

PROPOSED TANF REQUIREMENTS DO NOT WORK FOR CALIFORNIA

Representative Wally Herger (R-Chico) introduced the House Republican plan (HR 4090) for the reauthorization of the Temporary Assistance for Needy Families (TANF) block grant on April 9, 2002.¹ The plan closely tracks President Bush's proposal, released in February, including the adoption of stricter work requirements for families that receive TANF cash assistance. If enacted, the new work requirements will reduce the flexibility of California and its 58 counties to develop programs that meet the needs of welfare recipients and effectively move them into the workforce. Moreover, the plan will greatly increase costs for states, while providing no additional TANF or child care funds.

SUMMARY OF PROPOSED CHANGES

HR 4090 would make several changes to work requirements with no increase in federal funding of the TANF block grant. The bill:

- Increases the participation requirement from the current level of 20 or 30 hours per week for single-parent families to 40 hours per week for nearly all families.²
- Limits the range of activities that count toward the "direct" work requirement of 24 hours. These activities would include employment, on-the-job training, work experience, and community service.³
- Excludes job search and vocational education as direct work activities. States can currently count these toward the work requirement. However, the proposal allows job search, short-term job training, rehabilitation, or substance abuse treatment to substitute for direct work for three consecutive months out of any 24 months.
- Includes a "universal engagement" requirement, which would require an individualized plan for each new TANF case within 60 days.
- Increases the minimum participation rate, or the percentage of families that meet work requirements, from 50 to 70 percent by 2007.
- Redesigns the "caseload reduction credit." This credit reduces the percentage of families that must meet work requirements by the percentage that a state's welfare caseload has fallen since 1995. Since California's caseload has dropped by over 40 percent, less than 10 percent of families currently have to meet work participation requirements. The new credit would be a "rolling" credit, such that only caseload declines during the previous three-year period would reduce the required work participation rates.

The cumulative effect of the proposed participation rates and the redesign of the caseload reduction credit would be to greatly increase the percentage of families that must meet federal work requirements, especially if California's caseload does not continue to decline substantially.⁴ If California's caseload does not fall below the 2001 level, the effective rates for California would be approximately 28 percent in 2004, 60 percent in 2005, and 70 percent in 2007.⁵ Since the most job-ready adults in California have moved off the caseload or are already working while receiving welfare, many of the remaining recipients, perhaps tens of thousands, would need to be in work experience or community service

assignments to meet the new work participation requirements.

While HR 4090 imposes new requirements on states, the proposal increases flexibility for the last 16 hours of the participation requirement. The bill allows states to decide which activities fulfill the 16-hour requirement. No research findings are cited that indicate the proposed ratio of direct work to other activities is the most appropriate one for welfare recipients in CalWORKs, California's TANF program, or elsewhere.

HERGER PLAN CLOSELY TRACKS BUSH PROPOSAL

In general, HR 4090 implements the President's proposal, with a few exceptions. These include the following:

- The President's proposal would phase out the caseload reduction credit but allow states to count a limited number of employed former welfare recipients toward the participation requirement. In contrast, Representative Herger's bill proposes a "rolling" caseload reduction credit, as described above. States that continue to reduce the number of families receiving cash assistance would benefit from this credit. However, for states that fail to reduce their caseloads, HR 4090 would result in higher participation rates than those contained in the President's proposal.
- Unlike the Bush proposal, HR 4090 allows job search to substitute as a direct work activity for three out of 24 months. However, any time in "substitute" activities (job search, job training, rehabilitation, or substance abuse treatment) must be used consecutively. Recipients who use job search, even for two weeks, as a "substitute" activity effectively exhaust the available three months to address any employment barrier they may have. Thus, recipients who perform job search, find a job, and subsequently lose the job due to lack of job skills or a substance abuse problem would not be able to get training or treatment through the three-month exemption.

PROPOSAL REDUCES STATE AND COUNTY FLEXIBILITY

California's counties adopted a diverse range of programs to train, educate, and move CalWORKs recipients into the workforce following the welfare reform law of 1996. These programs combine activities that meet federal work participation requirements with additional state-permitted activities to meet the specific needs of families. (See text box for examples.)

Counties Offer Array Of Training And Services

Kern County CalWORKs participants who complete an early childhood education training course earn up to \$10 per hour. The course is 30 to 40 hours per week for 18 weeks.

Tehama County recipients can train 18 weeks to become Certified Nurse's Aides and earn about \$7.50 per hour, often with benefits.

San Francisco County offers a Vocational English as a Second Language immersion program to improve language skills and familiarity with workplace technology and culture. Each session includes 30 hours per week of instruction for 18 weeks. Participants who successfully complete two sessions earn above \$10 per hour on average.

San Francisco County also offers a scholarship program for CalWORKs participants to finish four-year degrees.

The Women's Enrichment Center in **San Mateo County**, an intensive day treatment program, serves CalWORKs clients with substance abuse and mental health issues. The program offers treatment, case management, life skills training, and employment readiness assessment for 32 hours a week for up to three months.

The proposal to exclude vocational education from the direct work requirement could be particularly burdensome for California. Even though vocational education can currently count only for 12 months, 11 percent of CalWORKs participants who meet federal work requirements are in vocational education.⁶

Vocational training through the community college system has been highly successful. Nearly 50,000 CalWORKs recipients study at California's community colleges, and research has found that their incomes rise substantially afterward. The median income for students with a vocational certificate increases 92 percent one year after leaving a community college; for students who receive an associate degree with a vocational emphasis, the increase is 100 percent.⁷ California would have to find ways to place these participants more quickly into jobs, work experience, or community service positions in order to meet required participation rates.⁸ Moreover, work experience and community service may not be the most effective way to move recipients into stable employment.

PROPOSAL DOES NOT REFLECT CALIFORNIA'S NEEDS

Representative Herger's bill does not reflect California's needs in several respects. First, many of those who continue to receive CalWORKs cash assistance have substantial barriers to employment. Second, significant numbers of CalWORKs adults are participating fully, and additional adults are participating at less than the required number of hours. Third, it is unclear that higher participation rates will increase the success of TANF. Fourth, the 40-hour work requirement exceeds the normal work week in many industries.

1. Many CalWORKs Recipients Have Barriers To Employment

Many recipients who remain on the caseload have serious barriers that limit their ability to find and retain stable employment. A study of two California counties found high incidences of mental health issues, domestic violence, and drug dependency among CalWORKs recipients. About one in ten respondents had a diagnosable alcohol or other drug problem. In addition, over a third of respondents reported a domestic violence incident and over a third had a diagnosable mental health disorder in the prior year.⁹

Many CalWORKs recipients also lack the education and language skills that are linked to employability and earnings. About 11 percent of CalWORKs adults have six or fewer years of education, more than double the national percentage of 4.6 percent, and more than half of adult CalWORKs recipients lack a high school degree.¹⁰ Over one-third of CalWORKs heads of household report a primary language other than English.¹¹

Those remaining on the caseload are likely to have even greater needs because recipients who are more "employable" have probably already found jobs. Counties will likely need increased flexibility to respond to the needs of these remaining families.

2. Many CalWORKs Adults Are Participating Actively

California has consistently met federal work participation rates. Since 1997, between 30 and 42 percent of CalWORKs families have fulfilled participation requirements.¹² California's participation rates were comparable to participation rates in other states in 1999, the last year for which comparable data are available.

Under current law, required participation rates have risen from 25 percent in 1997 to 50 percent in 2002. However, the "caseload reduction credit," which reduces a state's required participation rate

when the number of families receiving cash assistance falls, has reduced California's required rates from about 20 percent in 1997 to less than 10 percent for every year since 1999. This is because California's caseload has fallen faster than required rates have risen. California would not have met the required 40 percent participation rate in 2000 if not for the caseload reduction credit, and meeting the proposed rate of 70 percent would require approximately twice as many recipients to meet federal work requirements.

The caseload reduction credit complicates work participation rates, and some view it as a loophole. However, Congress included this provision in the welfare reform law as a reward for states that succeeded in reducing caseloads. The fact that many states have very low adjusted participation rates is directly related to their "success" at implementing welfare reform.¹³

Looking at participation in state-permitted activities provides a more complete picture of how many CalWORKs adults are engaged in work activities. In 2000, over half (57 percent) of families who were required to participate did, including one-third (33 percent) who met state participation requirements fully. Of those who were not participating, many were sanctioned for non-participation or had a sanction pending (20 percent of one-parent families).¹⁴ Of those who were neither participating nor being sanctioned, many were likely new to the CalWORKs program or waiting for a new activity to begin. Counties would require additional resources to move new CalWORKs recipients more quickly into work activities. In addition, engaging recipients in "make-work" assignments when they are temporarily between activities appropriate to their situation may not be the best use of scarce resources.

Gordon Berlin of the Manpower Demonstration Research Corporation (MDRC) states that the stricter participation rates originally proposed by President Bush will be difficult for any state to achieve: "None of the welfare-to-work programs that MDRC has evaluated to date — including the most effective programs — would have achieved either the participation rates currently in place (ignoring the caseload reduction provision) or the new rates being considered by the Administration." In addition, MDRC believes that the increased participation requirements "could have the unintended effect of diverting resources, modifying otherwise successful programs, and increasing costs."¹⁵

3. Participation Requirements Are Not The Key To Success

No obvious relationship exists between past state work participation rates and "success." TANF includes a number of "high performance bonuses" for states that achieve specified outcomes, such as job retention and earnings gains for former welfare recipients. California received a bonus for outcomes in 1999, when its participation rate was 42 percent. Seventeen states had higher work participation rates than California, but 14 of those states did not receive this bonus. This indicates that higher participation rates did not automatically lead to higher performance as measured by this bonus. Moreover, Arizona, the state that ranked highest for this bonus, had a participation rate of 32 percent, significantly lower than California's rate of 42 percent.

4. Many Full-Time Workers Work Less Than 40 Hours Per Week

The proposed 40-hour participation requirement is apparently intended to make welfare recipients' activities mirror those of the general workforce. However, most former welfare recipients work in the retail trade and service sectors, and data from the Bureau of Labor Statistics indicate that workers in these industries typically work much fewer than 40 hours per week: 29 and 33 hours per week, respectively. The proposed 40-hour requirement clearly does not match the current experience of workers in these two sectors, which together employ slightly less than half (49 percent) of all workers in the US economy.¹⁶

HERGER BILL DOES NOT PROVIDE ADEQUATE FUNDING

Because the proposed work requirements will compel more recipients to move into jobs, HR 4090 will increase CalWORKs program costs for both child care and employment services. The non-partisan Legislative Analyst's Office (LAO) estimates that California will have to spend an additional \$2.8 billion over five years to meet the Administration's work requirements. About half of the impact is due to increased employment services costs, the other half to increased child care costs. Since Representative Herger's bill is similar to the Bush proposal, the fiscal impact will be comparable.

The LAO's estimate is conservative, in part because it does not account for increased costs due to inflation. An annual rate of inflation of 3 percent would increase costs by nearly \$250 million between 2003 and 2007. The LAO estimate also does not include any additional per-person cost of addressing substance abuse, mental health, or other barriers that may impede recipients who are not currently participating. Many adults remaining on the caseload have barriers to employment, as described above.

Despite these increased costs, Representative Herger's bill freezes annual TANF block grant funding at the 1997 level. The state's CalWORKs program already faces a deficit of several hundred million dollars in 2002-03 because annual federal, state, and county funding of \$6.4 billion does not fully cover program costs. To close the gap, the Governor's proposed 2002-03 Budget reduces funding for cash grants, employment services, and child care. A state General Fund deficit of as much as \$15 billion constrains the state's ability to increase funding for CalWORKs and related programs. A freeze on TANF block grant funding, along with increased federal requirements, will put California in a tighter fiscal bind.

David Carroll prepared this Update. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP is committed to improving public policies that influence the economic and social well-being of Californians and their communities. Publication of this Update was supported by grants from the David and Lucile Packard, William and Flora Hewlett, and Streisand Foundations. This publication is part of a series monitoring the implementation of welfare reform in California. General operating support for the California Budget Project is provided by grants from the James Irvine, Ford, Charles Stewart Mott, Friedman Family, David and Lucile Packard, and California Wellness Foundations, the Penney Family Fund, and individual donations and subscriptions. Visit the CBP

ENDNOTES

- ¹ Representative Buck McKeon (R-CA), Chairman of the Subcommittee on 21st Century Competitiveness of the House Committee on Education and the Workforce, introduced HR 4092 on the same day. HR 4092 closely mirrors HR 4090 but contains additional child care provisions. It does not increase funding for either the TANF block grant or Child Care Development Fund entitlement funding.
- ² Currently, the participation requirement is 20 hours per week for single-parent families with a child under the age of six and 30 hours per week for other single-parent families (the requirement for two-parent families is 35 hours per week). HR 4090 requires 40 hours of participation for all families, although states would be allowed to exclude parents with children under the age of one.
- ³ As described below, the plan gives states flexibility to define the activities that satisfy the remaining 16 hours of the work requirement.
- ⁴ California's caseload declined steadily from 1995 through early 2001, remained relatively stable from early to mid-2001, and increased slightly in the last two months of 2001.
- ⁵ HR 4090 increases the participation rate by 5 percent per year beginning in 2004 until it reaches 70 percent in 2007. The bill also changes the base year for the caseload reduction credit. In 2003, the credit would be based on caseload reduction from 1996 to 2002; in 2004, on caseload reduction from 1998 to 2003; and in 2005, on caseload reduction from 2001 to 2004. In 2005 and subsequent years, the credit will be based on caseload reduction in the previous three years. Assuming that the California caseload does not decrease after 2001, the CBP estimates that the caseload reduction credit for California will be 43 percent in 2003, 27 percent in 2004, and zero in future years.
- ⁶ US Department of Health and Human Services.
- ⁷ California Community Colleges Chancellor's Office, *Impact Report: Eliminating Core Services of the California Community College CalWORKs Program* (March 7, 2002).
- ⁸ Under HR 4090, recipients would not have to meet participation requirements in the first month of receiving cash assistance. They could conduct a job search during this period.
- ⁹ Sandra Naylor Goodwin et al., *The Prevalence of Mental Health, Alcohol and Other Drug, and Domestic Violence Issues Among CalWORKs Participants In Kern and Stanislaus Counties* (California Institute for Mental Health: September 2000).
- ¹⁰ US Department of Health and Human Services, *Temporary Assistance for Needy Families (TANF) Program, Third Annual Report to Congress*, Table 10:17 (August 2000), downloaded from <http://www.acf.dhhs.gov/programs/opre/annual3.doc>.
- ¹¹ California Department of Social Services, *CalWORKs: A Characteristics Survey on Social and Economic Characteristics of Families Receiving Aid* (Federal Fiscal Year 1999).
- ¹² Legislative Analyst's Office, *The 2002-03 Budget: Perspectives and Issues* (February 2002). The participation rate in federal fiscal year (FFY) 2000 was 27.5 percent, but this did not include two-parent families since the two-parent caseload was moved into a separate program and, thus, does not count toward the overall rate. The LAO estimates that the participation rate in FFY 2000 would have been above 30 percent if two-parent families were included.
- ¹³ We note, however, that caseload declines began before the enactment of the federal welfare reform law in 1996 and are related to other policy changes and the strong economy of the late 1990s. Moreover, caseload reduction is not necessarily the only or best measure of success of the program. Congressional proposals to reauthorize the TANF block grant, including HR 3625 (Cardin) and S 2052 (Rockefeller), replace the caseload reduction credit with an employment credit, which rewards states for the number of welfare recipients who have left the caseload and are working.
- ¹⁴ Legislative Analyst's Office, *The 2002-03 Budget: Perspectives and Issues* (February 2002).
- ¹⁵ Gordon Berlin, testimony before the Senate Finance Committee (Manpower Demonstration Research Corporation: March 12, 2002), downloaded from www.mdrc.org on March 29, 2002.
- ¹⁶ US Bureau of Labor Statistics.