

CalWORKs

We have not yet had the time to discuss these issues in depth with the administration or stakeholders, so it would be best to treat all information as preliminary and subject to change as we learn more in the coming days.

CalWORKs Caseload Projections Down 5 Percent, Resulting in Much Lower Costs Than Under LAO Projections. Relative to the January budget proposal, the May Revision assumes CalWORKs caseload is about 5 percent lower in both 2022-23 and 2023-24. These revised caseload assumptions reduce estimated CalWORKs costs by about \$150 million in each of these two years. Our caseload projections were roughly the same as the administration's in January. Our revised caseload estimates remain similar to the administration's revised estimates in 2022-23, but are notably higher than the administration's in 2023-24. Under our caseload projections, CalWORKs costs would be about \$500 million higher than the administration's estimates in 2023-24. We are still working to understand these differences.

Early Reversion of Single Allocation. It is our understanding that the administration is proposing to revert \$280 million in unspent CalWORKs Single Allocation funds from the 2021-22 budget. These funds would revert on the natural in 2024-25—so this proposed budget year reversion represents a one-year acceleration. The administration notes that this number may change as discussions with CWDA occur. If a proposal such as this is adopted, the administration notes it will not be the first time that unspent single allocation funds have been reverted early. It does, however, raise questions about the funding of the single allocation and we continue to work with the administration to better understand how expenditures are aligning with allocations in the current year as well. Additionally, the Legislature may wish to ask the administration to report on the *total* amount of unspent single allocation funds from 2021-22 to

better understand whether the \$280 million would completely eliminate a reversion next year or whether the \$280 million would still leave some of the 2021-22 unspent single allocation funds to revert on the natural.

Increased CalWORKs Grant Increase in 2023-24 May Trigger New General Fund Costs Under LAO Projections. In January, the administration estimated that a 2.9 grant increase could be provided from the Child Poverty and Family Supplemental Support Subaccount (realignment funding) at an estimated cost of \$95 in the budget year (\$125 annually). The May Revision now estimates the grant increase will be 3.6 percent at a cost of \$112.5 in the budget year (\$150 million annually). We are still working with the administration to understand their estimate methodology. However, under our projections of caseload and revenue growth in the outyears we anticipate that although this grant increase could be afforded in 2023-24, it may not be fully supported by continued growth in realignment revenues. When grant increases originally funded by realignment revenues can no longer be supported by those revenues, the General Fund automatically picks up the excess cost. We estimate the proposed grant increase may trigger the need for such General Fund backfills of more than \$100 million beginning in 2024-25.

Food Benefits

Accelerates CFAP Expansion Timeline. Relative to the January budget proposal, the May Revision accelerates the timeline for CFAP expansion to older immigrants, with benefits now expected to begin on October 1, 2025. We are still working to understand the changes to the proposed timeline.

Rebases CalFresh Administrative Funding. In fulfillment of TBL included in last year's budget agreement, the May Revision revises the funding formula for CalFresh county

administration and adds about \$160 million to the base allocation for that formula. As we understand it, the revised funding formula closely follows the administrative funding formula used for CalWORKs since 2018-19, and similarly requires a once-every-three-years adjustment. However, also similar to the CalWORKs methodology, it does not include an ongoing inflationary adjustment. The lack of such an adjustment has been an ongoing issue with the CalWORKs administrative funding formula, so the Legislature may wish to consider options for adding such an adjustment to this proposal. Additionally, the Legislature may wish to ask whether there have been any “lessons learned” from the implementation of the administrative funding methodology in CalWORKs, and how the CalFresh methodology takes those lessons into account. For example, we know that the CalWORKs methodology did not contemplate how to quickly ramp up or ramp down administrative funding allocations in years where the budget significantly over or underestimates caseload. Accounting for this sort of volatility could provide increases in a more timely fashion when caseload is increasing as well as reduce budget pressure when caseload declines.

Use of Safety Net Reserve Raises Key Questions. The May Revision proposes transferring \$450 million from the Safety Net Reserve to the General Fund. While the administration appropriately focuses on spending-related solutions to address the budget problem, the administration still maintains substantial one-time spending while using reserves (as well as budgetary borrowing), which we have recommended using in order to sustain core programs in a downturn. Moreover, whether this withdrawal from the Safety Net Reserve is consistent with legislative intent is unclear. Consequently, we advise approaching this proposal with skepticism.