

CALWORKS AT A CRITICAL JUNCTURE: A REVIEW OF CASELOAD TRENDS AND THE GOVERNOR'S PROPOSALS

In 1996, Congress fundamentally restructured the nation's safety net for low-income families with children. The new law created the Temporary Assistance for Needy Families (TANF) block grant and gave states broad authority to restructure welfare programs within the confines of strict time limits and work participation requirements.

California established the California Work Opportunity and Responsibility to Kids (CalWORKs) program in 1997 to conform the state's welfare system to the new federal law. CalWORKs is annually supported by a fixed TANF block grant of \$3.7 billion and \$2.7 billion in state and county maintenance-of-effort (MOE) funds, the minimum required by federal law.¹

CalWORKs faces key challenges in 2003 and beyond. Congress will likely reauthorize the TANF block grant in 2003 and may impose costly new work requirements, while providing little additional federal funding to states.² At the same time, California faces an unprecedented budget shortfall that reduces the likelihood that the state will contribute more than the required MOE to support CalWORKs and related services. In short, CalWORKs confronts rising costs and little or no increased funding for the foreseeable future.

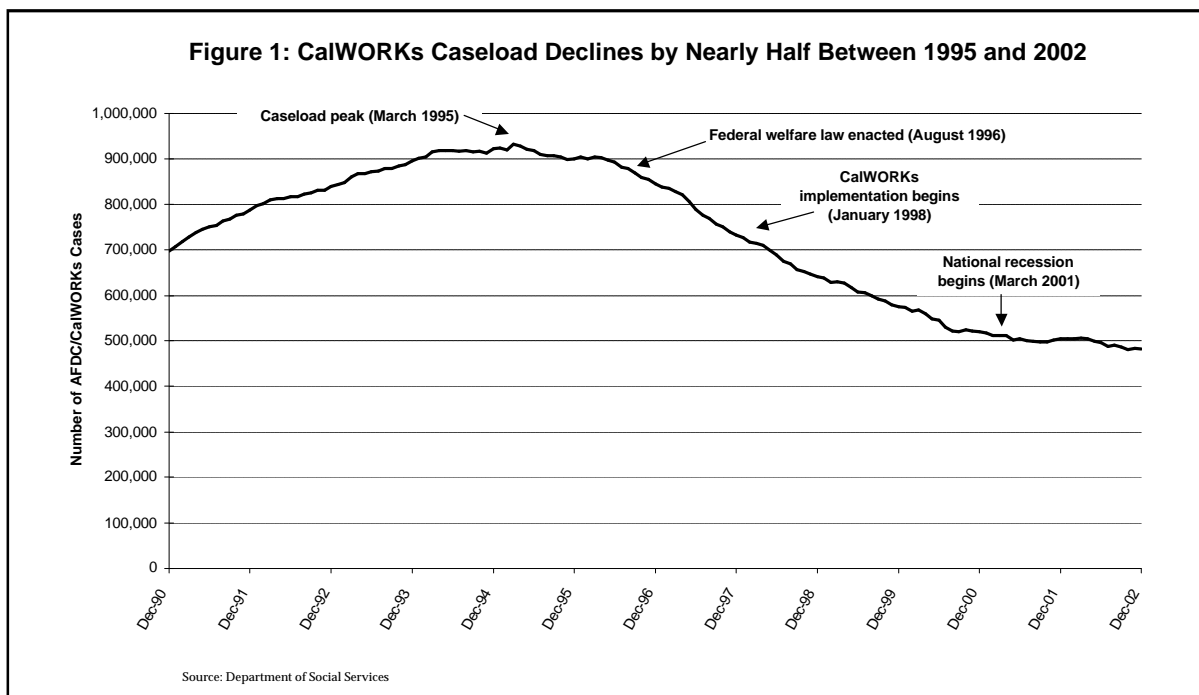
To bring perspective to the difficult decisions facing policymakers, this *Update* summarizes CalWORKs caseload trends, reviews CalWORKs spending reductions and freezes contained in the 2002 Budget Act, examines CalWORKs proposals included in the Governor's 2003-04 Proposed Budget, and analyzes the impact of the Governor's plan to suspend cost-of-living adjustments (COLAs) and reduce grant payments for CalWORKs recipients.

CALWORKS CASELOAD TRENDS

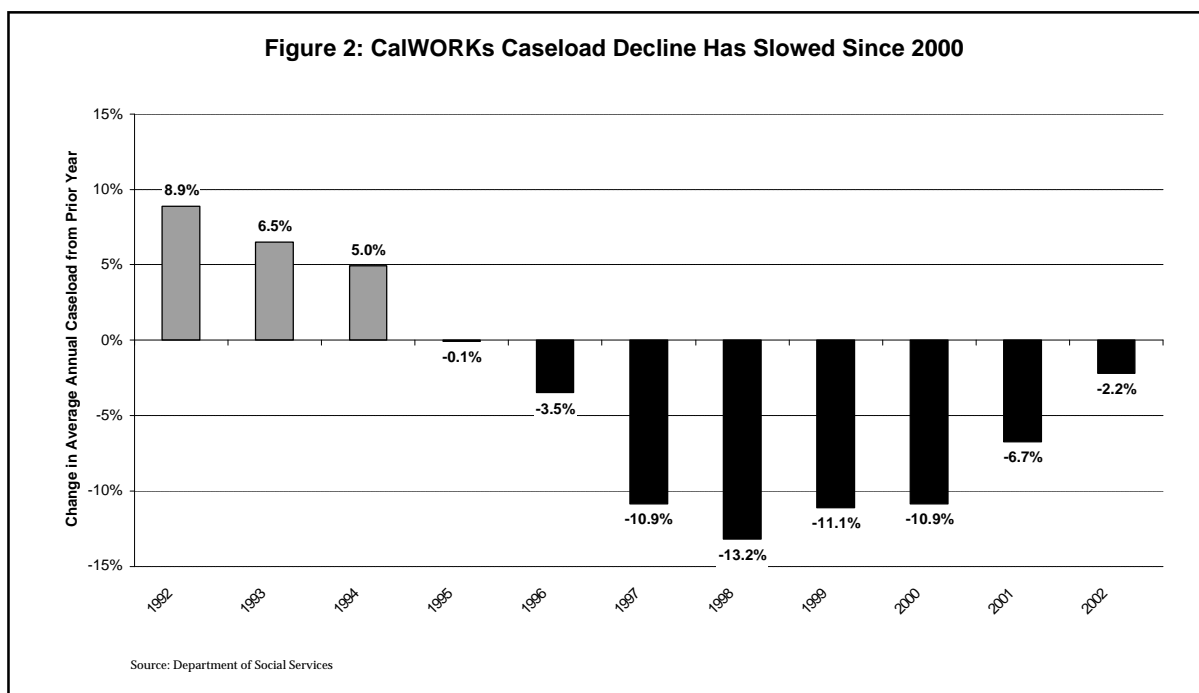
The CalWORKs caseload has declined steeply since March 1995, when the number of families receiving cash assistance peaked at 932,345 (Figure 1). The caseload declined by 48.3 percent to 482,071 in December 2002, the most recent month for which data are available. Several factors contributed to the decline, including the strong job market of the late 1990s and implementation of federal and state welfare reform policies and services.

Caseload Decline Loses Speed

Although the caseload has fallen for eight consecutive years, the decline has slowed significantly (Figure 2). The state's average annual caseload dropped by more than 10 percent per year between 1997 and 2000 during the state's economic expansion. The caseload has continued to decline, although less robustly, since the economic recession began in March 2001. The average annual caseload fell by 6.7 percent to 505,096 in 2001 and by a modest 2.2 percent to 493,953 in 2002.



The Governor's Proposed Budget projects the CalWORKs caseload will begin to rise. The caseload is estimated to increase to 511,000 cases during 2002-03 and to 514,000 cases during 2003-04.³ However, the caseload continued to decline through late 2002. In contrast to the Administration's estimates, the Legislative Analyst's Office (LAO) projects that the caseload decline will continue through 2003-04.⁴

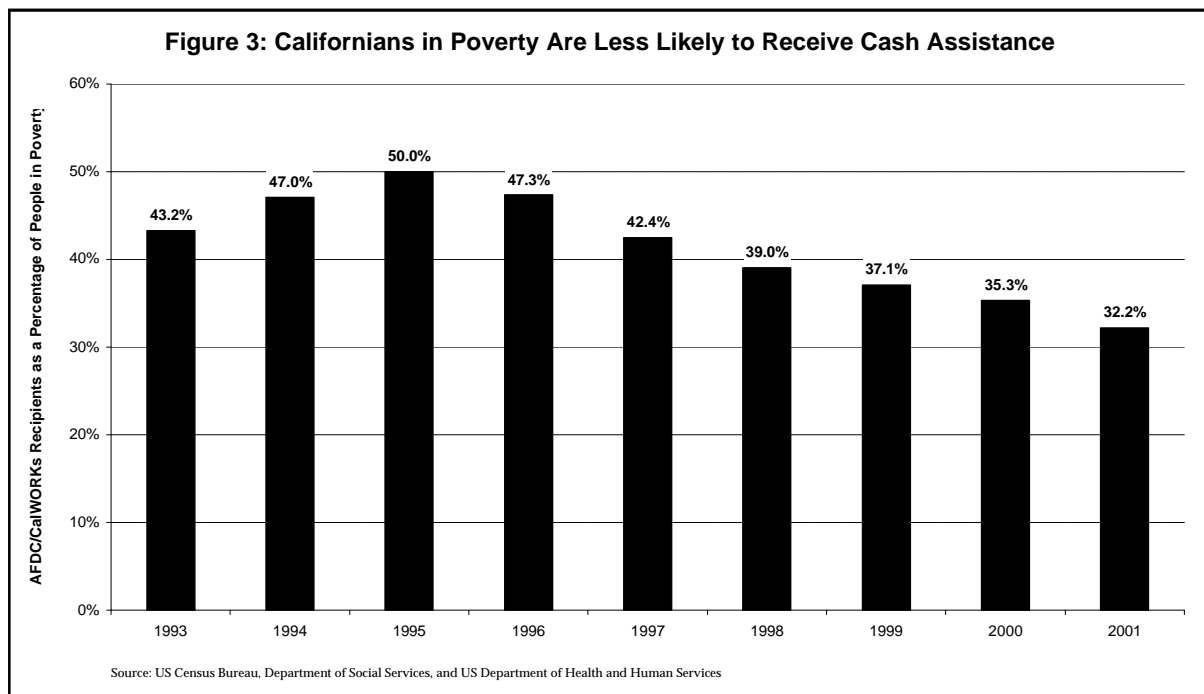


Unemployment and Caseloads Are Strongly Related in Urban and Suburban Counties

Statewide, the CalWORKs caseload has continued to decline, despite the fact that the average annual number of unemployed Californians increased by 10.5 percent between 2000 and 2001 and by 26.0 percent between 2001 and 2002.⁵ However, although the statewide caseload has fallen, caseloads have tended to decrease less or to increase in counties where unemployment increased more between 2000 and 2001.⁶ In fact, there appears to be a strong correlation between unemployment and caseloads in California's urban and suburban counties.⁷ In urban counties, the correlation between unemployment and caseloads is a robust 0.91, indicating that unemployment and caseloads tend to vary strongly in the same direction. The correlation for suburban counties and the San Francisco Bay Area is also strong.⁸ By contrast, the correlation for rural counties is weak.⁹ These results indicate that welfare caseloads in California's urban and suburban counties have been more sensitive to recent changes in the number of unemployed than welfare caseloads in rural counties.

Percentage of Poor Who Receive Cash Assistance Continues to Drop

Overall, the percentage of Californians living below the federal poverty line who receive cash assistance has declined steadily since the mid-1990s. While 50.0 percent of poor Californians received welfare in 1995, slightly fewer than one in three residents living in poverty (32.2 percent) received cash aid in 2001 (Figure 3). This suggests that California's welfare safety net has become less responsive to the state's working poor families, many of whom may not receive CalWORKs services and benefits for which they are eligible.



This trend will likely be reinforced by the implementation of time limits in California, which limits adults to five years of cash assistance.¹⁰ The first group of recipients reached the state time limit on January 1, 2003, and the DSS estimates that about 140,000 adults will “time out” between January 2003 and June 2004.¹¹ While the children of adults who reach the time limit remain eligible for state-funded cash assistance, some families with working adults who use cash aid to supplement their earnings will

lose the entire grant when the adults time out.¹² Many of these families do not earn enough to live above the federal poverty level, yet they will be excluded from receiving cash assistance due to time limits.

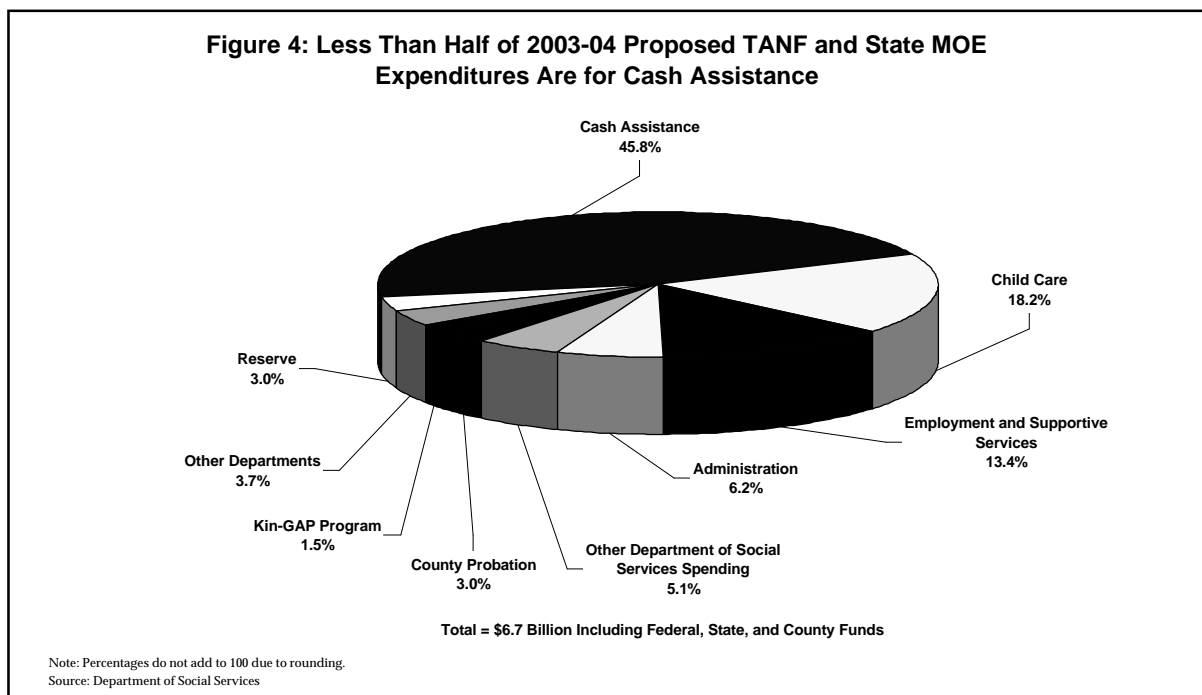
CALIFORNIA HAS REDUCED SUPPORT FOR CALWORKS

In response to static TANF block grant funding, rising program costs, and large budget shortfalls, the state has reduced support for core CalWORKs program components, including cash assistance and employment services. The 2002 Budget Act:

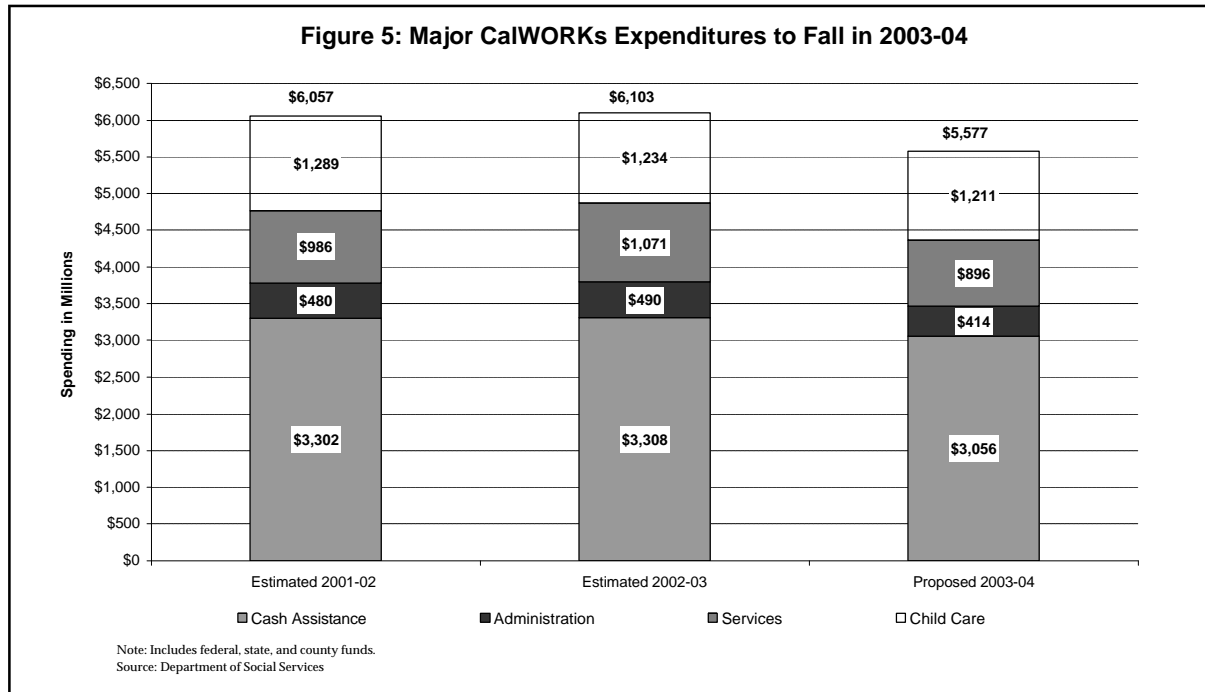
- Delayed the statutory cost-of-living adjustment (COLA) for CalWORKs cash assistance from October 2002 to June 2003, for an eight-month savings of \$99.1 million.
- Reduced funding for county CalWORKs administration by \$47.4 million and suspended “cost-of-doing-business” (CODB) increases for the second consecutive year.¹³
- Reduced funding for adult education and community college services for CalWORKs recipients by \$74.0 million.
- Did not provide, for the third consecutive year, bonus payments (known as “performance incentives”) to reward counties that have moved CalWORKs recipients from welfare to work.¹⁴

THE GOVERNOR’S 2003-04 CALWORKS PROPOSALS

The Governor proposes to spend \$6.7 billion in federal TANF and state MOE funds on CalWORKs and related programs in 2003-04. Less than half of proposed expenditures (45.8 percent) are for cash assistance (Figure 4). More than 30 percent of proposed spending is for child care and other services designed to help recipients find and retain employment.



In comparison with prior years, expenditures for cash assistance, administration, employment services, and child care—the major CalWORKs components—are proposed to decrease in 2003-04 (Figure 5). These decreases reflect projected savings from adults reaching the state time limit and the Governor’s proposal to reduce cash grants.



The Governor’s 2003-04 Proposed Budget:

- Suspends the June 2003 and October 2003 statutory cost-of-living adjustments (COLAs) for CalWORKs cash grants for savings of \$264.6 million.¹⁵
- Reduces the maximum aid payment (MAP) for CalWORKs cash grants by 6.2 percent as of July 1, 2003, for savings of \$235.3 million.¹⁶
- Eliminates CalWORKs Stage 3 child care, which provides assistance to recipients who have been off welfare for two years or more, as of April 1, 2003 for savings of \$98.8 million in 2002-03.
- Assumes savings of \$134.9 million in 2002-03 and \$480.8 million in 2003-04 due to adult recipients reaching the state five-year time limit. Savings are based on decreased cash grant payments and a reduction in the number of families that qualify for employment services and child care.
- Shifts 50 percent of non-federal CalWORKs administration and employment services costs and 100 percent of non-federal Stage 2 child care costs to counties in exchange for a dedicated revenue stream under the Governor’s “realignment” proposal. These shifts do not include a reduction in funding.
- Transfers \$65.7 million in TANF funds to the federal Social Services Block Grant to support Regional Centers for the developmentally disabled. The Governor says this shift is made possible “as a result of decreased CalWORKs grants.”¹⁷
- Reduces state funding for CalWORKs community college services by an additional 10.8 percent in 2003-04.¹⁸
- Continues to suspend county CODB increases and does not make payments owed to counties for caseload reduction.
- Creates a \$200 million TANF reserve using savings from the cash grant reduction. The Gover-

nor says the reserve is needed to “mitigate the impact” of several CalWORKs program pressures, including the likelihood that Congress will significantly increase work requirements when it reauthorizes the TANF block grant.

IMPACT OF THE PROPOSED COLA SUSPENSIONS AND GRANT REDUCTION

The Governor’s proposal to suspend COLAs and reduce grant payments would achieve savings of \$499.9 million for the CalWORKs program, but would lead to a loss of purchasing power for families that depend on CalWORKs for cash assistance.

Governor’s Proposals Would Have Long-Term Impact

The maximum CalWORKs grant for a family of three in high-cost counties is \$679 per month.¹⁹ Under current law, the maximum grant would increase to \$704 in June 2003 and to \$728 in October 2003. The Governor’s proposal would suspend these increases and cut the monthly grant to \$637, a reduction of 12.5 percent from what the grant level would be in October 2003 under current law. These changes would affect the long-term value of CalWORKs grants by reducing the grant base, absent an additional adjustment. Thus, even if the state implements the statutory CalWORKs COLA in 2004-05, CalWORKs grants would be 12.5 percent lower than they would have been in the absence of the suspensions and the grant reduction.

Moreover, reducing grant levels would cause some working families to lose cash aid, since the income threshold at which families would become ineligible for aid would be lowered.²⁰ This would affect families that have entered the workforce but whose earnings are too low to meet their basic needs.

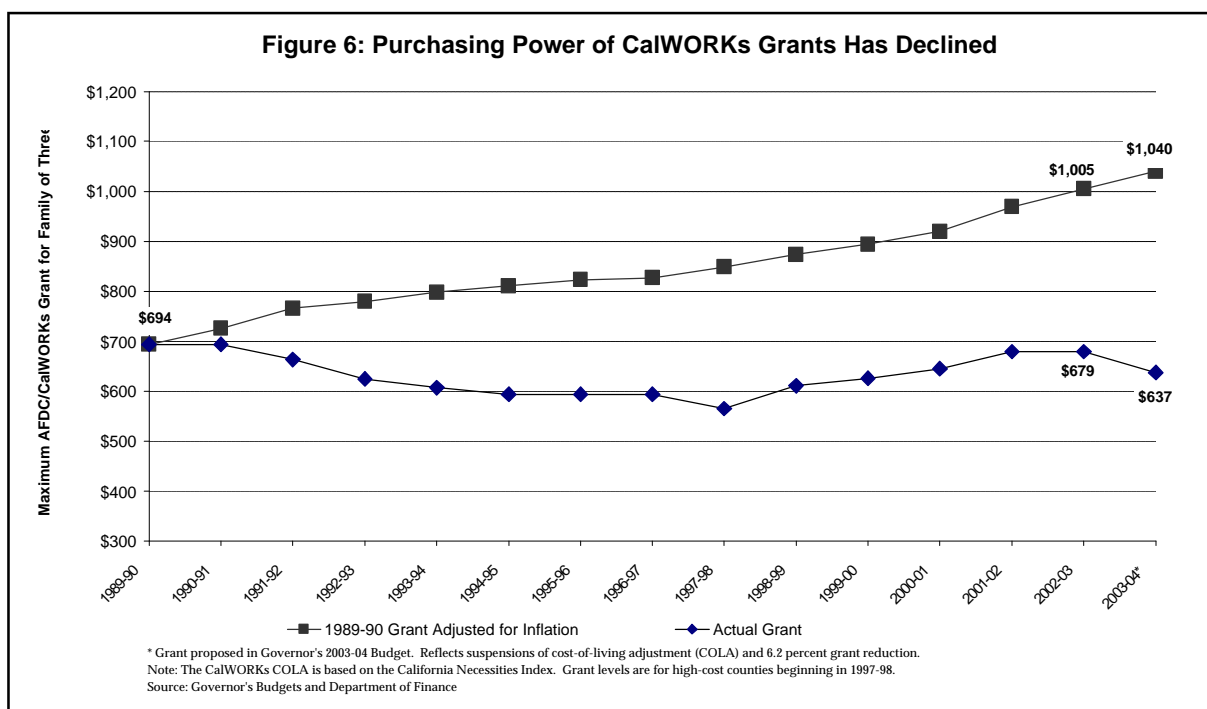
CalWORKs Grants Have Lost Value

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 2001-02, the current maximum monthly grant of \$679 for a family of three is \$15 (2.2 percent) lower than in 1989-90, when the maximum grant was \$694 per month (Figure 6).²¹ Adjusted for inflation, today’s maximum grant is 32.4 percent smaller than in 1989-90.

If the Governor’s proposals were adopted, CalWORKs grants would be 38.8 percent smaller in 2003-04 than if the COLA had been implemented every year since 1989-90. Moreover, the maximum grant for a family of three under the Governor’s Proposed Budget would fall to 50.1 percent of the federal poverty level (FPL) in 2003-04. By contrast, the maximum grant for a family of three in 1989-90 was 82.8 percent of FPL.

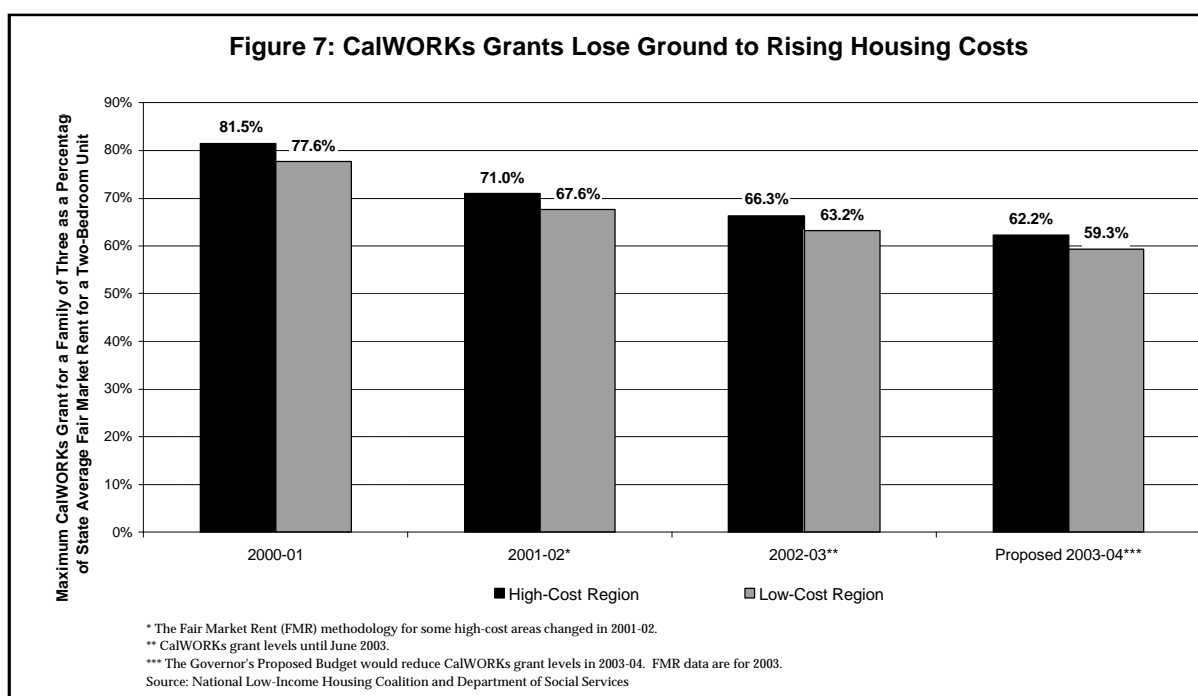
Housing Costs Outpace CalWORKs Grants

CalWORKs grants have not kept up with rising housing costs in recent years. In 2000-01, the maximum CalWORKs grant for a family of three in high-cost counties was 81.5 percent of the Fair Market Rent (FMR) for a two-bedroom unit (Figure 7).²² By 2002-03, the grant dropped to 66.3 percent of FMR and would fall to 62.2 percent in 2003-04 under the Governor’s proposal.



Changes Would Affect Poorest Families and Local Economies

The proposed COLA suspensions 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. To the extent that these families would spend this money in their communities, local economies would also be affected. In Los Angeles County, for example, the COLA suspension and grant reduction would represent a loss of \$188.1 million for about 178,000 families (Appendix 1).



Food Stamp Benefits Would Partially Offset Lost Cash Aid

Food stamp benefits, which rise automatically when a family's income falls, would partially offset lost cash assistance.²³ If the COLAs are suspended and the grant reduced, the combined maximum CalWORKs grant and food stamp benefits for a family of three would be \$957, as compared to \$1,007 with the COLAs and no grant reduction.²⁴

Grants Could Be Fully Funded with Savings from Lower Caseload and TANF Reserve

The Governor's Proposed Budget projects the CalWORKs caseload will increase, but recent data suggest that the caseload is more likely to decline or remain flat through 2003-04. As a result, the LAO indicates that the Governor overbudgeted for CalWORKs costs by \$350 million.²⁵ These savings, combined with the Governor's proposed \$200 million TANF reserve, would be sufficient to offset the 6.2 percent grant reduction and fund the June and October 2003 COLAs through the 2003-04 budget year.

CONCLUSION

The CalWORKs program faces significant challenges in the years ahead, including rising program costs, uncertainty over TANF reauthorization, and the state's unprecedented budget deficit. Statewide, the CalWORKs caseload has declined despite the recession and is likely to continue to decline or remain relatively flat through 2003-04. In response to the state's budget crisis, the Governor has proposed suspending COLAs and reducing cash grant payments for savings of \$499.9 million.

Given the fiscal constraints of the CalWORKs program, these savings should be weighed against the impact on CalWORKs families. On the one hand, increased food stamp benefits would help compensate for reduced grant levels. On the other hand, today's maximum grant is smaller than in 1989-90 and many families are unable to keep up with housing costs. Moreover, suspending the COLAs and reducing grants will have long-term consequences by reducing the CalWORKs grant base.

The state could use the \$200 million TANF reserve and the estimated \$350 million in caseload savings to offset the grant reduction and fund the June and October 2003 COLAs. Alternatively, policymakers could suspend the COLAs but maintain cash grants at their current levels. This option would leave a TANF reserve of more than \$300 million in 2003-04. However, a reserve of this size would likely be insufficient to fund ongoing additional employment services and child care costs if Congress adopts stricter work requirements when it reauthorizes the TANF block grant.

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 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 part of a series monitoring the implementation of welfare reform in California. General operating support for the California Budget Project is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's web site at www.cbp.org.

ENDNOTES

- ¹ The maintenance-of-effort (MOE) provision requires states to spend a minimum of 80 percent of their historic state expenditures on TANF-related programs. States that meet all federal work participation requirements, as California consistently has done, can reduce annual spending to 75 percent of their historic expenditure level.
- ² See California Budget Project, *Comparison of Key Provisions in TANF Reauthorization Proposals* (February 14, 2003), for an analysis of the TANF reauthorization bill passed by the US House of Representatives on February 13, 2003, and reauthorization proposals introduced in 2002.
- ³ Department of Finance, *Governor's Budget Summary 2003-04*, p. 130.
- ⁴ Legislative Analyst's Office, *Analysis of the 2003-04 Budget Bill* (February 19, 2003), p. C-152.
- ⁵ Studies indicate that unemployment and receipt of cash assistance tend to be positively related. Welfare applications tend to increase during economic downturns, as individuals lose jobs, draw down savings, and use up other sources of public support (e.g., unemployment insurance). Conversely, welfare rolls tend to fall during more prosperous economic times, as occurred during the late 1990s in California. Stephen H. Bell, *Why Are Welfare Caseloads Falling?* (Urban Institute: March 2001).
- ⁶ The analysis compared change in the average annual number of unemployed between 2000 and 2001 with CalWORKs caseload change between October 2001 and October 2002 for all 58 California counties.
- ⁷ Correlation analysis measures the extent to which two variables tend to vary in the same direction. The "correlation coefficient" is a measure of the degree of the relationship that exists between two variables. A value of zero means there is no correlation, a value of 1 indicates a perfect positive correlation, and a value of -1 indicates a perfect negative correlation. Correlation analysis does not establish that one variable causes variation in the other. However, a high correlation coefficient suggests that two variables are related.
- ⁸ The correlation coefficients are 0.76 for suburban counties and 0.63 for the San Francisco Bay Area, which includes both urban and suburban counties.
- ⁹ The correlation for rural counties with a major population center is 0.23 and for other rural counties is 0.13.
- ¹⁰ California Budget Project, *Timing Out: CalWORKs Recipients Face the State's Five-Year Time Limit* (December 2002). Children may continue to receive state-funded cash assistance as long as the family meets eligibility guidelines. In addition, state law provides a number of exemptions and exceptions that allow certain recipients to receive aid beyond 60 months.
- ¹¹ California Department of Social Services, *Local Assistance Estimates for the 2003-04 Governor's Budget* (January 10, 2003).
- ¹² California Budget Project, *Timing Out: CalWORKs Recipients Face the State's Five-Year Time Limit* (December 2002), p. 6. For example, Orange County estimated in 2002 that 25.0 percent of cases with an adult who would likely reach the state time limit in 2003 would lose the entire grant.
- ¹³ The County Welfare Directors Association (CWDA) estimates that the two-year suspension of CODB increases is equivalent to a \$248.0 million reduction to counties. Letter from CWDA to Assembly Budget Subcommittee No. 1 (March 10, 2003).
- ¹⁴ Legislative Analyst's Office, *Analysis of the 2003-04 Budget Bill* (February 19, 2003), p. C-161. The 2002 Budget Act also redirected \$297.0 million in unspent county performance incentives to fund basic CalWORKs program costs, including cash assistance and services. This transfer increased the state's obligation to the counties for previously earned incentives to \$394.0 million.
- ¹⁵ The statutory COLA is based on the California Necessities Index, which is 3.74 percent in 2002-03 and is estimated to be 3.48 percent in 2003-04.
- ¹⁶ The MAP varies according to family size and county of residence and represents the maximum monthly grant that a CalWORKs family may receive. The 2002-03 MAP for a family of two in a high-cost county is \$548 per month, while the MAP for a family of three in a high-cost county is \$679 per month. High-cost counties are those with high housing costs, as defined in Welfare and Institutions Code, Section 11452.018. The state established a two-tier grant structure of high-cost counties and low-cost counties on January 1, 1997.
- ¹⁷ Department of Finance, *Governor's Budget Summary 2003-04*, p. 14.
- ¹⁸ The Governor also proposed an additional 10.8 percent reduction in state funding for CalWORKs community college services in 2002-03, but the Legislature rejected that proposal.
- ¹⁹ High-cost counties are those with high housing costs, as defined in Welfare and Institutions Code, Section 11452.018.
- ²⁰ Working families qualify for cash assistance if their countable earnings do not exceed the MAP for their family size. In determining countable earnings, California disregards a portion of a family's monthly earnings (\$225, in addition one-half of the remainder). If the MAP is reduced as the Governor proposes, more working families will exceed the limit and thus fewer working families will qualify for cash assistance.
- ²¹ 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.
- ²² The federal Department of Housing and Urban Development (HUD) determines Fair Market Rents (FMRs) for federal housing assistance purposes. The FMR estimates the dollar amount below which 40 percent of standard quality rental housing units are rented; in recent years, FMRs for some higher-cost counties have been set at the 50th percentile. FMRs are based on the distribution of rents paid by "recent movers" - rental households that have moved within the past 15 months. FMRs include the cost of shelter and utilities, excluding telephone service, and are adjusted for the number of bedrooms in the rental unit.
- ²³ Food stamps help families purchase food, but cannot be converted to cash.
- ²⁴ Legislative Analyst's Office, *Analysis of the 2003-04 Budget Bill* (February 19, 2003), p. C-155.
- ²⁵ The LAO estimates that CalWORKs costs are overbudgeted by \$250 million in 2002-03 and by \$100 million in 2003-04. Legislative Analyst's Office, *Analysis of the 2003-04 Budget Bill* (February 19, 2003), pp. C-152 - C-153.

Appendix 1: Impact of Governor's Proposed COLA Suspensions and Grant Reduction by County

<u>County</u>	<u>Number of Families Affected*</u>	<u>Estimated Loss of Funds**</u>	<u>County</u>	<u>Number of Families Affected*</u>	<u>Estimated Loss of Funds**</u>
Alameda	16,447	\$17,390,629	Orange	19,008	\$20,098,564
Alpine	30	\$30,167	Placer	1,204	\$1,210,362
Amador	252	\$253,737	Plumas	154	\$154,521
Butte	4,032	\$4,054,428	Riverside	19,170	\$19,276,970
Calaveras	361	\$363,343	Sacramento	27,887	\$28,042,459
Colusa	185	\$186,364	San Benito	519	\$522,222
Contra Costa	7,592	\$8,027,230	San Bernardino	35,069	\$35,264,410
Del Norte	746	\$749,815	San Diego	25,433	\$26,891,838
El Dorado	926	\$930,816	San Francisco	5,203	\$5,501,164
Fresno	21,150	\$21,267,984	San Joaquin	12,491	\$12,560,482
Glenn	446	\$448,146	San Luis Obispo	1,543	\$1,631,528
Humboldt	2,004	\$2,014,812	San Mateo	1,915	\$2,025,224
Imperial	4,204	\$4,227,385	Santa Barbara	3,820	\$4,038,816
Inyo	118	\$118,992	Santa Clara	11,994	\$12,682,495
Kern	16,235	\$16,325,309	Santa Cruz	1,548	\$1,636,815
Kings	2,383	\$2,395,920	Shasta	3,089	\$3,106,518
Lake	1,484	\$1,492,590	Sierra	31	\$31,508
Lassen	431	\$433,733	Siskiyou	734	\$737,748
Los Angeles	177,868	\$188,073,337	Solano	3,750	\$3,964,800
Madera	3,027	\$3,044,173	Sonoma	2,340	\$2,474,607
Marin	792	\$837,088	Stanislaus	8,176	\$8,221,815
Mariposa	182	\$182,677	Sutter	1,061	\$1,067,237
Mendocino	1,413	\$1,421,195	Tehama	1,127	\$1,132,934
Merced	5,703	\$5,734,388	Trinity	189	\$189,716
Modoc	174	\$175,303	Tulare	11,294	\$11,357,159
Mono	48	\$48,602	Tuolumne	689	\$693,168
Monterey	4,231	\$4,474,102	Ventura	5,365	\$5,672,811
Napa	423	\$447,269	Yolo	2,086	\$2,097,939
Nevada	530	\$532,948	Yuba	1,921	\$1,931,686
Total			482,230	\$499,900,000	

* Average monthly CalWORKs caseload, October through December 2002.

** Estimated total grant loss to CalWORKs recipients, adjusted for different grant levels in high-cost and low-cost counties. Loss of funds due to the COLA suspensions and the grant reduction will be lower than \$499.9 million if statewide caseloads are smaller than projected in the Governor's Budget, as the Legislative Analyst's Office indicates. These estimates do not adjust for potential variation across counties in the number of adult recipients who may reach the CalWORKs five-year time limit during 2003-04.

Source: Department of Social Services and Governor's 2003-04 Proposed Budget