AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 1 ON HEALTH AND HUMAN SERVICES

Assemblymember Hector De La Torre, Chair

WEDNESDAY, APRIL 13, 2005, 1:30 PM
STATE CAPITOL, ROOM 444

ITEMS TO BE HEARD

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ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 1: CALIFORNIA'S WORK PARTICIPATION AND TANF REAUTHORIZATION

The Federal Government is considering changes to the TANF program that will require the State to improve its work participation rate.

BACKGROUND:

In response to federal welfare reform legislation called Temporary Assistance for Needy Families (TANF), the Legislature created the California Work Opportunity and Responsibility to Kids (CalWORKs) program, enacted by AB 1542 (Ducheny, Ashburn, Thompson, and Maddy, Chapter 270, Statutes of 1997). Like its predecessor, Aid to Families with Dependent Children (AFDC), the new program provides cash grants and welfare-to-work services to families whose incomes are not adequate to meet their basic needs. A family is eligible for the one-parent component of the program if it includes a child who is financially needy due to the death, incapacity, or continued absence of one or both parents. A family is eligible for the two-parent component if it includes a child who is financially needy due to the unemployment of one or both parents.

FEDERAL TANF REAUTHORIZATION AND WORK PARTICIPATION:

Under current federal law, states must have certain percentages of their families working or participating in program activities. These percentages are reduced by the "Caseload Reduction Credit," which is the amount of caseload reduction that has occurred since the enactment of the federal 1996 welfare reform legislation. Some versions of welfare reform reauthorization continue or modify this caseload reduction credit. Other versions eliminate this credit. All versions increase the percentage requirements for participation.

Work Requirements For New TANF Proposal	Weekly Hours	Percentage of Caseload Working
Current - California	32	50%
Current - federal TANF	30	50%
President	40	70%
Senate - S 6	34	70%
House - HR 240	37	70%

Current federal law reduced the State's required work participation rate by the percentage of caseload decline. All three versions of TANF reauthorization would modify or eliminate that adjustment, which would make it more difficult to meet the federal requirement.

ACTIVITIES THAT COUNT TOWARDS WORK PARTICIPATION:

CalWORKs offers a broader range of activities that count toward the participation in the program than the federal government counts towards work participation. The chart below illustrates the difference between CalWORKs and TANF activities:

TANF	CALWORKS
Subsidized private sector employment	Subsidized private sector employment
Subsidized public sector employment	Subsidized public sector employment
Work experience	Work experience
On-the-job training (OJT)	On-the-job training (OJT)
Grant-based OJT	Grant-based OJT
Supported work or transitional employment	Supported work or transitional employment
Work study	Work study
Self-employment	Self-employment
Community service	Community service
Vocational education and training (up to 12 months)	Vocational education and training (up to 12 months)
Job search and job readiness assistance	Job search and job readiness assistance
Education directly related to employment (for head of household under age 20 only)	Education directly related to employment
Satisfactory progress in a secondary school (for head of household under age 20 only)	Satisfactory progress in a secondary school
	Adult Basic Education
	Job skills training directly related to employment
	Mental health, substance abuse, domestic violence services
	Vocational education and training (post 12-months)
	Other activities necessary to assist an individual in obtaining employment
	Participation required by the school to ensure the child's attendance
	Non-credited study time [pursuant to Section 42-716.272(a)]

SB 1104 (Committee on Budget and Fiscal Review, Chapter 229, Statutes of 2004), last year's Human Services Trailer Bill, created a set of "core" work activities for participants that must account for 20 of the 32 hours of activities per week. These activities mirror the federal requirements. This issue will be discussed in greater detail in a later issue on the agenda.

STATE COULD FACE A SANCTION IF IT DOES NOT MEET NEW FEDERAL REQUIREMENTS:

The chart below provides an overview of how the State could lose over $1 billion over five years if federal work participation goals are not met.

5 Year Impact of HR4 Work Participation Penalty Calculation							
		1st Year	*2nd Year*	*3rd Year*	*4th Year*	*5th Year*	*Total*
1	TANF Block Grant	$3,770,000,000	$3,770,000,000	$3,770,000,000	$3,770,000,000	$3,770,000,000	
2	Penalty	0.00%	5.00%	7.00%	9.00%	11.00%	
3	Potential Penalty (1 X 2)	No Sanction	$188,500,000	$263,900,000	$339,300,000	$414,700,000	
4	Proration of Penalty	No Sanction	10.76%	59.35%	65.54%	68.00%	
5	Prorated Penalty	No Sanction	$20,276,892	$156,615,789	$222,372,000	$281,996,000	$681,260,682
6	MOE Cost	No Sanction	$182,000,000	$182,000,000	$182,000,000	$182,000,000	$728,000,000
5	General Fund Cost	$0	$202,276,892	$338,615,789	$404,372,000	$463,996,000	$1,409,260,682

TRENDS IN CALWORKS WORK PARTICIPATION:

Overall, California's work participation rate has dropped since the CalWORKs program began. The chart below illustrates this trend:

All Families Work Participation	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	FFY 2003	FFY 2004*
Required Participation Rate	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%	50.00%	50.00%
Caseload Reduction Credit	5.50%	12.20%	26.50%	32.10%	38.60%	43.30%	44.20%	46.10%
Adjusted Participation Rate	19.50%	17.80%	8.50%	7.90%	6.40%	6.70%	5.80%	3.90%
California's Work Participation Rate	29.70%	36.60%	42.20%	27.50%	25.90%	27.30%	24.00%	22.10%

There are several factors that explain this drop in participation:

- California has a broader interpretation of "participation" than the federal government, so some cases are engaged in activities authorized by CalWORKs but not counted in the federal rate, such as domestic violence services.

- In 2000, the State stopped counting two-parent families in the overall rate, these families have a much higher average rate of work participation than the overall caseload. The State took this action to avoid a federal penalty associated with two-parent family work participation rates that is proposed to be eliminated in all versions of the reauthorization.

The chart below illustrates the two-parent work participation rate:

Two Parent Work Participation	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	FFY 2003
Required Participation Rate	75.00%	75.00%	90.00%	90.00%	90.00%	90.00%	90.00%
Caseload Reduction Credit	34.20%	42.30%	53.10%	61.40%	65.00%	70.10%	72.10%
Adjusted Participation Rate	40.80%	32.70%	36.90%	28.60%	25.00%	19.90%	17.90%
California's Work Participation Rate	42.30%	36.20%	54.30%	47.70%	44.70%	40.30%	

- Many working CalWORKs families were able to earn enough to no longer qualify for aid.
- Many working CalWORKs parent that did not earn enough to exit the system hit the 60th month time-limit for benefits and were no longer eligible.
- The trends do not reflect recent policy changes contained in last year's Human Services trailer bill, SB 1104, that are designed to increase work participation.

HOW CALIFORNIA COMPARES TO OTHER STATES:

Comparing California to other states provides some perspective of the challenges all states will face in meeting the proposed federal work participation rates. The chart below provides 2002 work participation data for the 10 largest states:

State	Percentage Meeting Work Participation Through Employment	Overall Participation Rate
Illinois	37.7%	58.5%
Michigan	25.9	28.8
New York	23.8	38.7
California	**21.3**	**27.3**
Ohio	21	56.2
Texas	19.7	29.6
Florida	14	32
New Jersey	14	36.5
Pennsylvania	9.1	10.4
Georgia	3.9	8.3

WHAT WORK PARTICIPATION REQUIRMENTS MEAN TO CALWORKS FAMILIES:

The combined effect of the Governor's Budget proposals and the federal TANF reauthorization efforts will make it difficult for the State to meet work participation requirements. The Budget proposal to reduce the overall grant level and decrease the earned income disregard (discussed in later items) will reduce the maximum income a family can receive and still qualify for aid while the federal government will require more of the State's caseload to work additional hours per week.

This could lead to a policy that encourages counties to steer CalWORKs families to minimum wage or near-minimum wage jobs. If the Subcommittee adopts all of the proposals recommended by the Governor and the federal government adopted the President's proposed work requirements a family of three earning more than $7.67 per hour would earn too much to be eligible for assistance.

The chart below indicates the effect of the proposed changes on the maximum wage a CalWORKs participant with two children could earn and remain eligible under the different TANF proposals:

Work Requirements For New TANF Proposal	Weekly Hours	Maximum hourly wage Current Law	Maximum hourly wage Governor's Budget	Credit to reduce State's required work participation rate?
Current - California	32	$ **12.07**	$ **9.58**	Caseload reduction since 1996
Current - federal TANF	30	$ **12.87**	$ **10.22**	Caseload reduction since 1996
President	40	$ **9.65**	$ **7.67**	None
Senate - S 6	34	$ **11.36**	$ **9.02**	Employment credit
House - HR 240	37	$ **10.45**	$ **8.30**	Rolling lookback - Caseload reduction in recent years

The net effect of the proposed changes to TANF and the Governor's changes to CalWORKs could result in an almost one-third reduction in the maximum wage a working CalWORKs family could earn and still be eligible for aid. Since the State is exploring holding counties accountable for their performance on federal indicators, counties may have an incentive to target their clients towards labor markets that provide wages at or near the minimum wage. Such a proposal undermines efforts in CalWORKs to try to provide families the tools they need to achieve self-sufficiency.

OTHER CONSIDERATIONS FOR IMPROVING WORK PARTICIPATION:

The State's actual work participation rate may be higher than the rate reported to the federal government. The current rate excludes two-parent families, who have a higher work participation rate than the State average but continues to include exempt cases that could be excluded from the calculation by changing the current program design.

Last year's Human Services trailer bill (SB 1104) contained provisions, such as universal engagement of all CalWORKs families in case plans that were designed to increase work participation. Implementation of these provisions is underway and thus its effect upon work participation would not be noticed in the reported data for at least another 18 months.

PANELISTS:

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- Charr Lee Metsker
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STAFF COMMENT:

All three versions of federal TANF reauthorization being considered create incentives for California to keep working CalWORKs families on aid and only marginally rewards the State when these families earn enough to exit the system. The Governor's Budget proposes making local funding contingent upon county "performance" on federal measures—thus passing these incentives on to the counties.

Although DSS declared that getting CalWORKs families to self-sufficiency was one of their program priorities; adopting the federal goals would fundamentally change the types of services offered by counties. Counties could receive 5 percent less than their current level of allocation to run the CalWORKs program unless they can demonstrate that a large percentage of their caseload was able to work the additional hours required by the federal government and still not earn enough to leave aid. As a result, counties that choose to enhance CalWORKs participants self-sufficiency by placing families into better paying jobs would ironically perform worse than counties that funnel its participants into unpaid "workfare" or minimum wage employment.

ISSUE 2: CALWORKS FUNDING SHIFTS

The Governor's Budget achieves $587 million General Fund savings by reducing CalWORKs grants and program funding and then shifting their federal funds to pay for other programs.

BACKGROUND:

Federal law permits the expenditure of TANF funds for a variety of programs and activities. It may be expended on any program designed to:

1) Provide assistance to needy families and children;
2) End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
3) Prevent and reduce the incidence of out-of-wedlock pregnancies; and
4) Encourage the formation and maintenance of two-parent families.

To receive the federal TANF block grant, states must meet an MOE requirement that state spending on assistance for needy families be at least 75 percent of the federal fiscal year (FFY) 1994 level, which is $2.7 billion for California. The requirement increases to 80 percent if the State fails to comply with federal work participation requirements. Countable MOE expenditures include those made on behalf of CalWORKs recipients as well as for families who are *eligible* for CalWORKs but are not receiving cash assistance. Although the MOE requirement is primarily met through State and county spending on CalWORKs and other programs administered by DSS, State spending in other departments is also counted toward satisfying the requirement. The *2004-05 Budget Act* includes $321 million in countable MOE expenditures outside of the CalWORKs program ($28 million from other DSS programs and $293 million from other departments).

ADDITIONAL FUNDING SHIFTS AND MOE COUNTABLE ITEMS IN THE BUDGET:

The Governor's Budget achieves $587 million in General Fund savings by using TANF funding for other programs or counting non-CalWORKs child care Prop. 98 expenditures within CDE's budget as part of the State's required MOE match. The table below details the transfers:

How General Fund Is Saved Through CalWORKs MOE	
Replace General Fund in DSS With MOE From CDE	
Count CDE child care expenditures towards MOE	$201.60
Replace General Fund in Other Programs With TANF	
Board of Corrections—Juvenile Probation	$201.40
SDE—Stage 2 child care	69
Replace General Fund in Other Programs With TANF transferred to Title XX	
Developmental Services—Community Services Program	$60.00
DSS—Foster Care	55.1
Total Savings	**$587.10**

Recognizing existing child care spending as additional state-countable expenditures outside of CalWORKs toward the MOE has two impacts. First, it reduces the total amount of State funding that needs to be spent specifically on CalWORKs to meet the MOE requirement. Second, it enables the State to achieve General Fund savings while maintaining compliance with the federal MOE requirements by reducing the General Fund appropriation to DSS for CalWORKs. However, to obtain the General Fund savings, program reductions in CalWORKs are necessary unless there are sufficient federal TANF funds available to cover CalWORKs program costs pursuant to current law.

PROGRAM REDUCTIONS NEEDED TO ACHIEVE GENERAL FUND SAVINGS THROUGH FUNDING SHIFTS:

To free up the necessary TANF funding to achieve the $587 million General Fund savings, the Governor's Budget includes over $652 million in reductions to CalWORKs.

The table below denotes these reductions:

CalWORKs Program Reductions	Reductions (millions)
CalWORKs Grant Reduction	$212.3
CalWORKs COLA Deletion	$163.8
CalWORKs Employment Services	$50
Child Care Reform	$62.6
CalWORKs Sanctions	$12
Pay for Performance	$22.2
Earned Income Disregard	$82
Current Year Tribal TANF	$5
Unexpected Savings for CY Unspent Funds	$42.9
Total CalWORKs Reductions	**$652.8**

WHY THESE ITEMS WERE NOT COUNTED IN THE CURRENT YEAR:

The fiscal year 2004-2005 Budget Act contained two significant changes to the way the State counts MOE funding. First, the Legislature adopted budget control language that limited the amount of SDE child care expenditures that would count toward the MOE. Specifically, the language limited countable SDE child care to those expenditures on behalf of families *receiving* CalWORKs, rather than families who may be *eligible* for CalWORKs but were not receiving cash assistance. This language reduced the amount of countable MOE expenditures by $153 million. Second, with the sunset of the State Comprehensive Youth Services Act on November 1, 2004, the Budget replaced $134 million in TANF funding for local youth probation programs with support from the General Fund in the Board of Corrections. Previously, the State had provided $201 million in TANF funding for youth probation on a full-year basis. These two actions freed up $287 million in TANF ($124 million) and MOE ($153 million) funds to be used for CalWORKs recipients. The actions also resulted in General Fund costs of an identical $287 million.

CALWORKS HAS SHRUNK SINCE 1997 TO MAKE ROOM FOR OTHER PROGRAMS:

The repeated use of TANF funding for other State purposes has shrunk the size of the overall CalWORKs program dramatically. Overall, the CalWORKs program is $700 million, 13 percent, smaller than it was in 1998. However, transfers of funding out of the program have increased 194 percent over the same period. The Governor's Budget proposes to transfer $840 million out of the program.

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  Western Center on Law and Poverty

STAFF COMMENT:

Overall reductions to the CalWORKs program is the third largest source of savings assumed in the Governor's budget (the other two are cuts to education and the suspension of Prop 42 transportation funding). CalWORKS reductions represent almost 15 percent of the all program reductions proposed by in the Governor's 2005-06 Budget.

ISSUE 3: CALWORKS GRANT LEVELS

The Governor’s Budget includes a substantial reduction to CalWORKs grant levels.

BACKGROUND:

The Governor's Budget proposes to reduce CalWORKs grants by 6.5 percent, suspend the COLAs for the fiscal year 2005-2006, and delete the statutory requirement that the State provide an annual COLA to CalWORKs. The net effects on the grant level would be a reduction of $47 from the current $723 per month to $676 per month for a family of three. The grant level, for a family of three, after the July 2005 COLA would have been $752, $76 (11.1 percent) more than the grant level proposed in the Governor's Budget.

The *Governor's Budget Summary* notes that California's grant level is higher than several other large states. However it is important to note that the proposed CalWORKs grant level of $676 per month is lower than the amount given to AFDC recipients in 1989. Since 1990, net results of frozen COLAs and reductions to the grant levels have reduced the purchasing power of the grant by 33.8 percent. Under the Governor's proposed reduction, the purchasing power of CalWORKs grant in Fiscal Year 05-06 would be 60.7 percent of its 1989 level.

The table below illustrates the grant level over the last 15 year.

AFDC/CALWORKS BENEFITS, 1988 - 2005

Effective Dates	Maximum Aid (MAP) family of 3	Final Action	California Necessity Index (inflation)	Maximum Aid Payment if full COLA adopted
July 88	$663	4.7%	4.7%	$663
July 89	$694	4.7%	4.7%	$694
July 90	$694	0.0%	4.6%	$726
July 91	$663	-4.4%	5.5%	$766
July 92	$624	-5.8%	1.8%	$780
July 93	$607	-2.7%	2.4%	$798
July 94	$594	-2.3%	1.7%	$812
July 95	$594	-4.9%	1.3%	$822
July 96	$594	0.0%	0.5%	$827
Jan 97	$565	0.0%	2.6%	$848
Nov 98	$611	8.1%	2.8%	$872
July 99	$626	2.4%	2.4%	$893
Oct 00	$645	2.9%	2.9%	$919
Oct 01	$679	5.3%	5.3%	$968
Oct 02	$679	0.0%	3.7%	$1,004
June 03	$704	3.7%	---	$1,027
Oct 04	$704	---	2.8%	$1092
July/Dec 04	$723	2.8%	2.8%	
July 05	$676	-6.5%	4.6%	$1142

GUILLEN CASE TRAILER BILL

The State may also have to provide a retroactive COLA for all grants since October 2003. In the Guillen court case, advocates for the State's CalWORKs recipients successfully argued in superior court that the State should provide the October COLA. Currently, the administration is appealing this ruling and an appellate court decision is expected sometime during the second half of 2005. The administration is proposing a trailer bill to prospectively delete the October 2003 COLA in the event that the state loses its appeal. This trailer bill would result in avoided costs of $131 million in 2005-06. In the event that Guillen is affirmed by the appeals court, the State will owe $222 million in retroactive payment to CalWORKs recipients. This expenditure is not included in the Governor's Budget.

TRAILER BILL PERMANENTLY ELIMINATES CALWORKS COLA:

The Governor's Budget includes proposed Trailer Bill Language to permanently eliminate statutory provisions that provide a CalWORKs COLA each year. In previous years, when the Wilson, Davis, and Schwarzenegger administrations proposed to cut the CalWORKs COLA, the language suspended the COLA but did not permanently eliminate it.

PROPOSAL WOULD REDUCE CALIFORNIA'S WORK PARTICIPATION RATE:

Lowering or freezing the CalWORKs grant level would reduce the State's performance on the federal work participation rate indicator. Reducing the maximum grant level would make 6,990 ineligible for further aid because their earnings would be too high to continue to qualify for assistance. These working families would no longer be counted towards the State's work participation rate.

This proposal interacts with the proposed reduction to the Earned Income Disregard, discussed in the next issue on the agenda. The maximum monthly grant, in combination with the disregard policy, creates the exit point for CalWORKs (the point at which a family is no longer financially eligible for the program). For a family of three in a high-cost county the current exit point is a monthly income of $1,671 (128 percent of the 2004 poverty guideline). When food stamps and the earned income tax credit are added, the family's total income at the exit point is about $1,939 (149 percent of the poverty guideline).

PANELISTS:

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ISSUE 4: EARNED INCOME DISREGARD

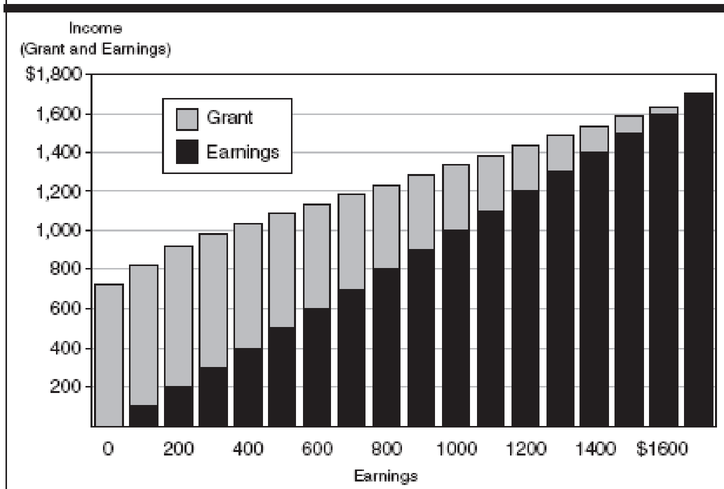
The Governor's Budget achieves savings by taking more money from CalWORKs working families.

BACKGROUND:

The Governor's Budget decreases the CalWORKs Earned Income Disregard for $82 million in savings. The Earned Income Disregard encourages CalWORKs participants to work by allowing them to keep the first $225 they earn each month through work without impacting their grant level. The grant levels of participants are then reduced by $.50 of each dollar they earn above $225 per month. The Governor's proposal would allow CalWORKs participants to earn $200 per month without impacting the grant and would reduce their grant by $.60 for each dollar they earned above that amount.

Figure 4

CalWORKs Earned Income Disregard
Grant and Earnings, Family of Three–Current Law



HOW CALIFORNIA COMPARES TO OTHER LARGE STATES:

The chart below illustrates how California's Earned Income Disregard policy compares to other states (2002):

State	Amount Disregarded at One Year on Aid	Percentage Meeting Work Participation Through Employment	Overall Participation Rate
Illinois	67 percent	37.70%	58.50%
Michigan	$200 and 20 percent	25.9	28.8
New York	$90 and 46 percent	23.8	38.7
California	**$225 and 50 percent**	**21.3**	**27.3**
Ohio	$250 and 50 percent	21	56.2
Texas	$120	19.7	29.6
Florida	$200 and 50 percent	14	32
New Jersey	50 percent	14	36.5
Pennsylvania	50 percent	9.1	10.4
Georgia	$90	3.9	8.3

LAO ANALYSIS OF IMPACT ON WORK INCENTIVES:

Reducing the disregard could have two impacts on the working behavior of recipients. On the one hand, it could result in a disincentive to work by reducing the amount of income retained from starting work or increasing one's hours of work. Thus, new entrants to CalWORKs who have no income along with currently aided families who are not working would be affected most by this disincentive. On the other hand, reducing the disregard could increase the incentive to work to the extent that families decide to work more hours in order to make up for the grant reduction pursuant to the revised disregard. We would expect these two effects to in part offset each other.

PROPOSAL WOULD REDUCE CALIFORNIA'S WORK PARTICIPATION RATE:

Although the LAO finds that the offsetting impact of the disregard on work incentives, both impacts reduce the State's performance on the federal work participation rate. Families that work less or not at all due to the reduced incentives provided by a lower earned income disregard amount would hurt the work participation rate. Families working more to make up the lost income would likely make enough income off the program, thus no longer being counted in the State's work participation rate.

This proposal interacts with the proposed reduction to the CalWORKs grant level, discussed in the previous issue on the agenda. The maximum monthly grant, in combination with the disregard policy, creates the exit point for CalWORKs (the point at which a family is no longer financially eligible for the program). For a family of three in a high-cost county the current exit point is a monthly income of $1,671 (128 percent of the 2004 poverty guideline). When food stamps and the earned income tax credit are added, the family's total income at the exit point is about $1,939 (149 percent of the poverty guideline).

LAO PROPOSES ALTERNATIVES:

The LAO has examined two alternative earned income disregard structures and the possible effect of these upon California's work participation:

1) **Disregard All Income at a Constant Percentage Rate.** Given that Illinois had the highest level of work participation among the ten largest states LAO first examined their disregard. In Illinois, 67 percent of all income is disregarded; however, there is no minimum income amount that is disregarded at 100 percent. (For example, California disregards 100 percent of the first $225 in earnings.) Assuming no change in work behavior, adopting a straight 67 percent disregard in California would actually cost more than current law (at least $40 million per year). It would also raise the exit point for CalWORKs by about $170 for a family of three. A variant on this approach would be to set the disregard rate at 57 percent. This would keep California's exit point near where it is today and would result in annual savings of about $65 million compared to current law. (When welfare reform was first debated in 1997, the Wilson administration initially proposed a 54 percent disregard.)

   The main advantage of a constant disregard at a rate higher than the current 50 percent is that is creates a stronger incentive to increase earnings. For example, a family earning more than $225 per month who increased their monthly earnings by $100 would keep $67 under the Illinois style disregard compared to just $50 under California's current law. The main disadvantage is that families earning less than $225 would have less of an incentive to work since they could only keep 67 percent of their earnings (instead of the entire amount under California's system). Consequently, such families would be worse off financially.

2) **Disregard More Income at Higher Earnings.** Under another approach the 50 percent disregard would apply to all families, but the 100 percent exclusion on the first $225 earned would only be provided to families earning $600 or more per month. Those earning less than $600 (about 20 hours per week at the minimum wage) would receive a flat disregard of 50 percent, but they would not receive the base 100 percent disregard on their first $225 in earnings.

   The reason for selecting the $600 amount is that it corresponds to roughly 20 hours of work per week at the minimum wage. Under current law, adult participants must meet a "core" participation hour requirement of 20 hours per week. Unsubsidized employment is one way to meet the core requirement.

   This approach would result in annual savings of about $48 million compared to current law. The advantage is that it would strongly encourage recipients to work at least 20 hours per week, because they would receive the benefit of the $225 exclusion once their earnings reach $600 per month. The disadvantage is that it would lower the grants for families with earnings below $600 per month because until they earned $600 they would not receive the 100 percent disregard on their first $225 earned. It would also reduce the incentive for those not working to begin work at less than $600. It would not change the exit point for CalWORKs in relation to current law.

PANELISTS:

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- Sena Perez
- Jenny Bapp

STAFF COMMENT:

California's Earned Income Disregard policy has been cited as one of the more successful components of our CalWORKs program. Unlike other states that lack this policy, CalWORKs families that earn income through work are ensured an immediate financial gain from their efforts. The Assembly will need to consider how adopting a policy that reduces the incentive for CalWORKs families to work will impact the program.

ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 5: PAY FOR PERFORMANCE

The Governor's Budget proposes to award part of a county's existing allocation for administering the CalWORKs program based upon the county's ability to meet federal goals.

BACKGROUND:

The Governor's Budget contains a "Pay for Performance" proposal for the allocation of local assistance funding for counties. This proposal would set aside five percent of the non-child care CalWORKs Single Allocation and award this funding to counties that meet certain performance goals during the prior fiscal year. Counties use the CalWORKs Single Allocation to pay for Stage 1 Child Care, employment services and eligibility expenses. With this proposal, counties that meet certain goals would receive the full amount of their Single Allocation, while counties that fail could receive only 95 percent of that amount. In certain cases, counties that exceed their goals could receive a bonus, so their final allocation could be up to 105 percent of their single allocation. This proposal would be a three-year pilot beginning with the fiscal year 2006-07 single allocation. The budget assumes $22.2 million savings from a reduced caseload that results from counties improving their performance.

LAO COMMENTS ON PROPOSAL:

Performance Measures Reflect Federal Rather Than State Goals. The Governor's selected performance measures are more reflective of federal participation activities than State participation activities. Specifically, California allows recipients to participate in certain activities (such as mental health and substance abuse treatment), which are not countable toward the federal work participation rates. If the Legislature adopts new performance measures for counties, such measures should be consistent with State participation activities and priorities.

Holdback Would Be Disruptive. As discussed in a previous issue, counties have had substantial unspent block grant funds. One source of these funds is uncertainty related to the ultimate receipt of child care hold back funds. Holding back additional county funds, as the Governor proposes, would likely compound the problem. Even in counties that perform relatively well on participation and employment, the data needed to verify their performance will not be available until the latter half of the fiscal year. Thus, even higher performing counties would not know their final allocation and would likely need to reduce spending to allow for the possibility of not receiving the held back funds. Moreover, for counties that fail to meet the performance measures, taking resources away in the form of block grant reductions is likely to compound rather than help their performance problems. This is because it may be difficult for counties to achieve the same performance with fewer resources.

PANELISTS:

- Julie Salley-Gray
  Legislative Analyst's Office
- Charr Lee Metsker
  Department of Social Services
- Frank Mecca
  County Welfare Director's Association
- Curt Childs
  National Center for Youth Law

STAFF COMMENT:

The Assembly may wish to consider alternatives to increase county performance that may function better than the Pay-for-Performance proposal. The State has already developed a system of performance measures in which counties received Performance Incentive funds during fiscal year 1998-2002. This broader group of measures has been effective at improving and rewarding county performance. The federal government also has "High Performance Bonus" goals that the State could look to as potential benchmarks of county performance. In addition, the Assembly may wish to use a mechanism for rewarding performance that is not as disruptive and complicated as a holdback from the Single Allocation. Under the current proposal, even high performing counties could have to make baseline reductions to its CalWORKs program if demographic shifts, like the recent arrival of Hmong refugees, changed its caseload characteristics.

The $22.2 million savings assumed in this proposal is the result of CalWORKs grant savings from an increase in work participation by the CalWORKs caseload over the budget year. The Subcommittee could explore alternative models for achieving this level of savings without fully embracing the federal work participation goals as State policy or disrupting county operations.

DSS has convened a workgroup on this proposal and has voiced a willingness to consider adjustments to this model.

ISSUE 6: SANCTIONS

The Governor's Budget assumes $12 million in savings from a forthcoming CalWORKs sanction policy.

BACKGROUND:

The Governor's Budget proposes $12 million in savings from the enactment of a new sanction policy. The specifics of the policy would be based upon the findings of a CalWORKs sanction study, which has not yet been released.

CALWORKS SANCTION STUDY:

The Legislature requested a sanction study last year to better understand the linkage between sanction levels and the level of participation of CalWORKs families in the program. Last year's Budget proposed a 25 percent grant sanction for noncompliance that would occur after one month of noncompliance. An increased sanction was also proposed for families that have reached their 60-month time limit for federal eligibility. Noncompliant families receive the child-only grant level. Last year's proposed reduction to safety net child-only cases was in addition to the elimination of the adult's portion of the grant level. The proposed increases in sanctions were predicated upon creating incentives for families to participate in the program requirements. The sanction study was due on April 1st, 2005. Subcommittee staff did not receive the study in time to be included in this agenda.

PANELISTS:

- Charr Lee Metsker
  Department of Social Services
- Mike Herald
  Western Center on Law and Poverty
- Tami Marquez
- Anne-Marie Smith

STAFF COMMENT:

Given that the Sanction study is late, the Subcommittee may wish to consider this item again during the May 11th Open Issues Hearing.

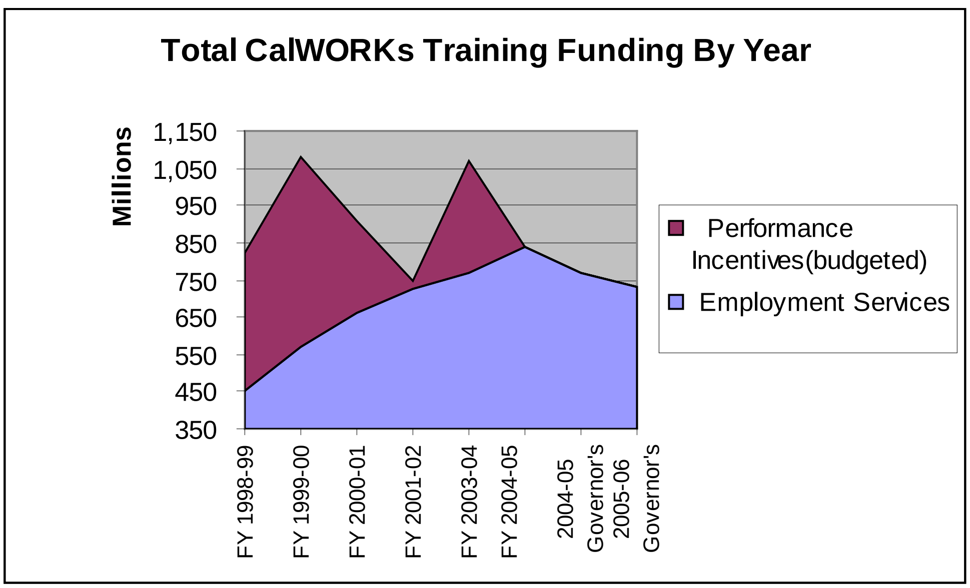
ISSUE 7: EROSION OF COUNTY FUNDING FOR EMPLOYMENT SERVICES

County funding for employment and training has declined since CalWORKs began.

BACKGROUND:

When CalWORKs was initially created in 1997, counties received two major sources of funding for training, employment services, and job counseling of CalWORKs participants. The first and most significant source of funding came in the form of the county's Employment Services allocation, which is contained in the Single Allocation counties receive to administer the program. In addition, Counties were awarded "performance incentives" for reduced caseload which they could then use to provide additional welfare-to-work services and supports.

Although costs have grown over the last eight years, the overall amount of funding for CalWORKs Employment Services has declined. Most of this decline is due to the State failing to issue additional county performance incentive funding. However, the State has also estimated significant caseload savings from families hitting their 60-month time limits and a change in participant data reporting that has justified large reductions in funding for county welfare-to-work activities. The chart below illustrates this funding trend.



Last year, the Subcommittee took action that restored $50 million in Employment Services funding to counties to address an overestimation of savings by DSS in various CalWORKs program changes. This was intended to help counties maintain their current welfare-to-work infrastructures.

GOVERNOR'S BUDGET FURTHER REDUCES FUNDING:

The Governor's Budget eliminates the $50 million CalWORKs Employment Services augmentation that was included in the 2004-2005 Budget. The Legislature provided this increase to correct problems in the DSS CalWORKs estimate that projected too much savings from a change in the CalWORKs reporting process and cases hitting their 60-month time limits. Although the Budget eliminated the additional funding, it failed to correct the over estimation of savings that prompted the augmentation.

Los Angeles County stands to lose the most from this reduction as it receives far less per client than any other county for employment services and thus offers participants in that county far less opportunity than better funded programs that are offered by some small and Bay Area counties.

LAO FINDS UNDERSPENDING AND RECOMMENDS CHANGES:

The LAO has looked at a historic trend of unspent carry-forward TANF funds following enactment of a budget. For the past four fiscal years, the January Budget has identified an average of $111 million in additional carry-forward TANF funds in comparison to budgets enacted about six months earlier.

A major factor contributing to unexpended carry-over balances was the counties' inability to expend their single allocation block grant funds. This amounted to $143 million in overbudgeting for 2003-04. The LAO believes that most of the unspent funds are related to uncertainty regarding the amount of the Single Allocation and cautious budgeting practices by counties that limit expenditures until final allocations are known. They offer three possible causes:

1) **General County Fiscal Concerns.** During 2003-04, there was substantial uncertainty about the payment of vehicle license fee subventions to the counties. As a result, many counties adopted county-wide hiring freezes. Since most single allocation funds are for county staff, these freezes could have contributed to unspent funds.

2) **Counties Receive Midyear Increases Too Late to Enable Their Expenditure.** Counties receive notification of their initial planning allocation just before the start of the fiscal year. Soon after the state budget is enacted, a final allocation letter is sent to the counties. For 2003-04, the final allocation was sent in September 2003. At the time the Governor's budget is released each January, supplemental allocations are discussed with counties and a supplemental allocation letter (noting that additional funds are contingent on legislative approval) is sent to the counties within a few weeks of the release of the Budget. During 2003-04, counties were notified of a supplemental allocation of $48 million in February 2004. On April 22, counties received final notification that the February funds were approved. Finally, counties were notified of an additional $9 million allocation on June 30, 2004, the last day of the fiscal year.

3) **The Child Care Hold Back.** The State holds back approximately 5 percent of estimated costs for Stage 1 and Stage 2 CalWORKs child care in a reserve (about $60 million). The reason for the hold back is that Stage 2 is controlled by

SDE while Stage 1 is controlled by DSS, and there is some uncertainty as to how many families will move from Stage 1 to Stage 2 each year. Under this system, counties do not know how much of these hold back funds they will eventually receive until notified by the administration well into the fiscal year. Thus, counties may tend to reduce spending on program components they directly control such as eligibility, administration and employment services, so that they can fund child care (which they do not control because it is virtually an entitlement). This way, counties can be sure they have enough funds to cover program expenses, even if they do not receive the child care reserve funds they have requested.

LAO RECOMMENDATIONS:

The LAO recommends the following changes to CalWORKs budgeting:

Eliminate the Child Care Holdback. Under this option, all estimated child care funds would be allocated to Stage 1 and Stage 2 with no holdback, thereby reducing uncertainty. In the event the allocation between Stage 1 and Stage 2 is incorrect, both counties and SDE's alternative payment providers usually have unspent funds to cover deficiencies. Thus, recipients are not likely to be impacted by this change.

End Midyear County Block Grant Supplemental Allocations. Under this approach, county allocations would not be increased midway through the current year for cost increases. However, the budget year proposed allocation would reflect any such costs pressures. This approach would free up TANF funds for expenditure by the Legislature in the budget year instead of maintaining them in county allocations which would not revert for another 15 months. This would give the Legislature more control over scarce TANF funds that could be used for priorities both inside and outside of the CalWORKs program. The downside of this approach is that supplemental allocations are made in order to address unanticipated costs, usually related to caseload. Without midyear supplements, some counties may have difficulty serving all clients with the necessary case management and employment services.

PANELISTS:

- Frank Mecca
  County Welfare Director’s Association

- Charr Lee Metsker
  Department of Social Services

- Julie Salley-Gray
  Legislative Analyst’s Office

- Phil Ansell
  Los Angeles County Department of Public Social Services

STAFF COMMENT:

The Subcommittee may wish to consider how any prospective policy changes in the CalWORKs program to improve work participation will affect the amount of Employment Services funding counties will need.

ISSUE 8:

ISSUE 9: IMPLEMENTATION OF SB 1104

The Subcommittee will discuss the implementation of SB 1104.

BACKGROUND:

Last year's Human Services budget trailer bill (SB 1104) included enhanced State work participation requirements by mandating CalWORKs families to participate in at least 20 hours per week in "core work activities" within 60 days of receiving aid. Core work activities primarily consist of unsubsidized work, community service, and on-the-job training. Currently CalWORKs participants must perform up to 35 hours (32 hours in most counties) of employment-related activities to receive their grant. The range of activities that a participant can perform includes education, training, domestic violence services, and alcohol/drug and mental health treatment. Under the new law, these participants are still required to meet the 32/35-hour requirement, but 20 of those hours have to be core-work activities. The chart below indicates the activities authorized under SB 1104.

Core Activities-- At Least 20 Hours Per Week Must Be the Core Activities Below:	"Blendable"-- Can be counted as Core in Certain Cases:	Non-Core-- Can Count for the Balance of the 32 Hours Required Under CaWORKS
Unsubsidized employment	Adult Basic Education	Job search and job readiness assistance
Subsidized private sector employment	Job skills training directly related to employment	Satisfactory progress in a secondary school
Subsidized public sector employment	Mental health, substance abuse, domestic violence services	Vocational education and training (***post 12-months***)
Work experience	Education directly related to employment	Other activities necessary to assist an individual in obtaining employment
On-the-job training (OJT)		Participation required by the school to ensure the child's attendance
Grant-based OJT		Non-credited study time [pursuant to Section 42-716.272(a)]
Supported work or transitional employment		
Work study		
Self-employment		
Community service		
Vocational education and training ***(up to 12 months)***		

COUNTING OF BLENDED HOURS DISPUTED:

Four activities listed above are "blendable" which means that they can count towards the core 20 hours of work requirements if they cannot be accomplished otherwise. The Administration has implemented this provision of the law so that a client needing 20 hours of mental health services, for example, would still be required to perform 12 hours of "core activities" because any blended activity would first be counted as non-core hours before being counted towards the core hours. Subcommittee staff and counties believe that the intent of this provision is to allow an individual needing 20 hours of mental health treatment to use those hours to satisfy the core activity requirements. The Assembly Human Services Committee has introduced a bill AB 379 (Evans) that would change the language so that it explicitly allows blendable activities to count first against the core hours of work.

INTERACTION WITH CHILD WELFARE CASES:

Many families that are involved in the Child Welfare System also receive CalWORKs benefits. The provisions of SB 1104 have been implemented in such a way that the CalWORKs program could require parents to work at core activities to remain eligible for assistance while the county child protection department or courts may also be prescribing activities needed for family reunification or maintenance to maintain custody of their children. As a result, counties may be sending mixed messages to these families about what they should be doing to keep their family together.

CalWORKs families that have had all of their children removed from the home are exempted from the work requirements. However, there is no provision for exempting parents when only one of their children has been removed or if the family agrees to preform certain activities as part of the new "Differential Response" efforts to prevent the removal of a child from the home. In these cases, the core activity requirements for SB 1104 could make it logistically very difficult for families to meet all of the requirements of both programs.

The Administration has expressed a willingness to discuss solutions to this issue.

PANELISTS:

- Charr Lee Metsker
  Department of Social Services

- Frank Mecca
  County Welfare Directors Association

- Diana Spatz
  LIFETIME

STAFF COMMENT:

The Subcommittee may wish to consider adopting Trailer Bill Language to change the provisions of SB 1104.

ISSUE 10: CALWORKS CASELOAD ESTIMATES

The LAO believes the caseload for CalWORKs is overstated.

LAO BELIEVES CASELOAD IS OVERSTATED:

According to the LAO, the most recent actual caseload data from the first quarter of 2004-05 indicates that the Governor's Budget has overstated the number of cases (families) by about 0.6 percent. Moreover, the Budget has overstated the number of persons (adults and children in the family comprising the case) by 2.8 percent. Based on the 0.6 percent difference identified above, the budget for CalWORKs grants is overstated by $17.4 million. Accordingly, the LAO recommends reducing the budget for cash assistance by $17.4 million.

PANELISTS:

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- Charr Lee Metsker
  Department of Social Services

ISSUE 11: PUBLIC COMMENT