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The President's Welfare Reform Proposal: Fiscal Effect on California

SUMMARY

On June 14, 1994, President Clinton formally released his welfare reform proposal, generally designed to facilitate employment for AFDC recipients. Major changes include:

- *Making the current JOBS Program (GAIN in California) more employment-oriented, and phasing-in its participation starting with AFDC parents born after 1971.*
- *Establishing a two-year time limit on JOBS and requiring those who reach this time limit to participate in a new WORK Program, which would place individuals in jobs paying wages subsidized in whole or part by the government.*
- *Making other AFDC program changes, including increasing the resource limits for AFDC eligibility.*
- *Adopting various changes in the child support enforcement program.*

This policy brief assesses the proposal's fiscal impact on California. It is a revised version of our July 7 report, based on more recent information. We conclude that:

- The proposal would result in five-year state costs (state and county funds) of about $400 million. These costs may be offset at least in part by unknown savings from reduced dependency on AFDC, due primarily to increases in employment and increased child support collections.
- State costs beyond the five-year timeline would increase significantly as more AFDC recipients are phased into the JOBS and WORK programs. In the sixth year of welfare reform, for example, state costs for the WORK Program would be $130 million.
- The single largest cost to the state (about $245 million over five years) is not the result of providing employment and training services through the JOBS and WORK programs. Rather it is due to increasing the AFDC resource limits, thereby making more individuals eligible for aid. If this proposal were deleted by Congress, California's five-year costs would be cut by more than half.

"...the changes in the JOBS Program would result in savings to the state of approximately $150 million during the first five years of implementation"

On June 14, 1994, President Clinton presented his proposal to reform the nation's welfare system (SB 2224 and HR 4605). The proposal focuses on facilitating employment for AFDC recipients, providing support services for AFDC teen parents, and increasing child support enforcement.

In this policy brief, we summarize the key features of the plan and its potential effects on state and local governments in California.

Employment and Training Programs

JOBS (Gain) Program

In 1988, the federal government established the Job Opportunities and Basic Skills Training (JOBS) Program, designed to provide education, training, and employment services to AFDC recipients. In California, this program is known as the Greater Avenues for Independence (GAIN) Program.

The President's proposal would modify the JOBS Program in several key ways. Figure 1 summarizes the major proposed changes and compares them with the existing requirements of the GAIN Program.

Several of these changes are worth highlighting because they illustrate a difference in approach to employment and training between the President's plan and the current GAIN Program. Specifically, the President's plan places a greater emphasis on (1) moving participants through the program in a specified period of time (two-year time limit) and (2) connecting participants as quickly as possible to the job market (job search before basic education; employment-oriented education instead of basic/remedial education; requiring acceptance of a job if offered).

Another significant change in the President's proposal is that mandatory participation is limited to those born after 1971 (initially, those under age 25). Thus, with each passing year, the age limit for those required to participate in the program will increase, thereby resulting in an increasing percentage of mandatory participants.

Fiscal Effect. We estimate that for California, the changes in the JOBS Program would result in savings to the state of approximately $150 million during the first five years of implementation. This estimate assumes that the state would serve voluntary participants (from the non-mandatory group) up to the point where the state reaches the federal funding cap on JOBS, as required by the proposal.

Figure 1

President's Proposed Changes in the JOBS (GAIN) Program

	Current Law	President's Proposal
Participation Requirements	Mandatory participation unless child under three, if funding is sufficient	Mandatory participation by all AFDC parents born after 1971, unless child under one year, and all volunteers (from the nonmandatory group) up to the federal funding cap
Participation Standards	Penalizes states for not serving 20 percent of all mandatory participants and 50 percent of AFDC-U recipients (federal fiscal year [FFY] 1995)	Penalizes states for not serving 50 percent of mandatory participants
Targeting of Services	Targets services by giving priority to certain groups—teen parents, long-term recipients	Eliminates target groups for receiving services
Deferrals/Pre-Jobs	No requirement that deferred persons participate in any employment activity	Requires that all persons deferred from JOBS (due to temporary disability or child under one) engage in some preparation for JOBS
Time Limits	No time limit	Establishes two-year limit (followed by the WORK Program)
Sequence of Services	Job search after basic education, if needed	Requires job search immediately after orientation
Education Services	Requires basic and remedial education if needed	Replaces requirement for basic/remedial education with employment-oriented education
Job Acceptance	Participants can refuse jobs if wages are below specified levels	Requires participants to accept job if offered, and increases sanction on participants for noncooperation
Funding	Provides 50 percent federal funding for most program components	Establishes 65 percent federal funding in FFY 1996, increasing to 70 percent by FFY 2000. Increases the nationwide federal funding cap

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The proposal results in a savings to the state primarily because of the increase in the federal share of program costs, including the cost of case management for teen parents in the state's Cal Learn Program.

WORK Program

The President proposes to establish a new WORK Program, which would be required for the new mandatory group of JOBS participants (born after 1971) once they have been on aid for two years (excluding time in pre-JOBS and time in which an individual worked at least 20 hours per week).

Under the WORK Program, persons who are not already working more than an average of 20 hours per week would be placed in a subsidized private- or public-sector job, with the government subsidizing part or all of the wages. (For private-sector jobs, the employer would have to pay for part of the wages.) The government would provide supplemental cash benefits if necessary to augment wages so that the family is no worse off than a nonworking family on AFDC.

Participants would receive child care, transportation, and other support services if needed. If WORK assignments are not available, the family would receive regular AFDC benefits and would engage in job search activities while waiting for a WORK slot.

Federal financial participation for the WORK Program would be the same as for the JOBS Program (65 to 70 percent), and the amount of federal funds for these programs would be capped nationwide, except that funding for wages would be matched at the state's regular AFDC rate (50 percent in California) and would not be capped.

Fiscal Effect. We estimate that the WORK Program in California would result in a state cost of $210 million in the first five years of welfare reform. It is important to note that this represents only three years of operation of the WORK Program, and that the cost would increase significantly in subsequent years as more AFDC recipients are phased into the two-year time limit for the JOBS Program. The state cost in the sixth year of welfare reform, for example, is estimated to be $130 million.

We also note that state costs would be higher if the cap on federal funds is not sufficient to meet mandated costs for the WORK Program.

JOBS/WORK—Reduced Dependency Impact

The President's proposals are likely to increase the proportion of AFDC recipients who obtain employment, for several reasons. First of all, the JOBS program would be expanded (on a phase-in basis) and made more employment-oriented. Secondly, the two-year time limit and the establishment of the WORK Program mean that eventually most recipients will have an obligation to work in a subsidized job if they are not employed in a nonsubsidized job. In other words, not working would no longer be an alternative. This change, in conjunction with the fact that nonsubsidized jobs generally will provide more income to recipients than will WORK slots (due largely to differences in how the income disregard—discussed below—and the Earned Income Tax Credit are treated), could lead to a significant increase in the incentive for recipients to obtain nonsubsidized jobs. Furthermore, the experience gained in the WORK Program should make participants better qualified for employment.

Consequently, it is reasonable to assume that the provisions relating to the JOBS and WORK programs will result in an increase in nonsubsidized employment and associated savings due to a reduction in AFDC caseload and lower grants. (These savings would be partly offset by additional Transitional Child Care and Transitional Medi-Cal costs.) Additional savings could result from the provisions to make more stringent the sanctions on recipients for insufficient cooperation in the JOBS Program.

Sufficient data are not available to estimate these savings, but they are potentially significant. Based on the federal administration's nationwide estimate, the five-year savings to the state and counties in California would be roughly $150 million. To place this figure in perspective, we note that this is less than 1 percent of the state's AFDC grant expenditures over this period.

We believe that savings of this magnitude are achievable, particularly in light of the June 1994 GAIN evaluation findings for Riverside County, which has adopted an employment-oriented approach that bears some similarity to JOBS as envisioned in the proposal. The GAIN evaluation showed that the program in Riverside County reduced AFDC grant payments by an average of 15 percent over a three-year period, compared to an average of 5 percent for the other counties studied.

Other AFDC-Related Program Changes

AFDC Resource Limits

The proposal would increase from $1,000 to $2,000 the maximum

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amount of resources (with certain items excluded) that a family can have and be eligible for AFDC. Under current state law, the resource limit for applicants is $1,000 but the state is operating under a federal waiver that provides for recipients a $2,000 limit (the higher limit is operable once a person is on aid).

The proposal also provides that the automobile resource limit be increased from $1,500 to $3,500. Under current state law, the limit is $1,500 for applicants but, pursuant to a waiver, $4,500 for recipients.

Because the increase in resource limits would apply to applicants as well as recipients, these provisions would increase the AFDC caseload and result in additional state costs of about $245 million over the first five years. These costs would be partly offset by unknown savings to counties due to reduced caseloads in the General Assistance program.

AFDC Teen Parents' Residence

This proposal—requiring teen parents to live with their parents or other responsible adult in order to receive AFDC—is the same as proposed by the Governor in the 1994-95 budget. The budget estimates that the proposal would result in no net costs or savings. (The Governor's proposal was not adopted by the Legislature.)

AFDC Grant Determination Rules

This proposal would replace the existing rules for income disregards (in calculating AFDC grants) with a flat $120 income disregard, but would allow states to adopt higher disregards of up to 50 percent of earned income. California is currently operating under a federal waiver to apply the "$30 and one-third" income disregard without regard to time in employment. We assume that the state will continue its current policy for the AFDC Program, but will apply the flat $120 disregard to earnings in the WORK Program. The fiscal effect is subsumed in our estimates for the WORK Program.

Child Care for the Working Poor

The proposal would expand funding for the At-Risk Child Care Program for low-income working families not on AFDC. This program is designed to prevent participants from going on public assistance.

Based on the administration's projected five-year costs for the nation, we estimate that California could receive an additional $280 million in federal funds. The net increase in state costs (to provide the required match) would be about $20 million when considered in conjunction with the existing funding level for the At-Risk program. The relatively low net cost is due to savings that would be realized in the existing program due to the proposed increase in the federal share of costs (corresponding to the JOBS Program match). We also note that the additional child care could result in unknown "cost-avoidance" in the AFDC and Medi-Cal Programs.

CHILD SUPPORT ENFORCEMENT PROGRAM

The President proposes numerous changes to the financing and operation of the child support enforcement program. Figure 2 summarizes the financing changes and Figure 3 summarizes the changes in program operations.

Financing Provisions

The three financing provisions that would have the most significant fiscal effects are (1) the federal match of administrative costs, (2) the performance incentives, and (3) the maintenance of effort provision.

The proposal would change the federal matching requirements for the child support enforcement program. Under the current system, the federal government pays for 66 percent of most administrative costs and a variable percent—generally 6 to 6.5 percent in California—of child support collections. Under the President's proposal, all federal financial participation

Figure 2

Proposed Changes in Child Support Enforcement Financing Changes

- **Federal Match of Administrative Costs.** Increases from 66 percent to 69 percent in federal fiscal year (FFY) 1996, 72 percent in FFY 1997, and 75 percent annually thereafter.
- **Performance-Based Incentives.** Replaces the existing federal incentive payments, based on child support collections, with performance incentives of up to 15 percent of administrative costs, effective FFY 1998.
- **Maintenance-of-Effort.** Requires states to maintain total program expenditures for each year, at a level determined by a specified formula.
- **Paternity Establishment.** Penalizes states for not establishing paternity in a specified percentage of cases within one year.
- **Distribution of Arrearage Collections.** Requires that collections for AFDC arrearages for custodial parents who were formerly on AFDC be paid directly to the custodial parent rather than used to offset prior government costs for the grants, effective FFY 1996.
- **Paternity Outreach.** Provides enhanced (90 percent) federal funding for these activities.
- **$50 Pass-Through.** Requires inflation adjustments to the "pass-through" of collections to the custodial parent.

Figure 3

Proposed Changes in Child Support Enforcement Program Operations Changes

- **Central Registry.** Requires establishment of an automated registry of all cases.
- **Enforcement of Non-AFDC Cases.** Requires states to enforce all non-AFDC cases except under specified circumstances, rather than only upon request.
- **Non-AFDC Awards.** Requires periodic updating of awards (for example, reviewing changes in parent's income) unless requested otherwise, rather than only on request.
- **Hospital-Based Paternity Establishments.** Strengthens existing requirements and requires paternity outreach efforts.
- **Administrative Procedures.** Facilitates greater use of these procedures to reduce the reliance on courts.
- **Noncooperation by Custodial Parent.** Strengthens existing penalties for not cooperating with state child support agencies.
- **Suspension of Licenses.** Requires suspension of drivers' and professional licenses for persons with specified levels of delinquency in child support obligations.
- **Enforcement Tools.** Establishes and strengthens various enforcement tools, such as use of administrative liens and providing access to credit reports and financial and other records to locate absent parents.
- **Federal Interstate Enforcement.** Strengthens federal activities, such as the federal parent locator service.
- **Directory of New Hires.** Establishes a directory at the federal level to assist states in locating noncustodial parents.

would be based on administrative costs and could reach 90 percent, with (1) the base percentage increasing annually to 75 percent in FFY 1998, and (2) an additional performance-based amount up to 15 percent, beginning in FFY 1998. Also, enhanced funding at 90 percent would be provided for development and implementation of automated central registries and for paternity outreach (and genetic testing, as currently authorized).

The proposal also includes a maintenance of effort provision for total program spending, effective in FFY 1996. This provision could have the effect of requiring the state to increase its current level of spending beginning in FFY 1998, with the amount varying inversely with the amount of the federal matching funds. In other words, if the state qualifies for a relatively high federal match in performance-based incentives, its maintenance of effort requirement will be lower than if the state does not do well on the performance measures. Thus, the maintenance of effort provision would have the effect of magnifying the importance of the performance incentives.

Fiscal Effect. We estimate that these three financing provisions will increase total spending (federal and state) for the child support enforcement program in California by $205 million over the first five years. This consists of an increase in federal funds of $175 million and additional state/county spending of $30 million. (This assumes that the state would qualify for one-half of the available performance-based incentives.) These five-year cost increases represent an 11 percent increase above the amount projected under current law.

In addition to these three major financing provisions, there is one other financing provision with fiscal implications for the state. The proposal provides that, effective FFY 1996, collections for AFDC arrearages for custodial parents who were formerly on AFDC be paid to the custodial parent rather than used to reimburse the government for the costs of the grant, as currently authorized. We estimate that this provision would result in costs to the state and counties of about $35 million over the first five years of welfare reform, offset by an unknown amount to the extent that the additional income results in families not returning to AFDC or using other public assistance.

Changes in Program Operations

Some or all of the additional spending resulting from the financing provisions (discussed above) would be applied toward the various program changes required by the proposal. If the actual costs of mandated program changes exceed the increase in spending pursuant to the financing provisions, the state would incur additional costs beyond the expenditures resulting from the financing provisions.

Fiscal Effect. The fiscal effect of the proposed program changes on the state would fall into three basic categories: additional administrative costs, resulting from various provisions; potential penalties from not meeting paternity establishment standards; and savings from reduced AFDC expenditures, resulting primarily from various provisions designed to increase collections.

Because of data limitations, we are unable to estimate the net increase in costs resulting from the various proposals. We note, however, that many of the proposed changes do not vary significantly from current federal or state law and therefore are not likely to have a major fiscal impact. Current state law, for example, requires development of a statewide automation system, cooperation by custodial parents in providing information to county district attorneys, an in-hospital

"Combining all components of the (President's) proposal,...it would result in five-year costs of about $400 million to the state..."

paternity establishment program, a new hire registry (with some limitations), periodic updating of non-AFDC awards on request, inclusion of non-AFDC cases on request, and prohibitions against issuance of certain professional licenses to individuals who are delinquent in child support payments.

On the other hand, several provisions could significantly increase costs. For example, the requirement that *all* non-AFDC child support cases be enforced by the state (except under certain circumstances) could increase administrative costs substantially. State costs could also increase significantly due to the provision requiring states to meet specified paternity establishment standards.

Finally, the child support enforcement proposals would result in state savings to the extent that child support collections increase, thereby reducing AFDC grant expenditures. It is not possible to estimate this fiscal effect. As a point of reference, however, we note that a 1 percent increase in AFDC collections would result in state and county saving of about $1.5 million. Some "cost-avoidance" would also result from increases in non-AFDC collections, to the extent that this prevents families from going on AFDC.

Summary of the Effect of the Child Support Provisions

The net effect of the President's proposals for child support enforcement depends on a number of factors. As indicated above, we estimate that the financing provisions would increase federal expenditures by $175 million and state and county expenditures by $65 million over the first five years. Costs, however, could be higher if the program changes result in costs that exceed the expenditures required by the financing provisions. In general, we believe that the cost of the program changes probably can be accommodated within these amounts.

It is not possible to estimate the effect of the proposed changes in bringing about a higher level of child support collections. Clearly the program changes and the additional spending would have some effect on increasing collections. This, in turn, would result in savings from reduced AFDC grant expenditures. We note, however, that if a large share of the additional resources goes into the enforcement of non-AFDC child support cases, the savings to government will be relatively low because there is no direct offset to grants in these cases.

PROPOSALS FOR FINANCING THE FEDERAL COST OF WELFARE REFORM

The Clinton administration estimates that if its welfare reform proposal is adopted, it would result in costs of $9.3 billion to the federal government over the first five years. The President's proposal includes various provisions designed to save funds at the federal level in order to finance these new federal costs. The major financing components include (1) placing a cap on federal Emergency Assistance funds allocated to states, (2) extending the period for deeming aliens' sponsors' income from three to five years in the AFDC Program, (3) eliminating SSI/SSP and AFDC eligibility for aliens whose sponsors' incomes are above the U.S. median, (4) conforming eligibility, for certain immigrants, for SSI/SSP, Medicaid, and AFDC to the more restrictive criteria in the Food Stamps Program and (5) limiting to three years SSI/SSP eligibility for drug- and alcohol-addicted recipients.

Some of these provisions would result in state savings while others would result in costs. Of the major provisions noted above, the cap on federal Emergency Assistance funds would result in costs to the state, and the other provisions would result in savings. The restrictions on eligibility for aliens and immigrants to receive AFDC, SSI/SSP, and Medicaid, however, could result in state costs rather than savings if the state decided to continue to provide assistance to those individuals affected.

Based on information provided by the federal administration to the State Department of Social Services, we estimate that the federal financing provisions would result in five-year net state/county costs of roughly $20 million.

SUMMARY OF FISCAL EFFECT

Figure 4 summarizes the estimated fiscal effect of the President's proposal on California. Combining all components of the proposal, we estimate that it would result in five-year costs of about $400 million to the state (combined state General Fund and county funds), offset at least in part by unknown savings from reduced dependency on AFDC and increased child support collections. We also note that costs would increase significantly in subsequent years as more AFDC recipients are phased into the new JOBS and WORK programs. For example, the state cost for the WORK Program in the sixth year of welfare reform would be $130 million.

Figure 4

President's Welfare Reform Proposal
Fiscal Effect On California

Summary: *Estimated five-year costs of about $400 million to the state General Fund and county funds, offset at least in part by unknown savings from reduced dependency on AFDC due primarily to increases in employment and child support collections. Costs in subsequent years would increase significantly due to phase-in of mandatory participation in the JOBS and WORK programs.*

Program	*Five-Year State/County Fiscal Effect*
JOBS (GAIN)	**Savings.** $150 million, due primarily to increased federal funding match for JOBS, including case management for teen parents. Additional unknown, but potentially significant, savings from reduced AFDC dependency, depending on the expanded program's effect on increasing the level of employment by participants
WORK	**Costs.** $210 million. (This represents three full years of WORK Program costs because virtually no costs would be incurred in the first two years of welfare reform.) Costs would increase significantly in subsequent years as more AFDC recipients are phased into the two-year limit for JOBS. **Savings.** Unknown, but potentially significant, savings from reduced AFDC dependency, depending on the program's effect on increasing the level of nonsubsidized employment by AFDC recipients.
AFDC Resource Limits	**Costs.** About $245 million due to increased AFDC caseload, partly offset by unknown county savings in general assistance.
AFDC Teen Parents' Residence	**Costs.** No net fiscal effect. Grant savings offset by administrative costs.
At-Risk Child Care	**Costs.** $20 million net costs for state match. Unknown "cost-avoidance" in the AFDC and Medi-Cal Programs from additional child care.
Child Support Enforcement:	
Financing Provisions	**Costs.** $65 million in state/county funds.
Program Provisions	**Costs.** Unknown potential costs to the extent (1) state costs of the program changes exceed the expenditures required by the financing provisions, as shown above, and (2) the state incurs penalties for not meeting paternity standards. **Savings.** Unknown but potentially significant savings in the AFDC Program due to increased child support collections.
Federal Financing of Welfare Reform	**Costs.** $20 million net state/county costs.

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