

CALWORKS: FROM SURPLUS TO DEFICIT

In 1996, Congress fundamentally restructured the nation's safety net for low-income families with children. The new law created the Temporary Assistance for Needy Families (TANF) block grant and gave states broad authority to restructure welfare programs within the confines of strict time limits and work participation requirements.

California established the California Work Opportunity and Responsibility to Kids (CalWORKs) program in 1997 to conform the state's welfare system to the new federal law. CalWORKs is supported by \$3.7 billion in federal TANF funds and \$2.7 billion – the minimum required by federal law – in matching state and county maintenance-of-effort (MOE) funds.¹

The CalWORKs program initially experienced surpluses, but now confronts a substantial deficit. To close the gap, the Governor's 2002-03 Budget proposes freezing cash grants, cutting spending for administration and educational programs, and enacting other cost-saving measures. This *Update* analyzes the roots of the CalWORKs deficit and reviews the Governor's proposed solutions and other policy options.

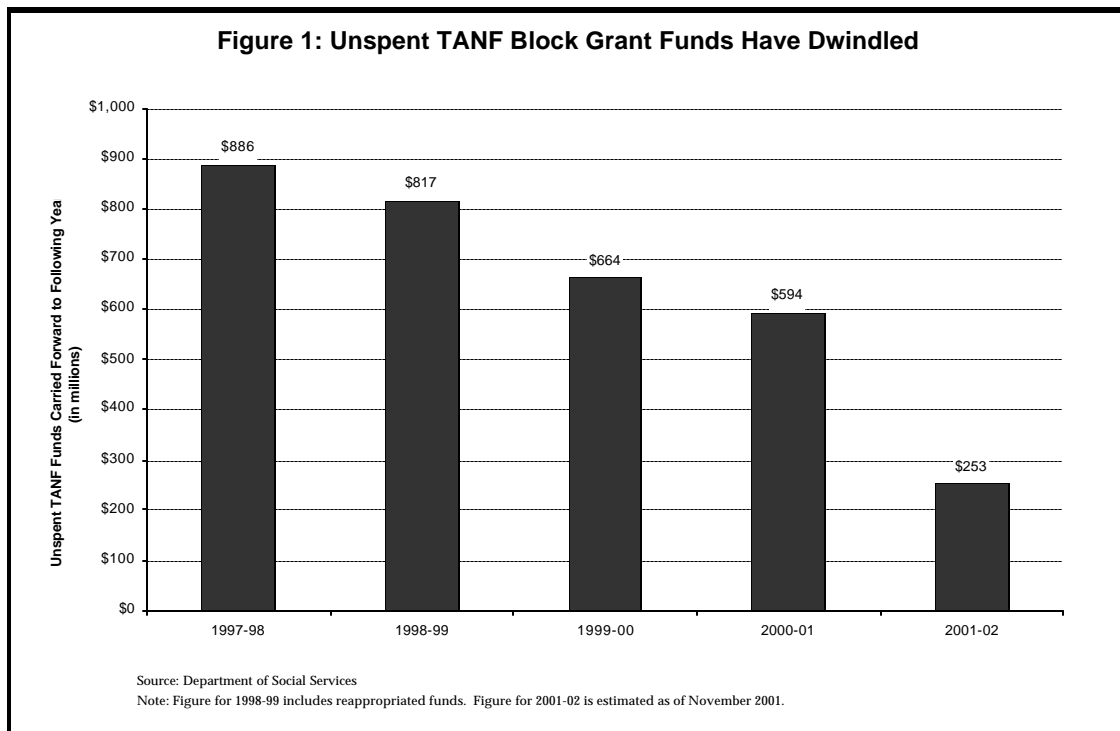
THE ROOTS OF THE CALWORKS DEFICIT

Initially, California did not spend its full annual TANF block grant. While Congress enacted welfare reform in 1996, California did not establish CalWORKs until August 1997, and counties did not implement the new program until 1998. Program implementation proceeded slowly because counties had to develop and deliver a wider range of services to more welfare recipients than ever before. As a result, the state accumulated a surplus of TANF dollars that it carried forward for use in subsequent fiscal years (Figure 1).²

Recently, the TANF surplus has declined as counties have expanded programs and increased spending. In fact, CalWORKs expenditures now exceed available funding by several hundred million dollars, and the state has been drawing down the TANF surplus to close the gap.³ Consequently, the TANF surplus is projected to fall to \$253 million at the end of fiscal year 2001-02, a 71 percent drop since 1997-98 (Figure 1). This reserve is not large enough to bridge the estimated CalWORKs deficit in 2002-03, prompting the Governor to propose cuts to the program in his Budget (discussed below). The TANF surplus will effectively disappear in 2003.⁴

In addition to static federal and state funding, two factors have contributed to the emergence of the CalWORKs deficit:

- The state and counties have expanded employment and training services and child care subsidies, and used TANF and MOE funds to pay for a range of CalWORKs-related initiatives designed to help families transition from welfare to work.
- The cost of providing cash grants has not fallen as sharply as the number of families that receive cash assistance, due to the reinstatement of cost-of-living adjustments.



Administrative costs have not contributed to the CalWORKs deficit. In fact, spending on administration fell from \$617 million in 1997-98 to \$480 million in 2001-01, a 22 percent drop (Table 1).

Table 1: Major CalWORKs Program Expenditures (in millions)

	1997-98	1998-99	1999-00	2000-01	2001-02 (projected)	Percent change 1997-98 to 2001-02
Administration	\$617	\$543	\$521	\$541	\$480	-22.2%
Employment Services	\$764	\$1,407	\$1,054	\$1,050	\$986	29.1%
Child Care	\$472	\$1,158	\$1,294	\$1,340	\$1,289	173.1%
Cash Assistance	\$4,383	\$3,882	\$3,523	\$3,211	\$3,302	-24.7%
Other TANF/MOE Spending	\$296	\$322	\$432	\$427	\$491	65.9%
Kin-GAP	\$0	\$0	\$0	\$36	\$69	N/A

Source: California Department of Social Services, Local Assistance Estimates for Governor's Budgets (various years)
 Note: The employment services figure for 1998-99 includes reappropriated funds from 1997-98.

Employment Services, Child Care, And Other CalWORKs Initiatives Are Costly

Employment Services

Prior to the implementation of the CalWORKs program, a limited number of welfare recipients participated in the Greater Avenues for Independence (GAIN) program. In contrast, CalWORKs requires most welfare recipients to participate in work or work-related activities.⁵

The number of adults participating in welfare-to-work activities rose from about 235,000 in January 1998 to approximately 391,000 in January 1999, a 66 percent jump.⁶ Consequently, employment ser-

vices costs increased by 29 percent between 1997-98 and 2001-02; the state spent \$764 million in 1997-98, and expenditures have averaged more than \$1 billion during the last three fiscal years (Table 1). Since those who remain on welfare tend to have significant barriers to employment, state spending on employment services per adult recipient will likely hold steady, if not increase, in the years ahead.

Child Care

CalWORKs child care costs increased 173 percent between 1997-98 and 2001-02. The state spent \$472 million in 1997-98; by 2000-01, expenditures nearly tripled to \$1.3 billion and were projected to drop only slightly in 2001-02 (Table 1).

Child care costs in CalWORKs are mainly driven by two factors. First, many families continue to need subsidized child care even after they leave CalWORKs for employment. Former recipients who work qualify for Stage 2 subsidized child care for up to two years after leaving CalWORKs, if their income does not exceed 75 percent of the state median. Subsequently, these families may qualify for long-term Stage 3 child care subsidies.⁷

Second, payments to child care providers have been rising. For example, the payment standard in 1997-98 for child care in Los Angeles County for a preschool-age child enrolled full time in a licensed center was \$602 per month. By 2001-02, it had risen to \$728, a 21 percent increase.⁸

Other CalWORKs-Related Initiatives

The state has used TANF and MOE dollars to pay for a range of other CalWORKs-related services and initiatives. These expenditures have risen 66 percent over four years, from \$296 million in 1997-98 to \$491 million in 2001-02 (Table 1). For instance, spending on child welfare services and emergency assistance rose from about \$131 million in 1997-98 to \$195 million in 2001-02. Moreover, Department of Social Services (DSS) spending on computer automation projects continues to increase. The state is reprogramming county computer systems to track CalWORKs data more efficiently. Expenditures jumped from \$69 million in 1999-00 to \$112 million in 2001-02. The Governor proposes to spend \$107 million on automation projects in 2002-03.

Additionally, the Legislature created the Kinship Guardianship Assistance Payment (Kin-GAP) program in 1998. The program, which became effective in January 2000, allows a relative caregiver who assumes legal guardianship of a foster child to receive a Kin-GAP grant.⁹ Kin-GAP cost \$36 million in 2000-01 and \$69 million in 2001-02 (Table 1). The Governor proposes to spend \$76 million on Kin-GAP in 2002-03.

Cash Assistance Costs Have Not Declined As Rapidly As The Caseload

The number of California families receiving welfare checks peaked at 932,345 in March 1995 and dropped to 504,298 in December 2001, a 46 percent reduction. Total cash grant payments also declined, but not as sharply (Table 1). The state paid out \$4.4 billion in cash grants during 1997-98, but, as families left welfare, that figure declined to \$3.3 billion in 2000-01, a 25 percent drop.

The state reinstated cost-of-living adjustments (COLAs) for cash grants in 1998-99, after suspending COLAs and reducing grant payments during much of the 1990s.¹⁰ COLAs increased the maximum monthly CalWORKs grant for a family of three in high-cost regions by 20 percent, from \$565 in 1997-98 to \$679 in 2001-02.¹¹ However, this is well below the 2002 federal poverty level of \$1,252 per month for a family of three and is less than the 1989-90 grant level, even without adjusting for inflation.¹²

HOW CAN THE CALWORKS DEFICIT BE CLOSED?

Increase State Dollars For CalWORKs

California could close the CalWORKs deficit by increasing annual state funding above the federally required minimum of \$2.7 billion. This may be difficult, given the state's \$20 billion-plus budget deficit. However, the CalWORKs program represents a lifeline for many of the state's poorest residents, who are struggling to increase their education and training, make ends meet on low wages, and achieve self-sufficiency. Increasing state CalWORKs funding would avert the need for cuts to child care subsidies and employment services, which are critical to enhancing child well-being and keeping low-income families economically afloat.

The Governor's Solution: Reallocate Performance Incentive Funds

Performance incentive funds represent the largest pot of underutilized CalWORKs funds. The Legislature appropriated these funds to reward counties that successfully move welfare recipients into employment and thereby reduce cash grant payments.¹³ Counties have been paid about \$1.1 billion in incentive funds, but the Governor estimates \$600 million will remain unspent by the end of fiscal year 2001-02.¹⁴ This raises the question of how unspent incentive funds should be allocated in light of the current CalWORKs deficit.

The Governor's January Budget borrows \$169 million in unspent incentives to fund CalWORKs cash grants, services, and administration. The Governor's May Budget Revision reclaims an additional \$120 million in unspent incentives to fund county employment services, a change that mirrors a proposal made by the County Welfare Directors Association of California.¹⁵ The remaining \$311 million in incentives would remain with the counties.¹⁶ While these proposals deal with a portion of the 2002-03 CalWORKs shortfall, they do not address the long-term deficit, since incentive funds are limited and the deficit is projected to persist for several years.

The Governor's Solution: Reduce And Freeze Program Expenditures

In addition to reallocating performance incentive funds, the Governor's 2002-03 Budget, as revised in May, proposes a series of CalWORKs-related spending freezes and reductions, while directing no additional state funds to the program. Specifically, the Budget:

- Does not provide a cost-of-living adjustment for cash assistance. Grant levels would be frozen at 2001-02 levels, a savings of \$112 million.
- Reduces funding for CalWORKs county administration by \$116.8 million below the 2001-02 level.
- Reduces funding for California Community College (CCC) employment services by \$38.4 million, leaving \$20 million that the CCC would be expected to match on a one-to-one basis.
- Eliminates \$36 million for adult education classes through the Department of Education.
- Reinstates "deeming" requirements for parents of minor parents (known as "senior parents") who live at home. Senior parents' income would be counted in determining the eligibility of minor parents' children for cash assistance, saving an estimated \$12.1 million.

ENDNOTES

¹ The maintenance-of-effort (MOE) provision requires states to spend a minimum of 80 percent of their historic state expenditures on TANF-related programs. States that meet all federal work participation requirements, as California consistently has done, can reduce annual spending to 75 percent of their historic expenditure level.

² Surplus TANF dollars have to be spent on specified TANF purposes.

³ California Department of Social Services, *TANF/MOE 4-Year Outlook: FY 2001-02 through 2004-05* (October 18, 2001).

⁴ While the Governor includes a \$90 million TANF reserve in the May Revision of his 2002-03 Budget, there will be a reserve only if the Legislature enacts several hundred million dollars in CalWORKs cuts, freezes, and other reductions proposed by the Governor.

⁵ Work-related activities include job search and job readiness assistance, vocational education training, community service, adult basic education, and mental health and substance abuse services.

⁶ California Department of Social Services, GAIN 25 Activity Reports.

⁷ In 1997, the Legislature created a Stage 3 “set-aside” to guarantee child care slots to eligible former CalWORKs recipients.

⁸ California Child Care Resource & Referral Network.

⁹ Legislative Analyst’s Office, *Analysis of the 2000-01 Budget Bill* (February 2001), p. C-164.

¹⁰ California Budget Project, *Governor’s Budget Proposes Suspending CalWORKs COLAs* (May 2002).

¹¹ Governor’s Budget Summaries.

¹² US Department of Health and Human Services, *The 2002 HHS Poverty Guidelines*, downloaded from <http://aspe.os.dhhs.gov/poverty/02poverty.htm> on April 25, 2002. The 1989-90 grant payment for a family of three was \$694.

¹³ Counties may use incentive funds to support core CalWORKs needs, create new programs that help CalWORKs recipients and other needy families reach self sufficiency, and establish other programs that meet certain requirements. For a detailed discussion of incentive funds, see California Budget Project, *CalWORKs Performance Incentives: Can the Money be Better Used?* (May 2001).

¹⁴ Department of Finance, *California Governor’s Budget Summary, 2002-03*, p. 196.

¹⁵ Department of Finance, *California Governor’s Budget May Revision, 2002-03*, p. 51; letter from Frank Mecca, Executive Director, County Welfare Directors Association of California, to Senate Budget Subcommittee #3 on Health and Human Services (March 27, 2002).

¹⁶ The state would be obligated to repay the borrowed incentive funds.

This Update was prepared by Scott Graves. 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, The David and Lucile Packard, and California Wellness Foundations, the Penney Family Fund, and individual donations and subscriptions.
