CALIFORNIA BUDGET PROJECT

Welfare Reform Update

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CALWORKS PERFORMANCE INCENTIVES: CAN THE MONEY BE BETTER USED?

When the Legislature designed CalWORKs in 1997, it included a reward system to "provide counties with additional incentive to move CalWORKs recipients to employment."[1] As California's welfare rolls have declined sharply, counties have been rewarded over $1 billion for saving funds that would have otherwise been spent on welfare checks. Incentive funds must generally be spent on CalWORKs-related programs. The 2000-01 Budget Act capped the amount that counties can earn in incentive payments, yet allowed more flexibility on allowable spending. The May Revision of the Governor's Proposed 2001-02 Budget proposes eliminating incentive payments for both the current year and the budget year.

This *Update* examines the following issues regarding performance incentives:

- What are CalWORKs performance incentives?
- How much have counties spent of the incentive funds they have earned?
- What are the reasons that counties are not spending performance incentive dollars?
- What incentives have these funds created?
- Are there better uses of these funds?

WHAT ARE CALWORKS PERFORMANCE INCENTIVES?

California statute created performance incentives (also known as fiscal incentives) as a reward for counties that reduce grant payments. Specifically, counties are rewarded for grant savings due to (1) recipients leaving CalWORKs due to employment, (2) increased earnings by current recipients, and (3) lump-sum payments to discourage applicants from receiving CalWORKs. The legislation also set aside 25 percent of incentive funds for counties that were either somehow "disadvantaged" by the way in which incentives were calculated or earned fewer incentive dollars per case than most of the counties.

The total amount of performance incentives that counties earned ballooned in the first two years after CalWORKs began, due mainly to the large number of families leaving welfare. In order to control the amount that counties received, the calculation methodology was altered in 2000. Among other changes, total incentives that counties could earn were capped at a level that the Legislature sets annually, and the pool of funds for disadvantaged counties was eliminated.

While performance incentives can be viewed as a "bonus" to counties that do well in moving recipients off the welfare rolls, most of the funds must be spent on CalWORKs-related expenditures. Specifically, expenditures must follow guidelines for Temporary Assistance for Needy Families (TANF) block grant or state maintenance-of-effort (MOE) expenditures. The 2000-01 Budget Act also clarified that the intent of the performance incentives was to provide funds for counties to (1) improve the quality of jobs provided to recipients, (2) help families attain long-term self-sufficiency, and (3) help

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families stay off CalWORKs.[2] In addition, counties can now use 25 percent of performance incentive funds to serve other "needy families," families who are not eligible for CalWORKs with incomes below 200 percent of the federal poverty level.[3]

In general, counties have flexibility to use incentive funds to fill needs currently unmet by state funding for CalWORKs, create new programs that help current and former CalWORKs recipients – as well as other needy families – reach self-sufficiency, or support other programs that meet certain requirements.[4] In return, counties are required to submit a spending plan to the state, as well as quarterly expenditure reports and an annual self-evaluation (see section below on county spending plans). The state is also required to complete an evaluation of how counties use performance incentive funds.

How Much Have Counties Received and Spent?

As of December 2000, counties have earned a total of nearly $1.2 billion dollars and have received $1.1 billion dollars. This amounts to more than 10 percent of the CalWORKs funds allocated to counties from 1997-98 to 2000-01 for purposes other than cash grants.[5] The total per-recipient payment varies widely by county, from just over $400 (Trinity County) to over $1,200 (Mono County), with an average of about $675 statewide.[6] (See Table 1 and Appendix.)

Table 1: Counties with Highest and Lowest Incentive Payments

High Incentive Payments		Low Incentive Payments	
County	Payments per Recipient	County	Payments per Recipient
Mono	$1,277	Trinity	$422
San Luis Obispo	$1,006	Plumas	$423
Ventura	$986	Stanislaus	$430
Calaveras	$948	Sierra	$454
Alpine	$930	Del Norte	$461

Source: Department of Social Services

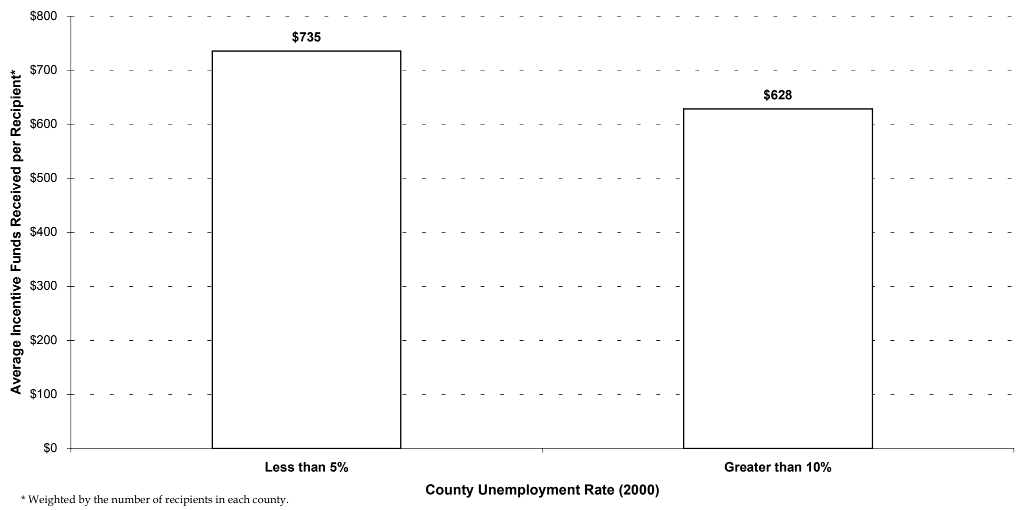
Counties with high unemployment rates tend to have received fewer performance incentive funds per recipient, despite the fund pool set aside for disadvantaged counties.[7] Counties with unemployment rates of more than 10 percent in 2000 have received an average of $628 per recipient. In contrast, counties with unemployment rates of less than 5 percent have received $735 per recipient, 17 percent higher than high employment counties (Figure 1). However, this relationship is not absolute; Imperial County, with the highest unemployment rate in the state, has received slightly more per recipient than the state average ($700 vs. $674).

As of December 2000, counties have spent $62 million (6 percent) of the funds they have received (Figure 2).[8] Most counties have spent little of the funds received, and 13 report not having spent any. Five counties, including San Diego, report having spent more than 20 percent.

How Do Counties Plan to Spend the Money?

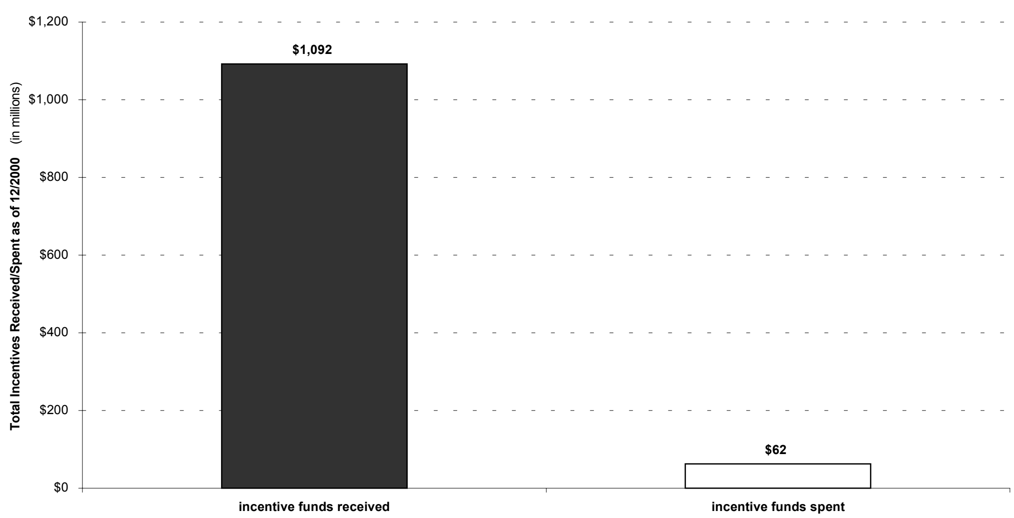
While expenditures to date have been low, all counties have submitted spending plans as required by state law. In April 2001, a database containing all of the proposed and finalized county projects was posted on the Department of Social Services' web site.[9] According to the database, counties plan to carry out nearly 700 projects that will cost $1.2 billion, the same amount that counties had earned as of December 2000.

Figure 1: Counties with Strong Economies Receive More Incentive Funds



* Weighted by the number of recipients in each county.
Sources: Employment Development Department, Department of Social Services

Figure 2: Counties Have not Spent Performance Incentive Funds



Source: Department of Social Services

Over half of the incentive dollars are slated for three purposes: youth programs (24 percent), reserve funds (16 percent), and basic CalWORKs services (14 percent). Nearly half of the counties (27) propose using the funds as a reserve, and ten counties plan to use the money to supplement their CalWORKs services "single allocation" funds.[10]

While these are legitimate uses of public funds, it is not clear that performance incentives are the appropriate funding mechanism. Youth programs may be more appropriately funded through other ongoing channels, including the Department of Education. Also, the new cost-based budgeting of CalWORKs employment services should eliminate the need for counties to supplement their "single allocations" with performance incentive payments. Finally, a state TANF reserve, rather than individual county reserves, may be a better way to prepare for economic downturns.

Many other planned projects have clearer linkages to helping families reach self-sufficiency and are not part of the core CalWORKs program. These include personalized training and job retention efforts, transitional housing assistance, family preservation, and individual development accounts (IDAs).

Why Aren't Counties Spending the Money?

It is not entirely clear why so many counties have not begun to spend performance incentive funds in earnest. Two reasons often mentioned are (1) recent changes and proposals make performance incentive dollars an uncertain funding stream, and (2) performance incentive funds serve as a financial cushion for future economic downturns or CalWORKs funding reductions. Other reasons for not spending these funds may include other priorities (e.g., implementation of basic CalWORKs programs), "ramp up" time to implement or expand programs, and lack of local capacity or interest.

Given that performance incentive funding is uncertain, it can be difficult for counties to design and implement ongoing programs, especially for programs that try to reach more "needy families" or rely on performance incentive funds as the primary funding source. Moreover, federal rules restrict the ways these funds can be used and prohibit some one-time expenditures. For example, TANF funds cannot be used to *purchase* facilities or buildings. However, counties can use incentive funds for certain one-time uses such as building or infrastructure *improvements*, staff training, and computer purchases.

At the same time, ongoing funding of the CalWORKs program as a whole is uncertain. While federal and state funding has remained steady since 1998, it is possible that federal reauthorization of TANF in 2002 may alter federal and/or state spending levels. Moreover, since CalWORKs is not an entitlement program and depends on fixed federal funds, counties may fear that they will need additional reserve funds when the economy slows and caseloads increase. While counties explicitly state that about one-sixth of the funds will be used as a financial cushion, the fact that counties have spent a very small percentage of these funds indicates that they have primarily served as a reserve. On the other hand, the County Welfare Directors Association noted recently that 11 of the largest counties plan to spend half of their performance incentive funds by June 2002.[11]

What Incentives Have These Funds Created?

Presumably the purpose of the incentives is to encourage counties to perform better than they would otherwise in terms of moving recipients toward self-sufficiency. It is impossible to know how counties would have acted if performance incentives did not exist, and it is difficult to fully assess the role of the economy in county outcomes. However, it is unclear that county behavior has changed as a result of the incentives.

First, if counties were motivated by the possibility of receiving additional funds, one would expect them to have spent a larger percentage of the incentive funds they have received. While counties have submitted expenditure plans proposing a variety of uses, county actions to date indicate that the primary use of the funds has been as a reserve. Second, because of regional differences in unemployment and other factors, counties are not rewarded equally for the same effort; thus counties face different incentives. As shown above, counties with lower unemployment rates tend to receive more incentive dollars per recipient. Third, counties can, for the most part, only use the funds for CalWORKs-related spending. Counties run many programs and may legitimately prefer to use additional resources for these programs. If such counties would not have otherwise prioritized success in CalWORKs, they have little or no incentive to perform better because the funds they earn must be spent only within CalWORKs, not on programs that may be of higher priority.

Moreover, counties with relatively high unemployment rates and recipients with more barriers to employment can be hit doubly hard by this system. They not only have more *current* challenges to move recipients to gainful employment and self-sufficiency, but can also face additional *future* challenges since they may have fewer total dollars to serve their caseloads due to lower earned incentives. This could lead to a vicious cycle of "successful" counties having more resources to continue their efforts and "failing" counties having fewer resources to serve more challenging clients.

Even if these funds give counties incentive to change behavior, another issue is whether the right outcomes are being rewarded. The current system only rewards reductions in grant payments. Discussions at both the state and federal levels increasingly point to the need to measure and reward improvements in economic self-sufficiency and family well-being, including access to work supports, when evaluating the welfare system. The Legislature could consider including measures of and rewards for wage increases and job advancement of CalWORKs recipients, reductions in child poverty, and access to work supports (e.g., food stamps, federal Earned Income Tax Credit, health coverage, and child care) in the calculation of incentive funds. Changing the calculation of earned incentive funds in this way would require better measurement of these outcomes at the state and county levels.

If Performance Incentives are Eliminated, What Should be Done with These Funds?

The Governor proposes eliminating this funding stream beginning in the current year and using the funds for the basic CalWORKs program. This analysis suggests that the current incentive system is not the best way to fund services for CalWORKs recipients and other low income Californians. However, if performance incentives are eliminated, these funds should serve the population in a manner that is at least as, if not more, effective. Specific options include:

- ***Institute a new funding mechanism for extended work supports and services*** for "needy families" and hard-to-serve recipients. Counties have shown interest in providing these services, as evidenced in their incentive fund spending plans. However, a different allocation mechanism could better fund counties that are interested and able to implement or expand services. In order to avoid lopsided spending by a few counties, we suggest that counties meet a modest cost-sharing requirement, at least after receiving a threshold funding level. Alternately, counties could be allowed to spend a portion of their "single allocation" funds for "needy families" who are not eligible for CalWORKs.
- ***Allow CalWORKs recipients to take home more of their earnings.*** Currently, the CalWORKs program reduces monthly cash grant amounts by 50 cents for every dollar that recipients earn above $225. A recent study of the Minnesota Family Investment Program found that generous "earned income disregards" led to increased work, reduced poverty, improved child well-being, and increased marital stability.[12] These findings, coupled with the high cost of living in California, argue for an enhanced earnings disregard.
- ***Increase the state's TANF reserve.*** Counties are apparently concerned that they will not have sufficient funds to meet the needs of CalWORKs recipients in the event of an economic downturn and have set aside at least part of their performance incentive dollars for that purpose. However, reserve funds could be better allocated from a state pool, based on the actual needs of counties, not how much individual counties have saved in the past. The state currently has a modest reserve fund.
- ***Fully fund CalWORKs child care.*** The Governor included substantial increases in CalWORKs child care spending in the May Revision to his Proposed Budget. However, the Governor does not propose increases in funding for child care for former recipients who have been off CalWORKs for two years or longer, which the Legislative Analyst estimates has a shortfall of $61 million.[13] In addition, a slowing economy may result in an increased caseload and greater need for child care.

This *Update* assumes that counties should not need to rely on performance incentive funds to support core CalWORKs components, as these should come out of their "single allocation" funds. In contrast, the May Revision of the Governor's Budget proposes that counties use "performance incentives for base CalWORKs program costs."[14]

Conclusion

The CBP suggests eliminating the current system of performance incentives and using the money more effectively (as outlined above) to help meet the needs of low income Californians. The current system of performance incentives allocates more money to counties with healthier local economies, does not appear to change how counties serve CalWORKs recipients, and has resulted in large reserves in counties' CalWORKs budgets. In addition, the current structure only rewards reductions in assistance payments, which is not the only measure of success. However, counties appear to be interested in using these funds to benefit CalWORKs recipients and other low income families. If CalWORKs performance incentives are eliminated, counties will lose the only major TANF-related funding stream for services for the "working poor" who are not eligible for and who have not received CalWORKs.

If performance incentive funds are retained as a CalWORKs funding stream, two changes should be made:

- The existing set of performance measures should be expanded to include factors that affect families' well-being after leaving CalWORKs, such as measures of job quality and access to work supports.
- The state should make efforts to give equal, if not greater, awards to counties with greater challenges. The structure of the current system of performance incentives tends to give fewer funds to counties that have recipients with more barriers and higher unemployment rates.

David Carroll prepared this Update. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low and middle income Californians. Publication of this update was supported by grants from the David and Lucile Packard and William and Flora Hewlett Foundations. This publication is the fifth in a series monitoring the implementation of welfare reform in California. Future publications will examine topics that include what we know about former welfare recipients, and how the state and counties are spending welfare-related funds. Please visit the CBP's web site at www.cbp.org.

Endnotes

[1] Welfare and Institutions Code (WIC), Section 10554.1(d).
[2] WIC, Section 10554.1(b).
[3] These expenditures must meet relevant TANF or MOE spending criteria.
[4] States are allowed to use TANF and MOE funds for certain expenditures that were allowable under the previous Assistance to Families with Dependent Children (AFDC), such as specified child welfare services and probation expenditures.
[5] Includes single allocation funds for employment services, administration, and Stage 1 child care, as well as substance abuse and mental health allocations.
[6] The higher per-recipient amount of incentives earned by Mono County was not due to the 25 percent pool for disadvantaged counties since these funds raise counties' per-recipient incentives earned to the state median at best.
[7] Disparities among counties likely would have been greater without the disadvantaged fund pool.
[8] Data regarding how counties have spent performance incentive funds to date are not readily available.
[9] The database can be found at http://www.dss.cahwnet.gov/wtw/ra/.
[10] In addition to the above-mentioned basic services, counties plan to provide counseling, child care, and transportation services that overlap with and expand core CalWORKs services.
[11] Frank Mecca, Letter to Senate Budget Subcommittee No. 3 (April 4, 2001).
[12] Virginia Knox, Cynthia Miller, and Lisa A. Gennetian, *Reforming Welfare and Rewarding Work: A Summary of the Final Report on the Minnesota Family Investment Program*, Manpower Research Demonstration Corporation (September 2000).
[13] Legislative Analyst's Office, *Analysis of the 2001-02 Budget Bill* (February 2001), p. C-192.
[14] *Governor's Budget May Revision, 2001-02.*

Appendix: CalWORKs Performance Incentives Received and Spent (through December 2000)				
County	**Unemployment Rate** (2000)	**Incentives Received per Recipient**	**Total Expenditures**	**Percent Expended**
Alameda	3.0%	$495.50	$2,214,488	7.3%
Alpine	8.4%	$930.17	$0	0.0%
Amador	4.4%	$867.44	$29,158	4.8%
Butte	7.0%	$588.46	$1,377,737	16.1%
Calaveras	6.7%	$948.10	$85,000	7.6%
Colusa	17.5%	$539.37	$1,207	0.4%
Contra Costa	2.7%	$652.33	$2,475,211	14.0%
Del Norte	8.7%	$460.66	$17,031	1.6%
El Dorado	3.9%	$785.08	$0	0.0%
Fresno	14.3%	$739.47	$186,574	0.3%
Glenn	11.9%	$622.08	$0	0.0%
Humboldt	6.3%	$492.70	$725,538	19.6%
Imperial	26.3%	$699.84	$321,029	3.4%
Inyo	5.6%	$810.40	$0	0.0%
Kern	11.3%	$566.77	$1,815,962	6.1%
Kings	14.0%	$589.37	$54,481	1.3%
Lake	8.0%	$554.59	$1,076,546	38.3%
Lassen	6.9%	$646.28	$122,780	11.7%
Los Angeles	5.4%	$642.28	$17,623,013	4.6%
Madera	11.8%	$509.34	$368,147	7.8%
Marin	1.7%	$775.70	$184,152	12.0%
Mariposa	7.8%	$675.82	$0	0.0%
Mendocino	6.6%	$662.79	$0	0.0%
Merced	14.4%	$588.95	$317,264	2.6%
Modoc	8.3%	$895.16	$216,832	40.2%
Mono	5.6%	$1,276.79	$134,676	65.5%
Monterey	9.7%	$812.29	$746,445	7.2%
Napa	3.2%	$785.68	$135,899	13.2%
Nevada	3.6%	$697.98	$181,045	17.8%
Orange	2.5%	$879.04	$899,221	1.7%
Placer	3.2%	$867.45	$236,672	7.2%
Plumas	8.3%	$423.22	$0	0.0%
Riverside	5.5%	$740.28	$18,374	0.0%
Sacramento	4.2%	$637.66	$1,150,796	1.7%
San Benito	7.8%	$827.57	$47,966	4.1%
San Bernardino	4.8%	$710.61	$303,736	0.4%
San Diego	3.0%	$851.36	$17,630,697	23.6%
San Francisco	2.8%	$733.05	$0	0.0%
San Joaquin	8.8%	$529.23	$0	0.0%
San Luis Obispo	3.0%	$1,005.71	$0	0.0%
San Mateo	1.6%	$746.29	$0	0.0%
Santa Barbara	3.7%	$792.89	$238,847	2.8%
Santa Clara	2.0%	$912.35	$1,023,226	3.1%
Santa Cruz	5.6%	$641.90	$238,213	7.0%
Shasta	6.9%	$662.66	$798,215	11.4%
Sierra	7.7%	$454.05	$0	0.0%
Siskiyou	9.5%	$539.63	$86,915	5.9%
Solano	4.2%	$612.51	$39,752	0.5%
Sonoma	2.6%	$703.80	$136,961	2.8%
Stanislaus	10.4%	$430.29	$670,294	5.9%
Sutter	13.0%	$651.80	$429,491	17.3%
Tehama	6.9%	$622.58	$0	0.0%
Trinity	12.4%	$422.48	$0	0.0%
Tulare	15.4%	$676.21	$5,390,640	21.8%
Tuolumne	6.0%	$766.16	$75,888	4.6%
Ventura	4.5%	$986.14	$1,000,221	7.5%
Yolo	4.3%	$872.12	$840,701	13.1%
Yuba	11.8%	$533.66	$549,145	14.7%
Total	**4.9%**	**$674.38**	**$62,216,186**	**5.7%**

Source: Employment Development Department, Department of Social Services