CALIFORNIA BUDGET PROJECT

Budget Backgrounders:
Making Dollars Make Sense

February 2004

CALWORKS
CALIFORNIA'S WELFARE-TO-WORK PROGRAM

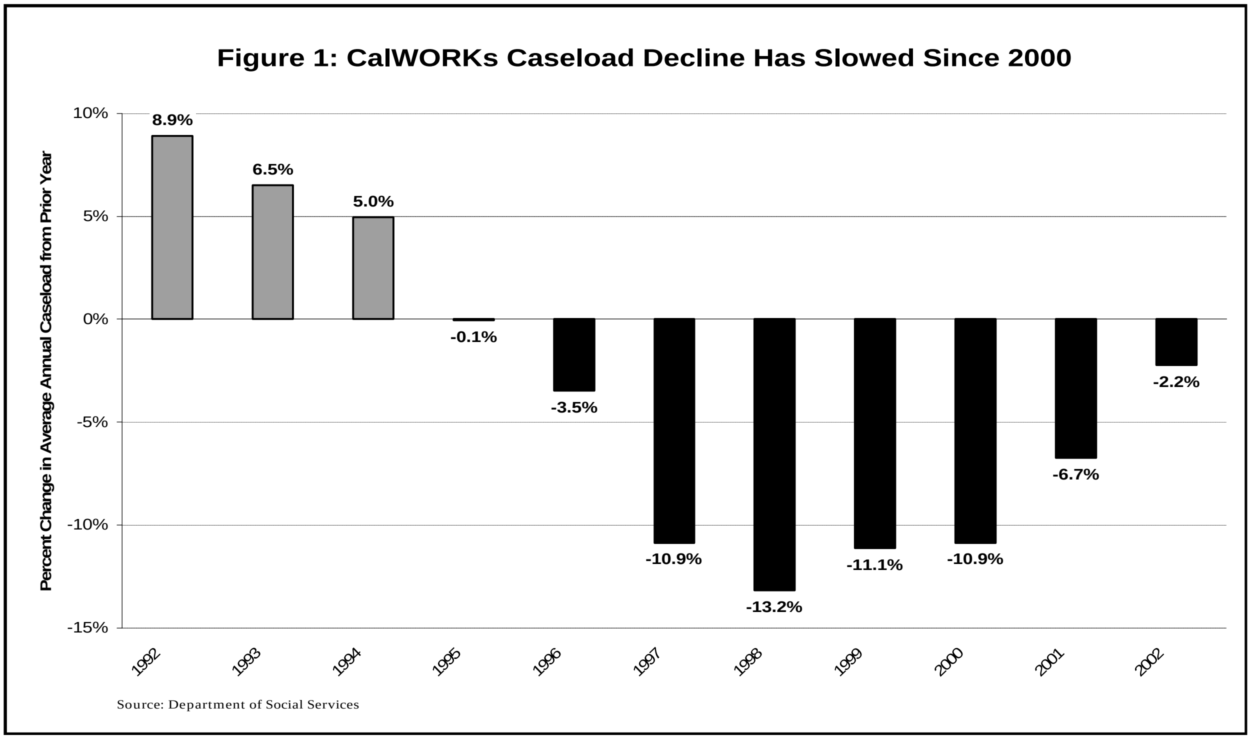
CalWORKs provides time-limited cash assistance for eligible low-income families, while helping recipients find jobs and overcome barriers to employment. The state's welfare caseload and expenditures have declined since the mid-1990s, although the caseload decline has slowed since 2000. The Governor's Proposed 2004-05 Budget contains major policy changes, including grant reductions and increased work requirements for CalWORKs recipients. In addition, Congress may adopt significant federal welfare policy changes in 2004 that would affect the CalWORKs program.

The California Work Opportunity and Responsibility to Kids (CalWORKs) program provides cash assistance and services to eligible low-income families.

- CalWORKs was enacted in 1997 in response to the 1996 federal welfare reform law, which created the Temporary Assistance for Needy Families (TANF) block grant to replace the Aid to Families with Dependent Children (AFDC) program.[1] Implementation of CalWORKs began in 1998.
- CalWORKs requires most able-bodied adults to immediately work or engage in work-related activities to receive cash assistance. CalWORKs limits recipients to 60 cumulative months of cash aid, although children in families that have reached the time limit may be eligible for ongoing, state-funded cash assistance.
- Services provided to CalWORKs recipients include child care; mental health, substance abuse, and domestic violence services; and transportation assistance to allow recipients to find and maintain employment or participate in welfare-to-work activities.
- Support for CalWORKs comes from a fixed TANF block grant of $3.7 billion per year, along with $2.7 billion in state and county maintenance of effort (MOE) funds, the minimum required by federal law. California also uses federal Child Care and Development Fund (CCDF) and state General Fund dollars for CalWORKs child care.

The CalWORKs caseload decline is slowing, while the share of poor Californians who receive cash aid has dropped substantially since the mid-1990s.

- The state's caseload fell from a peak of 932,345 AFDC families in March 1995 to 476,327 CalWORKs families in September 2003 – a 48.9 percent reduction.
- However, the caseload decline has slowed since 2000. While the average annual caseload fell by at least 10 percent per year between 1997 and 2000, the caseload declined by 6.7 percent in 2001 and by 2.2 percent in 2002, the most recent year for which complete data are available (Figure 1).



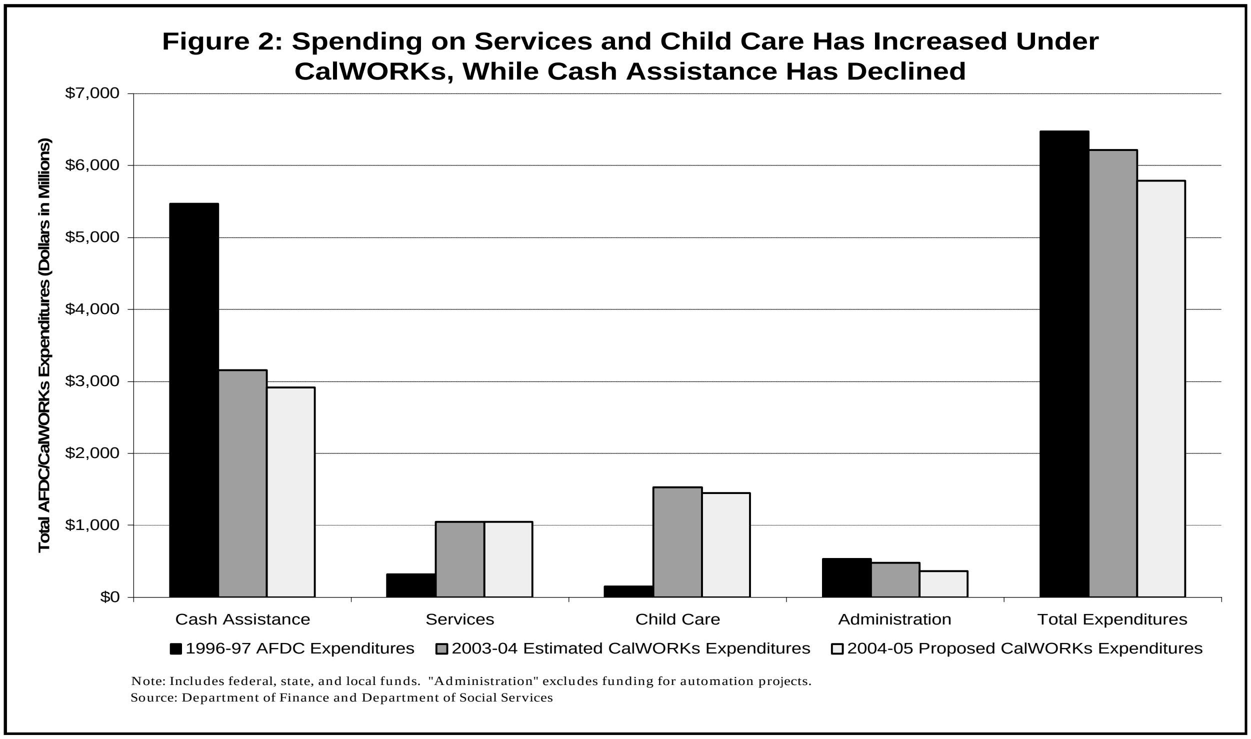
- The Department of Social Services (DSS) estimates that the average annual caseload will decline from 475,406 in 2003-04 to 469,077 in 2004-05, if the Governor's CalWORKs proposals discussed below are enacted. The CalWORKs caseload would remain flat between 2003-04 and 2004-05 if the Governor's proposals are not enacted.
- The share of poor Californians who receive cash assistance has declined every year since the mid-1990s.[2] While half of poor Californians received AFDC cash assistance in 1995, only about one-third (32.2 percent) received cash aid in 2001 and fewer than three out of 10 (29.3 percent) received cash assistance in 2002. This trend is mirrored at the national level. Single mothers who were potentially eligible for cash aid were less likely to enter the welfare system after federal welfare reform in 1996 than before, according to a recent analysis of national survey data.[3]

California spends less on CalWORKs than it spent on AFDC in the mid-1990s.

- California spent $6.5 billion on AFDC and related programs in 1996-97, the last year before CalWORKs was implemented. The Governor proposes to spend $5.8 billion on CalWORKs in 2004-05, which represents a 10.7 percent decline over the nine-year period even without adjusting for inflation (Figure 2). In contrast, total state General Fund spending increased from $49.1 billion in 1996-97 to $76.1 billion in the 2004-05 Proposed Budget – a 55.0 percent increase without adjusting for inflation.

Spending on cash assistance has declined by nearly half since the mid-1990s.

- Cash assistance comprised 84.5 percent of AFDC-related spending in 1996-97 ($5.5 billion), but makes up 50.5 percent of 2004-05 CalWORKs spending ($2.9 billion) under the Governor's Proposed Budget – a 46.6 percent drop over the nine-year period.



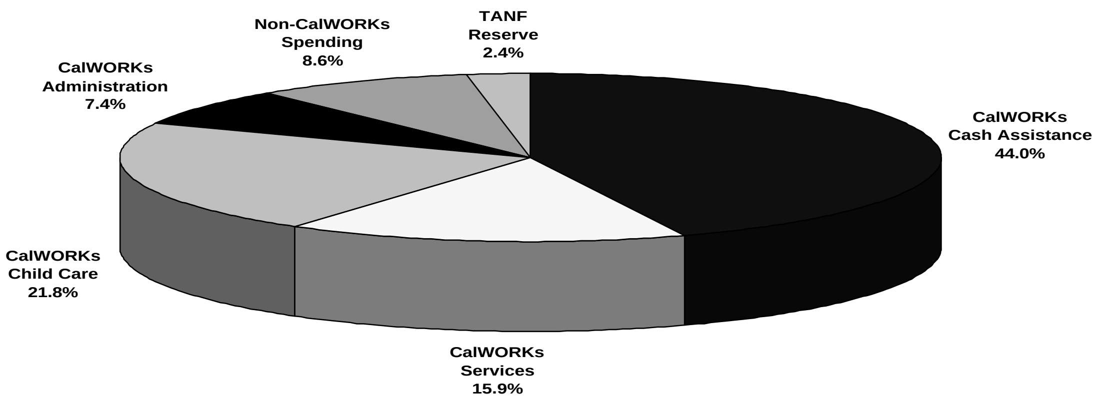
Spending on employment services and child care has increased fivefold since the mid-1990s.

- Employment services and child care made up 7.3 percent of AFDC-related spending in 1996-97 ($471.3 million), but amount to 43.2 percent of 2004-05 CalWORKs spending ($2.5 billion) under the Governor's Proposed Budget. Spending on services and child care has grown substantially over the nine-year period due to CalWORKs' "work-first" orientation, which increases the need for programs to help recipients increase their job readiness and find and maintain employment.

The Governor's Proposed Budget spends more than $570 million of TANF/MOE funds for non-CalWORKs programs in 2004-05, some of which is used to supplant General Fund spending.

- The Governor proposes to spend $572.1 million in TANF/MOE funds for non-CalWORKs purposes in 2004-05 (Figure 3), compared to an estimated $605.2 million in 2003-04.[4] While the majority of TANF/MOE funds are spent on CalWORKs cash assistance, services, child care, and administration, states are permitted to spend TANF/MOE funds on other programs.
- However, the Governor proposes to increase the amount of TANF funds used to replace General Fund spending in non-CalWORKs programs in 2003-04 and 2004-05.[5] The Proposed Budget uses $78.1 million in TANF funds to reduce General Fund spending in the Child Welfare Services (CWS) and In-Home Supportive Services programs in 2003-04, and $108.5 million to reduce General Fund spending in the CWS and Foster Care programs in 2004-05.
- In a major policy departure, the Proposed Budget reduces TANF funding for county juvenile probation services and facilities from $201.4 million in 2003-04 to $67.1 million in 2004-05, and eliminates funding entirely as of October 31, 2004.[6]

Figure 3: Proposed 2004-05 CalWORKs/TANF Expenditures



Total = $6.6 Billion Including Federal, State, and County Funds

Note: "Non-CalWORKs spending" is composed of federal Temporary Assistance for Needy Families (TANF) block grant funds and state and county maintenance-of-effort (MOE) funds that support programs other than the California Work Opportunity and Responsibility to Kids (CalWORKs) program, as allowed by federal law. "CalWORKs Child Care" includes federal Child Care and Development Fund (CCDF) and Proposition 98 monies, as well as TANF and MOE funds.
Source: Department of Finance and Department of Social Services

California has exhausted its surplus TANF funds, and the state has recently begun to reduce support for key components of the CalWORKs program.

- Because CalWORKs was implemented slowly beginning in 1998, the state initially accumulated a surplus of TANF block grant dollars that it carried forward for use in subsequent fiscal years. However, the TANF surplus declined as counties expanded their programs and increased spending on employment services and child care.
- The state has spent 99.1 percent of all TANF funds received between federal fiscal year (FFY) 1997 and FFY 2003. The remainder, $226.5 million, has been earmarked for services that have been ordered or contracted, but not delivered. In addition, the annual state/county MOE has never exceeded the federally required minimum level.
- In response to fixed TANF/MOE funding, rising program costs, and state budget deficits, California has reduced support for key CalWORKs components. For example, the state:
  - Reduced funding for adult education and community college services for CalWORKs recipients from $126.9 million in 2001-02 to $52.5 million in 2003-04, a 58.6 percent reduction;
  - Suspended "cost-of-doing-business" increases for county CalWORKs administration for three consecutive years. The Governor proposes to continue this suspension in 2004-05; and
  - Has not funded, for four consecutive years, "performance incentives" to reward counties that have moved CalWORKs recipients from welfare to work. The Governor's Proposed Budget does not provide performance incentives in 2004-05.

CalWORKs grants have not kept pace with inflation, and their purchasing power would decline further under the Governor's budget proposals.

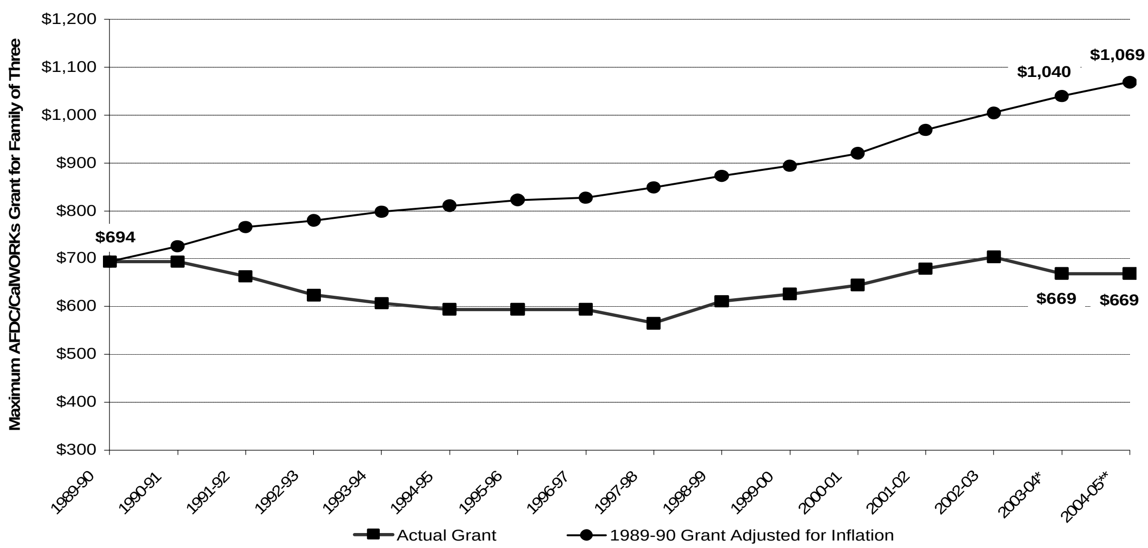
- A family of three in a high-cost county currently receives a maximum grant of $704 per month – $10 more than the 1989-90 maximum grant of $694 per month. However, the current grant would have to increase to $1,040 per month to have the same purchasing power as it did in 1989-90.

- Under current law, the maximum monthly grant for a family of three is due to increase to $749 in high-cost counties by July 2004. However, the Governor has declined to provide the statutory CalWORKs cost-of-living adjustment (COLA) that became effective on October 1, 2003, as a result of the reduction in the Vehicle License Fee (VLF) rate.[7] The Governor also proposes to suspend the July 2004 COLA and cut grants by 5 percent. These changes would result in TANF/MOE savings of about $136 million in 2003-04 and more than $400 million in 2004-05.
- In addition, these changes would reduce the maximum grant in high-cost counties to $669 per month – $25 below the maximum monthly grant in 1989-90 (Figure 4). This would affect about a half million of California's poorest families, reducing their ability to pay for housing and other basic needs.
- The Governor's proposals would also cause some working families to lose cash aid by lowering the income threshold at which families become ineligible for cash assistance. Under current law, a family of three would be able to earn up to $1,703 per month ($9.83 per hour) as of July 2004 and remain eligible for cash assistance.[8] However, a family of three would become ineligible for cash assistance at $1,543 per month ($8.90 per hour) under the Governor's proposals.

The Governor also proposes significant additional grant reductions for certain families that receive "child-only" cash assistance.

- The Governor's Proposed Budget reduces child-only cash grants by 25 percent for families that have reached the state's 60-month time limit and in which the adult does not work, for General Fund savings of $32.9 million in 2004-05.
- The Proposed Budget also reduces child-only cash grants by 25 percent if sanctioned CalWORKs participants fail to meet work participation requirements within one month of being sanctioned, for General Fund savings of $30.2 million in 2004-05.
- These changes would affect nearly 50,000 CalWORKs families and would reduce the maximum child-only grant for a family of three in a high-cost county from $540 to $405 per month, if the Governor's proposals to suspend COLAs and reduce CalWORKs grants are also enacted.

Figure 4: Purchasing Power of CalWORKs Grants Would Decline Further Under Governor's Proposals



* As proposed by Governor Schwarzenegger. Reflects elimination of October 2003 cost-of-living adjustment (COLA) and 5.0 percent grant reduction.
** As proposed by Governor Schwarzenegger. Reflects suspension of July 2004 COLA.
Note: The CalWORKs COLA is based on the California Necessities Index. Grant levels are for high-cost counties beginning in 1997-98.
Source: Department of Finance and Department of Social Services

The Governor's Proposed Budget would impose a three-year time limit on subsidized child care for former CalWORKs families, who currently have access to child care without a time limit.

- CalWORKs Stage 2 child care is provided to current as well as former CalWORKs families. Former recipients may remain in Stage 2 for up to two years after leaving cash assistance if the family meets eligibility guidelines. Stage 3 child care is provided without a time limit to former CalWORKs families that have reached their Stage 2 two-year time limit and meet eligibility guidelines. Families are not guaranteed service in Stage 3; however, the state has fully funded Stage 3 since implementation of CalWORKs beginning in 1998.
- The Governor's Proposed Budget limits former CalWORKs families to a total of three years of subsidized child care after they leave CalWORKs. Current Stage 3 families that exceed three years of transitional care in 2004-05 would be granted an extension of one additional year to obtain other child care if they are not able to enroll in state-supported General Child Care programs.
- If the Governor's proposal is enacted, working families will be forced to join already over-crowded waiting lists for alternative subsidized child care programs. Families that are not able to enroll in such programs would be faced with choosing between lower quality, less costly care; leaving children unattended; decreasing the number of hours they work; or even leaving the workforce to provide quality care for their children – potentially pushing families back onto the CalWORKs rolls.

The Governor's proposal to enact stricter work requirements could limit recipients' ability to participate in education and training programs.

- The Governor's Proposed Budget requires CalWORKs recipients to sign a welfare-to-work plan within 60 days of qualifying for cash aid and to spend at least 20 hours per week in "core" work activities, for General Fund savings of $99.8 million in 2004-05. The Governor states that this change would "lead to employment sooner and minimize reliance on public assistance." CalWORKs recipients would be required to participate in additional state-approved activities as necessary to meet the state's 32-hour-per-week work participation requirement.[9]
- Core work activities would include subsidized and unsubsidized employment; work experience; on-the-job training; work study; self-employment; community service; and job search and job readiness assistance.[10] Vocational educational training and adult basic education, which count as work activities under current law, would be excluded as core work activities under the Governor's proposal.
- Mental health, substance abuse, and domestic violence services would count as core work activities to the extent that they are necessary for individuals to participate in other core activities and cannot be completed within the remainder of the 32-hour work requirement.
- The Governor's proposal could require counties to move recipients into costly "make-work" positions for lengthy periods to the extent that unsubsidized jobs are not available. This represents a significant departure from the model of county flexibility negotiated between former Governor Wilson and the Legislature in 1997.
- In addition, this proposal could limit recipients' ability to participate in education and training programs that help them increase their skills to find and maintain good jobs. A study of CalWORKs recipients who attend community college found that the more education they obtain, the greater their earnings, even for those who entered college without a high school diploma or equivalent. CalWORKs recipients who received an associate degree substantially increased their pre-college earnings, from about $4,000 per year to nearly $20,000.[11]

- An analysis of Los Angeles County's CalWORKs program, for example, highlights the importance of education and training. It concludes that the program's current "work-first" orientation "may compel welfare participants into low-paying jobs that ultimately limit their ability to leave aid. A greater emphasis on training and education is needed to enable participants to earn" wages above the poverty level.[12]

Congress may enact stricter TANF work requirements in 2004 without providing additional federal funding.

- Congress failed to reauthorize the TANF block grant before it expired in September 2002, but has continued block grant funding on an interim basis.
- Bills pending in Congress would increase work requirements for TANF recipients, including requiring substantially more recipients to work for an increased number of hours, while freezing federal TANF block grant funding and providing only a minimal increase in child care funding. However, the bills pending in Congress would allow rehabilitative services, such as substance abuse treatment, to count as core work activities for a limited period.[13]
- Increased work requirements would impose significant additional costs on California due to increased demand for services and child care if more parents are required to work longer hours. Counties may have to move recipients into costly "make-work" positions, and California would have to substantially increase CalWORKs funding to meet this demand.

Scott Graves prepared this Backgrounder. 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. Funding for this Backgrounder comes from a grant from the William and Flora Hewlett Foundation. 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. Support for the CBP comes from foundation grants, publications, and individual contributions. Please visit the CBP's website at www.cbp.org.

Endnotes

[1] The federal welfare law is officially known as the "Personal Responsibility and Work Opportunity Reconciliation Act of 1996" (Public Law 104-193).
[2] Not all California families that live in poverty are eligible for CalWORKs cash assistance. The Census Bureau's 2003 "poverty threshold" for a family with one adult and two children is $14,824 per year, or approximately $1,235 per month. A family of three with income below that threshold is defined as living in poverty. However, a family with one working adult and two children living in a high-cost county that applies for CalWORKs cash aid and meets the asset test and other guidelines must have an income of less than $981 per month to be eligible – $254 per month less than the Census Bureau's 2003 poverty threshold of $1,235 per month. It is uncertain what proportion of California families defined as "poor" by the Census Bureau are not eligible for CalWORKs cash assistance.
[3] Gregory Acs, Katherin Ross Phillips, and Sandi Nelson, *The Road Not Taken? Changes in Welfare Entry During the 1990s* (The Urban Institute: December 2003), p. 2. The study notes that neither "changes in the characteristics of low-income single mothers nor improvements in the economy directly account for this shift. This leaves policy shifts and changes in attitudes toward work and welfare as the most likely explanations for the drop in welfare entry rates."
[4] Non-CalWORKs programs that would receive TANF/MOE funds in 2004-05 include Child Welfare Services Emergency Assistance ($137.7 million), the Kinship Guardianship Assistance Payment Program (Kin-GAP – $92.3 million), county juvenile probation services and facilities ($67.1 million), the Foster Care program ($56.0 million), and the Department of Developmental Services ($48.0 million).
[5] These TANF funds are transferred to the state's Social Services Block Grant (SSBG), established by Title XX of the federal Social Security Act, and must be spent on services consistent with the goals of Title XX, which include preventing neglect or abuse of children and reducing inappropriate institutional care by providing for community-based care. Not all TANF funds transferred to the SSBG are used to supplant General Fund spending.

[6] County juvenile probation has been funded with TANF block grant dollars since 1997-98, the first year of CalWORKs.

[7] For a summary of the relationship between CalWORKs COLAs and the VLF rate, see California Budget Project, *Governor Proposes to Eliminate CalWORKs COLA and Reduce Grants* (November 2003). A class-action lawsuit filed in San Francisco Superior Court in December 2003, *Guillen vs. Schwarzenegger*, seeks to compel the state to retroactively provide the October 2003 COLA.

[8] Assumes 40 hours of work per week and 52 weeks of work per year.

[9] Adults in two-parent families are required to work at least 35 hours per week.

[10] Based on draft trailer bill language submitted by the Administration to the Senate Budget and Fiscal Review Committee.

[11] Julie Strawn, *Why Congress Should Expand, Not Cut, Access to Long-Term Training in TANF* (Center for Law and Social Policy: February 2004), p. 3.

[12] Manuel H. Moreno, et al., *Employment and Earnings Among Welfare-to-Work Participants in Los Angeles County, 1998-2001* (Service Integration Branch, Chief Administrative Office, County of Los Angeles: April 2003), p. xii.

[13] In addition, the TANF reauthorization bill passed by the Senate Finance Committee would permit states to count postsecondary or vocational education as a work activity without a time limit for up to 10 percent of a state's caseload. The bill passed by the House of Representatives would allow work-related education or training to count as a core work activity for up to four months in a 24-month period. In contrast, current law allows vocational education to count as a core work activity for up to 12 months.