

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

Assemblymember Hector De La Torre, Chair

WEDNESDAY, MARCH 22, 2006, 1:30PM
STATE CAPITOL, ROOM 444

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ITEM TO BE HEARD

ITEM 5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE #1: IMPACT OF FEDERAL CHANGES TO CALWORKS PROGRAM

The Subcommittee will review the federal changes to Temporary Assistance for Needy Families (TANF) on the CalWORKs program.

BACKGROUND:

To receive the federal TANF block grant, states must meet a maintenance of effort (MOE) requirement that state spending on behalf of 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, which is \$2.9 billion in California 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 *2005-06 Budget Act* includes \$524 million in countable MOE expenditures outside of the CalWORKs program (\$26 million from other DSS programs and \$498 million from other departments).

The *Deficit Reduction Act of 2005* made sweeping changes to the federal budget and federal law. The legislation includes ten separate titles covering a wide range of topics including health and human services programs, student loans, agricultural research, bank deposit insurance, digital television transition, and pension guarantee premiums. In this analysis, we focus on the provisions affecting the TANF program and its state counterpart, the CalWORKs program. Although some provisions of the act take effect immediately, most of the TANF changes become effective on October 1, 2006.

The act makes three key changes in the way work participation rates are calculated. These changes substantially raise California's required participation rate beginning in October 2006, essentially the state's 2006-07 fiscal year. In addition, the act expands the types of expenditures, which may be counted for purposes of satisfying the MOE requirement.

Currently, the caseload reduction credit is determined by finding the state's percentage reduction in the caseload since 1995. Beginning in FFY 2007, the act resets the base period for the caseload reduction credit to 2005. In the short run, this change essentially eliminates the value of the credit (because California's caseload has not declined since 2005) thereby creating work participation requirements of 50 percent for all families and 90 percent for two-parent families.

Rate Changes	FY 05-06	FY 06-07
Required Work Rate	50%	50%
Caseload Credit	-46.1%	0%
Adjusted Rate	3.9%	50%
Actual Rate in CA	24.9%	24.9%

The act makes cases served in separate state funded MOE programs subject to the work participation calculation. Accordingly, California will no longer be able to avoid the 90 percent rate for two-parent families by using a state-only MOE funded program. Failure to meet the two-parent rate results in a penalty. However, if the state meets the all-families rate, a penalty for failing the two-parent rate would be reduced by about 85 percent because the amount of the penalty is tied to the relative size of the two-parent caseload in comparison to the overall caseload.

The act gives the Secretary of the U.S. Department of Health and Human Services new authority to promulgate regulations concerning "verification of work and work eligible individuals." This gives the Secretary specific authority to define work participation activities, how participation in these activities is documented, how participation is reported, and whether nonaided adults residing with children that are aided with TANF or MOE funds may be subject to work requirements. Currently cases with children and an unaided adult are known as child-only cases and are not subject to the work participation calculation. (Examples of child-only cases include those with nonneedy caretaker relatives, undocumented parents, or sanctioned adults.) If the future regulations from the Secretary specify that adults in child-only cases are subject to work participation, then meeting federal work requirements would be even more difficult.

The act expands the definition of what types of state spending may be used to meet the MOE requirement. Currently, countable state spending must be for aided families or for families who are otherwise eligible for assistance. The act allows state expenditures designed to prevent out-of-wedlock pregnancies or promote the formation of two-parent families to count toward the MOE requirement even if the target population is not otherwise eligible for aid. Essentially, the act removes the requirement that countable spending that promotes the formation and maintenance of two-parent families and teen pregnancy prevention be on behalf of low-income families.

POTENTIAL FISCAL IMPACT:

This chart provided by the Department of Finance below details the likely worst-case impact of the Deficit Reduction Act over the next eleven years:

State Fiscal Year	Increased MOE	Maximum TANF Penalty	Total Annual Cost of Federal Change	Federal Fiscal Year
FY 06-07	179.5	0	179.5	FFY 07
FY 07-08	179.5	0	179.5	FFY 08
FY 08-09	179.5	153.1	332.6	FFY 09

FY 09-10	179.5	214.4	393.9	FFY 10
FY 10-11**	179.5	275.6	455.1	FFY 11
FY 11-12	179.5	336.9	516.4	FFY 12
FY 12-13	179.5	398.1	577.6	FFY 13
FY 13-14	179.5	459.3	638.8	FFY 14
FY 14-15	179.5	520.7	700.2	FFY 15
FY 15-16	179.5	581.9	761.4	FFY 16
FY 16-17	179.5	643.2	822.7	FFY 17
FY 17-18	179.5	643.2	822.7	FFY 18

** The authorization for the recently passed TANF program expires in 2010, so all figures after that date assume current law continues unchanged after that date.

The amount of the Maximum TANF penalty can change depending upon the State's transfer of TANF funds to the federal Title XX and Child Care Development Fund programs.

POTENTIAL IMPACT OF FEDERAL REGULATIONS ON CHILD ONLY CASES:

Child only cases are currently not considered in California's work participation rate, but federal regulations could further reduce our work participation rate by redefining our current program. The recent changes to TANF included a provision to require the federal Health and Human Service Agency to issue regulations in July 2006 to define which state programs are included in work participation calculations. Currently California does not include approximately 270,000 families (approximately 54,000 sanctioned cases and 216,000 other cases without an aided adult) in our work participation rate. However, the federal government could decide that these cases must be included. If these cases were all included by the regulations, it would decrease our current work participation rate from 23.1 percent to 11.3 percent.

	FFY 2004	FY 05-06 if Best Case New Rules Were Applied	FY 05-06 if Best Case New Rules Were Applied
Required Work Rate	50%	50%	50%
Caseload Credit	-46.1%	0%	0%
Adjusted Rate	3.9%	50%	50%
Actual Rate in CA	24.9%	24.9%	11.9%

GENERAL ACCOUNTING OFFICE REPORT 05-821:

The federal government has cited as a General Accounting Office Report from 2005 as a critical inspiration for the pending federal regulations. The report looked at the way work participation was counted in different states. The report summary follows:

Differences in how states define the 12 categories of work that count toward meeting TANF work participation requirements have resulted in some states counting activities that other states do not count and, therefore, in an inconsistent measurement of work

participation across states. For example, 5 of the 10 states we reviewed considered caring for a disabled household or family member to count toward the federal work participation requirement, while 5 did not consider hours spent in this activity to be countable.

We also found that some states made significant changes in their definitions of the categories of work. As a result, the work participation rates for these states cannot be compared from year to year. Some of the states in our review have implemented internal controls to help report work participation hours in accordance with HHS guidance, while other states lack such internal controls. Some states have not issued guidance on how to verify that reported hours were actually worked, nor do they monitor data reported by their staff to help ensure that hours are reported correctly. In contrast, a few states have systematic approaches for verifying that hours reported were worked. HHS has provided limited oversight and guidance to states on appropriately defining work activities and reporting hours of work participation.

According to HHS officials, HHS has the authority to regulate states' definitions of work activities. However, to promote state flexibility, HHS chose not to issue regulations for this purpose. Further, HHS's guidance lacks specific criteria for determining the appropriate hours to report. Given that HHS has not exercised oversight of states' definitions and internal controls, states are making different decisions about what to measure. Therefore, there is no standard basis for interpreting states' rates, and the rates cannot effectively be used to assess and compare states' performance.

PANELIST:

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Char Lee Metsker
Department of Social Services

STAFF COMMENT:

Because the federal fiscal year begins October 1st and ends September 30th, each federal fiscal year spans two different state fiscal years. For now, the Subcommittee staff is assuming that California would choose to pay all penalties and additional MOE requirements at the earliest possible fiscal year. However, many of these expenditures could potentially be shifted back one year and still meet the federal government's requirements.

ISSUE #2: UPDATE ON CALWORKS WORK PARTICIPATION RATE

The Subcommittee will explore the State's work participation rate.

BACKGROUND:

California's participation rates for all families and two-parent families are well below the respective required rates of 50 percent and 90 percent. To attain compliance with federal work participation requirements starting in October 2006, California must increase participation by 25 percentage points for all families and 58 percentage points for two-parent families.

OVERALL RATE IS DECLINING:

The chart below details the State's work participation rate over the last nine years. The rate dramatically dropped in 2000 after the State removed the two parent families from the caseload.

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%
<i>California's Work Participation Rate</i>	29.70%	36.60%	42.20%	27.50%	25.90%	27.30%	24.00%	23.90%

When the two parent cases are added back into the caseload, the percentage for 2004 increases from 23.9 percent in the chart above to the 24.9 percent figure cited throughout this agenda.

TOTAL RATE FOR ALL FAMILY CASES:

Currently, California has about 304,000 single and two parent family cases. After making adjustments for limited exemptions (i.e. families with a child under age one), about 230,000 cases are subject to the work participation calculation. To meet a 50 percent participation rate, about 115,000 families would need to be working. Based on preliminary information, about 57,000 are currently meeting work participation requirements, so California would need to get an additional 58,000 families working the required minimum hours. Of the 58,000 families, roughly 38,000 families are participating in the program but are working less than the required number of hours. In order to comply with federal work participation requirements, California would need to increase the hours for these 38,000 families and induce another 20,000 families to begin work or participation at the required hourly rate.

TWO PARENT FAMILIES:

For two-parent families, about 37,000 cases are subject to the work participation calculation. To meet a 90 percent participation rate, about 33,000 cases would need to participate for the required hours. Currently, about 11,000 are working, so California would need to have an additional 22,000 families participating for the required hours.

WHERE ARE CALIFORNIA'S CALWORKS CASES IN THE SYSTEM?

Current CalWORKs data does not provide sufficient information to fully explain the reason for the current work participation rate. The chart below details the status of CalWORKs cases in 2004:

Type of Adult Cases	Total Cases in 2004	Percentage of Cases
Meeting Federal Work Participation	56,364	24.9%
Participating in Some Federal Activities, but not for enough hours	38,648	17.1%
CalWORKs Exempt*	48,720	21.5%
Non-Compliant Cases **	25,427	11.2%
On Aid Less than 60 Days***	20,344	9.0%
Other****	36,640	23.1%

*Exempt cases include 1) cases with a child under one year of age and 2) recipients who are not required to participate in Welfare-to-Work activities as a condition of eligibility for aid.

**Non-Compliant Cases are cases with adults that are required to participate and who are not participating but who are not yet in sanction.

***Less than 60 days includes recipients new to aid.

****Other cases include recipients who are not participating at all or who are participating only in non-federally-allowable activities.

The chart above does not include 270,000 families (approximately 54,000 sanctioned cases and 216,000 other cases without an aided adult) that are not part of our adult cases.

DYNAMIC MOVEMENT OF CASELOAD IS NOT REFLECTED IN SNAPSHOT DATA

An analysis by Riverside County of September 2003 caseload that was tracked over ten months found that there was a substantial difference between the use of snapshot data and longitudinal data. The county started with a snapshot from September 2003 that found 55 percent of the county caseload was participating in the CalWORKs program.

However, when that month's caseload was tracked over time to July 2004, 87 percent of that caseload either participated, became exempt, or left aid.

While CalWORKs "participation" is not the same as "participation" as defined by federal TANF rules, the study helps identify the shortcomings of snapshot data at judging the effectiveness of the program overall. For Riverside County, 32 percent of the caseload that was not participating in a case snapshot would either transition out of CalWORKs or participate in the coming months. This study suggests that a substantial number of families are transitioning within categories in CalWORKs and a snapshot caseload analysis captures many of them in a categorical limbo that understates the State's work participation rate.

ADDITIONAL DATA GATHERING EFFORTS UNDERWAY:

- CWDA is currently in the process of surveying seven counties to provide more information about the status of families in the categories above.
- Both CWDA and DSS are working on an effort to better project the State's work participation rates based upon State quarterly reports.
- DSS also reports that it will begin visits to counties next month, as part of their data collection efforts.

PANELISTS:

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Char Lee Metsker
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Frank Mecca
CWDA

STAFF COMMENT:

The ongoing data collection effort will help inform the Legislature on possible policy options. Given the tight timeframes needed to change make changes to the program before October 2006, the Subcommittee must urge haste in these efforts.

ISSUE #3: STATE OPTIONS FOR IMPROVING FEDERAL WORK PARTICIPATION RATES

The State has several options for improving work participation.

BACKGROUND:

There are several options available to the State to improve the State's work participation rate. The LAO has laid out the following six options for the Legislature to consider:

1. Increasing the Incentive to Work—Many states, including California, provide a work incentive to families known as an earned income disregard, whereby a portion of a family's earnings is not counted (disregarded) for purposes of determining a family's monthly grant. California has a relatively generous earned income disregard. Specifically, current law disregards the first \$225 in earned income and 50 percent of each additional dollar earned when determining a family's monthly grant amount. California could increase its work incentive by increasing the amount of earnings that are disregarded. A higher disregard would allow more working families to remain on aid, thus increasing California's participation rate. However, increasing disregards usually increases grant costs which puts pressure on scarce TANF and MOE funds.
2. Improving Communication About Program Obligations and Availability of Support Services—A significant portion of California's sanctioned caseload is sanctioned because they never attend an orientation session. A study from Los Angeles County indicated that about 65 percent of its sanctioned cases had never attended orientation. Effectively, this means that recipients become sanctioned before they fully understand what services are available to help them meet their participation requirements. With a better understanding of program obligations and the supportive services, which are available (such as, training, interview preparation, job leads, child care, and transportation), it is possible that more recipients may make the transition to employment. One way to improve this communication would be to make completion of orientation a requirement for receiving aid. This would insure that adults have full knowledge of the program requirements and supportive services. However, in order to avoid an unnecessary delay in the receipt of aid, we would suggest that counties adopt strategies similar to those used in San Bernardino County. These include providing regular, daily orientations in the same office where the eligibility functions are carried out and providing drop-off child care during orientations to allow parents to participate easily.
3. Increasing Participation Among the Partially Engaged—California has roughly 24,000 families who are participating in CalWORKs activities but for insufficient hours each week to meet the federal participation requirement. Some of these families are receiving child care assistance. Because some in this group may be

relatively close to meeting the requirement, intensive case management or other engagement might help them meet the hourly requirement.

4. **Modifying the Sanction for Noncompliance**—Currently, if a recipient does not comply with program participation requirements and cannot demonstrate “good cause” for noncompliance, the adult is sanctioned. In California (and 13 other states), the sanction involves the removal of the adult from the case for purposes of calculating the grant amount. A reduced aid payment, based on the number of children in the household, is provided to the sanctioned adult. For example, for a sanctioned family in a high-cost county, the monthly grant for a family of three with one adult and two children would be reduced from \$723 per month to \$584 per month.

In contrast to California, thirty-four other states impose some type of full-family sanction, meaning that the entire family may be removed from aid. Most of these states have a graduated policy where the first instance of noncompliance results in a partial sanction, but repeated or long-term noncompliance results in a complete cut-off of assistance for the entire family.

In order to encourage participation, California could consider increasing the sanction for families who do not cure their sanctions. For example, if a family did not cure its sanction within a specified time period, such as three to six months, the sanction would increase to 50 percent of the family’s grant. Although increasing the degree of sanction may result in increased participation, it also has the potential to reduce resources to the families. Research from states with graduated full-family sanctions indicates that sanctioned families had to turn to other sources of support, primarily other family members when they were entirely removed from aid.

5. **Adding in Former Recipients Who Are Now Employed**—Another approach to increasing work participation is to provide some assistance to former recipients who are now employed. Currently there are about 110,000 former CalWORKs cases that have left aid and are receiving state subsidized child care. Most of these former cases are working, and many of them may be working for the 20 or 30 hours per week required for federal participation calculations. Prior to passage of the act, these former recipients helped California achieve its substantial caseload reduction credit. Because the base period for caseload reduction was reset to FFY 2005, these former recipients, even though they are working, no longer help California satisfy the federal participation rate.

In order to be counted in the work participation rate, a family must receive some form of “assistance.” Under federal regulations, child care is not considered to be assistance. If California were to provide a monthly work allowance (for example, \$25) to help defray the costs of transportation or other work expenses such as uniforms, this would be considered to be assistance. Any recipient of such a work allowance would become part of the work participation calculation. Payment of the work allowance could be made contingent upon demonstrating that sufficient weekly work hours are completed. If the work allowance were funded with state

MOE funds, then its receipt would not effect the recipient's eligibility for five years of federally funded TANF assistance. (In other words, someone who worked their way off CalWORKs would not be using up their federal five-year time clock through receipt of this work allowance.)

6. Separate Programs for Recipients With Multiple Barriers to Employment—Some families face multiple barriers to employment including drug and alcohol addiction, mental health issues, domestic violence, and learning disabilities. For these recipients who have been unable to enter the labor market, a separate intensive program of barrier removal may be necessary. In a given month, there are about 50,000 cases with adults with no participation of any kind. California could shift some or all of these families into an intensive services program if case managers determined that such a program might help them remove barriers to employment and eventually become self-sufficient. If this program (including existing grant and service components) were funded with state funds that are not used to satisfy the MOE requirement, then these cases would not be subject to the federal work participation rate. Moreover, allowing these families to shift to the intensive services program would result in a caseload reduction credit. For example, if 30 percent of the two-parent caseload entered the intensive services program, this would result in a caseload reduction credit of 30 percent, which would reduce the 90 percent required rate down to 60 percent.

PANELIST:

Todd Bland
Legislative Analyst's Office

Char Lee Metsker
Department of Social Services

STAFF COMMENT:

The Subcommittee must consider both the effectiveness of each strategy for improving work participation and the speed in which these strategies can impact State work participation, given that the federal changes take effect October 1, 2006.

ISSUE #4: LESSONS LEARNED FROM SB 1104 CALWORKS REFORMS

The Subcommittee will consider how previous State efforts to increase work participation have failed.

BACKGROUND:

The FY 04-05 Human Services Budget trailer bill (SB 1104) included enhanced State work participation requirements by mandating CalWORKs families, who are required to participate in work or education activities, to sign a welfare-to-work plan within 90 days of their determination of eligibility for aid, with certain exceptions. Under the new law, these participants are required to participate in at least 20 hours per week of "core work activities" and the balance of their 32/35 hour per week participation requirement can be spent in other non-core activities that will aid participants in obtaining employment. A list of some of these activities includes unsubsidized employment, community service, on-the-job training, vocational education and training, domestic violence services, and substance abuse and mental health treatment. 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 CalWORKS
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 (<i>post 12-months</i>)
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
Supported work or transitional employment		
Work study		
Self-employment		
Community service		

Vocational education and training (up to 12 months)		
Job search and job readiness activities		

FEDERAL REQUIREMENTS:

The TANF act also contains reference to “core and “non-core” hours that served as the basis for SB 1104. The table below (from GAO’s 05-871 report) illustrates these core/non-core hours:

Table 1: 12 Categories of Federal Work Activities and Limitations on Counting Time in Those Activities

Activity	Limitations on counting time (for all families)
Core activities	
1. Unsubsidized employment	None
2. Subsidized private sector employment	None
3. Subsidized public sector employment	None
4. Work experience	None
5. On-the-job training	None
6. Job search and job readiness assistance	6-week time limit per client per year, no more than 4 weeks consecutively
7. Community service programs	None
8. Caring for child of community service participant	None
9. Vocational education training	12-month total time limit per client
Supplemental activities	
10. Job skills training directly related to employment	Counts only after accumulating 20 hours in a core activity
11. Education directly related to work	Counts only after accumulating 20 hours in a core activity (except if under 20 years old)
12. Satisfactory attendance at high school or equivalent	Counts only after accumulating 20 hours in a core activity (except if under 20 years old)

Source: GAO analysis of section 407 of PRWORA and HHS regulations.

CURRENT YEAR IMPACT OF SB 1104 REVERSED IN BUDGET:

The Governor's Budget makes significant adjustments to estimated fiscal impact from the implementation of SB 1104. This adjustment reflects the very small impact that DSS expects the changes in SB 1104 to have in the budget year.

Changes to Estimate (Millions)	FY 05-06 Budget Assumption	November Estimate Update	Difference
Caseload	- \$150.7	-\$3.4	\$146.8
Child Care	\$114.6	\$0.8	-\$113.7
Administration	\$11.4	\$11.4	\$0

SB 1104 IMPLEMENTATION TIMELINE LENGTHY:

The welfare-to-work provisions in SB 1104 were implemented using a streamlined All County Letter (ACL) process that was designed to speed implementation. Even with this expedited process, the process took over seven months to implement after the provisions were chaptered.

Milestone	Date
SB 1104 Changes Proposed	January 10, 2004
SB 1104 Chaptered	August 16, 2004
Draft ACL Issued	August 23, 2004
Workgroup Started	September 3, 2004
Final ACL Issued	October 8, 2004
ACL allows counties to begin SB 1104 Provisions Implementation	December 1, 2004
ACL Errata Issued	December 9, 2004
ACL Deadline for Counties to Implement all provisions of SB 1104	March 1, 2005
SB 1104 estimates revised on impact of proposal	November 2005
SB 1104 Provisions Changed in SB 68 (FY 05-06 Trailer Bill)	July 19, 2005
Reduced SB 1104 Savings Estimated In Budget	November, 2005
SB 1104 Final Regulations	Pending—Spring 2006

In addition, the language in SB 1104 was not clearly understood by all parties. The Legislature changed the interpretation of one provision of the SB 1104 language in last year's Human Services Trailer Bill (SB 68) to further clarify Legislative intent.

APPROPRIATION LEVEL REQUIRED UNREALISTIC COUNTY DEADLINE:

On October 26, 2004, counties notified the Department that they could not implement all portions of the ACL within the March timeframe provided by DSS. DSS believed that SB 1104 required counties to re-establish welfare-to-work plans for all clients by March 1, 2005 in order to achieve the level of savings assumed in the budget. This interpretation dramatically expanded the scope of work that counties were being asked to perform in the very limited timeline. As a result, it was logistically impossible for the counties to implement these changes during this timeline given the resources that were provided. The appropriations level and corresponding estimate was seen as the primary driver of legislative intent, not the actual language of the trailer bill.

CLIENTS FOUND SB 1104 CONFUSING:

The Subcommittee has received feedback from both clients and caseworkers that the distinctions between "core" and "non-core" hours in SB 1104 was difficult to understand and complicated to administer. For some of these individuals the new requirements made the CalWORKs program requirements confusing instead of having the desired effect of encouraging participation in federal activities.

STAFF COMMENT:

SB 1104 was aimed at increasing work participation from the partially engaged (LAO's 3rd option in the list in Issue # 3 of this agenda) but has not yet achieve the desired effect. As the Subcommittee considers new proposals to the CalWORKs program, it will need to consider the following lessons from SB 1104:

- **Timing:** Implementation of SB 1104 took over seven months, using the fastest mechanism for implementation available to DSS. This expedited timeline may have been too fast, as DSS had to issue an errata, CWDA could not meet the unrealistic timeframes given, and the Legislature had to pass clean up legislation within the first year of the program. Future efforts to implement CalWORKs changes must realistically look at timeline to implement the changes as intended.
- **Appropriation Level Should Not Undermine Policy:** The budgeted savings from SB 1104 dominated DSS's timeline for implementation and the integrity of the policy may have been undermined by this eagerness to achieve savings from the proposal. The Legislature needs to take steps to ensure that the policy intent of future efforts is not undermined by the fiscal projections associated with their implementation.
- **"Keep It Simple Stupid":** While SB 1104 seemed like a balanced approach to addressing federal work participation goals while keeping the State's CalWORKs program's unique features, its design may have been too confusing for clients and caseworkers to implement successfully.

New federal requirements take effect October 1st, 2006, which means that an effort such as the provisions of SB 1104 would take too long to implement to make a difference in California's performance in time to avoid the first round of TANF penalties.

ISSUE #5: BARRIERS FACED BY CALWORKS CLIENTS

The Subcommittee will discuss the barriers to employment faced by CalWORKs families.

BACKGROUND:

One of the biggest challenges in helping CalWORKs families transition from welfare to work is addressing barriers to employment. There are several California specific studies on this issue.

SAN JOAQUIN COUNTY:

A study conducted by researchers Richard Speigman and Jean Norris, who were at the Public Health Institute of the barriers clients faced in San Joaquin County during 2000 and 2001 found some of a large number of barriers to employment of that populations during that time period. The chart below illustrates the barrier by percentage:

Barriers	Percentage of Caseload
Transportation	51%
No High School Diploma	50%
Few Work Skills	33%
Insufficient Child Care	25%
Alcohol and Drug Abuse	24%
Mental Health	18%
Limited English	16%
Child With Serious Health Problem	16%
Criminal History	14%
Domestic Violence	13%

While the chart above details the types of barriers faced by families, most families face more than one of the barriers identified above. The same study found that almost 60 percent of all families had three or more of the barriers identified above. The chart below details this finding:

Number of Barriers Identified	
None	8%
One Barrier	16%
Two Barriers	20%
Three or More Barriers	57%

KERN AND STANISLAUS MENTAL HEALTH, SUBSTANCE ABUSE, AND DOMESTIC VIOLENCE STUDY:

A survey of 641 CalWORKs participants conducted between 1999 to 2001 found that 41 percent of the cases had severe substance abuse, mental health, or domestic violence issues to address, with two percent of the caseload experiencing all three issues.

The study also found that a very large percentage of the caseload experienced at least one incident of substance abuse, mental health, and substance abuse.

Incident	Percentage of Caseload with at least on incident
Substance abuse	18%
Mental Health	33%
Domestic Violence	41%

HOW BARRIERS IMPACT EMPLOYABILITY:

The San Joaquin study was able to model the impact of barriers on work participation. Under their simulation, a typical CalWORKs family's likelihood of working full-time increased from 13 percent to 67 percent when all barriers were addressed. Under this simulation, addressing child care and transportation barriers had to most impact upon employability.

Los Angeles County found that addressing Substance Abuse, Domestic Violence, and Mental Health barriers made substantial increases in engagement among clients with those issues.

PANELIST:

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LIFETIME

STAFF COMMENT:

The two studies discussed above suggest that it will be difficult for the State to engage CalWORKs families in work activities without first providing additional resources to address their barriers.

Both studies mentioned above cite data from early in the CalWORKs program. Since that time, the caseload has declined, as more of our caseload has left for work. It is likely that barriers will be more prevalent in the current caseload than they were at the time the studies were completed.

ISSUE #6: INTERACTION OF WORK AND EARNED INCOME DISREGARD

CalWORKs rewards work, but a typical CalWORKs family that earns more than \$12 per hour may earn too much to be eligible for assistance.

BACKGROUND:

The LAO suggested (in Issue #3) that one strategy for increasing work participation is to increase the reward for work in the current system.

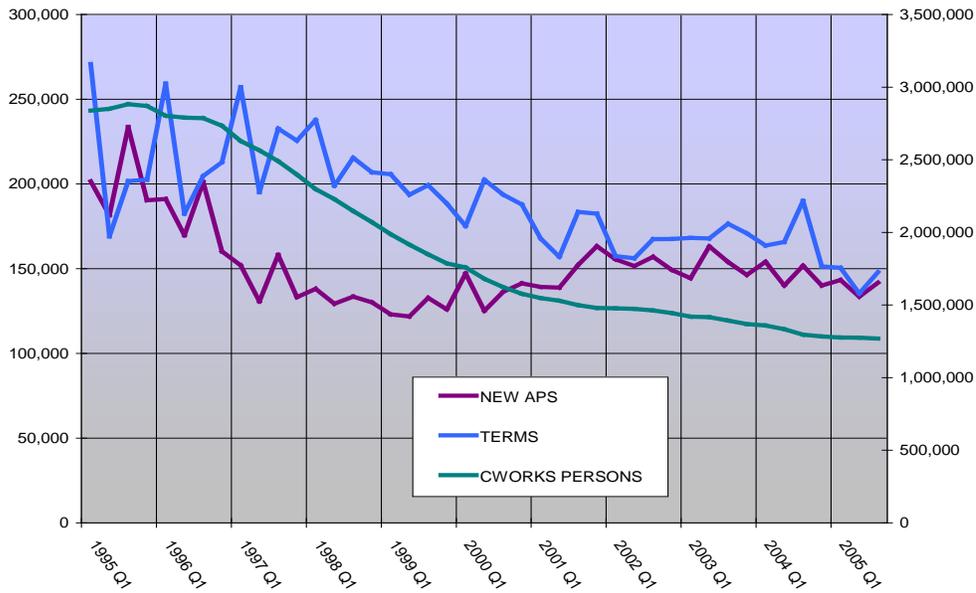
Current law disregards the first \$225 in earned income and 50 percent of each additional dollar earned when determining a family's monthly grant amount. California could increase its work incentive by increasing the amount of earnings that are disregarded. A higher disregard would allow more working families to remain on aid, thus increasing California's participation rate.

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).

Law	Required Hours Per Week	Maximum Wage
CalWORKs - California	32	\$12.07
Federal-TANF	30	\$12.87

ENTRY/EXITS A SIGNIFICANT PORTION OF CASELOAD:

Although the overall CalWORKs caseload is relatively flat, the overall trend masks a large number of cases opening and closing each month. The graph below from DSS illustrates this trend:



This trend may suggest that some CalWORKs families are entering and exiting aid and are not able to earn enough to permanently leave aid. Additional data analysis is needed to confirm or refute this possibility.

PANELIST:

Todd Bland
Legislative Analyst's Office

Char Lee Metsker
Department of Social Services.

Michael Herald
Western Center for Law and Poverty

ITEM 5180 DEPARTMENT OF SOCIAL SERVICES
ITEM 6110 DEPARTMENT OF EDUCATION**ISSUE #7: CHILD CARE ELIGIBILITY CEILING**

The Subcommittee will consider the effect of holding the child care eligibility ceiling at the 2000 level.

BACKGROUND:

Under current law a family must earn less than 75% of the State Median Income (SMI) to be eligible for subsidized child care. The SMI level for this determination has not been updated since 2000 (based on 1998 income data). The continued freeze of this eligibility level has significantly reduced the income range a family can earn and still be eligible for child care. Under the current eligibility threshold, a family of 3 can earn up to \$2,925/month; If the SMI were updated that same family could make up to \$3,956/month

Current State law requires that the SMI used for eligibility be updated by March 1 of each year. However, for the last five years the Budget Bill has contained a provision that suspends this SMI update.

GOVERNOR'S BUDGET SUGGESTS ESTABLISHING A WORKGROUP:

The Governor's budget contains the following provision regarding the SMI:

12. (a) Notwithstanding any other provision of law, the income eligibility limits pursuant to subdivision (a) of Section 8263.1 of the Education Code used in the 2005-06 fiscal year shall remain in effect until such time as a new family fee schedule, developed by a work group consisting of representatives from the Administration, the Legislature, and the State Department of Education, is implemented. The family fee schedule developed by the work group shall:

- (a) offset additional costs resulting from an increase in the income eligibility limit,*
and
- (b) not decrease the total number of available child care slots.*

(b) The work group also shall consider the use of:

- (i) alternative indexes for future income eligibility adjustments,*
- (ii) reallocation of funding to increase the Standard Reimbursement Rate, and*
- (iii) semi-annual review of child care contracts to maximize the expenditure of appropriated funds.*

PANELIST:

Tammy LaFramboise
Yolo County, mother of 2

Shannon Pendleton
Alameda County, mother of 1

Cheri Varner
El Dorado County, mother of 2

STAFF COMMENT:

The Subcommittee has received reports of many parents taking pay cuts, turning down promotions, or cutting hours so they don't go over the income limit. Some child care administrators also report former CalWORKs Stage 3 families returning to CalWORKs cash aid because they cannot afford private pay child care.

ITEM 5180 DEPARTMENT OF SOCIAL SERVICES**ISSUE #8: EMERGENCY CALWORKS**

The Subcommittee will discuss a proposal by the LAO to create an Emergency CalWORKs program.

BACKGROUND:

Recent hurricanes brought California an influx of disaster victims from other states, some of whom ended up on California's social services programs. Based on this experience, the Legislature may wish to consider revising the state's social services for similar circumstances in the future.

Federal law provided emergency funding to states that gave cash assistance to evacuees from Hurricanes Rita and Katrina. However, to be eligible for this federal funding, states must have already established an emergency program distinct from its regular Temporary Assistance for Needy Families (TANF) program (CalWORKs in California). The federal government also permitted states to accept self-certification of identity, residence, citizenship status, and financial situation for purposes of eligibility for Food Stamps for up to four months. With respect to the TANF program, federal law leaves eligibility rules, including authorization for self-certification, up to the states.

The CalWORKs program is designed to help families transition from welfare to work. It has no specific provisions pertaining to displaced disaster victims. (State law does provide for a supplementary benefit program for households affected by *California* disasters.) Consistent with the federal Food Stamps directives, the Department of Social Services allowed hurricane victims to also self-certify eligibility for CalWORKs for up to four months, even though there was no specific statutory authority to accept self-certification. Because California had no separate program, the 2,500 evacuees became a state responsibility, with no additional federal funding to cover cash grants and other social services.

LAO RECOMMENDATION:

For future disasters, the Legislature may wish to create an emergency CalWORKs program for several reasons. First, by creating a separate program, California could be eligible for future federal reimbursement for cash assistance and other services provided to specified disaster victims or evacuees. Second, in the event of disasters declared by the President and Governor, the Legislature could provide statutory authority to temporarily authorize for up to four months self-certification for certain eligibility requirements. Third, developing a specific short-term assistance program for evacuees to help them obtain shelter and reconnect with their families and assets may better serve the needs of disaster victims, than the current CalWORKs program. Had such a program been in place before Hurricanes Katrina and Rita, California would have

been eligible for federal reimbursement for the CalWORKs costs associated with evacuees from these hurricanes.

PANELIST:

Todd Bland
Legislative Analyst's Office

STAFF COMMENT:

The Legislature may wish to consider establishing such a program in Legislation at some point in the future to address challenges like those posed by Hurricane Katrina.