



# CWDA

May 22, 2009

To: Honorable Members  
Budget Conference Committee

From: Frank J. Mecca  
Executive Director

Re: **May Revision CalWORKs Proposals – OPPOSE Grant Reduction, Safety Net Elimination, and Elimination of Entire Program**

The Administration has proposed significant reductions to the CalWORKs program in the original May Revision. Subsequently, the Administration proposed the complete elimination of the CalWORKs Program. As you consider these proposals, the County Welfare Directors Association of California (CWDA) wanted to provide information on the impacts to families receiving assistance from the program, as well as the fiscal implications of these proposals.

We have very significant concerns about the ORIGINAL May Revision proposals, which would eliminate assistance to over 200,000 children currently receiving CalWORKs benefits. Specifically, these proposals would cut CalWORKs grants by 6 percent, place new time limits on assistance to children whose parents are not aided, and eliminate aid to children whose parents have reached their 60-month time limits. These cuts are in addition to the 4 percent CalWORKs grant cut already scheduled to be implemented on July 1, 2009.

The May Revision CalWORKs proposals would result in significant economic and social costs to achieve relatively modest General Fund savings. **The proposed cuts would prevent the state from claiming over \$600 million in federal funds, and would result over \$1.1 billion in reduced economic activity and employment across the state.**<sup>1</sup> In addition, these proposals would have significant negative impacts on family and child well-being, including increased homelessness, and would shift costs to the Child Welfare, Foster Care, and County General Assistance programs. Overall, the proposals would cut approximately \$777 million from the CalWORKs

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<sup>1</sup> An April 2009 report by Beacon Economics found that \$1 in General Fund spending on CalWORKs results in \$7.35 in economic activity and employment.

program, including \$620 million in lost federal funds, for only \$157 million in General Fund savings.

**TANF Emergency Contingency Fund (ECF) Provides 80 Percent Match**

The American Recovery and Reinvestment Act of 2009 established the Emergency Contingency Fund (ECF) in the Temporary Assistance for Needy Families (TANF) program. This fund provides reimbursement for cash grant and other expenditures in federal fiscal years 2009 and 2010 that exceed the 2007 or 2008 base year expenditure levels, provided that the total CalWORKs caseload in 2009 and 2010 also exceeds caseload in the base year. ECF-eligible expenditures include basic assistance (cash grants), subsidized employment, and short-term, non-recurrent benefits (such as diversion).

Since the ECF provides an 80 percent federal share for CalWORKs grant costs above 2007 costs, cuts to CalWORKs grants generate a relatively small amount of General Fund savings. For example, for every \$1 cut from CalWORKs, the State loses \$0.80 in federal ECF funding and therefore only saves \$0.20. Furthermore, to the extent that these proposals result in a reduction in caseload below the federal fiscal year 2007 level, California loses all access to federal ECF funding for basic assistance.

Implementing the proposed May Revision cuts would lead to California foregoing significant federal funds. The current recession has driven CalWORKs caseload and grant expenditures significantly above 2007 base year levels, allowing the state to claim approximately \$246.4 million in federal TANF ECF funds for October 2008 through June 2009. These ECF funds can be used to achieve General Fund savings. Moreover, CalWORKs caseloads are expected to continue increasing for the rest of the year, which means that, absent the May Revision cut proposals, the state would remain eligible for significant additional ECF through September 2010.

**CalWORKs Expenditures Stimulate the Economy**

A recent study by Beacon Economics found that state expenditures on CalWORKs generate employment and economic activity that far exceeds the amount of state spending. More specifically, every \$1 million spent on CalWORKs grants above the ECF base generates \$7.35 million in economic output and employment in the state. This result is due to the favorable 80% ECF match rate, as well as the fact that families receiving CalWORKs spend all of their grants relatively quickly on housing, food, and other products and services that generate economic activity and employment in the state.

**Based on the Beacon report, CalWORKs generates \$7.1 billion in economic output, 137,000 client and public/private sector jobs, and \$130 million in sales tax revenues. All of this would be lost if CalWORKs were eliminated.**

#### **Demand for CalWORKs Has Jumped in Recession**

The proposed CalWORKs cuts could not come at a worse time for California families. Caseload has increased by 11 percent in the past year, and is expected to continue to climb as unemployment remains high. California's unemployment rate was 11 percent in April 2009, significantly higher than the 6.6 percent unemployment rate in April 2008. Increased unemployment and foreclosures in California have led to an increase in poverty and homelessness, with many more families relying on CalWORKs for basic needs.

#### **CalWORKs Has Been a Budget Solution**

CalWORKs is not a "budget problem" for the state, and should not be a budget target. Since its inception, CalWORKs has contributed \$11.9 billion to the state General Fund. CalWORKs has actually been a budget solution, not a problem, since significant amounts of federal TANF and state MOE funds have been shifted to other, non-CalWORKs programs, enabling the state to spend less General Fund.

#### **CalWORKs Cuts Would Shift Costs to Child Welfare and General Assistance**

The original May Revision proposed cuts would eliminate benefits for over 100,000 CalWORKs families, and reduce benefits for all 530,000 families. Research indicates that reductions in cash aid are associated with increases in foster care placements. In addition, many families cut off from cash aid would rely on county General Assistance programs for basic living expenses. As a result, the CalWORKs cuts would shift costs to the child welfare and General Assistance programs.

#### **CalWORKs Cuts Would Have Severe Negative Impacts on Children and Families**

We also have grave concerns about the potential harm these proposals would do to children and families. Studies indicate that families losing cash aid face greater barriers to employment and suffer significant hardships. The West Coast Poverty Center at the University of Washington found "a substantial body of literature" that suggests relatively poor outcomes for sanctioned families:

On most dimensions, families who are sanctioned fare worse than those who are not sanctioned in terms of employment, hardships, health, and various child outcomes. Consider for example the fact that the infants and toddlers of sanctioned families have 'a 90 percent greater risk of being admitted to the hospital when visiting the emergency room (at the time of the survey), even after controlling for child and family characteristics including low birth weight and nativity (Children's Sentinel Nutrition Assistance Program 2005).'

Poverty research also suggests that as families move deeper into poverty, it becomes increasingly difficult for them to climb back out. Thus, enacting policies that cut children off of CalWORKs and reduce the amount of resources available to their families could have the effect of deepening the poverty these children and their families face and making them less likely to become self-sufficient and more likely to rely on public benefit programs in the future.

### **CalWORKs is a Successful Program**

The CalWORKs program is a successful policy model for increasing work and self-sufficiency, while maintaining a safety-net for low-income children. The Administration's proposals are inconsistent with the CalWORKs policy model, and would shift the state's welfare policy in the wrong direction.

- CalWORKs provides temporary income support, employment services, and child care to more than 525,000 low-income California families each month.
- CalWORKs encourages work and self-sufficiency while maintaining a safety net for low-income children. This safety net is even more critical as income disparity continues to increase, and the economic downturn reduces job opportunities.
- The CalWORKs model is the only welfare approach proven by research to result in long-lasting improvements in family earnings, poverty reduction, and child well-being, including better performance in school with fewer behavioral problems for children. In addition, the CalWORKs model has been shown to produce a dramatic increase in the proportion of parents in two-parent recipient families who stayed married.<sup>2</sup>
- CalWORKs caseload has declined by 50 percent since 1995. Hundreds of thousands of families are working and off time-limited aid.
- More adults on aid are working, and they are earning more under CalWORKs.

### **Elimination of CalWORKs Would Have Severe Consequences for State Economy, and Would Leave Thousands Homeless**

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<sup>2</sup> Based on Minnesota outcomes, with a TANF program similar to CalWORKs. Research conducted by MDRC.

The Governor's suggestion to completely eliminate the CalWORKs program is an unprecedented proposal that would have severe social and fiscal consequences for the state. Many hundreds of thousands of children would likely become homeless, and would place a severe strain on the state's health care, law enforcement, child welfare, juvenile justice, and education systems. Moreover, the state would lose \$4.1 billion in federal funds and \$7.1 billion in economic activity, including over 135,000 jobs, to achieve General Fund savings of only \$1.5 billion. In addition to these short-term consequences, the state's long-term productivity and economic capacity would suffer, as families and children would remain in severe poverty, without support for the educational and vocational skills necessary to be self sufficient and contribute to the state's economy. We note that no other state has eliminated all aid to dependent children, and no other first world county that we are aware of has no safety net for poor families.

### **Summary and Conclusion**

Counties certainly understand the gravity of the state's fiscal condition. Indeed, counties have been grappling with the very same situation at the local level for several years. We have been cutting and prioritizing services and finding more efficient ways to do business. In prioritizing services, government should first seek to provide minimally basic assistance to protect innocent children from abject destitution. By this criteria, the Administration's CalWORKs proposals must be rejected.

Counties are continually striving to improve the CalWORKs program. We look forward to continuing these ongoing efforts with the Administration, Legislature, and other stakeholders in order to identify and analyze additional options that would achieve General Fund savings without harming children and families.

Thank you for your consideration of our position and please do not hesitate to contact us if you have any questions regarding this memo.

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