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FEDERAL WELFARE REFORM: WHAT DOES IT MEAN FOR CALIFORNIA?

SUMMARY

- The federal welfare reform law converts funding for the Aid to Families with Dependent Children (AFDC), JOBS, and Emergency Assistance programs from an entitlement into a block grant. The prior entitlement guaranteed that all families with children who met eligibility requirements (mainly income and asset limits) received benefits, no matter how much was budgeted for the program, and guaranteed federal monies for states to help those who were eligible. The new block grant contains no such guarantee. Under the block grant, California will receive a fixed allocation of federal funds, regardless of caseload or need.
- Despite the dramatic changes in AFDC, most of the projected savings in the federal welfare reform law come from changes to other programs, most notably Food Stamps and Supplemental Security Income (SSI). Restrictions on the eligibility of legal immigrants in these programs disproportionately affect California, home to an estimated four million noncitizen legal immigrants.¹ In all, 43 percent of the reductions are slated for the Food Stamp program. In total, 44 percent of the reductions are due to provisions limiting Food Stamps, Supplemental Security Income, Medicaid, and the Earned Income Tax Credit for legal immigrants. Funding for child nutrition programs and the Social Services Block Grant (SSBG) are reduced as well.
- The reductions in federal support will significantly limit assistance to low income Californians. The average California household receiving Food Stamps will lose \$537 per year in benefits in 2002. Between 1997 and 2002, benefits for the average Food Stamp household will be reduced by \$603.² Due to changes in the SSI definition of disability, 16,815 disabled children in California must be reevaluated in order to continue receiving SSI benefits.³ Each child who is not recertified will lose SSI/SSP benefits worth up to \$6,569 annually.⁴
- The impact of the new welfare law will become particularly evident during a recession. If such a block grant had been in place in 1988, federal aid to California for cash grants alone between 1989-90

¹ Senate Office of Research, *Federal Welfare Changes Affecting California's Immigrants*, October 10, 1996.

² Center on Budget and Policy Priorities, *The Depth of the Food Stamp Cuts in the Final Welfare Bill*, August 14, 1996.

³ Social Security Administration, *SSI Childhood Disability Cases Requiring Reevaluation*, January 1997.

⁴ Based on the maximum 1997 SSI/SSP grant amount for a disabled child living with a parent or relative.

and 1993-94 would have been \$3.7 billion less than the state actually received. The state would have qualified for additional aid from the federal contingency fund for three years since unemployment was high and the Food Stamp caseload was growing. But, since the entire country was experiencing a recession, the limited funds available to states experiencing economic downturn might have been exhausted.

OVERVIEW

On August 22, 1996, President Clinton signed The Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The new welfare law dramatically restructures public assistance programs affecting millions of low income Californians, especially immigrants and children. The effects of devolution, the shift of safety net responsibility from the federal government to state and local governments, are already being felt. When the federal government reduces spending or reduces the rate of spending growth while demand continues to increase, states and local governments are required to shoulder increasing costs with a shrinking level of federal assistance. This *Budget Brief* examines how the new welfare law will affect Californians and California communities.

What Programs Are Affected By The New Law?

The welfare reform law contains reductions of \$54 billion between 1997 and 2002, dramatic structural changes in AFDC and related programs, and changes in eligibility guidelines for Food Stamps and SSI. The vast majority of savings come from the Food Stamp and SSI programs, while very little of the savings come from AFDC. California is particularly affected by a new policy restricting most legal immigrants from receiving certain benefits. Tables 1 and 2 show the sources of reductions in federal

Program	(Reductions)/Increases Compared To Current Law Estimates 1997-2002	Percent Of Total Spending Reduction
Food Stamps	(\$23.3 billion)	(43%)
Supplemental Security Income (SSI)	(\$22.7 billion)	(42%)
Medicaid	(\$4.1 billion)	(7%)
Child Nutrition	(\$2.9 billion)	(5%)
Earned Income Tax Credit (EITC)	(\$3.2 billion)	(6%)
Social Services Block Grant	(\$2.5 billion)	(5%)
Family Support - TANF (except Child Care)	\$257 million	0.5%
Social Security	(\$85 million)	(0.2%)
Foster Care	\$232 million	0.4%
Maternal/Child Health	\$253 million	0.5%
Child Care (net increase)	\$3.5 billion	6%
Total	(\$54.5 billion)	100%

Source: Congressional Budget Office, August 1, 1996.

spending.

The welfare law makes most legal noncitizens ineligible for Supplemental Security Income (SSI) and Food Stamps. Legal immigrants currently receiving these benefits must be reevaluated no later than August 22, 1997. Legal immigrants will lose benefits with the following exceptions:

- Refugees, asylees, and those granted withholding of deportation during their first five years after entering the US.
- Veterans and aliens on active duty, their spouses, and unmarried children under age 21.
- Immigrants who have worked 40 “qualifying quarters” (10 years). Spouses and children under 18 receive credit for the work of a spouse or parent.⁵

The SSI and Food Stamp bar already applies to new applicants for assistance. The law also creates a new distinction, between legal immigrants who were living in the US before the law was signed and those who arrive(d) on or after the date of enactment. States have the option of continuing to provide Medicaid and TANF assistance to legal immigrants who arrived in the US prior to August 22, 1996, but are barred from using federal funds to provide Medicaid or TANF assistance to legal immigrants who arrive(d) in the US on or after that date. Restrictions on benefits for persons who are in the US legally, but who are not citizens, constitute 44 percent of federal savings.

Table 2: Personal Responsibility and Work Opportunity Reconciliation Act of 1996: Impact on Federal Funds to California (in millions)

		1996-97	6 Year Impact	6 Year Impact By Program As A % Of Total
Title I	TANF ^{a,b}	\$286	\$1,350	20%
Title II	Supplemental Security Income		(\$524)	(8%)
Title III	Child Support	\$25	\$28	0.4%
Title IV	Restrict Welfare for Noncitizens	(\$282)	(\$5,863)	(86%)
	Restrict SSI for Noncitizens ^c	(\$176)	(\$3,746)	(55%)
	Restrict Food Stamps for Noncitizens ^d	(\$90)	(\$1,563)	(23%)
	Restrict Medi-Cal/IHSS for Noncitizens ^c	(\$10)	(\$291)	(4%)
	Restrict Medi-Cal for New Noncitizens ^c	(\$6)	(\$263)	(4%)
Title V	Child Protection	\$20	\$21	0.3%
Title VI	Child Care	\$55	\$525	8%
Title VII	Child Nutrition		(\$340)	(5%)
Title VIII	Food Stamps	(\$105)	(\$1,679)	(25%)
Title IX	Miscellaneous	(\$50)	(\$302)	(4%)
	TOTAL	(\$51)	(\$6,784)	100.0%

Source: Legislative Analyst's Office

^a Assumes implementation November 1, 1996

^b Assumes no state penalties

^c Assumes 8 month phase in beginning January 1, 1997

^d Assumes 11 month phase in beginning October 1, 1996

WHAT CHANGES ARE MADE IN AID TO FAMILIES WITH DEPENDENT CHILDREN?

The new welfare reform law eliminates the AFDC, Job Opportunities and Basic Skills (JOBS/GAIN), and the Emergency Assistance programs at the federal level and replaces them with a block grant for Temporary Assistance for Needy Families (TANF). The federal entitlement to benefits is eliminated, although states may maintain an entitlement to assistance.⁶ Formerly, the amount of cash assistance

⁵ Qualifying quarters are defined as quarters during which the individual worked and did not receive any federal public benefits during the quarter. Work performed by parents and spouses may be credited.

⁶ Entitlement programs are those in which everyone who meets eligibility criteria for the program must be provided with assistance, regardless of how much the government has budgeted.

provided varied from state to state. However, families that met basic eligibility criteria could count on cash assistance.⁷ Under a block grant, states may establish their own criteria for eligibility. If block grant funds run out, a person who is otherwise eligible may be denied assistance. Most importantly, the federal government will no longer automatically provide additional aid when economic times worsen and caseloads rise, thereby increasing state costs.

For California, the block grant amount is based upon 1995 funding for AFDC, JOBS, and Emergency Assistance. Since the block grant amount is based on spending during a year when the AFDC caseload was about two percent higher than in 1996, the amount that California will receive from the federal government for TANF in 1996-97 and 1997-98 is higher than the amount the state would have received under the previous system. Additionally, California reduced state expenditures on AFDC by an average of 1.6 percent per year between 1992-93 and 1995-96, primarily due to grant reductions. States with lower than average federal welfare spending per poor person and high population growth rates may qualify for an increase each year of 2.5 percent of 1994 levels in the block grant beginning in 1998. However, California is not one of these states.

Other provisions of the TANF block grant include the following:

- States have the option of continuing to use federal funds to provide cash assistance to most legal noncitizens who arrived in the US prior to August 22, 1996. In California, approximately 366,000 noncitizens received AFDC in October 1995, 14 percent of the caseload.⁸ Legal noncitizens who arrive(d) in the US on or after August 22, 1996 are barred from receiving assistance using federal TANF dollars for their first five years in the country.
- States must maintain combined state and local support at 80 percent of 1994 levels, or 75 percent if a state is able to meet work participation rates. This is referred to as the state's "maintenance of effort," or MOE. The state loses one federal block grant dollar for every dollar that it drops below the MOE. California's 80 percent MOE requirement is approximately \$2.9 billion.
- States may transfer up to 30 percent of their TANF block grant to the Child Care and Development Block Grant or the Title XX Social Services Block Grant. However, no more than one-third of the amount transferred (that is, not more than ten percent of the total block grant) may be transferred into the Social Services Block Grant and those funds must be used for children and families with incomes below 200 percent of the poverty standard.
- States may carry over unused block grant monies from year to year.
- A state may spend no more than 15 percent of its block grant for administration.
- All child support collected for families receiving federal TANF assistance must be divided into a federal share and a state share based on the state's Medicaid match rate. For California, this means that federal government will receive approximately 50 percent of child support collections for TANF families. The remaining state share may be passed through to families or kept by the state as reimbursement for assistance.

States may also be eligible for a share of monies from a \$2 billion contingency fund, a \$1 billion fund for "high-performing" states, and a \$500 million fund for states which reduce out-of-wedlock births.⁹

⁷ This did not mean that states were required to provide families with something for nothing. Most states require parents receiving assistance to participate in work or training programs.

⁸ California Department of Social Services, AFDC Characteristics Survey, October 1995.

⁹ For "high-performing" states, \$175 million per year, between 1999 and 2002 and \$300 million for 2003, will be distributed among states that meet the goals of the program. Measures for performance assessment will be developed by DHHS in consultation with the National Governors' Association and the American Public Welfare Association. Only states in which the rate of abortion falls below 1995 levels may receive an out-of-wedlock reduction grant.

Waivers

Historically, states have applied for waivers to allow them to circumvent federal AFDC program rules and regulations in order to experiment with innovative programs for a time-limited period. The new welfare law stipulates that states may opt to continue existing waivers under the block grant by asserting that the waivers are inconsistent with the new law. California has received a number of waivers related to work and welfare including:

- Allowing a family to earn more before aid is reduced, as a reward for work. Specifically, this includes a permanent disregard of \$30 plus one-third of the remaining earnings and repeal of the two-parent 100 hour rule.¹⁰
- A reduction in aid as an incentive for work. Households headed by a caretaker who is ill, disabled, or caring for an ill or disabled family member are exempt from this provision.
- AFIRM, a program for automatic finger imaging.
- The Eligibility Simplification Project, which eliminates annual redetermination.

While it is unclear how inconsistencies will be evaluated, a number of states have submitted plans to the US Department of Health and Human Services (DHHS) stating that their waivers are inconsistent with the new federal law and that they intend to continue existing waivers until their expiration. California may choose to continue existing waivers until their expiration date.

Work Participation Requirements And Time Limits

While work participation requirements existed in the AFDC program for a number of years, the law creates new and more stringent requirements, with penalties for states that fail to comply. Without regard to a state's or a region's labor market or economy, the law requires that parents work or participate in work activities as shown in Table 3.

Fiscal Year	All-Families Participation	Hours Required to Count as Participating Toward All-Families	Two-Parent Participation	Hours Required to Count as Participating Toward Two-Parent
	Rate	Rate	Rate	Rate
1997	25%	20	75%	35
1998	30%	20	75%	35
1999	35%	25	90%	35
2000	40%	30	90%	35
2001	45%	30	90%	35
2002 and after	50%	30	90%	35

¹⁰ Under old rules, a wage earning welfare recipient could keep the first \$30 of take-home pay, plus one-third of the remainder; the rest was deducted from the cash grant amount for the first four months of employment. After four months, the entire amount was deducted from the grant or eligibility was reassessed. Also under old rules, the primary wage earner in a two-parent family (AFDC-U) could not work more than 100 hours per month and continue to receive assistance. Under the Work Pays Demonstration Project, these rules are waived.

To the extent that work participation rates are not met, states face a five percent reduction in block grant funding in the first year. The penalty can be increased by two percent each year, to a maximum of 21 percent of the state's block grant funding.

The new federal law limits the amount of time that a family with an adult receiving assistance may obtain TANF assistance to 60 cumulative months, or five years, over the course of a lifetime. States may exempt up to 20 percent of the caseload from time limits.

FOOD STAMPS

Approximately 43 percent of the total savings in the new law come from the Food Stamp program. On average, California's three million Food Stamp recipients face a 20 percent reduction in benefits by 2002 as average Food Stamp benefits fall from \$0.80 per person per meal to \$0.66 per person per meal. Three major changes account for two-thirds of the total federal savings in Food Stamps:

1. Benefit levels historically have increased at 103 percent of the change in the cost of the Thrifty Food Plan (TFP).¹¹ Adjustments to annual allotments now are limited to the actual change (100%) in the cost of the TFP.
2. The Food Stamp formula contains a standard deduction, which generally increases over time to keep up with the cost of living.¹² Under the new law, the standard deduction is frozen at its current level until 2002. The cumulative result of the Food Stamp changes means that in 2002, the average California Food Stamp grant will be reduced by \$537 per year, or \$45 per month.¹³ Reductions are smaller in the earlier years and increase each year.
3. Limiting Food Stamps to three months every three years for able-bodied childless adults who are not working. The Congressional Budget Office (CBO) estimates that one million individuals nationally will fail to find work and will lose benefits for a savings of \$5.1 billion over the period from 1997 through 2002. The California Department of Social Services estimates that about 200,000 jobless workers in California could lose benefits after three months.¹⁴ Individuals will begin to be cut off from Food Stamps as soon as March 1, 1997. States may request a waiver of the limit for individuals living in areas with high unemployment or where there are insufficient jobs as measured by the US Department of Labor's Labor Surplus Areas. The Wilson administration has indicated that, no later than February 22, 1997, it will request a waiver for California counties that have an unemployment rate of over ten percent. The state does not, however, plan to claim a broader waiver covering labor surplus areas eligible for assistance under federal law.

At the federal level, restricting Food Stamp benefits for noncitizens accounts for approximately 16 percent of savings in the Food Stamp program.¹⁵ However, in California, the provision accounts for 48 percent of the cumulative Food Stamp reductions.¹⁶ Approximately 374,000 of the 436,000 non-citizen legal immigrants receiving Food Stamps in California stand to lose benefits.¹⁷

¹¹ The Thrifty Food Plan is based on the cost of a market basket of food that provides an economical and nutritious diet.

¹² The standard deduction allows a family to disregard a portion of their income. The standard deduction is a specific dollar amount that is subtracted from a Food Stamp household's counted income for the purpose of eligibility and benefit determination.

¹³ Center on Budget and Policy Priorities, *The Depth of the Food Stamp Reductions in the Final Welfare Bill*, August 14, 1996.

¹⁴ California Department of Social Services, quoted in *Los Angeles Times*, October 5, 1996.

¹⁵ The provision restricting Food Stamps for noncitizens is part of Title IV: Restricting Benefits for Noncitizens, not Title VIII: Food Stamps.

¹⁶ Legislative Analyst's Office, *Federal Welfare Reform (HR 3734): Fiscal Effect on California*, August 20, 1996.

¹⁷ California Department of Social Services, *Fact Sheet on Federal Welfare Reform Law and Food Stamp Eligibility*, September 13, 1996.

Other major changes to the Food Stamp program include:

- **Capping the excess shelter deduction.** Food stamp recipients are eligible for additional Food Stamps based on the amount by which their housing costs exceed 50 percent of their income, with a limit on the deduction of \$247 per month. The cap was to expire this year, allowing poor families paying a large share of their income in rent to receive increased Food Stamp benefits. The new law sets caps that are lower than under previous law. This provision will severely impact those families paying a large percentage of their income for rent. While the cap increases slightly each year, the CBO estimates that benefits will be reduced by \$3 billion between 1997 and 2002 as a result of this provision.
- **Other savings.** The new law counts state and local emergency assistance as income for the purpose of calculating Food Stamp benefit amounts, prohibits married families or relatives living together from receiving aid as separate households and freezes the limit on the allowable value of a vehicle one can own. Previously, the value increased with inflation.

SUPPLEMENTAL SECURITY INCOME

Supplemental Security Income (SSI) is a federal cash assistance program for aged, blind, and disabled individuals who have little or no income. The law changes this program in two major ways:

1. Most elderly, blind, and disabled legal immigrants are excluded from receiving SSI benefits.¹⁸ Notices will be sent in February and March 1997 by the Social Security Administration to those who may be affected. The CBO estimates that nationally, about 500,000 persons may lose benefits, after accounting for the exceptions.¹⁹ According to the Social Security Administration, an estimated 224,752 persons may lose SSI benefits in California.²⁰ Cumulative national reductions in aid from this change total \$13.3 billion. The six-year reduction in federal funds in California is estimated at \$3.7 billion.²¹
2. The method for determining whether a child qualifies as disabled is changed. Currently, a child may be deemed eligible for SSI if he or she has a) a condition that matches those listed in the medical listings of specific impairments; or b) been evaluated by an individualized functional assessment (IFA) which determines that a child has an unlisted condition or a combination of conditions that prohibit the child from performing age-appropriate activities. The IFA was eliminated as a method of eligibility determination due to perceived abuse and fraud. Nationwide, approximately 300,000 children must be reviewed according to the new standards. Reductions in benefits from this change alone total \$7 billion. Of the 75,000 California children receiving SSI, approximately 17,000 must be

¹⁸ Exceptions exist for those who have worked in the US for 40 qualifying quarters, persons on active military duty, veterans of the US armed services, and refugees and asylees for their first five years in the country.

¹⁹ National Conference of State Legislatures, *Impact of Immigrant Provisions in Welfare Reform*, September 4, 1996. This estimate also includes an assumption that 15 percent of those currently on the rolls as noncitizens have naturalized.

²⁰ The Legislative Analyst's Office estimates that 207,000 legal immigrants will lose benefits, based on assumptions of errors in categorization and that a percentage of those at risk of losing benefits will become citizens.

²¹ Legislative Analyst's Office, *Federal Welfare Reform (HR 3734) Fiscal Effect on California*, August 20, 1996.

reevaluated.²² California will lose an estimated \$3 million in 1996-97 and \$542 million over six years in federal funds as a result of this change.²³

California provides a supplemental payment to SSI recipients through the State Supplementary Program (SSP). The federal law restricting SSI/SSP eligibility for most noncitizens will result in estimated state savings of \$243 million in 1997-98 and \$179 million in 1998-99, attributable to the SSP portion of SSI/SSP benefits for now ineligible noncitizens.²⁴ State SSP savings of \$9 million are anticipated in the 1997-98 budget year due to the changed definition of disability for children.²⁵

MEDI-CAL

The welfare law does not make explicit changes to the Medicaid program (Medi-Cal in California), though there are provisions of the law that have an impact upon Medicaid. Medicaid is maintained as an entitlement program with a 50 percent match from the federal government. This means that every dollar spent by the state is matched with a dollar from the federal government.²⁶

The new federal welfare law allows states to determine whether to continue to provide coverage to most legal immigrants who were in the country before August 22, 1996. Legal immigrants who enter(ed) the US on or after that date are ineligible for assistance for their first five years in the US or until they attain citizenship, unless they meet the exception criteria described above for SSI and Food Stamps. Approximately 950,000 legal noncitizens, including 300,000 refugees, are eligible for Medi-Cal in California.²⁷ Refugees remain eligible for federal benefits for their first five years in the US or until they attain citizenship. At the state's option, as many as 500,000 legal noncitizens who are currently eligible for Medi-Cal could be subject to the bar on legal immigrants.²⁸

Historically, persons receiving assistance through the AFDC program were categorically eligible for Medicaid. This meant that persons who qualified for AFDC automatically qualified for Medi-Cal. Under the new law, the categorical link is terminated. However, states must provide coverage to parents and children who would have qualified for AFDC based regulations that were in place on July 16, 1996. States may choose to link Medicaid eligibility to the TANF program.

Legal immigrants and disabled children who lose SSI benefits also lose their categorical link to the Medicaid program. Most should continue to be eligible for Medicaid, though they may need to be reevaluated. Depending upon income, they also may be required to pay a share of costs.

CHILD NUTRITION

More than 80 percent of the reductions in child nutrition come from the Child Care Food Program, which supports the provision of meals to approximately 256,000 California children in day care and

²² Testimony of Carolyn Colvin, Deputy Commissioner for Programs and Policy, Social Security Administration, California State Senate Health and Human Services Hearing, October 10, 1996.

²³ Legislative Analyst's Office, *Federal Welfare Reform (HR 3734): Fiscal Effect on California*, August 20, 1996.

²⁴ Legislative Analyst's Office, *California's Fiscal Outlook*, November 21, 1996. Estimated savings are based on an assumption that 25 percent of the immigrants on SSI/SSP will naturalize before September 1997 and an additional 45 percent will do so over the following 18 months. Many observers believe that significantly fewer persons will complete the naturalization process during this time frame.

²⁵ Governor Pete Wilson, Governor's Budget Summary, 1997-98.

²⁶ California's Medicaid match rate is slated to increase to 51 percent effective October 1, 1997.

²⁷ Senate Office of Research, *Federal Welfare Changes Affecting California's Immigrants*, October 10, 1996.

²⁸ California Association of Public Hospitals and Health Systems, *Welfare Reform Legislation - Impact on Medi-Cal*, September 1996.

child care centers.²⁹ Under the new law, family day care homes outside of designated low income geographic areas or that are not operated by a low income provider will experience reductions in aid for child nutrition programs.³⁰

Meal reimbursements for homes outside of low income areas and not operated by a low income provider are reduced by approximately 40 percent for lunches and 69 percent for breakfasts. These homes will be allowed to administer a means-test in order to continue to receive current reimbursement rates for meals served to children in families with incomes below 185 percent of poverty. For a typical family day care home that provides care for five children, and does not operate in a low income area, the changes will mean a loss of about \$2,000 in federal reimbursements per year. Summer food service providers will also see a reduction of 32 percent in their 1997 reimbursement rates. Over six years, reductions in child nutrition programs total \$2.8 billion nationally. Between 1998 and 2002, child nutrition spending in California will drop by about 12 percent, or \$340 million.³¹

EARNED INCOME TAX CREDIT

The Earned Income Tax Credit (EITC) is a refundable tax credit for low and moderate income working families. Over two million California taxpayers, one out of every six who file a federal tax return, benefit from the credit.³² The welfare law tightens the availability of the EITC by expanding the range of nonwage assistance that can be counted as income for the purpose of calculating a household's eligibility and credit and requires recipients to provide Social Security numbers. These provisions, together with other efforts designed to limit abuse of the EITC, will reduce benefits nationwide by an estimated \$3.2 billion. The cuts, however, are highly targeted and avoid the widespread reductions in the EITC proposed in prior measures.

CHILD CARE

The new welfare law eliminates the federal guarantee of child care to qualified families through the AFDC/GAIN Child Care, AFDC/NET Child Care, and Transitional Child Care programs. It also repeals the At-Risk Child Care program, for those families deemed to be "at-risk" of needing AFDC. The law consolidates all child care programs into a single Child Care and Development Block Grant (CCDBG) and requires that the state designate one lead agency to administer the program. California's lead agency is the State Department of Education. Federal funding for the block grant has three components:

- **Discretionary.** Each state will receive a share of \$1 billion (budgeted annually) in discretionary funding. California's 1997 allocation is estimated at \$120.5 million.
- **Mandatory.** Each state will qualify for general entitlement funds set at the higher of 1992-94 average, 1994, or 1995 federal spending for Title IV-A child care programs. California's 1997 allocation is estimated at \$93 million.

²⁹ California Food Policy Advocates, *Child Nutrition and Other Food Program Provisions of PL104-193*, October 1996.

³⁰ Homes in areas where at least half of the children are in households whose incomes are below 185 percent of poverty or are operated by a provider whose household income falls below 185 percent of poverty will continue to receive current law rates.

³¹ Legislative Analyst's Office, *Federal Welfare Reform (HR 3734): Fiscal Effect on California*, August 20, 1996.

³² Center on Budget and Policy Priorities, *A Hand Up: How State Earned Income Credits Help Working Families Escape Poverty*, 1996 Edition.

- **Matching.** Each state that maintains the higher of 1994 or 1995 spending for Title IV-A child care programs can qualify to receive additional federal funds at the state's Medicaid match rate.³³ California's 1997 allocation is estimated at \$96 million.

Under previous law, the state could draw down increased funds under the uncapped entitlement programs without limit.³⁴ An increased allocation of funds under the new law reflects a recognition that states will need more money for child care to meet mandated work participation requirements, though there are new limitations on how much the states can draw down. In order to draw down the *matching* funds, California must maintain 100% of its maintenance of effort (\$92.9 million), spend all of its *mandatory* federal allocation, and spend \$1 of state funds to draw down each \$1 of federal matching funds.³⁵ The state is not required to match the block grant amount, but must maintain previous levels of support in order to obtain the new money.

Other provisions of the new CCDBG include raising basic eligibility from 75 percent to 85 percent of the state median income and a requirement that 70 percent of the *matching* and *mandatory* funds be spent for families on TANF, at-risk of needing TANF assistance, or transitioning off of TANF. If states meet the federally mandated TANF work participation rates, provide child care to participants, and maintain current spending on transitional and at-risk child care programs, the CBO estimates a \$1.4 billion shortfall in child care funds over six years.³⁶

OTHER FUNDS

Foster care and abstinence education are forecast to receive additional funding. The law does not change the federal entitlement to foster care maintenance payments. There is concern that states will shift children currently receiving AFDC to foster care programs if they are eligible, since program funding remains an open-ended entitlement. In that way, states can save restricted and scarce block grant dollars for some children, while not cutting benefits to children who could be served from foster care dollars. The federal government will continue to pay for 75 percent of foster care data collection expenses for an additional year. The enhanced match had been due to expire on October 1, 1996. Also, the Department of Health and Human Services will receive \$6 million annually to perform an ongoing national study of children who have been abused or neglected or are at risk of abuse or neglect.

The Social Services Block Grant (SSBG or Title XX) is a federal funding mechanism that is used by states for a variety of programs including child care, home-based services, child protective services, support services for the disabled, and other services. The federal welfare law calls for a 15 percent reduction in the SSBG. The law indicates that Title XX funds may be used to provide assistance to families who have lost assistance due to time limits on benefits. In California, SSBG funds are primarily spent on In-Home Supportive Services and the Department of Developmental Services. Grants to states are determined by a statutory formula based on state population. Federal SSBG funding to California has increased only minimally, less than one percent per year between 1993 and 1995. California's 1996 allocation was \$337 million.

³³ The Medicaid match rate is the share of funds that the state must spend in order to draw down Medicaid funds. California's match rate is about 50 percent federal, 50 percent state. Every dollar spent by California is matched by a federal dollar.

³⁴ JOBS and Transitional Child Care under Title IV-A operated as uncapped entitlements. At-Risk Child Care under Title IV-A operated as a capped entitlement.

³⁵ Child Care Law Center, *Child Care and Development Block Grant and Related Child Care Provisions of the Temporary Assistance for Needy Families Block Grant*.

³⁶ Congressional Budget Office (Sheila Dacey and Justin Latus), Memo re: Total Costs to Meet Work Participation Requirements Under HR 3734 as Passed by Congress, August 14, 1996.

HOW DEEP ARE THE CUTS?

The welfare law makes changes to a number of different programs and funding streams. In a relatively small program the dollar amounts may not appear to be significant, though they may represent a large

Program	\$ Reduction In 1998	Percentage Reduction
Food Stamps	(\$3.94 billion)	(13 %)
Supplemental Security Income	(\$3.53 billion)	(12 %)
Medicaid	(\$514 million)	(0.4 %)
EITC	(\$517 million)	(2 %)
Child Nutrition	(\$403 million)	(4 %)
Social Services Block Grant	(\$420 million)	(14 %)

Source: Congressional Budget Office

part of that particular program's budget. Food Stamps, a relatively large program, experiences immense reductions in both absolute and percentage terms. The chart below shows the cuts in 1998 as a percentage of how much would be spent under each program under previous law. While the share of total cuts from each program was described earlier, Table 4 compares the cuts to the size of the individual programs. Food Stamps, SSI, and the Social Services Block Grant experience the deepest cuts.

WHAT IS IN STORE FOR CALIFORNIA UNDER A BLOCK GRANT?

Conversion of an entitlement program to a block grant means that families in states experiencing an economic downturn cannot necessarily rely upon federal assistance. While California is one of the states that will receive more federal dollars under the block grant than it would have under the prior law, these projections do not account for the possibility of a state or national recession.

One way to analyze the potential effects of the change in funding is to examine what would have happened if the block grant had been in effect in past years. If, for example, the block grant had been implemented in 1987-88, how would the amount of federal aid for poor families in California have been different? This analysis is performed using three simplifying assumptions:

- Only AFDC cash grant funds are examined. Administrative and other expenditures are excluded.
- Federal expenditures are held constant. Under the new federal law, this is the case for federal funds. State and local decision makers must decide whether to increase expenditures under the new structure.
- Under one scenario, the state takes full advantage of the contingency fund. A contingency fund, totaling \$2 billion through 2001, is available to states on a first come, first served basis. In order to access the contingency fund, a state must meet 100 percent of its maintenance of effort requirement during the year for which it draws on the fund. States may draw down contingency fund dollars by matching each federal dollar with state funds at the state's Medicaid match rate (one federal dollar for each state dollar for California). States can receive up to a maximum of 20 percent of the state's block grant amount.

Had the block grant been enacted in 1987-88, California would have received close to \$3.7 billion less in federal funds for AFDC in the five years between 1989-90 and 1993-94. This difference is equivalent to 28 percent of the state's actual expenditures. In reality, federal spending increased as caseloads rose, due to the depth and length of the recession. Although California enacted grant reductions in 1991-92, 1992-93, and 1993-94, state spending under a block grant might also have been significantly less. The state experienced a series of substantial budget shortfalls which would have limited its ability to make up for limited federal dollars with state funds. Faced with limited resources, policymakers potentially

Table 5: What Is In Store For California Under A Block Grant? Estimating Federal Expenditures To California Under A Hypothetical Block Grant	
Total Actual Federal Spending 1989-90 to 1993-94	\$13.40 billion
Total Federal Spending Under Hypothetical Block Grant 1989-90 to 1993-94	\$9.68 billion
Difference Over The Five Year Period	\$3.71 billion
Percentage Difference	28%
Annual Reduction In Federal Funds To California	\$743 million

Analysis based on AFDC grant expenditures only. Grant expenditure data from California Department of Social Services

would have enacted even deeper cuts in benefits or the complete elimination of benefits to certain families and children.

Based on the criteria in the federal law, California would have been eligible to take advantage of the contingency fund for three of the five years. Specifically, unemployment was above 6.5% and rising relative to previous years. Also, Food Stamp participation in the state rose more than 10% over each of the three years. If the state had taken full advantage of the contingency fund for three full years, it would have spent an additional \$1.16 billion in federal funds (on cash grants alone), 58 percent of the nation's five-year contingency fund.³⁷ If the state had taken full advantage of the contingency fund in these three years, federal AFDC cash grant expenditures in those the five years would still have been \$2.6 billion below actual expenditures -- enough to provide benefits for five full years to 64,000 families of three with no other income.

If the state were unable to access the contingency fund, for example, due to insufficient state maintenance of effort, federal expenditures to California for AFDC cash grants in the five years between 1989-90 and 1993-94, would have been \$3.7 billion less. This is equivalent, on average, to a reduction of \$743 million per year in federal AFDC spending in California. In addition, the welfare law reduces funds for other safety net programs as well as cash assistance.

STATE PLAN

States are required to submit a plan to the US Department of Health and Human Services (DHHS) outlining how they intend to address a few basic provisions in the TANF block grant, no later than July 1, 1997. California submitted its state plan for TANF on October 9, 1996 and the plan was certified as complete on December 7, 1996. The state plan essentially proposes continuing the current system and implementing previously legislated provisions for grant reductions that had been awaiting federal approval. The state plan also indicates that the state intends to implement other legislation allowing the Social Services agency to pay lower benefits to persons from other states who apply for assistance.

³⁷ Contingency funds are provided at the 1995 FMAP (federal medical assistance percentage) and cannot exceed 20 percent of the state's total block grant during a fiscal year. In any month a state may draw down 1/12 of the 20 percent.

Finally, the administration indicates in its plan that it intends to continue to serve legal noncitizens in its TANF and Medicaid programs. Legislation would be necessary to change this current policy.

WHAT DECISIONS DOES THE STATE HAVE TO MAKE?

States must now consider a broad range of policy choices needed to implement the new act. These include whether and how to restructure benefits; whether to maintain a state guarantee of assistance for families that attempt to “play by the rules” but fail to find a job providing sufficient income; and what types of assistance and services to provide for families transitioning off of aid and into work.

Among the questions that must be addressed are the following:

- Should the state establish a safety net for the children of parents who become subject to time limits?
- How should scarce state and local dollars be divided between providing assistance to welfare recipients in order to prepare them for work and immigrants that lose federally funded benefits?
- Should the state replace lost federal dollars to provide benefits to legal immigrants? Who should pay? At what benefit levels?
- What happens to the county safety net? Should the state take it over? At what price?
- Are there jobs in California communities for those affected by time limits and work participation requirements? Where will the burden be placed to find or create jobs?
- Will funds be available to provide necessary support services to enable recipients to work?
- How much discretion over program structure should be transferred to the local level? How can the state ensure accountability, particularly in light of new penalties and sanctions that apply at the state level?
- What can we learn from welfare-to-work demonstration projects, community economic development, and microenterprise development? Can models that work be “scaled up” to address the number of persons potentially subject to time limits? At what cost?

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In addition to those noted, sources for this brief include *The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Conference Report to accompany H.R. 3734* and Congressional Budget Office, *Federal Budget Effects of H.R. 3734, The Personal Responsibility and Work Opportunity Reconciliation Act of 1996*, August 1996.