The California
Wellness Foundation

Grantmaking for a Healthier California

Reflections

On the Impact of Devolution on California

The California Wellness Foundation

Reflections is a series produced by The California Wellness Foundation to share lessons learned and information gleaned from its grantmaking practices and strategies. This document and others in the series are available on the Internet at www.tcwf.org.

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The latter part of the 1990s was characterized by a sea change in social policy at the federal level, typically referred to as the "new federalism" or "devolution." In a relatively short period of time, legislation was enacted fundamentally changing long-standing federal programs and devolving them to states and local jurisdictions. In sum, it essentially represents a fundamental rewriting of the American social contract for our most vulnerable citizens. Given the magnitude of the potential changes engendered by welfare reform and other such actions, it has been difficult to predict the full scope of the potential impact on low-income communities in states such as California. One thing is certain, however. Devolution has significantly altered the context for our grantmaking.

Over the past four years, The California Wellness Foundation has dedicated a substantial portion of our Special Projects fund to a cluster of concerns subsumed under the general theme of devolution. We have pursued a fourfold grantmaking strategy: strengthening of safety net providers; consumer education to help low-income families better understand the changing health care system; policy analysis to inform public decisionmaking; and advocacy efforts to help ensure that the voices of the underserved are represented in policy debates. To date, we have approved more than $20 million in grants for that effort, with the majority of these dollars funding core operating support for direct service providers and policy organizations to maximize their ability to respond quickly and effectively to the challenges they confront.

To help us reflect on the myriad ways in which the state and local policy landscape is being shaped by devolution, we commissioned Jean Ross of the California Budget Project to develop the enclosed report. She occupies a unique vantage point in our state that enables her to look across systems and funding streams and observe larger patterns at work. We have found her analysis to be quite helpful in charting our course and thought it might be useful to your organization as well. Although the figures and examples Ms. Ross cites are from California, we trust the overall thesis of her report will also be relevant to those of you working in other states.

As always, we welcome your comments.

Tom David, Executive Vice President
The California Wellness Foundation

New Roles and Responsibilities: The Impact of Devolution on California and California's Low-Income Communities

By Jean Ross, California Budget Project

For the first time in 60 years, our nation is rewriting the social contract with its people. This represents a fundamental shift in responsibility from the federal level to local communities. No longer is the federal government assuming the role of discovering problems in our society and providing the dollars to address them, a role first taken on with the New Deal in 1936.

The California Wellness Foundation
1996 Annual Report

A reevaluation of the fundamental role of government dominated the social policy debates of the 1990s. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) ended the federal guarantee of assistance for poor families and gave states more responsibility for structuring programs designed to move families from welfare to work. The 1996 welfare act is part of a larger shift of responsibility from the federal to state and local governments, often called the new federalism or devolution. In some areas, most notably welfare reform, the change has been substantial. In other areas, including health care, change has been evolutionary rather than revolutionary. After considerable debate, proposals to block grant Medicaid failed to win congressional approval. Health policy changes have occurred from the ground up rather than the top down through the Medicaid waiver process and an expansion of federal support in the form of a new block grant for states to extend health coverage to children in low-income working families.

What have these changes meant for low-income Californians? How has the federal role really changed and what does this change mean for Californians? Has devolution freed state and local officials to experiment or does it simply mean that they are doing more with fewer resources? As the decade comes to a close, one of the primary objectives of devolution — balancing the federal budget — is nearing achievement, and federal policymakers are now debating the use of anticipated budget surpluses. The nation's changing fiscal fortunes present the opportunity to review what the policy changes of the past decade have meant for low-income Californians and the programs that serve them. This paper is divided into five sections: a definition of devolution; an overview of the context of recent policy changes; a review of recent policy changes; an overview of significant upcoming policy debates; and a discussion of the implications of devolution for California.

DEVOLUTION DEFINED

Devolution is defined as shifting program and financial responsibility from the federal government to state and local governments, which in the 1990s has created tension between federal restrictions and funding reductions; and local flexibility.

This paper defines devolution as a shift of program and financial responsibility from a more to less centralized level of government. Specifically, this paper examines the transfer of responsibility from the federal government to the states and, within California, from the state to county governments. The term devolution is often used synonymously with block grants. This paper uses a broader definition of devolution that includes transfers of revenues and program responsibility from a central to decentralized level of government, program initiatives that grant significant flexibility to states and localities, and increased waiver authority that allows states and localities to tailor programs and funding structures to meet local needs.

The fundamental conflict in devolution, as practiced during the 1990s, is the desire on the part of federal officials to combine an activist policy agenda with a vision of smaller, more decentralized government. While devolution implies local control, many of the changes enacted during the 1990s impose more, rather than fewer, restrictions on states' use of federal money. Similarly, a reduction of support as well as a transfer of responsibility has, in many instances, accompanied devolution of responsibility. These often contradictory motivations have undermined the ability of states and localities to innovate and use the flexibility implied by devolution to address local needs.

THE POLICY CONTEXT FOR DEVOLUTION

California's policymakers faced three major fiscal challenges in the 1990s: the widening gap between rich and poor, increased demands on the budget and restrictions on decisionmaking at state and local levels.

California is the largest and most diverse state in the nation. With a population in excess of 33 million and an annual budget of $78 billion, the state's resources exceed those of most nations. Despite the state's vast resources, Californians are more likely to be poor, more likely to receive public assistance and more likely to rely on Medicaid than are Americans as a whole. Nearly one of five (18.8 percent) Californians lacks U.S. citizenship, as compared to just 6.4 percent of the population of the nation as a whole. Three trends provide a backdrop for the recent history of devolution in California:

Declining incomes, growing inequality. During the early years of the 1990s, California experienced its deepest recession since the 1930s. At 5.4 percent, California's unemployment rate remains higher than that for the nation as a whole (4.3 percent). Californians are also more likely to live in poverty, with 16.8 percent of the state's population living in households with incomes below the poverty threshold as compared to only 13.5 percent for the nation overall. Changes in the state's economic base, such as loss of defense-related jobs in the late 1980s and 1990s and the large influx of immigrant workers, have had a lasting impact on the state's economy. Household incomes were lower in 1997 than in 1989 on an inflation-adjusted basis. Over the past three decades, the gap between California's rich and poor has widened significantly and at a greater rate than that for the nation as a whole. Perhaps more troubling, the rise in inequality is increasingly attributable to the poor getting poorer rather than the rich getting richer. A new report by the Public Policy Institute of California found that inflation-adjusted incomes for male workers at the 90th percentile increased 13 percent between 1969 and 1997, while those for male workers at the 25th percentile fell by 40 percent. This report cites rising returns to skill — a widening of the gap between more and less educated workers — and the overrepresentation of immigrants among low-wage populations (immigrants make up 36 percent of the male workforce) as the primary reasons why California's gap is wider than that for the nation and notes that "it appears unlikely that the situation will correct itself through economic growth." These findings are of particular significance in light of a growing body of research suggesting a correlation between inequality and adverse health outcomes.

A decade of fiscal stress. Policymakers have confronted budget shortfalls in seven of the past nine years. In 1991, the unprecedented $14 billion shortfall equaled a third of the state's General Fund budget. The state's fiscal crisis of the early 1990s stemmed from a combination of rising demand for services, particularly in recession-sensitive programs such as Aid to Families with Dependent Children (AFDC) and Medi-Cal, and lower revenues. In order to bridge these gaps, policymakers reduced assistance payments for poor families and the elderly, blind, and disabled by more than $16 billion between 1991 and 1992 and between 1997 and 1998. Policymakers also shifted the burden of financing education from the state to local property tax revenues, through a set of transactions that leave cities and counties with $1.3 billion less in annual discretionary revenues. While the state's fiscal situation has improved, population growth, spending pressures, and depressed revenue growth stemming from the cumulative impact of nearly $4 billion in annual tax reductions enacted since 1993 limit policymakers' flexibility. California spent more than it raised in revenues in 1998-99 and is projected to do so again in 1999-2000. Repeated operating deficits leave the state vulnerable to the impact of further federal spending reductions or a downturn in the economy. The combination of growing demands for services, coupled with an eroding revenue base, has left the state with a structural imbalance between revenues and expenditures, with one recent report projecting combined state and local deficits equal to 2.8 percent of expected revenues over the next eight years.

Fiscal decisionmaking hampered by structural constraints. California's budget and policy-making processes are circumscribed by a number of constraints. Key features of the state's fiscal structure include constitutional provisions requiring the following:

- Measures increasing state taxes must be approved by a two-thirds vote of each house of the Legislature.
- Approval of the annual state budget requires a two-thirds vote of each house of the Legislature.
- Voters must approve any increase in local taxes and any increase designated for a specific purpose must be approved by a two-thirds vote of the voters.

The initiative process looms large over state budget and policy debates. Recent ballot measures earmark a significant fraction of the state's revenues for popular programs and establish policies that in turn create a demand on state resources, such as the "three strikes" sentencing initiative that imposes lengthy prison terms on repeat offenders. Measures such as Proposition 98 of 1988, which guarantees schools a minimum funding level each year, and Propositions 99 and more recently 10, which earmark new tobacco tax revenues for health care and health education and early childhood development, respectively, limit policymakers' ability to respond to shortfalls and changing policy priorities. These restrictions result in policymakers looking first (and in many instances, exclusively) to spending reductions in the event of a budget shortfall and leave the state ill prepared to assume the additional financial responsibilities inherent in devolution.

Finally, Proposition 140 of 1990, which imposes term limits on state-elected officials, has resulted in a nearly complete turnover of officeholders. Members of the state Assembly are limited to three 2-year terms, while state senators can serve two 4-year terms. The departure of experienced legislators has weakened the power of the Legislature, led to the departure of many seasoned policy staff, and nearly erased the bodies' institutional memory. The relative inexperience of lawmakers hinders the Legislature's ability to grapple with complex policy matters, and the short term of office has exacerbated the tendency to focus on immediate results rather than on long-term policy implications. At the same time, the power of vested interest groups has grown to fill the vacuum left by the weakening of the Legislature.

DEVOLUTION: WHERE WE'VE BEEN

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 imposed lifetime limits and other restrictions on welfare assistance, and left it to the states to determine how to support poor families under the new rules.

Welfare Reform Shifts Financial and Program Responsibility to the States

On August 22, 1996, President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) into law. This measure fundamentally restructured the nation's safety net for poor families, limited legal immigrants' access to publicly funded benefits, and made reductions in programs designed to assist poor families. The PRWORA became the vehicle for two distinct policy goals:

- Transforming the nation's prior cash assistance program for poor families (Aid to Families with Dependent Children, AFDC) from an entitlement, whereby all who met basic eligibility requirements received assistance, into the Temporary Assistance for Needy Families (TANF) block grant with a fixed allocation of federal funds.
- Reducing federal spending through restrictions on legal immigrants' eligibility for most types of federally funded assistance and changes to other programs, including Food Stamps, Supplemental Security Income (SSI), the Earned Income Tax Credit, Child Nutrition, and Social Services Block Grant.

The PRWORA significantly broadened states' ability to establish the package of benefits and services for poor families with children and instituted a focus on work by imposing lifetime limits on assistance and requiring states to move a substantial fraction of their welfare caseloads into the workforce. California, in turn, gave counties increased authority to tailor local welfare programs to local priorities and conditions, while maintaining certain statewide standards with respect to eligibility and benefit levels.

As part of this transfer, the state gave counties a block grant of funds for services that can be moved between employment, supportive services and child care. In addition, the CalWORKs law authorized incentive payments for counties that can be used for any purpose qualifying under the federal maintenance-of-effort requirement.

The conversion of the prior entitlement into a block grant leaves states responsible for any increase in program costs beyond the fixed federal block grant allocation. In the short term, states are receiving more, rather than less, federal support for TANF, due to declining caseloads and structure of formula used to allocate federal funds. Budgetary concerns could become more of a factor as counties fully implement expanded employment and other support systems and, in particular, if an economic slowdown pushes assistance rolls higher. Moreover, the operating assumptions used by the state's Department of Social Services (DSS) for budget planning suggest that the recent reforms will leave many in need of ongoing assistance.

From the standpoint of devolution, it is important to note that TANF, the new federal welfare system, imposed a number of restrictions on states' use of federal funds. While states can serve populations excluded by the federal restrictions or that otherwise differ from federal policy, they must do so using their own resources.

Immigrant Eligibility for Public Benefits

Motivated by a desire to bring the federal budget into balance, as well as ideological considerations, the PRWORA, as initially passed by Congress, reduced federal spending by $54.5 billion between 1997 and 2002. Over 40 percent of the measure's initial budget reductions came from provisions limiting the eligibility of legal immigrants for federally funded benefits. These restrictions disproportionately affected California, home to over 40 percent of the nation's immigrants. While Congress has subsequently restored eligibility for many of those initially affected by the PRWORA, significant restrictions with long-term fiscal implications for states remain (see table).

California, along with a number of other states, created state-funded programs to aid many of the immigrants who lost eligibility under federal law. Lawmakers recently made permanent the state-funded programs providing Food Stamps and SSI/SSP to immigrants arriving in the United States before August 22, 1996. By confining the harshest of the reductions to those who arrive after the passage of welfare reform, Congress has limited the human and financial impact of the new law. However, as the number of immigrants who enter the United States after August 22, 1996 increases, so will the state's financial responsibility for assistance.

The PRWORA also imposed restrictions on the receipt of public benefits by undocumented immigrants. In particular, the PRWORA required states to reauthorize the provision of prenatal care to undocumented immigrants with a law passed after August 22, 1996. As part of the 1999-2000 budget agreement, California enacted the necessary reauthorization of prenatal services to undocumented immigrants.

Devolution and Health Policy

In contrast to the sweeping changes in federal welfare policy, states' role in health policy increased incrementally. Proposals to transform Medicaid, the nation's health care program for the poor, into a block grant that once appeared imminent are now absent from policy debates. The federal role in health policy increased with the creation of the State Child Health Insurance Program (CHIP) in 1997. In the same measure, Congress reduced funding for the Disproportionate Share Hospital (DSH) program, thereby forcing states to either increase spending or reduce provider reimbursements. Key health policy shifts over the past decade include:

- **Expanded waiver authority.** In lieu of more fundamental reform, the federal government expanded states' ability to modify their Medicaid systems through the waiver process. California used this authority to institute selective provider contracting during the early

1980s. During the 1990s, California obtained waivers to modify asset requirements to expand Medi-Cal eligibility, implement the Medi-Cal managed care program, expand ambulatory services in Los Angeles County, and to offer personal care services to elderly and disabled persons at risk of institutionalization.

- **A move toward managed care.** Approximately half (49 percent) of all Medi-Cal beneficiaries are now enrolled in managed care and the state anticipated reaching full implementation for nonelderly, able-bodied enrollees by June 30, 1999. The objectives of the Medi-Cal managed care program are twofold: first, to reduce cost relative to the traditional fee-for-service program and, second, to improve access to, and the quality of, care received by Medi-Cal enrollees. To date, there is little evidence that managed care has succeeded at either objective. Observers attribute the lack of cost savings to efficiency measures previously implemented in the Medi-Cal program, especially selective contracting. On the access side, advocates report that commercial managed care providers have failed to expand provider networks beyond the "safety net" providers that have traditionally served low-income populations. The Balanced Budget Act of 1997 eliminated the need for states to seek advance federal approval to enroll most Medicaid beneficiaries in managed care.

- **Breaking the link between welfare and Medicaid eligibility.** The PRWORA broke the historical linkage between welfare and Medicaid eligibility and required states to provide coverage to parents and children who would have qualified for AFDC based on state policies in place as of July 16, 1996. California's new welfare law created new income and assets standards to ensure that everyone who qualifies for CalWORKs also qualifies for Medi-Cal. This change makes families who meet the expanded criteria eligible for Medi-Cal regardless of whether they actually receive CalWORKs benefits. It also ensures that families will remain eligible for Medi-Cal if they reach the time limits imposed by state or federal welfare law or lose assistance for failure to comply with CalWORKs or TANF requirements.

- **Support for insuring poor children.** The Balanced Budget Act of 1997 established the State Child Health Insurance Program (CHIP) to help states provide health coverage to children in low-income working families. The CHIP provides federal matching funds to states that extend Medicaid or other health coverage to children in families with incomes of up to 200 percent of the federal poverty threshold. In order to qualify for CHIP funds, California established the Healthy Families Program (HFP) in 1997. Under the enhanced matching formula provided by the CHIP, federal funds pay approximately two-thirds of the cost of the HFP. Implementation of the HFP has gotten off to a slow start, with only 128,572 of the 328,000 potentially eligible children enrolled as of June 30, 1999. Observers cite a number of reasons for low enrollment, including a cumbersome application form, required premiums and copayments, and many immigrants' fears that enrolling in the program could harm their immigration status.

- **Reduced support for indigent care.** The Balanced Budget Act of 1997 reduces California's 2002 Medicaid Disproportionate Share Hospital allotment to 81 percent of its 1995 funding level. These reductions are just now being phased in and will exacerbate an already contentious relationship between public and private providers over the division of DSH funds within the state.

The Workforce Investment Act of 1998

After several years of bipartisan effort, the President signed the Workforce Investment Act (WIA) into law on August 7, 1998. The WIA replaces the Job Training Partnership Act (JTPA), the federal training program for youth and adults. The WIA maintains existing funding levels for job training and was generally viewed as a much-needed reform of an excessively fragmented system. The state alone operates 35 overlapping job training programs administered by 12 state agencies. The WIA streamlines funding for a number of job training programs and allows states to integrate planning for the use of federal funds across programs. Federal law requires the state to adopt a five-year Workforce Investment Plan, designate local Workforce Investment Areas, designate local boards, and review local plans. The state must implement the requirements of the WIA by July 2000.

While the WIA gives priority to recipients of public services, it does nothing to ensure coordination between traditional employment training programs and welfare-to-work programs. The act does establish a set of performance indicators and requires the Secretary of Labor to negotiate the application of the indicators within each state. This provision, along with a provision that requires the use of Individual Training Accounts, which allow adult and dislocated worker participants to shop among providers of training services, are intended to boost the performance of federally supported job training programs. Adapting to the new structure, with its emphasis on coordination and performance evaluation, will pose a challenge for many existing service providers, including many nonprofits. Programs that are unable to demonstrate a successful track record may find it difficult to compete under the new structure.

California Transfers Responsibility From the State to County Governments

The state's dire financial circumstances in 1991 prompted a rethinking of the state/county relationship with respect to a number of health, mental health and social service programs. The resulting realignment of responsibilities built upon a number of years of work by counties, program advocates, legislators and their staff. The state achieved cost savings from realignment by increasing counties' responsibility for certain programs. In turn, the state provided counties with an equivalent amount of funding, making the transaction, at least in theory, revenue neutral for both the state and the counties.

Realignment differed from a true "devolution" in that the state continued to maintain standards for eligibility and quality of services provided. The intent of realignment was to move responsibility to the counties for programs where innovation and coordination of services could provide cost efficiencies or benefit enhancements. While there has not been a comprehensive evaluation or review of the effects of realignment on the availability and quality of services, most observers believe that the programs transferred to the counties fared better under the transfer than they would have as part of the state General Fund. The protections offered by a dedicated revenue source kept mental health, in particular, relatively immune from spending cuts during the tight budget years of the early and mid-1990s. Similarly, earmarking of revenues prevented counties from diverting resources to other programs.

UPCOMING POLICY DEBATES

New revenue sources, as well as work requirements and time limits enacted by welfare reform, create the need to carefully consider the impact of upcoming policy decisions on low-income children and adults.

The balance of resources and responsibilities between the state and localities will be a central theme in several of the major policy debates confronting California over the next year:

Proposition 10 will provide new funds for children's services.

Proposition 10, approved by the voters on the November 1998 ballot, imposed a 50 cent per pack tax on tobacco products to support programs targeted at children up to the age of six. The authors of Proposition 10 give 80 percent of the moneys raised — approximately $550 million in 1999-2000 — to new county-level Children and Families First Commissions. The new commissions have broad authority to allocate funds to any purpose consistent with the intent of Proposition 10. A state commission will allocate the remaining 20 percent of the funds for public education, research, evaluation and other purposes outlined in the initiative. Key challenges related to the implementation of the new program include coordinating new and existing resources within the highly decentralized administrative structure established by the initiative; identifying and replicating "best practices"; and coordinating state and local resources in areas where statewide consistency is desirable or necessary.

Tobacco settlement offers a potential funding source for health care. California stands to receive as much as $25 billion in payments from the national settlement reached between the tobacco industry and state attorneys general. The proceeds of the settlement will be divided among the state (50 percent), counties (45 percent), and four California cities (five percent). While nothing in the settlement agreement dedicates the settlement payments for health care, the state originally sued the tobacco industry to recover amounts spent by public programs to treat tobacco-related disease and many advocates argue that the proceeds should be used for health-related programs. The 1999-2000 budget deposits settlement moneys into the state's General Fund. A number of measures pending before the Legislature would direct some or all of the moneys to health-related programs, and several proposals attempt to exert control over the counties' share of the payments.

Community service. The next major challenge in the area of welfare reform will be the creation of community service programs. The 1997 state welfare law uses community service as a safety net for two groups of individuals: 1) those who find part-time work but earn so little as to remain eligible for cash assistance and need additional hours of work to meet state requirements; and 2) those who reach the state's 18- or 24-month time limit and have sought, but fail to locate, employment. Estimates suggest that, on average, 40,000 to 60,000 persons will be in need of community service placements beginning in 2000-01. In implementing welfare reform, the state made no provision for funding community service. The current funding structure assumes that counties will bear the cost of administering community service programs. Many counties are still struggling to implement the employment and support services components of CalWORKs, and it is unclear whether counties are prepared to implement sizeable community service programs. Key policy issues related to community service include:

- Whether sufficient community service placements will be available.
- Whether community service should be "workfare" or wage-based. While wage-based community service is more expensive, it allows participants to qualify for the federal Earned Income Tax Credit and may provide a better route to unsubsidized employment.
- What steps are needed to protect against displacement of existing low wage workers by community service participants.
- What role community-based nonprofits will play in community service. The state welfare law implicitly assumes a significant role for nonprofits in the operation of community service programs but provides no mechanism for supporting community-based organizations.

Safety net for families reaching time limits. California's welfare law imposes an initial 18- or 24-month time limit on assistance and conforms to the federal five-year lifetime limit on assistance. In 2003, families will begin to reach their five-year limit on assistance. Once a family reaches the five-year limit, a family's grant will be reduced by the amount attributable to the adult in the household and the family will continue to receive a reduced aid payment based on the number of children in the family. For many families, this reduced amount may not be sufficient to pay for basic needs and could put families at increased risk of homelessness or dependence upon nonprofit safety net services. It is too soon to estimate just how many families will reach the five-year time limit. In the meantime, the state's 18- to 24-month interim limit may leave many families without assistance. As time limits near, a careful assessment of long-term recipients' barriers to employment will be needed to determine the feasibility of moving some families from welfare to work. Early indications suggest that self-sufficiency will be most difficult to achieve for those with limited English-language skills, large families, and serious substance abuse and/or mental health problems.

IMPLICATIONS OF DEVOLUTION FOR CALIFORNIA

By understanding the implications of devolution, community-based organizations, advocacy groups, foundations and government entities can work to head off potential problems and take advantage of opportunities for positive change.

While devolution has expanded flexibility, it also has its costs. The two main policy motivations of devolution — decentralization of decisionmaking and cost cutting — pose a number of ongoing challenges for low- and middle-income Californians and those with an interest in their well-being.

Welfare reform creates new possibilities for initiatives that assist the working poor. Welfare reform fundamentally shifted not only the programmatic focus, but also the terms of public debate around government's role in providing assistance to poor families moving from welfare to work. This, in turn, created a new willingness among policymakers to consider expanded public support for low-income working families. This shift is exemplified by the creation of the Healthy Families Program, the success of local "living wage" campaigns, and widespread interest in child care, health coverage, and other supports essential for working families.

Existing monitoring and data systems are inadequate to monitor the impact of devolution. Existing state data systems are not designed to effectively monitor the decentralization of program design to the local level. California is behind schedule in implementing major information system upgrades, and existing systems are fragmented and incompatible. Key data systems, such

as the one used to track the progress of welfare recipients, are based on data from a limited number of counties. The lack of comprehensive data collection will make it difficult, if not impossible, to identify approaches that show either particular potential of success or failure. The state, individual counties, and many independent researchers are conducting a range of studies aimed at evaluating or monitoring the implementation of welfare reform. While several clearinghouse efforts are underway, there is no centralized or systematic repository of information on welfare reform and related efforts. Differences of scope, approach and focus will make it difficult to compare findings across counties, much less between California and other states.

Responding to devolution requires enhanced capacity and multiple levels of government. Devolution has and will continue to have a profound impact on low-income communities and the programs that serve them. Over a number of decades, nonprofit organizations have developed a sophisticated policy and advocacy capacity at the national level. The shift of policymaking from Washington, D.C. to states and localities creates a need for a similar capacity both in Sacramento and local communities. Ensuring that programs are accountable and accessible to low-income communities will require an expanded and more sophisticated understanding of the implications of budget and policy choices, a capacity to engage in monitoring and evaluation, and an expanded capability to engage in public policy debates at the national, state and local levels.

Variation in local program design may create winners and losers. Counties are using the flexibility provided by welfare reform and other policy changes to adapt programs to meet local priorities and resources. California now has 58 separate CalWORKs programs that differ in approach, work requirements and training opportunities. Because the funding allocations for CalWORKs are based on those used for the former GAIN program, rather than more recent caseload data, state allocation for employment services varies among counties from $2,000 to $7,000 per adult receiving assistance. The CalWORKs funding structure gives counties broad authority to move funds among administration, employment services, child care and other supportive services (such as substance abuse and mental health). Variations will arise out of differences in approaches to service delivery, as well as the willingness of state and local elected officials to devote resources to programs addressing the needs of low-income populations. In the future, location may become an important determinant of the level of assistance one receives from public programs.

Shifting the risk. Under the previous system, the federal and state governments shared the cost of rising welfare caseloads or benefit increases. Welfare reform shifts the entire burden of increased caseloads or benefit enhancements to states and localities. This premise has several implications of importance to California. First, states and localities, unlike the federal government, are required to balance their budgets and have fewer policy tools available to provide counter-cyclical aid in the event of an economic downturn. Moreover, the impact of a recession on both

revenues and demands for services is generally most pronounced on low-income communities whose financial resources are already limited. While the federal maintenance of effort requirements provide some protection against spending reductions in the CalWORKs and Medi-Cal programs, programs for low-income families bore the largest share of the budget reductions during California's repeated budget shortfalls of the early and mid-1990s. Savings attributable to lower caseloads are currently sufficient to support both benefit increases and demands for welfare-to-work services. In the future, state policymakers may be unwilling to maintain service and/or benefit levels if forced to bear the entire cost out of scarce state resources.

Lead time for implementation of welfare reform minimal in terms of required systems change. The federal and state welfare laws provided minimal lead time for program administrations to implement the new systems. California's welfare law, enacted in August of 1997, gave counties just five months to develop and implement plans for fundamentally restructuring county welfare systems. Counties are struggling to transition recipients into the new, service-rich CalWORKs environment, while at the same time training and orienting staff to the new "work first" philosophy of welfare reform. Reports suggest that many counties have been slow to refer recipients for supportive services. Counties, for example, spent approximately a quarter of the funds allocated for training, child care and employment-related services during the first half of fiscal 1998-99.

Complexity and uncertainty may discourage participation. The rapid pace of policy change over the past several years has created confusion among both recipients and administrators of public benefit programs. Reports suggest that confusion is particularly prevalent among immigrants and their families who are unsure of their rights in light of the passage of Proposition 187, the limits imposed by the PRWORA, and two subsequent rounds of partial restoration of federal eligibility. Service providers who work with immigrants report widespread concern with respect to the issue of "public charge." Remedying this situation will require a clarification of the public charge issue and more effective outreach and education of persons eligible for public benefits and those in public and nonprofit agencies who work with low-income populations.

Flexibility creates opportunities to promote access. The CHIP and Medicaid policy changes offer states flexibility and federal matching funds that can be used to expand health coverage to the uninsured. To date, California has been relatively cautious in utilizing available options, particularly expansions of the Medi-Cal program. Other states have used the flexibility allowed under federal law to expand coverage by modifying income rules. Recent federal guidance suggests that states can also modify family composition rules to make more two-parent families eligible for assistance. Policymakers may also wish to consider expanding access to the Healthy Families Program, with or without a state subsidy, to parents of qualifying children.

Families may fall through the gaps. For many of the reasons mentioned above, recent policy changes may increase the number of families who fail to access the benefits and services to which they are entitled. Relatively few families leaving CalWORKs, for example, receive transitional Medi-Cal benefits. Factors contributing to low participation rates include a lack of awareness of eligibility on the part of recipients, lack of outreach on the part of county welfare and health services departments, and potential problems with the systems used to determine eligibility for assistance.

Expanded role for nonprofits. Most visions of devolution include an expanded role for the nonprofit sector. Whether through expanding the role for community clinics as a provider of outpatient care to indigents or as a provider of job retention services to CalWORKs recipients, decentralization has and will involve a closer partnership between public and nonprofit providers of services. Devolution has, in many instances, increased competition for public funds and contracts. Measures such as last year's Workforce Investment Act will require nonprofits to become more accountable to the communities they serve through the establishment of formal performance standards and expanded competition among providers of services.

CONCLUSION

Devolution has, by and large, brought incremental rather than radical change to California. Like most forms of change, the shift of power from Washington, D.C. to Sacramento and from Sacramento to local communities presents both challenges and opportunities. Welfare reform, with its emphasis on employment and temporary assistance, creates an opportunity to establish a new social contract between government and the people. At the same time, we must ensure that California's most vulnerable populations are not left behind.

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ENDNOTES

1 The Henry J. Kaiser Family Foundation, the Kaiser Commission on Medicaid and the Uninsured, Medicaid and Uninsured Facts, downloaded from http://www.kff.org/state_health/states/ca.html.

2 Rob Gren, et al., Income Support and Social Services for Low-Income People in California, The Urban Institute (November 1998).

3 U.S. Department of Labor, Bureau of Labor Statistics, Regional and State Employment and Unemployment: December 1998 (January 22, 1999) and U.S. Census Bureau, Poverty 1997 (February 3, 1999) downloaded from http://www.census.gov/ftp/pub/hhes/poverty/poverty97/pv97state.html.

4 U.S. Bureau of the Census, Current Population Survey. California's median household income was $42,725 in 1989, $39,703 in 1996, and $39,694 in 1997.

5 Deborah Reed, California's Rising Income Inequality: Causes and Concerns, Table 2.1 (Public Policy Institute of California: 1999).

6 Public Policy Institute of California, Income Inequality in the Golden State: Why the Gap Has Widened Between the Rich and Poor (February 1999).

7 For a review of the literature on health outcomes and income inequality, see Federal Reserve Bank of San Francisco Economic Letter, Income Inequality and Mortality Risk in the United States: Is There A Link?, Number 98-229 (October 2, 1998).

8 National Education Association, The Outlook for State and Local Finances: The Dangers of Structural Deficits to the Future of American Education (1998).

9 For a review of the provisions of the PRWORA and its impact on California, please refer to California Budget Project, Federal Welfare Reform: What Does It Mean For California? (January 1997). Implications of welfare reform for Medi-Cal are discussed below.

10 In theory, the state law authorizes counties to use incentive payments for any purpose. However, in order to meet the federal maintenance of effort (MOE) requirement, counties must spend these funds for TANF-eligible purposes. If in the future combined state and federal funding exceeds the federal MOE, incentive payments could be spent for non-TANF programs.

11 California Department of Social Services, Administration Division, Estimates Branch and Financial Planning Branch, November 1998 Subvention. pp. 45-46. The DSS estimates that less than a third (31 percent) of CalWORKs recipients will find work through the programs' services; nearly four out of five (79 percent) of those who do find work will earn so little as to remain eligible for aid; and among those who work yet still receive aid, a third of single-parent and 58 percent of two-parent families will be required to supplement employment with community service in order to fulfill the state's work participation requirements.

12 For a review of federal welfare reform and its implications for California, see California Budget Project, Federal Welfare Reform: What Does It Mean For California? (January 1997).

13 The 1999-2000 budget agreement extended the state-supported Food Stamp program to immigrants entering the U.S. after August 22, 1996 for one year only. Deeming provisions accompanying a one-year similar expansion of the state-supported SSI/SSP program effectively nullify the impact of the policy change.

14 Sara Rosenbaum, et al., Kaiser Commission on the Future of Medicaid, A Comparison of the Medicaid Provisions in the Balanced Budget Act of 1997 (P.L. 105-33) with Prior Law (October 1997).

15 In brief, the waiver process allows states to modify federal program rules with the approval of the Health Care Finance Authority.

16 Governor Gray Davis, Governor's Budget Summary 1999-2000 (January 1999), p. 122.

17 The CHIP allows coverage at higher income levels in states that previously covered children in families with incomes up to 200 percent of the federal poverty threshold. The 1999-2000 budget agreement extended eligibility to children in families with incomes of up to 250 percent of the federal poverty threshold.

18 Medi-Cal Policy Institute, California's Disproportionate Share Hospital Program: Background Paper (January 1999), p. 8.

19 Governor Gray Davis, Governor's 1999-2000 Budget Summary (January 1999), p. 17.

20 State law imposes an initial 18-month time limit on cash assistance in the CalWORKs program. This limit may be extended to 24 months at the option of individual counties.

21 Legislative Analyst's Office, CalWORKs Community Service What Does It Mean for California? (February 4, 1999).

22 Federal law allows states to exempt up to 20 percent of their caseload from the five-year time limit.

23 Public charge is a term used by the Immigration and Naturalization Service (INS) to describe individuals who are likely to rely on public benefits. The INS can deny entry into the U.S. or permanent resident status to individuals in certain immigration statuses if it determines someone is likely to use public assistance. Receipt of public benefits can also jeopardize an individual's ability to act as a sponsor for a family member who wishes to immigrate to the U.S..

24 Legislative Analyst's Office, Analysis of the 1998-99 Budget Bill (February 1998), p. C-55.

Table
Qualified Immigrant Eligibility For Public Benefits Under Welfare Reform

	PRWORA	SUBSEQUENT FEDERAL LAW	STATE LAW	INELIGIBLE	Notes
Food Stamps	All immigrants ineligible except for military veterans and their families; refugees and asylees in their first five years in the U.S.; or 40 quarters of qualifying work in the U.S.	**In U.S. pre-8/22/96:** Restored eligibility to under 18; 65 or over as of 8/22/96; receiving disability assistance; refugees and asylees within first 7 years in the U.S.; certain members of the Hmong and Lao tribes; and American Indians born outside the U.S. Expanded the categories of immigrants treated like refugees and asylees. **Entered U.S. post-8/22/96:** Refugees and asylees within first 7 years in the U.S.; 40 quarters of qualifying work; veterans and their families; certain members of the Hmong and Lao tribes; and American Indians born outside of the U.S. Expanded the categories of immigrants treated like refugees and asylees.	Eligible for state-funded program if adult and entered U.S. before 8/22/96 and meets specified work requirements or a sponsored immigrant who entered the U.S. after 8/22/96 and whose sponsors cannot or do not provide support under certain circumstances. Immigrants entering the U.S. after 8/22/96 are eligible for one year only.	Adults who do not meet state work requirements and immigrants who entered the U.S. after 8/22/96 who do not qualify under the exceptions in state or federal law.	
Medicaid (Medi-Cal)	**Entered U.S. after 8/22/96:** Ineligible for non-emergency services during their first five years in the U.S. except for military veterans and their families and certain refugees and asylees.	Extended eligibility for refugees and asylees to 7 years after entry to the U.S. Expanded the categories of immigrants treated like refugees and asylees.	Eligible for full scope services.		State pays 100% of the cost of non-emergency services for post 8/22/96 immigrants during the five-year bar on federal assistance.
Temporary Assistance For Needy Families (TANF)/CalWORKs	**Entered U.S. after 8/22/96:** Ineligible for assistance during their first five years in the U.S. except for military veterans and their families and certain refugees and asylees.		Fully eligible for assistance.		Benefits provided to persons ineligible for federal assistance are 100% funded out of state dollars. These expenses do, however, count toward the federal maintenance of effort requirement. Deeming limits the ability of many immigrants to obtain benefits during their three or more years in the U.S.
Supplemental Security Income/State Supplemental Program (a state-funded supplement to SSI)	Ineligible except for military veterans and their families; refugees and asylees in their first five years in the U.S.; or 40 quarters of qualifying work in the U.S.	**Pre-8/22/96:** eligibility restored to those receiving SSI on 8/22/96; who become disabled subsequent to that date. Restored eligibility for refugees and asylees within first 7 years in the U.S. and for American Indians born outside of the U.S. Expanded categories of immigrants treated like refugees and asylees.	**Pre-8/22/96:** Eligible for state-funded program if 65 or over and do not meet federal requirements. The state-funded Cash Assistance Program for Immigrants (CAPI) primarily provides benefits to those who become elderly after 8/22/96 and who are not disabled. **Post-8/22/96:** Sponsored immigrants whose sponsors cannot or do not provide support under certain circumstances. Other immigrants eligible for a one-year period (1999-2000), however an accompanyng provision requiring five years of deeming will limit the applicability of this provision.	Immigrants who entered the U.S. on or after 8/22/96 who do not meet the exceptions for certain sponsored immigrants in the state CAPI program.	The state CAPI program is scheduled to sunset 7/1/00.
Healthy Families	Post-8/22/96 immigrants are ineligible for coverage during first 5 years unless family member of a veteran or certain refugees and asylees.			Immigrants who entered the U.S. on or after 8/22/96 during their first 5 years in qualified immigrant status who do not meet the specified exceptions.	

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