increases in poverty among some families.
- Reduce Cash Assistance After Long Periods of Aid.*** Reducing cash grants by 10 percent after eight or ten years of aid would result in savings of \$30 million or \$50 million, respectively. While many long-term cases are likely to face significant barriers to self-sufficiency, their needs could be weighed against families that have received comparatively less aid—especially newer cases.



## Recommend Legislature Adopt a Package of Reductions Based on Its Priorities

| Example of CalWORKs Budget Packages  |
|--|
| <b>Savings of Approximately \$500 Million</b>  |
| Continue the current-year single allocation reduction<br>Eliminate higher work-exempt cash grants<br>Eliminate Cal-Learn case management<br>Reduce the earned income disregard   |
| <b>Savings of Approximately \$750 Million</b>  |
| All items above<br>Reduce cash grants for all families by 6 percent  |
| <b>Savings of Approximately \$1 Billion</b>  |
| All items above<br>Reduce cash grants by 10 percent after eight years of aid<br>Reduce cash grants by 15 percent after ten years of aid<br>Shorten adult time limit to 36 months |

- Budget Package Will Depend Upon Magnitude of Savings Sought.** In light of recent reductions to CalWORKs, as well as the nature of the program and the vulnerable population it serves, the Legislature may wish to implement a lesser level of reductions than proposed by the Governor. The figure above provides illustrative packages of CalWORKs budget reductions to achieve various levels of savings.
- Trade-Offs Should Be Weighed Carefully.** In evaluating reductions to CalWORKs, the Legislature will have to weigh the impact of reductions on recipients against the need for budgetary savings. Additionally, we suggest that the Legislature balance efforts to increase CalWORKs work participation with a recognition of the barriers to working that some families face.