

CALIFORNIA'S RESPONSE TO RECENT TANF CHANGES SHOULD PRESERVE THE STRENGTHS OF THE CALWORKS PROGRAM

Congress recently passed significant changes to the 1996 federal welfare law. As a result, starting in October 2006, California must substantially increase the number of California Work Opportunity and Responsibility to Kids (CalWORKs) participants meeting federal work participation requirements or face substantial federal penalties. Prior to modifying the CalWORKs Program in light of these federal changes, policymakers should identify the program's key strengths and ensure that any proposed changes would preserve or enhance those strengths. In particular, policymakers should build on the original bipartisan commitment to provide a strong work incentive; a broad range of work-related activities, including opportunities for education and training; child care and other supportive services; a safety net for children; and flexibility for counties within a framework of state standards.

TANF and CalWORKs: An Overview

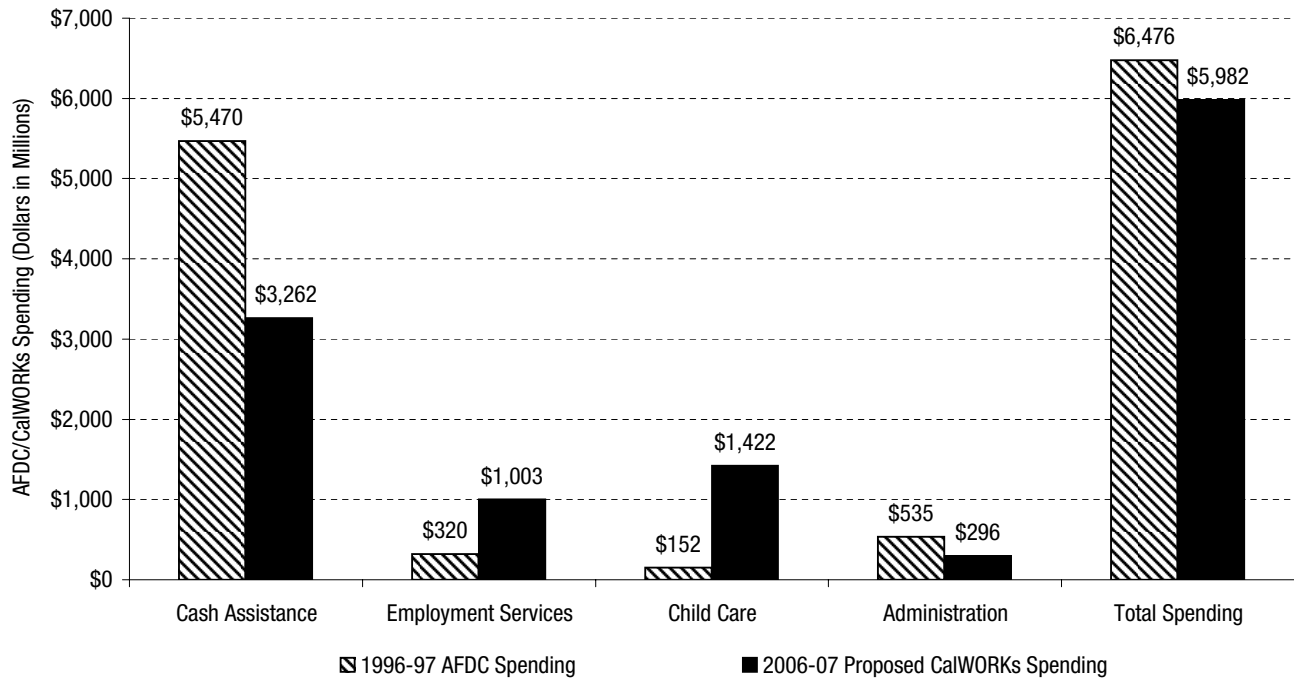
In 1996, Congress fundamentally restructured the nation's safety net for low-income families with children by creating the Temporary Assistance for Needy Families (TANF) block grant to replace the Aid to Families with Dependent Children (AFDC) Program. The new law gave states broad authority to restructure welfare programs within a framework of federal work participation requirements and a five-year lifetime limit on federally-funded aid. In response, California created the California Work Opportunity and Responsibility to Kids (CalWORKs) Program in 1997 with strong bipartisan support.¹ CalWORKs established state-specific work participation requirements and imposed a five-year lifetime limit on state-funded aid for adults, within the framework of a strong "work-first" orientation. A fixed federal allocation of \$3.7 billion and \$2.7 billion in state and county maintenance of effort (MOE) funds, the minimum amount required by federal law, provide funding for CalWORKs and related programs.²

These policy changes shifted the focus of welfare from providing cash aid to needy families to helping participants overcome barriers to employment, find a job, and move toward self-sufficiency. As a result, cash assistance

has declined as a share of total welfare spending in California, while spending on employment services and child care has increased (Figure 1). Specifically:

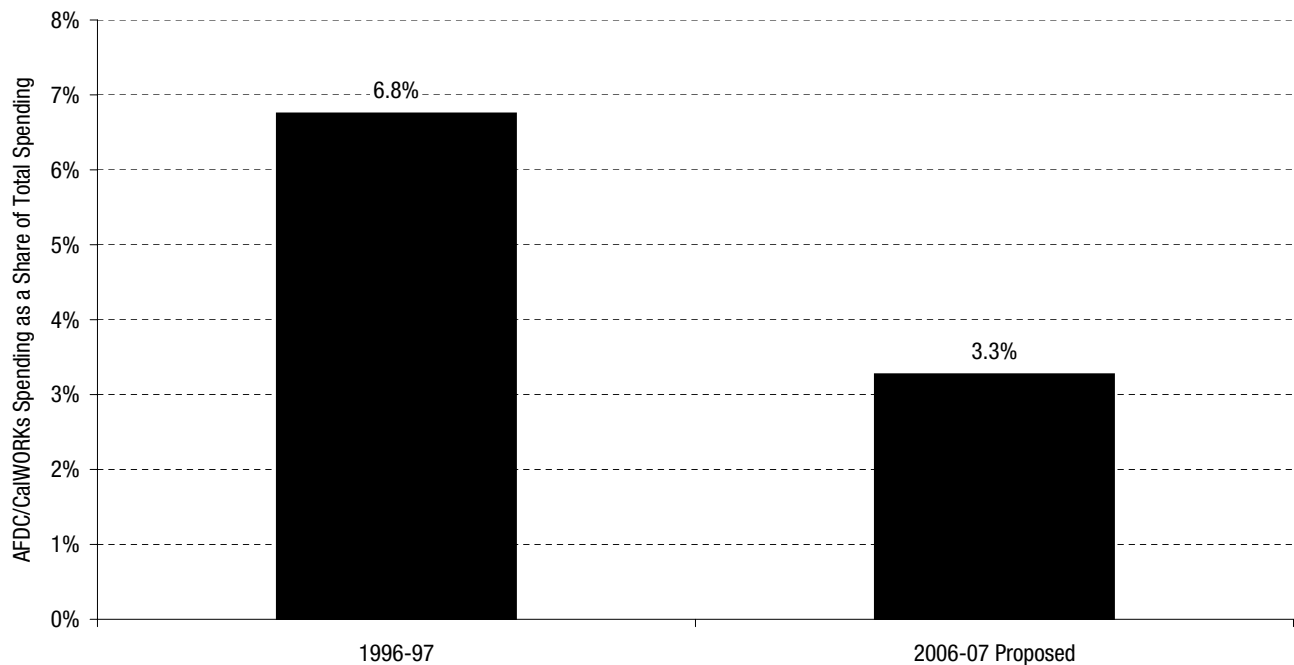
- California spent \$6.5 billion on AFDC and related programs in 1996-97, the last year before CalWORKs was implemented. The Governor proposes to spend \$6.0 billion on CalWORKs in 2006-07, which represents a 7.6 percent decline over this period even without adjusting for inflation. In contrast, total expenditures, including both state and federal funds, increased from \$95.9 billion in 1996-97 to \$182.9 billion in the 2006-07 Proposed Budget – a 90.7 percent increase without adjusting for inflation.³ In other words, welfare spending as a share of total state and federal spending in California has declined by more than half – falling from 6.8 percent in 1996-97 to 3.3 percent in 2006-07 (Figure 2).
- Cash assistance comprised 84.5 percent of AFDC-related spending in 1996-97 (\$5.5 billion), but makes up 54.5 percent of proposed 2006-07 CalWORKs spending (\$3.3 billion) under the Governor's Proposed Budget – a 40.4 percent decline.
- Employment services and child care made up 7.3 percent of AFDC-related spending in 1996-97 (\$471.3 million), but

**Figure 1: Spending on Cash Assistance Has Declined Under CalWORKs,
While Spending on Employment Services and Child Care Has Increased**



Note: Includes federal, state, and county funds. Administration excludes funding for automation projects and state support costs.
Source: Department of Education and Department of Social Services

**Figure 2: Welfare Spending as a Share of Total Spending in California Has
Dropped by More Than Half Since 1996-97**



Note: AFDC/CalWORKs spending includes federal, state, and county funds. Total spending includes federal and state funds.
Source: Department of Education, Department of Finance, and Department of Social Services

comprise 40.5 percent of proposed 2006-07 CalWORKs spending (\$2.4 billion) under the Governor's Proposed Budget – a more than fourfold (414.5 percent) increase. Employment services and child care expenditures have grown substantially due to CalWORKs' work-first orientation, which increased the need for programs to help participants increase their job readiness and find and maintain employment, as well as the related need for child care.

TANF Changes Enacted by Congress Will Affect the CalWORKs Program

The federal Deficit Reduction Act (DRA) of 2005, signed by President Bush on February 8, 2006, included significant changes to federal welfare policy.⁴ Specifically, the DRA:

- **Requires states to substantially increase the percentage of families meeting federal work participation requirements starting in October 2006.** Federal law requires 50 percent of all families with an adult receiving TANF assistance, and 90 percent of two-parent families, to meet federal work requirements.⁵ Federal law also provides a "caseload reduction credit," which allows states to reduce these rates. Prior to the DRA, the credit was based on the percentage point decline in a state's TANF caseload since federal fiscal year (FFY) 1995. Since California's caseload has dropped by more than 40 percentage points, the state's "all-families" requirement was reduced from 50 percent to 3.9 percent in FFY 2004, the most recent year for which federal data are available.⁶ Most states, including California, would not meet current federal work participation rates absent the caseload reduction credit.⁷ In FFY 2004, 23.1 percent of CalWORKs families included in the state's all-families rate met TANF work requirements – below the 50 percent work participation standard, but above the reduced standard of 3.9 percent.

The DRA changed the base year for the caseload reduction credit from FFY 1995 to FFY 2005. This change substantially increases the work participation rates that states must meet. States whose caseloads have not declined or have increased since FFY 2005 must meet the maximum participation rates starting in FFY 2007, which begins October 1, 2006. The CalWORKs caseload has leveled off in recent years and the Schwarzenegger Administration estimates the caseload will increase slightly in 2006-07. Therefore, California is not likely to qualify for a caseload reduction credit and will have to meet the maximum federal participation rates – including the virtually unreachable 90 percent threshold for two-parent families – or face substantial federal penalties.⁸ The California Budget Project

(CBP) estimates that more than 50,000 additional CalWORKs families will have to meet TANF work requirements in FFY 2007 for California to meet the higher work participation standards. The CBP estimates penalties could exceed \$160 million for failing to comply with work requirements in FFY 2007, escalating to more than \$350 million if the state is unable to comply for four consecutive years.⁹

- **Restricts states' flexibility to set policies for programs funded solely with state MOE dollars.** Previously, federal work participation requirements did not apply to families receiving assistance funded entirely with state MOE dollars – funds a state must spend to receive its TANF block grant allotment. For example, California moved two-parent families into an MOE-funded program to avoid federal penalties for failing to meet the high two-parent work participation rate. The DRA eliminated this flexibility by requiring all families served through programs funded with state MOE dollars to be included in the work rate calculation. This change means that California would have to fund separate state programs with dollars that do not count toward the MOE requirement in order to exclude certain CalWORKs participants, such as two-parent families, from federal work participation requirements.
- **Directs the federal Department of Health and Human Services (DHHS) to issue new TANF regulations by June 30, 2006.** The DRA, for example, requires the DHHS to define both federal work activities and the circumstances under which an unaided adult who resides with a child receiving assistance (a "child-only" case) should be included in the federal work rate calculation.¹⁰ These new regulations could make it harder for states to meet the higher work participation requirements. For example, the DHHS may require states to include families who have been sanctioned for non-compliance for more than three months in the federal work rate calculation. Such a change would have a substantial impact on California, since more than 50,000 CalWORKs families were sanctioned in FFY 2004. California classifies sanctioned families as child-only cases and thereby excludes them from the federal work rate calculation. California's participation rate would drop if sanctioned families were included in the federal work rate calculation, since sanctioned families, by definition, do not meet program requirements.

California Should Preserve the Strengths of the CalWORKs Program

Policymakers may wish to modify certain CalWORKs policies in order to increase the state's work participation rate and thereby minimize or avoid federal penalties. For example, the state could attempt to increase the participation of

individuals who are already working in federally-allowable activities, but for an insufficient number of hours to meet the federal requirement.¹¹ Prior to modifying CalWORKs, however, policymakers should identify the program's key strengths and ensure that any proposed changes preserve or enhance those strengths. In particular, policymakers should build on the original bipartisan commitment to provide:

- A strong work incentive,
- A broad range of work-related activities,
- Reasonable exemptions from work participation requirements,
- Child care and other supportive services,
- A safety net for children, and
- Flexibility for counties to meet local needs, preferences, and economic conditions, within a framework of state standards.

CalWORKs Provides a Strong Work Incentive

CalWORKs provides a strong incentive for participants to seek and maintain employment by allowing individuals to keep more of what they earn while receiving a cash grant to supplement their earnings. California does not count the first \$225 of a family's earned income and 50 percent of each additional dollar earned in determining the grant amount. As a result, a family of three living in a high-cost county can earn up to \$1,651 per month (119.3 percent of the federal poverty level in 2006) and continue to receive a CalWORKs grant. Research indicates that earnings supplements, such as California's, improve child well-being and increase adults' employment, earnings, and income, making families better off financially.¹²

CalWORKs Allows Individuals to Participate in a Broad Range of Activities

CalWORKs participants are required to work or engage in work-related activities as a condition of receiving cash assistance.¹³ California allows individuals to participate in a broad range of activities in addition to employment, depending on their skills and needs. CalWORKs participants, for example, may pursue vocational education and/or receive mental health, substance abuse, or domestic violence services – subject to the 60-month time limit on aid – to increase their skills and overcome barriers to employment. Activities allowed under state law are broader than those allowed under federal law. For example, participation in mental health, substance abuse, and domestic violence services does not count toward federal requirements, and vocational education may be counted for only 12 months or less.

California's approach allows CalWORKs participants with barriers to employment to receive necessary services and training to help move them into the workforce. Research finds that treatment programs play a key role in states' efforts to address barriers, such as substance abuse and depression, and to promote employment among the hard to employ.¹⁴ Research also indicates that education and training play an important supporting role in the most effective welfare-to-work programs.¹⁵

CalWORKs Provides Reasonable Exemptions from State Work Participation Requirements

While CalWORKs participants are generally required to work or participate in work-related activities, California exempts participants who meet certain criteria from state work participation requirements. The state exempts individuals who are under age 16 or over age 60, pregnant or disabled and unable to work, caring for an ill or incapacitated household member, or caring for a child six months of age or younger.¹⁶ On average, more than 45,000 CalWORKs participants were exempt from work participation requirements in the last quarter of 2005. In contrast, federal law provides fewer exemptions from federal work participation requirements. Individuals who have been sanctioned for not complying with program requirements may be excluded from the federal work rate calculation for a limited period, and states may additionally exclude single parents caring for a child under age 1.¹⁷

CalWORKs Provides Child Care and Other Supportive Services

CalWORKs provides a range of supportive services for families, including assistance with child care and transportation, as well as assistance with ancillary expenses, such as the cost of books or clothing required for a job. Child care, in particular, provides critical support for families by helping parents find and retain employment and ensure the safety and well-being of their children. Studies show that low-income families who receive assistance with child care expenses "are more likely to enter and remain in the workforce, and may work more hours."¹⁸ Families currently or formerly enrolled in the CalWORKs Program receive child care in three stages.¹⁹ Stage 1 serves families who have entered CalWORKs and are working or participating in county-approved work activities.²⁰ Families who are considered "stable" may move to Stage 2 and may remain there for up to two years after leaving CalWORKs, so long as they remain eligible based on income and the child in care meets the age limit.²¹ Families are eligible for Stage 3 without a time limit once they leave Stage 2 if they continue to meet eligibility guidelines.²² Families are not guaranteed service in Stage 3, but the state has fully funded the cost of Stage 3 child care since the program's inception.

CalWORKs Provides a Safety Net for Children

CalWORKs provides safety net aid for children whose parents are ineligible for cash assistance. Specifically, CalWORKs:

- **Continues aid to children when an adult has timed off aid.** State law limits CalWORKs participants to 60 cumulative months of cash assistance. CalWORKs participants, many of whom were working and meeting the state's participation requirements, began to reach the state's five-year limit on January 1, 2003.²³ This time limit, however, applies only to adults; children continue to receive state-funded cash aid as long as the family meets CalWORKs eligibility guidelines.²⁴ For example, more than 100,000 children received state-funded aid in December 2005 due to one or more adults in their families reaching the CalWORKs 60-month time limit.
- **Continues aid to children when an adult has been sanctioned for not complying with program requirements.** When an adult fails to comply with CalWORKs Program requirements, counties reduce the family's grant by the amount attributable to the adult, while cash assistance is continued to children in the family.²⁵ This provision is designed to provide a basic subsistence allowance to children, even if their parents have been sanctioned.

Research indicates that many sanctioned adults face barriers that severely limit their employment prospects. For example, a study of CalWORKs participants found that sanctioned adults face greater barriers to meeting the work requirements than non-sanctioned adults, including having substance abuse problems or limited work experience.²⁶ In addition, a review of studies from across the US found that sanctioned TANF participants are more likely than their non-sanctioned counterparts to be long-term welfare recipients; have lower

educational attainment and less work experience; lack transportation; and experience personal and family challenges, including alcohol and drug problems.²⁷ Continuing aid to children in families with sanctioned adults allows counties to identify and address the needs of sanctioned adults, while ensuring that these families have resources to maintain their children's well-being.

CalWORKs Provides Counties with Flexibility

CalWORKs allows the 58 counties to adapt certain components of the program to meet local needs, preferences, and economic conditions, within a broad framework of state standards. Counties, for example, have discretion to gear training programs to available jobs, include additional work activities not included by the state, and decide how long mothers with infants are exempt from participation requirements. This flexibility also allows counties to engage participants with employment barriers in ways that are appropriate to their communities. As a result, counties have adopted a diverse range of programs to train, educate, and move participants into the workforce. This flexibility is critical in light of the diverse conditions faced by counties.

Conclusion

The reauthorization of the TANF block grant provides California an opportunity to build on the strong foundation of the CalWORKs Program, which was created with bipartisan support in 1997. Prior to considering proposals to modify CalWORKs, policymakers should identify the program's key strengths and ensure that any proposed changes preserve or enhance those strengths, including a strong work incentive, a broad range of work-related activities, child care and other supportive services, a safety net for children, and flexibility for counties within a framework of state standards.

Scott Graves prepared this Budget Brief. 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. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

- ¹ Implementation of CalWORKs began in 1998. See California Budget Project, *CalWORKs: California's Welfare-to-Work Program* (February 2004).
- ² In addition, California uses federal Child Care and Development Fund (CCDF) dollars for CalWORKs child care, which are included in tabulations of CalWORKs spending.
- ³ Proposed expenditures for 2006-07 are from the Governor's Proposed Budget released in January 2006.
- ⁴ See California Budget Project, *TANF Changes Pending in Congress Would Impose Significant Costs on California* (January 24, 2006).
- ⁵ Federal law specifies both the number of hours that TANF participants must work and the activities that count toward meeting federal work participation rates. Certain families are exempt from federal work requirements, including families in which no adult receives TANF assistance.
- ⁶ Two-parent CalWORKs families were moved into a separate, state-funded program in FFY 2000 and therefore are not subject to federal work requirements.

- ⁷ See US Department of Health and Human Services, *Temporary Assistance for Needy Families (TANF): Sixth Annual Report to Congress* (November 2004), Table 3:1:a.
- ⁸ Independent analysts, including MDRC, which has extensively studied the implementation of welfare reform, believe these rates will be virtually unattainable. See, for example, Gordon Berlin, *Testimony on the Reauthorization of the Temporary Assistance for Needy Families Program* (Manpower Demonstration Research Corporation: March 2002), downloaded from <http://www.mdrc.org/publications/358/testimony.html#Implications> on January 18, 2006.
- ⁹ State officials indicate that any penalty would likely be payable approximately two years after the year in which the state failed to comply with work requirements. For example, the penalty for failing to comply in FFY 2007 would be payable in FFY 2009, the penalty for failing to comply in FFY 2008 would be payable in FFY 2010, and so on. However, under current law, the maximum penalty can be automatically reduced based on the degree to which a state is out of compliance. In addition, a state may avoid a penalty by demonstrating reasonable cause for its failure or by entering into a corrective compliance plan with the federal government.
- ¹⁰ The DRA also requires the DHHS to issue instructions to states regarding verification of participation in work activities.
- ¹¹ Furthermore, California could create separate programs, funded with state dollars that do not count toward the state's MOE requirement, for CalWORKs participants who do not meet federal work requirements. Separate programs funded with state dollars that do not count toward the MOE requirement would not be subject to federal work participation requirements. Strategies for meeting the higher federal work participation requirements are discussed in Legislative Analyst's Office, *Analysis of the 2006-07 Budget Bill* (February 2006), pp. C-192 to C-196 and County Welfare Directors Association of California and California State Association of Counties, *CalWORKs at a Crossroads: The Next State of Welfare Reform in California* (April 2006).
- ¹² See, for example, Charles Michalopoulos, *Does Making Work Pay Still Pay? An Update on the Effects of Four Earnings Supplement Programs on Employment, Earnings, and Income* (MDRC: August 2005) and Pamela A. Morris, Lisa A. Gennetian, and Greg J. Duncan, "Effects of Welfare and Employment Policies on Young Children: New Findings on Policy Experiments Conducted in the Early 1990s," *Social Policy Report* (2005). Research indicates that while the effects of earnings supplements on employment and income decrease over time as compared to a control group, the effects of these policies are larger and longer-lived for the most disadvantaged.
- ¹³ State and federal law exempts certain individuals from participation in work activities, as described in the following section.
- ¹⁴ Gordon L. Berlin, *Testimony of Gordon L. Berlin, Senior Vice President, Manpower Demonstration Research Corporation on the Reauthorization of the Temporary Assistance for Needy Families Program Before the US Senate Finance Committee* (Manpower Demonstration Research Corporation: March 12, 2002), p. 8.
- ¹⁵ Research by MDRC indicates that a "mixed-strategy" approach that assigns some participants to education and training and others to job search "proved more effective than more rigid approaches that simply assigned all participants to either a job-search-only program or an education and training-only program with little regard to their individual needs." Gordon L. Berlin, *Testimony of Gordon L. Berlin, Senior Vice President, Manpower Demonstration Research Corporation on the Reauthorization of the Temporary Assistance for Needy Families Program Before the US Senate Finance Committee* (Manpower Demonstration Research Corporation: March 12, 2002), p. 5.
- ¹⁶ Counties may reduce the exemption period for a parent with a young child to the first 12 weeks, or increase it to the first 12 months, after the birth or adoption of the child. The state also exempts certain individuals based on school attendance, participants who volunteer full-time in the Volunteers in Service to America Program, and certain caretaker relatives, including those who care for a child who is at risk of placement in foster care.
- ¹⁷ Individuals who have been sanctioned may be excluded from the federal work participation rate calculation for a maximum of three months in each 12-month period. However, California currently classifies sanctioned families as child-only cases and thereby excludes them from the federal work rate calculation.
- ¹⁸ Hannah Matthews, *Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment* (Center for Law and Social Policy: April 3, 2006), p. 3.
- ¹⁹ California Education Code, Section 8350.
- ²⁰ CalWORKs families may remain in Stage 1 for up to six months or longer if the county welfare department determines that the family's "situation is too unstable to be shifted to the second stage or if no funds are available to provide child care services in the second stage" (California Education Code, Section 8351(b)). Former CalWORKs families can remain in Stage 1 if child care services are not available in Stages 2 and 3 and the families meet income and other eligibility requirements (Department of Social Services, *Manual of Policy and Procedures*, Section 42-230).
- ²¹ The definition of "stable" varies from county to county. The family income of former CalWORKs participants may not exceed 75 percent of the state median income in both Stage 2 and Stage 3. Children generally must be younger than age 13 to receive child care assistance.
- ²² Eligibility for Stage 3 is restricted to CalWORKs participants and former participants who are income-eligible and whose children meet the age limit for care.
- ²³ See California Budget Project, *Timing Out: CalWORKs Recipients Face the State's Five-Year Time Limit* (December 2002).
- ²⁴ In addition, state law allows certain CalWORKs participants to receive aid for more than 60 months.
- ²⁵ Federal law requires states to reduce or discontinue cash assistance to families who do not comply with program requirements.
- ²⁶ Yehekel Hasenfeld, Toorjo Ghose, and Kandyce Larson, "The Logic of Sanctioning Welfare Recipients: An Empirical Assessment," *Social Service Review* (June 2004).
- ²⁷ LaDonna Pavetti, Michelle K. Derr, and Heather Hesketh, *Review of Sanction Policies and Research Studies: Final Literature Review* (Mathematica Policy Research, Inc.: March 10, 2003).