

REAUTHORIZATION OF THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES BLOCK GRANT: ISSUES AND OPTIONS FROM A CALIFORNIA PERSPECTIVE

Congress must reauthorize the Temporary Assistance for Needy Families (TANF) block grant by the end of federal fiscal year 2002 if it is to remain a funding stream for states to provide cash assistance and services for needy families. By the end of 2002, Congress also must reauthorize the Child Care and Development Block Grant, the Food Stamp Program, and funding for abstinence education. The debate around reauthorizing these programs and funding streams is likely to include consideration of broader issues concerning poverty and child well-being, workforce development, immigrants' eligibility for public benefits, devolution, and family policy.

The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), or federal welfare reform law, created Temporary Assistance for Needy Families (TANF), a block grant that provides money for states to assist needy families. TANF replaced the Aid to Families with Dependent Children (AFDC) program. States use the TANF block grant, together with state funds, to support a variety of programs and services for low income families and children. While AFDC was primarily a cash assistance program, many states' TANF programs have evolved into much more than cash assistance, often encompassing services aimed at supporting work, such as child care, education and training, domestic violence counseling, mental health and substance abuse treatment, transportation assistance, and housing assistance. States and local governments have, in some cases, changed staffing structures and job descriptions, contracted out to local nonprofit and for profit organizations, and networked with new partners to implement programs that are more far reaching, complex, and costly than basic cash assistance. Many are still in the process of making the changes necessary to implement new policies and programs.

TANF reauthorization creates an opportunity for advocates, program administrators, researchers, policymakers, and people who rely on these programs to reevaluate the 1996 law and identify ways to improve it. Reauthorization provides an opportunity to:

- Strengthen and augment policies that help families leave poverty and attain self-sufficiency;
- Support families who are experiencing short- or long-term difficulties;
- Identify issues - policy, geographic, demographic - where not enough attention has been paid, and focus on those areas; and
- Evaluate how states have handled the expanded flexibility and discretion granted by federal TANF laws and find new ways of supporting that flexibility, while ensuring that low income families receive the assistance and services they need.

Some changes in state and local policies and programs can occur without changes in the federal TANF law. The focus of this *Welfare Reform Update* is on TANF changes that could facilitate improvements and/or mitigate harm at the state and local level. This *Update* begins by reviewing key features of the

1996 welfare law. A brief examination of what has happened to people and caseloads since enactment of welfare reform follows, noting areas where more information is needed. Finally, this *Update* identifies some of the key issues likely to emerge in the upcoming debates.

| Federal and State Welfare Reform: Key Dates | |
|---|--------------------|
| Policy Changed or Implemented | Date |
| Federal TANF law enacted | August 22, 1996 |
| CalWORKs enacted in California | August 11, 1997 |
| Most CalWORKs provisions effective | January 1, 1998 |
| California counties began implementing CalWORKs and enrolling applicants into CalWORKs | 1998 |
| Substantial numbers of CalWORKs recipients begin to reach 18- to 24-month time limits and community service | 2000 and 2001 |
| CalWORKs recipients begin reaching federal five-year limit on TANF assistance | December, 2001 |
| Congress must reauthorize (or not reauthorize) TANF and other programs and funding streams | September 30, 2002 |
| Adults begin reaching five-year limit on CalWORKs assistance | January 1, 2003 |

THE CALIFORNIA CONTEXT

California is one of the nation’s most diverse states and its welfare caseloads reflect that diversity. Latinos constitute 46.4 percent of the California Work Opportunity and Responsibility to Kids (CalWORKs) caseload compared to 24.5 percent of the national TANF caseload. Asians constitute 9.8 percent of the CalWORKs caseload, nearly three times the national average of 3.6 percent.¹ Two-parent families represent 10.9 percent of California’s caseload, much higher than the national average of 4.7 percent.² California’s TANF (CalWORKs) caseload represents nearly one-quarter of the nation’s, and Los Angeles County alone has a caseload that is larger than that of any state except New York and California. California is home to more low income families than any other state in the nation and the state’s poverty rate remains significantly above that of the nation (13.8 percent as compared to 11.8 percent in 1999).³

There is also great diversity and variation within the state’s borders. Unemployment in 1999 was lower than 3 percent in four California counties and higher than 10 percent in 14 counties; 1997 poverty rates range from 6.6 percent in San Mateo County to 30.3 percent in Imperial County. Child poverty exceeds 30 percent in 16 California counties, including Los Angeles County.⁴

KEY FEATURES OF TANF

The 1996 PRWORA made major changes to the nation’s social policies, influencing how governments and individuals perceive, administer, and pay for a number of important programs that assist low income families. The new federal law:

- Repealed Aid to Families with Dependent Children (AFDC), an entitlement program that guaranteed aid to all eligible families, and enacted the Temporary Assistance for Needy Families (TANF) block grant that provides states with a fixed amount of funds regardless of caseload or other changes.

- Reduced federal protections and requirements for individuals while expanding state discretion and flexibility in a number of policy areas.
- Requires states to spend a certain amount of state (or county) funds each year with substantial flexibility over how funds may be spent.
- Implemented time limits and more stringent work participation requirements.
- Attempted to influence family formation by discouraging out-of-wedlock births, encouraging marriage, and enhancing the role of fathers.
- Changed program rules, administration, and funding for child care, Medicaid, the Food Stamp program, immigrant eligibility for public benefits, child welfare, child support enforcement, and disability benefits for children.
- Included incentives rewarding states for reducing caseloads, reducing out-of-wedlock pregnancies without increases in abortions, and ensuring that large percentages of the caseload are engaged in certain work activities.

The 1996 law allows states to spend federal TANF funds in “any manner that is reasonably calculated” to accomplish the statutory purposes of TANF. The four stated purposes of TANF are to:

1. Provide assistance to needy families so that the children may be cared for in their homes or in the homes of relatives;
2. End the dependency 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 establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
4. Encourage the formation and maintenance of two-parent families.

WHAT HAS HAPPENED AND WHAT HAVE WE LEARNED SINCE 1996?

Caseloads are down. Between March 1995 and June 2000, the number of persons receiving cash assistance through AFDC/CalWORKs declined by 43 percent. Poverty rates have dropped as well, but not as much as caseloads. In 1995, half of the Californians in poverty received cash assistance from AFDC; in 1999, just 37 percent of persons in poverty received cash assistance from CalWORKs. California’s caseload decline has lagged the nation as a whole, due in part to the state’s delayed emergence from the recession of the early 1990s, relatively strong due process protections, and California’s more generous grant levels and earnings disregards. With higher grants and more generous earnings disregards, working families can earn more and continue to receive a cash grant.

More people are working. The economy has improved dramatically in recent years and unemployment rates are at historic lows. More people who rely on cash assistance (CalWORKs) are working, and estimates suggest that more than half, and as many as two-thirds of people who leave CalWORKs are working, though few have earnings that allow them to support a family. More than 42 percent of CalWORKs adults are employed, much higher than the national average of 27.6 percent.⁵ However, little is known about the wages earned and type of jobs held by current or former CalWORKs participants.

Most parents who find work do not earn enough to support a family. For those who are supporting a family through work combined with cash assistance and those who have recently left CalWORKs, earnings are low. About half (48 percent) of CalWORKs leavers report leaving assistance because of increased earnings in the family.⁶ Employment is often at wages above minimum wage, but not nearly enough to support a family, and rarely with benefits such as health insurance coverage or paid leave. San Mateo County, with an unemployment rate of 2.0 percent in 1999, may represent a “best case scenario.” Among welfare leavers who have earnings in San Mateo County, average earnings are

\$3,700 in the quarter after leaving assistance.⁷ For a full-time worker, this is equal to \$7.12 per hour. Analysis of the housing market in San Mateo County based on Fair Market Rents indicates that a full-time worker would need to earn \$28.06 per hour to afford a two-bedroom apartment.⁸ The US General Accounting Office reports that the mean wages of welfare leavers in seven states studied between 1995 and 1998 ranged from \$5.67 to \$8.09 per hour.⁹

Many people leave CalWORKs without earnings. We know even less about what has happened to the other group of people who leave the CalWORKs program – those who are not working. Are they able to get by with the help of family? Did they leave CalWORKs because of confusion about program rules? Did they get married? Are they working under the table? Are they on the street or doubled, tripled, or quadrupled up with other families? Are they getting enough to eat?

The number of CalWORKs families receiving supportive services remains low. According to state and county reports, a very small percentage of CalWORKs welfare-to-work enrollees – 19.0 percent – receive child care assistance (Stage 1).¹⁰ Even fewer participants – 15.0 percent – receive transportation assistance.¹¹ Just 10.2 percent of CalWORKs families receive a governmental rent or housing subsidy.¹²

Families who leave cash assistance often lose Food Stamps. California's Food Stamp caseload has dropped by 42 percent since its peak in March 1995, and just 19 percent of CalWORKs leavers report receiving Food Stamps.¹³ Research from the Urban Institute suggests that eligible families may leave Food Stamps upon leaving welfare either because they think that they are ineligible or because of administrative hassles associated with retaining eligibility.¹⁴ Since research shows that those who leave cash assistance with earnings typically have very low earnings and many leave welfare without earnings, many leavers should retain eligibility for Food Stamps. However, due to CalWORKs' relatively higher earned income disregards, a family that leaves CalWORKs because their earnings were too high may also lose Food Stamps for the same reason.

Families who leave cash assistance sometimes lose Medi-Cal and are at risk of being uninsured. Fifty-seven percent of CalWORKs leavers report receiving Medi-Cal.¹⁵ Research from other states shows that roughly half of parents in families who have left welfare and over one-third of children in those families lose Medicaid.¹⁶ Families that lose Medicaid after leaving welfare are at high risk of becoming uninsured, as they typically have limited access to private coverage. The California Department of Social Services, for example, reports that California's welfare workers and leavers are most concentrated in services and retail trade jobs.¹⁷ The Bureau of Labor Statistics reports that just 49 percent of full-time workers in retail trade jobs and 63 percent of those in services participate in employer-provided health plans, as compared to 70 percent of all full-time workers.¹⁸

Many of the families who rely on cash assistance have serious unmet needs. Many families relying on cash assistance experience one or more serious barriers to employment including limited education; low basic skills; limited work history; limited literacy or language skills; physical disabilities; learning disabilities; and/or domestic violence or mental health problems. More than one out of ten (10.8 percent) of California's CalWORKs caseload has six years or less of education, more than double the national percentage of 4.6 percent.¹⁹ Over one-third of CalWORKs heads of household report a primary language other than English.²⁰ Research in Alameda County and similar research by the University of Michigan found that reports of severe physical abuse by a husband or partner in the last year were four to five times higher among welfare recipients than in the general population.²¹

Education beyond high school and higher basic skills are associated with higher wages. Hourly wages are higher for workers with degrees beyond high school.²² Research in the context of welfare reform suggests that higher basic skills and education beyond high school are linked to higher wages later.²³ One way for an individual to improve earnings is through education and training. More than

half of CalWORKs adults lack a high school degree.²⁴

County expenditures continue to rise. After a slow “ramp up” period, counties appear to be spending CalWORKs funds at a faster rate as new programs and services are implemented and staffing levels have, in some cases, increased. However, very little of the funds targeted specifically for mental health and substance abuse are being spent. Overall, California spent slightly more per recipient annually than the national average (\$3,490 vs. \$3,142) and California’s average monthly cash grant was higher than in the US as a whole in federal fiscal year 1999.²⁵

WHAT ARE THE EMERGING POLICY QUESTIONS AROUND TANF REAUTHORIZATION?

Federal TANF and State MOE Funds: Increase, Decrease, or Maintain?

Under the new federal law, states receive a fixed amount of federal funds and must meet a maintenance of effort (MOE) requirement by spending a minimum amount of state funds.²⁶ Congress has already, in the last few years, debated reducing the amount available to states for TANF. In the upcoming debate, Congress may increase or decrease the amount available to states, change the entire funding structure, or leave everything as it is. Some will argue that with caseloads down by over 40 percent in California – and even more in the rest of the country – less money should be spent on welfare programs. Others will counter that a mounting federal budget surplus offers opportunities for the federal government to assist states attempting to improve the lives of low income children and families. Those responsible for implementing programs argue that a sustained and consistent investment is needed to adequately assist families working toward self-sufficiency.

Despite caseload declines, program costs grow over time. Following a recession during which grant levels did not keep up with inflation, California has reinstated cost of living adjustments, allowing grant levels to rise with the cost of living. Program costs also rise across the board with inflation. Because costs increase over time, maintaining the current TANF funding level would erode the amount that is available for cash assistance, as well as reduce amounts available for child care and other services. Cutbacks would be even more severe in the event of an economic downturn, when more people typically rely on public assistance. Supportive services, which have been augmented as part of CalWORKs/TANF, such as child care, counseling, treatment, and training and education, are substantially more expensive than merely providing cash grants. Thus, despite lower caseloads, costs will continue to be significant. Congress may evaluate cost of living increases in both the TANF block grant and state MOE.

Questions

- How should TANF and MOE levels be increased to account for inflation?
- Is there a compelling argument for increasing or maintaining funding to states?
- If funding is reduced, what will be cut?
- What happens to funding levels in the event of an economic downturn?
- Should the amount of the block grant be tied to the health of the economy (i.e., unemployment rates)?

Flexibility with Accountability: How is State Performance Measured and Rewarded?

TANF rewards states for caseload reduction, participation in certain work activities, and reducing out-of-wedlock births without increasing abortions. Administrative regulations allow for states to be rewarded based on job entry, job retention, and earnings, while future (2002) rewards will include measures of Food Stamp, Medicaid, and child care participation. Nevertheless, at the local level, caseworkers may be lauded for reducing caseloads, though often without attention to the wages or

benefits recipients receive upon leaving. The systems used to measure and reward outcomes have substantial impact on how programs are run. TANF reauthorization offers an opportunity to define “success” and create incentives for reductions in poverty, increases in earnings and job advancement, improvements in child well-being and nutrition, and access to child care, health coverage, and other benefits.

The success of welfare reform often is measured in the public arena by the reduction in the number of families receiving assistance. Yet most data do not demonstrate how many families are leaving welfare due to rising incomes and how families and children fare once they leave the rolls. Almost no data exist on those families who are diverted or rejected from CalWORKs. Efforts to measure welfare reform’s “success” should include a clear appraisal of what happens to children and families who leave welfare.

Questions

- What are states and counties measuring that should continue to be measured? What new outcomes should be documented?
- How can federal incentives best reward states’ efforts to lift families out of poverty, increase earnings, and improve child and family well-being?
- Should states be rewarded for outcomes that reflect other goals?
- How can the purposes of TANF be modified to better support efforts to improve family well-being?

Support for Working Families: How to Broaden the Reform?

Caseloads have dropped dramatically both before and after passage of the 1996 welfare law, leading many to tout welfare reform as a success. The next stage of welfare reform presents an opportunity to broaden the reform by providing support to families not on welfare but with low incomes.

Questions

- What changes in the federal law could provide states with incentives to further assist and support all families, regardless of whether they are receiving cash aid?
- Should federal policymakers expand allowable work activities to enable more families to improve their earnings potential through education and training?
- How can states best ensure that all needy families access basic supports including Food Stamps, health insurance coverage, child care assistance, and other services? What federal changes would help in this endeavor?

Time Limits: Maintain, Eliminate, or Modify?

The federal welfare law imposes a five-year lifetime limit on the receipt of federal assistance, and states may exempt up to 20 percent of the caseload from time limits. Evidence regarding the impact of time limits remains limited, and no participants have reached the five-year federal limit. In a policy arena where states have broad discretion over expenditures, federal lawmakers may want to consider eliminating federal time limits, leaving states to spend block grant funds as they see fit. Others may consider “stopping the clock” for working parents who are earning too little to leave assistance; adults in education or training; and persons with learning disabilities, mental health issues, drug and alcohol problems, and other barriers.

Questions

- Should federal time limits be eliminated?
- Should states be allowed to determine their own policies regarding the use of federal funds for

time limited families?

- Should the time limit clock stop for working parents still receiving cash assistance and those in education or training?
- Should exemptions be broadened for families with multiple barriers to employment?

How Can Policies Best Serve Families with Multiple Barriers to Employment?

Problems such as low levels of education; limited work history; limited literacy and English language skills; learning disabilities; domestic violence; substance abuse; and mental health problems create barriers to employment for many families. While TANF caseloads are increasingly composed of people with multiple barriers, it is also likely that some have left assistance not because of increased income, but rather due to confusion and fear about new programs and rules. Most of these families will need substantially more support and assistance than the typical “work first” approach of many welfare departments.

Questions

- How can federal law ensure that families are guaranteed a thorough assessment and a range of suitable options and are not penalized inappropriately?
- What are the administrative barriers states and counties face in serving these families that must be addressed at the federal level?

“Work First” or Workforce Development: What Works for Families?

Federal TANF law requires that all adults be engaged in work after being on welfare for two years. TANF law further requires states to ensure that an increasing percentage of adults are engaged in work activities, and limits the extent to which education and training may count as a work activity. Large caseload reductions have enabled California and other states to meet federal requirements with relatively small percentages of people working. Most states have enacted more stringent work requirements and a “work first” approach that gives priority to finding a job, any job. “Work first” proponents suggest that people benefit more from having a job than from education. Others argue that providing education and training and combinations of work with education or training can lead to better jobs with higher wages in the long term.

Questions

- Should the “work first” approach be revisited?
- Should states be given more flexibility to provide education and training for those who need it?

LOOKING FORWARD TO THE REAUTHORIZATION DEBATE

The 1996 PRWORA dramatically altered the entire system and structure of programs and policies for America’s low income families. California and California counties began implementing CalWORKs in January 1998 and implementation has taken longer than many expected. CalWORKs (formerly AFDC) has evolved from a program primarily focused on providing cash aid to families who met income eligibility guidelines to a network of efforts aiming to provide support and services to low income families in a longer term effort toward self-sufficiency. TANF reauthorization provides the opportunity for evaluation and reflection about how to ensure that no families fall through the cracks and that funds and services are targeted appropriately.

The TANF issues described above and more will be discussed as Congress considers reauthorization of the 1996 welfare law. Other topics that are likely to emerge include:

- Family formation, including issues around promoting marriage, minor parents, fatherhood programs, and out-of-wedlock births.
- Child support enforcement.
- Child welfare.
- Child care, including whether children are getting subsidies they are eligible for, adequacy of funding levels, and whether targeting of specific populations is necessary (infants and toddlers, nontraditional hours, sick and disabled children, low income areas).
- Interaction between TANF and Medicaid, including ensuring families seeking TANF assistance are made aware of and able to pursue Medicaid coverage, post-TANF coverage, effects of TANF sanctions on Medicaid status, and a broader discussion of family coverage, the 1931b program, and Children's Health Insurance Program (CHIP).
- Food Stamps.
- Immigrant eligibility for benefits.
- Title XX (Social Services Block Grant).

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ENDNOTES

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- ²¹ Rex S. Green, Lynn Fujiwara, et al, *Alameda County CalWORKs Needs Assessment: Barriers to Working and Summaries of Baseline Status* (Public Health Institute, Berkeley, California: February 10, 2000) and Sandra Danziger, Mary Corcoran, et al., *Barriers to the Employment of Welfare Recipients* (University of Michigan: February 2000)
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- ²⁶ The federal block grant amount is fixed (same amount every year), so it does not change when caseloads increase or decrease. The maintenance of effort, or MOE, must be equal to 80 percent of "historic state expenditures" or 75 percent if the state has met work participation rates, as California has. In California, county expenditures count toward the state's MOE. Different rules govern TANF and MOE expenditures. For more information about the MOE requirement, see *Welfare Reform and Funding Choices: What Does the TANF Maintenance of Effort Requirement Mean for California?* (California Budget Project: December 1998).