

## **GOVERNOR PROPOSES TO ELIMINATE CALWORKS COLA AND REDUCE GRANTS**

On November 17, Governor Schwarzenegger rescinded the increase in the Vehicle License Fee (VLF) that took effect on October 1, 2003. As a result of the VLF rate reduction, current law requires the state to grant a cost-of-living adjustment (COLA) to recipients in the California Work Opportunity and Responsibility to Kids (CalWORKs) program, which provides services and cash assistance to low-income families. However, the Governor has proposed to eliminate the statutory COLA and reduce CalWORKs cash grants by 5.0 percent.<sup>1</sup> These proposals would achieve total CalWORKs savings of \$139.1 million in 2003-04 and \$303.6 million in 2004-05, but would lead to a loss of purchasing power for recipients who depend on CalWORKs to support their families.

### **CURRENT LAW LINKS THE VLF AND THE CALWORKS COLA**

The state law that enacted the VLF rate reduction beginning in 1999 included a provision that linked the COLA for CalWORKs cash grants to continued VLF tax relief between 2000-01 and 2003-04. Specifically, CalWORKs families receive a COLA in years when vehicle owners are granted tax relief. The COLA is suspended if tax relief is not granted. Consequently, the October 2003 COLA was suspended because the VLF rate was increased from 0.65 percent to 2.0 percent.

Under current law, Governor Schwarzenegger's decision to reduce the VLF rate to 0.65 percent requires the state to grant a CalWORKs COLA retroactive to October 1, 2003. However, the Governor has proposed to sever the link between VLF tax relief and the CalWORKs COLA for 2003-04. Eliminating the COLA would result in CalWORKs savings of \$95 million in 2003-04 and \$127 million in 2004-05. Reducing cash grants by 5.0 percent would result in additional CalWORKs savings of \$44.1 million in 2003-04 and \$176.6 million in 2004-05.

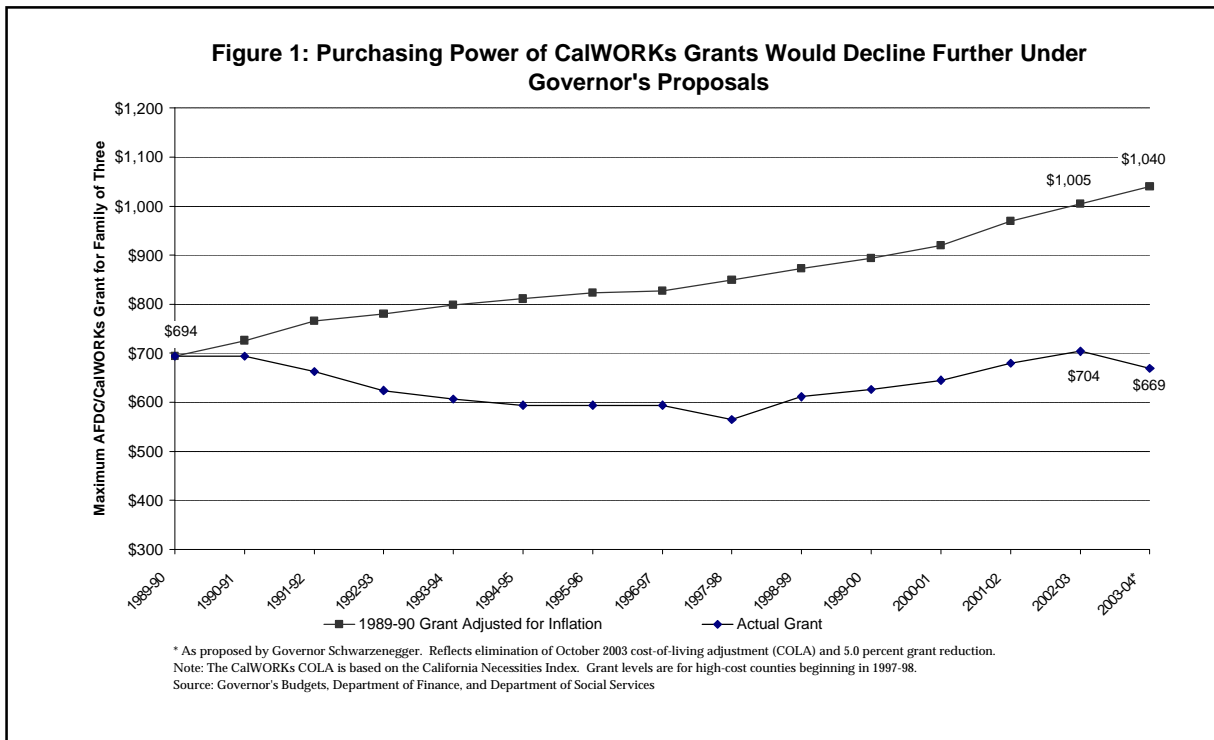
### **GOVERNOR'S PROPOSALS WOULD HAVE LONG-TERM IMPACT**

The maximum CalWORKs grant for a family of three in high-cost counties will increase by about 3.5 percent from \$704 per month to approximately \$728 per month retroactive to October 1.<sup>2</sup> While required by law, this increase is not yet reflected in CalWORKs cash grants. The Governor's proposals would eliminate this increase and cut the monthly grant to \$669, a reduction of 8.1 percent from the grant level under current law. These changes would affect the long-term value of CalWORKs grants by reducing their base, absent an additional adjustment. Thus, even if the state implements a CalWORKs COLA in 2004-05, CalWORKs grants would be about 8.1 percent lower than they would have been in the absence of the COLA elimination and the grant reduction.

### **CALWORKS GRANTS HAVE LOST VALUE**

The Legislature suspended the statutory COLA from 1990-91 through 1997-98 and reduced grants several times during the same period. While the COLA was provided from 1998-99 through 2002-03, the Governor's proposed maximum monthly grant of \$669 for a family of three in 2003-04 would be \$25 (3.6 percent) lower than in 1989-90, when the maximum grant was \$694 per month (Figure 1).<sup>3</sup>

If the Governor's proposals are adopted, CalWORKs grants would be 35.7 percent less in 2003-04 than if the COLA had been implemented every year since 1989-90. In addition, the maximum grant for a family of three under the Governor's proposals would fall to 52.6 percent of the federal poverty level (FPL) in 2003-04. In contrast, the maximum grant for a family of three in 1989-90 was 82.8 percent of FPL.



## CONCLUSION

The Governor's proposed COLA elimination and grant reduction would affect about a half million of California's poorest families, reducing their ability to meet basic necessities such as food and housing. Eliminating the October 2003 COLA and reducing grants by 5.0 percent would achieve more than \$400 million in CalWORKs savings in 2003-04 and 2004-05. However, these savings should be weighed against the impact on CalWORKs families. If grants are not reduced and the statutory October 2003 COLA is provided, the additional cost of the COLA in 2003-04 could be covered by federal Temporary Assistance for Needy Families (TANF) reserve funds. However, the TANF reserve may be exhausted in subsequent fiscal years, according to the Legislative Analyst's Office.<sup>4</sup> As a result, California may need to fund the ongoing cost of an October 2003 COLA by increasing annual CalWORKs funding above the federally required maintenance of effort (MOE) of \$2.7 billion or by freezing and reducing CalWORKs expenditures to maintain spending at the MOE.<sup>5</sup>

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*Scott Graves 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 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. General operating support for the California Budget Project is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP website at [www.cbp.org](http://www.cbp.org).*

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## ENDNOTES

<sup>1</sup> The Governor has not indicated when the proposed 5.0 percent reduction would take effect.

<sup>2</sup> High-cost counties are those with high housing costs, as defined in Welfare and Institutions Code, Section 11452.018.

<sup>3</sup> In contrast, median household income in California rose from \$33,009 in 1989 to \$47,262 in 2001 (43.2 percent) without adjusting for inflation.

<sup>4</sup> Legislative Analyst's Office, *California's Fiscal Outlook* (November 2003), p. 38.

<sup>5</sup> California froze and reduced CalWORKs spending in 2002-03 and 2003-04. See California Budget Project, *Health and Social Services Provisions in the 2003-04 Budget* (September 2003) and *CalWORKs at a Critical Juncture: A Review of Caseload Trends and the Governor's Proposals* (April 2003).