LAO

The 2024-25 Budget:
CalWORKs

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SUMMARY

In this brief, we provide some basic background on the California Work Opportunity and Responsibility to Kids (CalWORKs) program followed by an overview and assessment of the Governor's CalWORKs budget proposals. The Governor's budget proposes about $7 billion in annual CalWORKs funding in 2023-24 and 2024-25.

Governor's Budget Projects Caseload and Grant Increases. The administration estimates CalWORKs caseload growth of about 5 percent from 2023-24 to 2024-25. Additionally, the administration estimates a CalWORKs grant increase of 0.8 percent effective October 2024 (triggered and funded by local revenue growth). Both estimates appear reasonable at this time.

Governor's Budget Includes $293 Million in Ongoing CalWORKs Reductions. The administration proposes ongoing reductions to funding for CalWORKs county administration, subsidized employment, family stabilization services, and intensive case management. All reductions (except those to intensive case management) are proposed to begin in 2023-24. The proposed reductions to subsidized employment and family stabilization would eliminate all funding for the two CalWORKs programs. The Governor's budget also proposes withdrawing all available funds from the Safety Net Reserve and signals the state's intent to apply for an upcoming federal pilot.

Issues for the Legislature to Consider. The Governor's CalWORKs solutions largely focus on program elements that support families with higher needs. While comprehensive outcome information on these programs is not available, these particular reductions could create additional barriers to employment for these families. If the Legislature chooses to preserve these programs, it could instead begin exploring opportunities to right-size funding for some CalWORKs programs or components given the significant budget problem. In general, we recommend the Legislature exercise caution when assessing the proposed current year reductions to CalWORKs funding, as many of the Governor's proposed current-year solutions within CalWORKs are unlikely to materialize in full. We also recommend the Legislature begin considering potential responses to upcoming federal changes, which will impact various CalWORKs components in 2025-26.

BACKGROUND

CalWORKs was created in 1997 in response to the 1996 federal welfare reform legislation that created the federal Temporary Assistance for Needy Families (TANF) program. CalWORKs is administered by counties and overseen by the state Department of Social Services (DSS).

CalWORKs Provides Cash Assistance and Supportive Services to Low-Income Families. CalWORKs grants vary based on region, number of eligible family members, and income. Families living in high-cost coastal counties such as Los Angeles and San Francisco receive grants that are about 5 percent larger than similar families living in inland counties such as Fresno and Shasta. In general, grant sizes increase as family size increases and grant sizes decrease as family income increases. In 2023-24, the administration estimates the average CalWORKs grant amount to be $1,021 per month across all family sizes and income levels. CalWORKs recipients are often also eligible to receive supportive services and resources, such as subsidized child care, employment training, mental health counseling, and housing assistance.

Federal, State, and County Governments Share Program Costs. Federal law allows for some state flexibility in the use of federal TANF funds. California receives $3.7 billion annually for its TANF block grant, over $2 billion of which goes to CalWORKs (the remainder helps fund aid for some low-income college students and various small human services programs). To receive its annual TANF block grant, the state must spend a maintenance-of-effort (MOE) amount from state and local funds to provide services for families eligible for CalWORKs. This MOE amount is approximately $3 billion annually (which can be spent directly on CalWORKs or other programs that meet federal requirements). State and federal CalWORKs funding generally is allocated to the counties, all of whom directly serve eligible families.

Funding for Counties Determined Through Single Allocation Formula. The state provides counties with a "single allocation" to cover most costs associated with CalWORKs aside from cash assistance. The single allocation consists of three main components—eligibility determination and administration, employment services, and Cal-Learn case management (Cal-Learn provides additional services to pregnant and parenting teens participating in CalWORKs). Counties can shift funds between the multiple single allocation components. The eligibility determination and administration component (which is about one-third of the overall single allocation) increases or decreases in set increments based on caseload changes. This formula recognizes most administrative services are provided by full-time county employees and counties cannot rapidly change their staffing levels in response to changing caseload. Specifically, administrative funding changes occur when CalWORKs caseload increases or decreases by about 20,000 families.

Under State Law, Local Revenue Growth Automatically Triggers Grant Increases. Following a major realignment of state and local responsibilities in 1991, some funds generated by the state sales tax and vehicle license fee accrue to a special fund with a series of subaccounts which pay for a variety of health and human services programs. Under state law, sufficient revenue growth in the Child Poverty and Family Supplemental Support Subaccount triggers an increase in CalWORKs cash grant amounts. In the past, this account funded grant increases of 5 percent in 2013-14 and 2014-15, 1.43 percent in 2016-17, 5.3 percent in 2021-22, 11 percent in 2022-23, and 3.6 percent in 2023-24. In addition, this account has funded the repeal of the maximum family grant policy starting in 2016-17. The account continues to fund each of these changes annually. If, in any given year, account funds are insufficient to fully fund these prior changes, the remaining cost for that year is covered by General Fund.

Grants Based on Number of Eligible Family Members, Not Overall Family Size. Monthly CalWORKs grant amounts are set according to the size of the assistance unit (AU). The size of the AU is the number of CalWORKs-eligible people in the household. Grant amounts are adjusted based on AU size—larger AUs are eligible to receive a larger grant amount—to account for the increased financial needs of larger families. As of December 2023 (when the most recent analysis was conducted), about 40 percent of CalWORKs cases included everyone in the family (and thus the AU size and the family size were the same). In the remaining 60 percent of cases, though, one or more people in the family were not eligible for CalWORKs and therefore the AU size was smaller than the family size.

Family Members May Be Ineligible for CalWORKs for Several Reasons. Most commonly, people are ineligible for CalWORKs because they (1) exceeded the lifetime limit on aid for adults (currently 60 months), (2) currently are sanctioned for not meeting some program requirements, or (3) receive Supplemental Security Income/State Supplementary Payment (SSI/SSP) benefits (state law prohibits individuals from receiving both SSI/SSP and CalWORKs). Additionally, individuals may be ineligible due to their immigration status. Undocumented immigrants, as well as most immigrants with legal status who have lived in the United States for fewer than five years, are ineligible for CalWORKs.

Many Adult CalWORKs Participants Must Meet Work Requirements. Most adults receiving CalWORKs assistance must be employed or participate in specified activities intended to lead to employment, known as "welfare-to-work" (WTW) activities. Counties have flexibility in what types of WTW activities and services they provide to participants.

The Federal Government Measures Program Success Through Work Participation Rate (WPR) Requirements. The federal TANF program places heavy emphasis on states' WPR, or the percentage of adult participants engaging in required WTW activities. Under federal rules, at least 50 percent of all families and 90 percent of two-parent families receiving TANF/MOE-funded cash assistance must work or engage in WTW activities for 20 to 35 hours per week, depending on their family makeup. States that do not meet these WPR requirements may face federal financial penalties.

State Recently Made Major Augmentations to CalWORKs. Among the most notable changes made to CalWORKs in the past four budgets were:

- Providing an ongoing 10 percent General Fund grant increase. (The increase was first implemented as temporary in October 2022. It was scheduled to remain in effect until September 30, 2024 unless funds were appropriated to extend the increase. The end date was removed in 2023, making the grant increase ongoing.)
- Increasing the lifetime limit for adults receiving aid from 48 months to 60 months beginning May 2022. (The lifetime limit had previously been reduced from 60 months to 48 months in 2011.)
- Increasing the earned income disregard for CalWORKs applicants and participants (or the amount applicants and participants can earn monthly before further income affects their CalWORKs eligibility) from $90 to $450 for applicants (beginning in March 2023) and from $225 to $600 for participants. The increase for participants implemented over multiple years, beginning in June 2020 and reaching $600 in June 2022.
- Beginning January 2022, increasing the amount of child support that could be "passed through" to CalWORKs families from $50 to $100 a month for one child families, and from $50 to $200 for larger families (those with two or more children). (Under state and federal law, additional child support payments made beyond this pass-through level are retained by the state as reimbursement for the state and federal costs of CalWORKs.)
- Increasing the additional monthly stipend provided to pregnant CalWORKs participants from $47 to $100, and allowing women to become immediately eligible for CalWORKs upon verification of their pregnancies (as opposed to waiting until the second trimester). The eligibility change occurred on July 1, 2021, and the enhanced stipend began May 1, 2022.

BUDGET OVERVIEW

Overall CalWORKs Funding Remains Relatively Flat Year Over Year. As shown in **Figure 1**, the Governor's budget proposes $6.97 billion in total funds ($307 million General Fund) for CalWORKs in the current year, a net decrease of $66 million total funds (1 percent) relative to 2022-23. The reduction is the net effect of the expiration of one-time augmented Housing Support Program funding along with multiple proposed reductions in current-year funds. The budget proposes $6.98 billion in total CalWORKs funds ($1.3 billion General Fund) in 2024-25, a net increase of $12 million total funds (less than 1 percent) relative to the 2023-24 revision. This overall increase is largely due to projected caseload growth offset by newly proposed reductions. As described below, the increase in General Fund spending is related to lower TANF carryforward. Below, we summarize the Governor's budget and provide more detail on the proposed reductions.

Year-Over-Year Changes in General Fund Largely Stem From Unspent TANF Funds. **Figure 2** shows how CalWORKs costs are shared between federal, state, and local revenue sources. The figure demonstrates how the share of total CalWORKs costs covered by the state General Fund versus federal TANF funds can swing from year to year. As mentioned, federal law requires a minimum amount of General Fund and local spending on CalWORKs and related programs. If actual caseload is lower than what is budgeted for, the state may be unable to immediately spend *all* General Fund and TANF appropriated for CalWORKs. Much of these unexpected savings materialize as unspent federal funds, or "TANF carryforward."

Figure 1

CalWORKs Budget Summary

All Funds (Dollars in Millions)

	2022-23	2023-24 Proposed	2024-25 Proposed	Change From 2022-23 to 2023-24 Proposed		Change From 2023-24 Proposed to 2024-25 Proposed	
				Amount	Percent	Amount	Percent
Number of CalWORKs Cases	**331,161**	**348,599**	**354,117**	**17,438**	**5%**	**5,518**	**2%**
Cash Grants[a]	**$3,868**	**$4,302**	**$4,413**	**$434**	**11%**	**$112**	**3%**
Single Allocation							
Employment Services	$1,278	$1,153	$1,086	-$125	-10%	-$67	-6%
Cal-Learn Case Management	11	11	11	—	-1	—	1
Eligibility Determination and Administration	628	506	414	-122	-19	-$92	-18
Subtotals	($1,917)	($1,670)	($1,511)	(-$247)	(-13%)	(-$160)	(-10%)
Stage 1 Child Care	$532	$648	$709	$116	22%	$61	9%
Other Allocations							
Home Visiting Program	$101	$105	$106	$4	4%	$1	1%
Housing Support Program[b]	285	95	95	-190	-67	—	—
Expanded Subsidized Employment	134	—	—	-134	-100	—	—
Family Stabilization	52	—	—	-52	-100	—	—
Mental Health and Substance Abuse Services	130	130	130	—	—	—	—
Subtotals	($702)	(330)	(331)	(-$372)	(-53%)	($1)	(—)
Other[c]	$18	$20	$19	$2	12%	-$1	-6%
Totals	**$7,037**	**$6,971**	**$6,983**	**-$66**	**-1%**	**$12**	**0.2%**

[a] Does not include the cost of an estimated 0.8 percent grant increase funded by certain realignment revenues, which the Governor's budget projects beginning in October 2024. We roughly estimate this would increase cash grants by about $27 million in 2024-25.

[b] The 2022-23 to 2023-24 decrease in Housing Support Program funding is due to the expiration of one-time funding.

[c] Primarily includes various state-level contracts.

Figure 2

CalWORKs Funding Sources

(Dollars in Millions)

	2022-23	2023-24 Proposed	2024-25 Proposed	Change From 2022-23 to 2023-24 Proposed		Change From 2023-24 Proposed to 2024-25 Proposed	
				Amount	Percent	Amount	Percent
Federal TANF block grant funds	$3,394	$3,516	$2,618	$122	4%	-$898	-26%
• *TANF carryforward*[a]	*767*	*902*	*—*	*135*	*18*	*-902*	*-100*
General Fund	612	307	1,296	-305	-50	989	322
Realignment funds from local indigent health savings	909	786	671	-123	-14	-115	-15
Realignment funds dedicated to grant increases	909	1,143	1,197	235	26	54	5
Other county/realignment funds	1,213	1,219	1,201	5	—	-18	-1
Totals	**$7,037**	**$6,971**	**$6,983**	**-$66**	**-1%**	**$12**	**0.2%**

[a] TANF carryforward is a non-add line item for display purposes only. This amount is included in federal TANF block grant funds.

TANF = Temporary Assistance for Needy Families.

TANF carryforward can be used in future years to offset General Fund spending (as long as MOE spending is maintained), as described next.

Due to challenges in estimating caseload during the COVID-19 pandemic, the 2020-21 to 2022-23 spending plans overestimated CalWORKs caseload by 7 percent to 41 percent each year. About $770 million and $900 million in TANF carryforward funds were available in 2022-23 and 2023-24, respectively, due to these overestimations. The decrease in CalWORKs General Fund spending from 2022-23 to 2023-24 is explained largely by this increase in carryforward (which offset some General Fund), along with the expiration of some one-time funds. The Governor's budget projects no TANF carryforward will be available in 2024-25. This projection may change in May, when more data on previous and current-year TANF expenditures are available.

Governor Proposes Reductions of $230 Million in 2023-24, Increasing to $293 Million in 2024-25 and Ongoing. The Governor's proposed current-year reductions include (1) $40.8 million General Fund in single allocation administration funding, (2) $134.1 million General Fund in Expanded Subsidized Employment, and (3) $55 million General Fund in Family Stabilization (which increases to $71.2 million in 2024-25). Proposed ongoing reductions beginning in 2024-25 include the same reductions as 2023-24 (accounting for a full year of savings) and $47 million General Fund in employment services intensive case management funding. Details on each proposal are provided below.

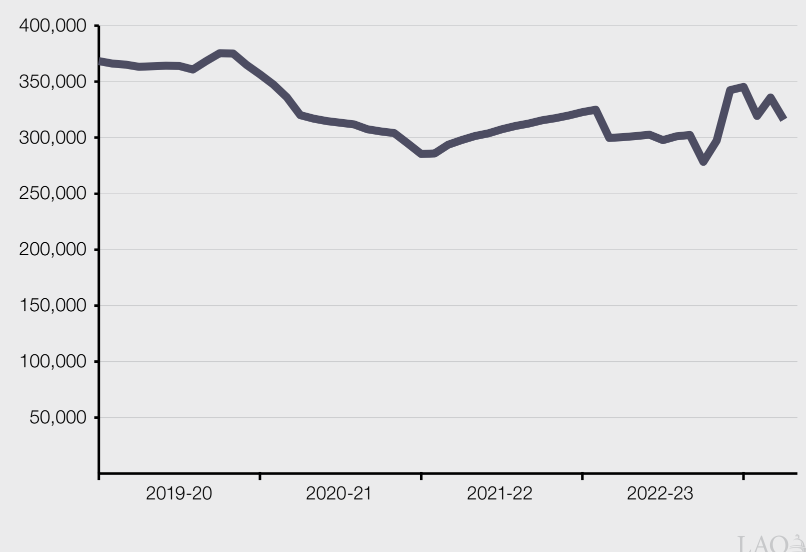
CALWORKS CASELOAD

Caseload Continues to Fluctuate After Extended Period of Decline. Figure 3 shows how CalWORKs caseload has changed since 2019-20. Following the onset of the COVID-19 pandemic in spring 2020, CalWORKs caseload began what was a historically anomalous decrease given high unemployment. (We discuss this in previous posts, in which we conclude the decrease likely was related to extraordinary federal and state aid offered to low-income individuals in response to the pandemic.) This decline continued until September 2021, the month during which a federal bonus for Unemployment Insurance benefits expired. Caseload has fluctuated since September 2021. At its highest level since 2020-21, caseload remained about 20,000 families below pre-pandemic levels.

Caseload Estimate Appears Reasonable. The administration estimates an average monthly CalWORKs caseload of about 354,000 households in 2024-25—this represents a roughly 5 percent increase compared to their most recent estimate for 2023-24. Though our independently forecasted caseload estimates often diverged widely from the administration's in the past, at this time our two offices' estimates are similar. We will revisit this estimate in the spring when additional data are available.

Figure 3

CalWORKs Caseload Has Fluctuated in Recent Months



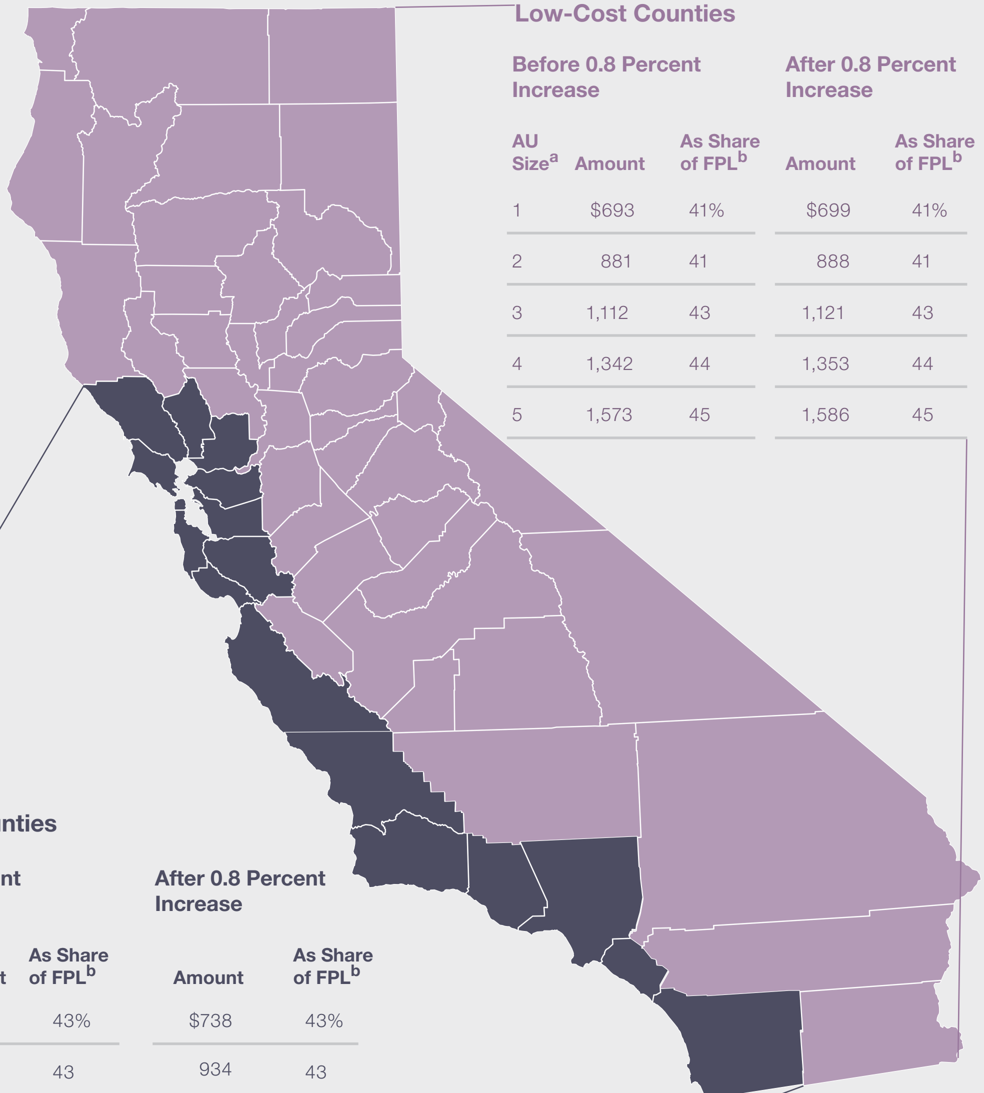
2024-25 AUTOMATIC GRANT INCREASE

Administration Estimates 0.8 Percent Grant Increase. The administration estimates a CalWORKs grant increase of 0.8 percent effective October 2024. This increase is triggered and will be funded by revenue growth in the Child Poverty and Family Supplemental Subaccount (rather than General Fund, this is realignment funding). The administration plans to recalculate the estimated grant increase at the May Revision based on updated revenue and caseload projections, so the potential cost of a 0.8 percent increase is not yet included in the 2024-25 budget. We estimate this grant increase would cost about $27 million in 2024-25 (with an annual cost of about $37 million).

Grants Still Not Estimated to Meet Legislature's Goal for All Recipients. As part of the *2018-19 Budget Act*, the Legislature set a goal to increase CalWORKs grants to 50 percent of the federal poverty level (FPL) for a family that is one person larger than the AU size (to account for CalWORKs households in which the actual family size is larger than the CalWORKs AU). As shown in Figure 4, a grant increase of 0.8 percent would raise grants for all AU sizes in high-cost counties to between 43 percent and 48 percent of the FPL for a family one person larger than the AU size, and to slightly lower levels for families in lower-cost counties.

Figure 4

Governor's Budget Estimates 0.8 Percent Increase to CalWORKs Grants



Low-Cost Counties

	Before 0.8 Percent Increase		After 0.8 Percent Increase	
AU Size[a]	Amount	As Share of FPL[b]	Amount	As Share of FPL[b]
1	$693	41%	$699	41%
2	881	41	888	41
3	1,112	43	1,121	43
4	1,342	44	1,353	44
5	1,573	45	1,586	45

High-Cost Counties

	Before 0.8 Percent Increase		After 0.8 Percent Increase	
AU Size[a]	Amount	As Share of FPL[b]	Amount	As Share of FPL[b]
1	$732	43%	$738	43%
2	927	43	934	43
3	1,171	45	1,180	45
4	1,412	46	1,423	47
5	1,654	47	1,667	48

[a] Assistance unit size is the number of family members who are eligible for CalWORKs.

[b] Share of 2024 federal poverty guideline for a family size that is one person larger than the AU size.

AU = assistance unit and FPL = federal poverty level.

After accounting for the estimated 0.8 percent increase, we estimate the additional cost to raise all grants to 50 percent of the FPL for a family one person larger than the AU would be about $920 million in 2024-25 (partial year) and about $1.2 billion annually thereafter (although this cost would grow as FPL or caseload increase).

Grant Increase Estimate Appears Reasonable. Our office independently forecasts CalWORKs grant increases triggered by growth in realignment revenue (a share of state sales tax and vehicle license fee revenues dedicated to counties). While our estimates have differed from the administration's previously, at this time our two offices' estimates are similar. We will revisit this estimate in the spring when additional revenue and caseload data are available.

GOVERNOR'S MAJOR CALWORKS BUDGET PROPOSALS

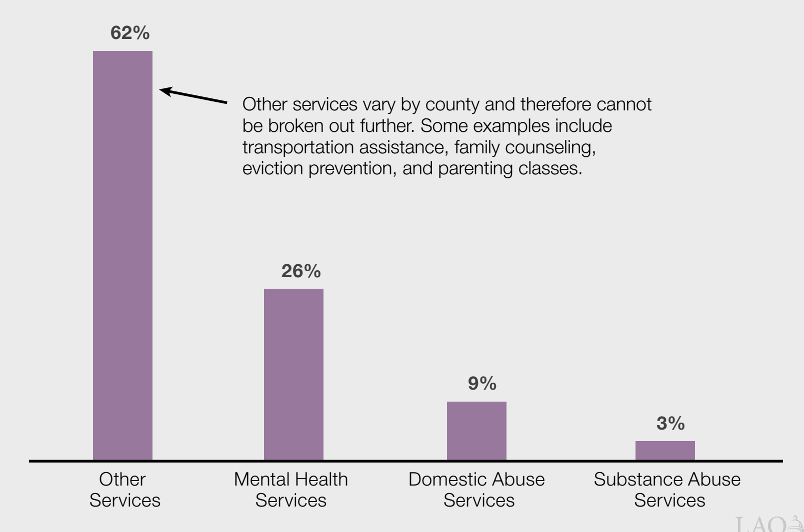
ELIMINATE FAMILY STABILIZATION FUNDING

Family Stabilization (FS) Program Provides Services and Support to CalWORKs Families in Crisis. Implemented in 2013, FS provides intensive case management and services for CalWORKs recipients experiencing destabilizing crisis situations that interfere with their WTW participation. Qualifying situations include, but are not limited to, homelessness or imminent risk of homelessness; unsafe conditions due to domestic violence; and untreated or undertreated behavioral needs, such as mental health or substance abuse-related needs. In 2022-23, about 4,100 households participated in FS monthly. Figure 5 breaks down the types of FS services provided by frequency (households may receive more than one FS service at any given time). Additionally, about 25 percent of FS households received homelessness support through the program, such as hotel, rental, security deposit, or utility payment assistance.

Proposal Eliminates All Funding for FS Program. The Governor's budget proposes a reduction to FS funding of $55 million in the current year and $71.2 million in 2024-25 and ongoing. This program is subject to an appropriation by the Legislature. About $52 million total funds were appropriated for the program in 2022-23 and $55 million total funds were appropriated in 2023-24.

Figure 5

Family Stabilization Provides a Variety of Interventions



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Eliminating FS May Disproportionately and Negatively Impact Families in Crisis. Because counties have some flexibility in the administration of local FS programs, limited data exist on statewide program outcomes. However, anecdotal evidence suggests some counties' FS services have helped recipient families exit unsafe situations, secure stable housing, avoid WTW sanctions, and address barriers to work. In the absence of identifying alternative resources, eliminating the FS program would likely limit the amount of support and types of services counties can provide to their highest-need CalWORKs clients.

ELIMINATE SUBSIDIZED EMPLOYMENT PROGRAM

Counties Have Flexibility in Administration of Local ESE Programs. The Expanded Subsidized Employment (ESE) program provides optional funding to counties (above what is provided in the single allocation) for local subsidized employment programs and partnerships. ESE replaced the original CalWORKs Subsidized Employment Program (which was implemented in 2008) in 2013 and is now the only CalWORKs program providing dedicated subsidized employment funding. Counties may fully or partially subsidize the wages of some CalWORKs recipients for six months to a year—making it less costly for an employer to hire a CalWORKs participant compared to a non-CalWORKs participant. As of December 2020, 52 counties were participating.

Counties determine locally which CalWORKs participants to prioritize for subsidized employment opportunities. For example, some local programs target CalWORKs recipients with little or no work history, those experiencing barriers to work (such as limited English proficiency, arrest history, or lack of job skills), or students completing educational or vocational programs. Program goals generally include promoting skill development and helping participants obtain and transition to unsubsidized employment. In 2022-23, about 1,240 individuals participated monthly, or about 1 percent of all CalWORKs recipients with WTW requirements. ESE caseload dropped significantly at the height of the COVID-19 pandemic due to worksite restrictions, but began rebounding in 2021-22. County representatives indicate some counties have been focused on reengaging participants and employers in the program. While ESE caseload has not yet reached pre-pandemic levels, participation continues to increase in 2023-24.

Proposal Eliminates All CalWORKs Subsidized Employment Funding. The Governor's budget proposes to eliminate $134.1 million in ESE funding in 2023-24 and ongoing. Recent spending plans provided about $134 million in ESE funding annually.

LAO Assessment

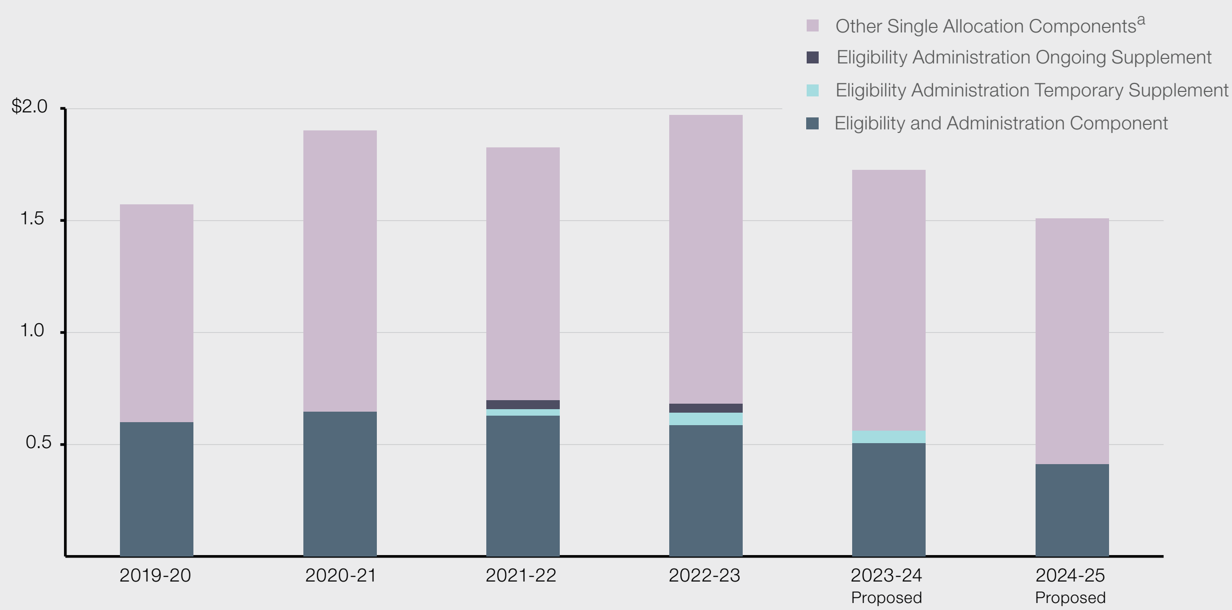
ESE Elimination May Impact Employment and Earnings of Some CalWORKs Recipients. As mentioned, about 1,240 individuals participated in ESE each month in 2022-23. Additionally, ESE has helped some participants secure higher-paying employment. According to the administration, amongst 2019-20 ESE participants statewide, the median quarterly income before program participation was about $2,600. While participating in ESE, these participants' median quarterly income was about $4,000 and after exiting it was about $5,300.

REDUCE CALWORKS ADMINISTRATIVE FUNDING

Proposal Eliminates Ongoing $40.8 Million Augmentation to Administrative Component of Single Allocation. The administration proposes eliminating the augmentation to the eligibility and administration component of the single allocation (which has been provided annually since 2021-22) beginning in 2023-24. Figure 6, on the next page, shows how the proposal would reduce county administrative funding in 2023-24, 2024-25, and ongoing, as well as how overall single allocation funding would decrease due to this reduction and other proposals. When coupled with the expiration of one-time funds, administration component funding would decrease by over 30 percent from 2022-23 to 2024-25.

Figure 6

Both Administrative Component and Overall Single Allocation Would Decrease
(In Millions)



[a] Prior to 2021-22, CalWORKs stage one child care funding was a component of the single allocation. For purposes of this display, we have excluded this component from "Other Single Allocation Components" in 2019-20 and 2020-21.

Eligibility and Administration Funding Methodology Due for Triennial Assessment. The methodology for the eligibility and administration component of the single allocation is scheduled to be reassessed in consultation with counties and the County Welfare Directors Association for 2024-25 and every three years thereafter. The administration indicated it plans to reevaluate the eligibility worker rate and funding for applications independent of caseload. While the Governor's budget does not include funding related to the triennial assessment, the administration plans to reassess in the May revision.

Proposal Also Reduces Anticipated Intensive Case Management Funding. Counties receive additional employment services funding through the single allocation for "intensive cases," or families requiring exceptional support to overcome barriers to employment. According to the administration, in recent years, about 10 percent of CalWORKs cases have been considered intensive. The 2021-22 spending plan provided additional funding to expand the availability of intensive case management and defined intensive case management as consisting of at least ten hours of county staff time per month. The funding and minimum time requirement were designed to ramp up over four years, with the time requirement beginning at 6.25 hours in 2021-22 and increasing by 1.25 hours annually until 2024-25. In 2023-24, the minimum time requirement for intensive cases was 8.75 hours and was scheduled to increase to ten hours in 2024-25. The Governor's budget proposes an ongoing hold on this increase. The administration projects holding the time requirement at 8.75 hours for 2024-25 and ongoing will result in annual savings of about $47 million General Fund (as compared to what would have been spent with the increase). Counties would continue to receive $411 million for the 8.75 hours of intensive case management (through the employment services component of the single allocation).

LAO Assessment

In Recent Years, Funding for the Single Allocation Eligibility and Administration Component Increased Despite Decreasing Caseload. Between 2020-21 and 2022-23, the CalWORKs caseload decreased by over 60,000 families, which normally would trigger three consecutive years of $27.5 million in funding decreases to the single allocation's eligibility and administration component. However, in recognition of the high level of uncertainty surrounding caseload projections during the COVID-19 pandemic, the state did not decrease funding and instead provided both ongoing ($40.8 million starting in 2021-22) and temporary ($27.5 million for 2021-22 and $55 million for both 2022-23 and 2023-24) augmentations to the base level of administrative funding.

Proposed Reductions Bring Funding Into Alignment With Methodology. The funding augmentations to the administrative component in 2021-22, 2022-23, and 2023-24 offset the caseload-driven reductions that would normally have occurred each year (under the existing funding methodology). Therefore, eliminating these augmentations would bring current and budget-year funding into alignment with normal levels under the existing methodology. (However, county representatives indicated without the augmentations mentioned above, the administrative component's methodology likely would not have kept up with growing local costs.) Additionally, since the methodology is scheduled to be reassessed at the May revision, the normal funding level for 2024-25 may change. The Legislature might consider asking the administration if the currently proposed reductions to the administrative component should be viewed as placeholders until the reassessment is complete.

Potential Impact of Proposed Reductions Is Not Fully Clear. From 2021-22 to 2023-24, over $300 million in unspent single allocation funds naturally reverted to the General Fund each year. The Governor's budget proposes the early reversion of $336 million General Fund in unspent single allocation funds from the *2022-23 Budget Act*. (The total 2022-23 single allocation appropriation was about $1.9 billion.) These unspent funds would naturally revert to the General Fund in 2025-26. The 2023-24 spending plan also included the early reversion of $288 million in unspent single allocation funds. Given counties consistently underspent total single allocation funds in recent years, along with the fungibility of single allocation funds between the components, counties may be able to fully fund current activities under the Governor's proposal.

However, county representatives report the proposed administrative component funding amount ($414 million in 2024-25 and ongoing) may be insufficient to cover administrative costs in some counties. Many administrative activities are statutorily required, so some counties may need to leverage other single allocation funds, especially from the employment services component, to cover necessary administrative costs. Some counties report shifting funds in this way likely would adversely affect the employment services they are able to provide to CalWORKs participants.

SAFETY NET RESERVE WITHDRAW

Budget Proposes $900 Million Withdrawal From Safety Net Reserve. The proposed $900 million withdrawal from the Safety Net Reserve reflects the entire balance of the reserve.

LAO Assessment

Withdrawal May Be Inconsistent With Legislative Intent for Reserve. The Safety Net Reserve, established in 2018-19, was designed to help cover costs of increasing Medi-Cal and CalWORKs caseloads in the event of an economic downturn. Although caseloads under the Governor's budget are higher than anticipated in June, economic conditions likely do not yet match what the Legislature envisioned when it created the reserve. Moreover, the administration proposes the ongoing reductions mentioned above despite withdrawing these reserves. Withdrawing the entirety of this reserve, while simultaneously proposing reductions, may not be consistent with its original design.

Full Withdrawal Also Appears Inconsistent With Overall Approach to Using Reserves. The Governor's budget includes $13 billion in total reserve withdrawals. About 7 percent of these proposed withdrawals are from the Safety Net Reserve. The remaining $12.1 billion in proposed withdrawals are from the state's general-purpose reserve—the Budget Stabilization Account (BSA). If the Governor declares a budget emergency, the state can withdraw up to half of the constitutional balance of the BSA. (The Legislature also can withdraw the entire "discretionary" balance of the BSA, which are funds added to the reserve on top of required deposits.) The Governor proposes withdrawing half of the BSA's constitutional balance, $10.2 billion, and the entire discretionary balance, $1.8 billion, while also proposing a full balance withdrawal from the Safety Net Reserve.

SIGNALS INTENT TO APPLY FOR A FEDERAL PILOT OPPORTUNITY

Administration Plans to Apply for Federal Pilot Focused on Program Performance Measures. Up to five states selected for a new federal pilot will test alternative performance measures to the WPR requirements. Participating states will not be required to meet the WPR requirements for the duration of the six-year pilot. Instead, we understand that performance of these states' TANF programs will be measured by the percentage of work-eligible individuals employed six months after exiting the program, the earning levels of those individuals six and 12 months after program exit, and other indicators of family stability and well-being (which are yet to be determined by the federal government). DSS expects to receive additional information on the pilot requirements and how to apply in spring or summer 2024. The pilot is expected to begin in October 2024.

LAO Assessment

Reductions May Weaken California's Pilot Application and, if Selected, Performance. In recent years, California has broadened its CalWORKs goals to include program outcomes focused on long-term employment and family well-being. While additional details are needed on the pilot's intended outcome measures, currently available information indicates some outcome measures already used to evaluate the CalWORKs program may be included in the pilot. Eliminating or reducing funding for CalWORKs components or services designed to address these outcomes—such as family stabilization, subsidized employment, and intensive case management—may limit the types of programs, services, and outcomes California can highlight in its pilot application and, if selected to participate, how California might perform along these measures. However, without comprehensive outcome information on these programs, the size of the impact the proposed eliminations might have on the state's pilot application and potential pilot performance is difficult to predict.

OVERARCHING ISSUES FOR CONSIDERATION

In this section, we describe overarching issues the Legislature might consider when evaluating these initial budget solution options in the Governor's budget for CalWORKs within the framework of the estimated budget deficit. We also provide other potential options for legislative consideration. Finally, we raise issues for consideration related to upcoming federal changes impacting the CalWORKs program.

CURRENT- AND BUDGET-YEAR CONSIDERATIONS

Consider if Proposed Current-Year Reductions Will Materialize. Limited information is currently available on county expenditures of 2023-24 FS, ESE, and eligibility and administration single allocation funding. We recommend the Legislature ask the administration for an immediate update, as well as routine updates going forward, on the expenditure of these funds.

This information would provide the Legislature greater clarity on how much in unexpended funds, if any, might be available to be reduced in the current year. FS funding was fully utilized in 2022-23, so if current-year spending continues with no interruption and at a similar rate as previous years, the administration's projected savings from a current-year reduction to FS funds will not materialize. In contrast, counties spent about $90 million of the $134.1 million in total funds appropriated for ESE in 2022-23. While larger percentages of annual ESE funds were generally expended before the COVID-19 pandemic, some funds were left unspent in each of the last ten years. If no legislative action is taken to halt current year ESE spending, some savings may materialize, but a full reduction of all 2023-24 ESE funds will not occur.

Consider Possible Opportunities to Right Size Funding for Program Components. We recommend the Legislature consider opportunities to reduce funding for CalWORKs programs and components with consistently unspent funds. For example, almost $40 million in ESE funds, on average, were left unspent annually over the last five years. While these unspent funds will naturally revert back to the General Fund in the future, continuing to fund program components in excess of historical spending levels may unnecessarily tie up funds that could otherwise be used elsewhere or saved. We recommend the Legislature ask the administration for information on recent and historical annual expenditures across CalWORKs programs and components with consistent underspending. With this information, the Legislature might have better clarity into if budget-year or ongoing savings could be created by reducing funding for these programs to better align with spending trends.

Consider How Reductions Would Impact Long-Term CalWORKs Goals. In light of the anticipated budget situation, we recommend the Legislature evaluate its long-term goals for the CalWORKs program. Any type of CalWORKs funding reduction—including those proposed by the Governor—could potentially impact program outcomes and family and child poverty in California. Different components of the program generally support different outcomes (such as employment services primarily supporting work participation and family stabilization services supporting family well-being). The Legislature might begin considering if and how it would prioritize funding—in the budget year and ongoing—amongst the various supports and services the CalWORKs program provides, potentially with an eye towards minimizing negative impacts on outcomes it deems most important to the success of the program and its participants.

Weigh Potential Out-Year Impacts of Reserve Withdrawal. As noted earlier, we and the administration anticipate the state to face significant budget deficits in future years. Maintaining reserves now—by limiting their use—provides the Legislature more tools in the future to balance the budget and avoid some reductions. Consequently, we recommend the Legislature consider taking a consistent approach across both the Safety Net Reserve and the BSA. Specifically, we recommend using only half of the balance of the Safety Net Reserve now in order to preserve this tool for the future. Using all of the Safety Net Reserve may put increased pressure on the General Fund if Medi-Cal or CalWORKs caseloads begin increasing more rapidly in the future.

CONSIDERATIONS FOR BEYOND THE BUDGET YEAR

The federal Fiscal Responsibility Act of 2023 (FRA) introduced multiple changes to TANF rules and requirements, including the creation of the performance outcomes pilot mentioned above. We discuss other key components of the legislation below. Additional details on these changes will be provided in our upcoming post: *Overview of the Federal Fiscal Responsibility Act's Impacts on CalWORKs.*

Begin Considering Potential Responses to Upcoming WPR Changes. As mentioned, state TANF programs must meet WPR requirements or face financial penalties. A state's WPR requirements are reduced via "caseload reduction credits" if the state's caseload declined within a certain period of time. Currently, a state receives a reduction credit if its caseload has declined relative to 2005.

Beginning in October 2025, current caseload will instead be compared to 2015 caseload. The CalWORKs caseload was larger in 2015 than in 2005 or in recent years. Therefore, California likely will receive a significant caseload reduction credit in 2025-26. This credit will lower California's WPR requirements and the associated risk of facing financial penalties. The Legislature might begin to consider if and how it would like to respond to this change in 2025-26. For example, since the change may lessen the pressure on the state and counties to meet higher WPR targets, it may present an opportunity to shift some of the state's focus towards other desired outcome measures or goals for the CalWORKs program.

Consider Future Goals for Work Incentive Nutrition Supplement (WINS) Program. WINS, introduced in 2014, provides some working CalFresh households (low-income families receiving food assistance) with additional monthly food benefits of $10. Currently, WINS costs roughly $25 million annually. Because WINS is an MOE-funded program, WINS households help California meet its WPR requirements. However, the FRA set new rules for programs like WINS. Beginning October 1, 2025, working families enrolled in programs of this nature must receive at least $35 in monthly benefits to be included in state WPR calculations. As a result, starting in 2025-26, WINS would only help the state meet its WPR requirements if benefits were increased to $35. This change would increase the annual cost of WINS to roughly $63 million.

WINS was established with a primary goal of boosting the state's WPR and with a secondary goal of providing additional benefits to working CalFresh families. This upcoming federal change presents an opportunity for the Legislature to reevaluate its goals for WINS moving forward. The Legislature might begin considering if and how it plans to respond to the change in 2025-26. For example, the state could continue to operate the WINS program as-is, regardless of the upcoming change, by continuing to provide $10 monthly benefits. Alternatively, California could plan to increase WINS monthly benefits in 2025-26 to $35 to align with the new federal requirement. Finally, the Legislature could eliminate the WINS program altogether beginning in 2025-26, reducing about 125,000 WINS participants' food benefits by $10 monthly, but generating about $25 million in annual General Fund savings.

CONCLUSION

Assessing Proposed Reductions. As described in our *Overview of the Governor's Budget*, the Legislature faces difficult budget decisions this year and likely more in the future. The administration has not offered justification around why the specific CalWORKs program elements described above are proposed for reduction, aside from indicating they are part of the overall package of budget solutions necessary to address the estimated budget deficit. Notably, across the budget, there are few program areas where the Governor proposed ongoing programmatic cuts to established programs. The proposed ongoing CalWORKs reductions, alongside similar proposed ongoing reductions to child welfare funding, are unique in this way. At the same time, given the significant budget problem facing the state, ongoing programmatic reductions will be necessary. In addition, for any of the Governor's proposed budget solutions the Legislature chooses to reject, it will need to solve for that portion of the budget problem in another way. Accordingly, we recommend the Legislature begin considering which solutions within the CalWORKs program and across the budget might align best with its goals.

LAO PUBLICATIONS

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The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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