

Federal and State Welfare Reform Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 1 Hon. Patty Berg, Chair





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 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

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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 Initial disregard of \$225 Remainder	\$1,375 225 \$1,150			
Apply 50% disregard to remainder Additional earnings disregarded Initial disregarded from above	50% \$575 225			
Total Earnings Disregarded Counted	\$800 \$575			
Grant Calculation				
Maximum grant Less countable earnings	\$723 575			
Grant	\$148			
Income Calculation				
Earnings Grant Food stamps	\$1,375 148 125			
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 Excess MOE reduction	-3.5% -6.3	-6.8% -10.9	-6.5% -8.4	-7.3% —	-7.3% —
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**

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	2008-09			Change in WPR ^a		
Component	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.						

 $[\]mbox{\ensuremath{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 Excess MOE reduction	-6.8% -10.9	-6.5% -7.4	-7.3% —	-7.3% —
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.

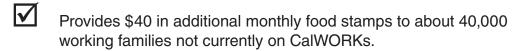
b Includes estimated affect of policy changes on participation rate.

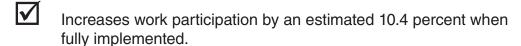
C Shortfalls increase or emerge, respectively if Proposition 49 after school funds cannot be counted as MOE.



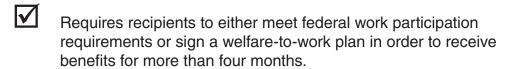
LAO CalWORKs Reform Package

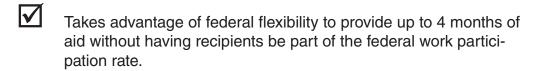
Adopt the Governor's WINS Program



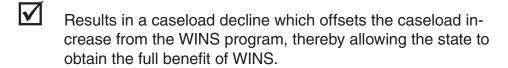


Adopt the Pre-Assistance Employment Readiness System (PEARS)





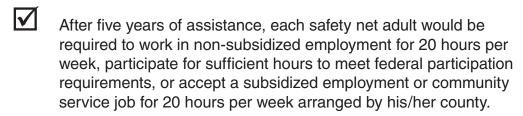






LAO CalWORKs Reform Package (Continued)

Adopt a Community Service Requirement After Five Years



- 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 Excess MOE reduction	-6.5% -8.4%	-7.3% —	-7.3% —	
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 Pre-Assistance Employment Readiness system Community service requirement for safety net	0.9 1.6 1.5	9.0 1.9 2.9	10.4 1.9 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.

 $[\]ensuremath{\text{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.