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Sacramento Office

Christine Minnehan
Director of Legislative Advocacy
Michael E. Herald
Legislative Advocate
Elizabeth A. Landsberg
Legislative Advocate

Michael Moynagh
Legislative Advocate

Legislature Should Restore CalWORKs Grant Cut *State Forfeiting \$117 Million in Stimulus Funds* May 5, 2009

The Legislature and Governor Schwarzenegger should restore the CalWORKs grant cut set to take effect July 1, 2009. California will lose \$117 million in federal stimulus funds and the significant economic impact from human service spending if it does not act. If the cuts are allowed to go into effect the grant will be lower than the amount the state paid in 1989 even though more families need help because they can not find work.

The Budget “Trigger”

On March 27th, 2009 the Department of Finance and State Treasurer Bill Lockyer announced that California would not receive \$10 billion in federal stimulus funding by July 1, 2010 that could be used to offset state General Fund expenditures.¹ The determination set in motion a number of program cuts, including a four percent reduction in CalWORKs grants beginning July 1, 2009, and a tax increase.²

The trigger determination also set in motion several unforeseen, negative consequences. Reducing the SSI grant amount by 2.3 percent had the unforeseen effect of eliminating MediCal eligibility in five programs for disabled Californians.³ The reduction in wages for IHSS workers violates the ARRA requirement that state costs may not be shifted to lower levels of government. If the SSI and IHSS cuts are not reversed by July 1, 2009, the state will lose \$11.2 billion in federal Medicaid stimulus funds worth.

CalWORKs Grant Will Be Below 1989 Grant Levels

Contrary to popular perception, cash grants for CalWORKs families have not been increasing. The statutory CalWORKs COLA has been suspended for six consecutive budgets and the grant was last increased in 2004. The California Budget Project reports

¹ See http://www.treasurer.ca.gov/10B_BudgetTrigger/determination.pdf

² The “trigger” provisions are located in three different bills, SB 3X 1 (Ducheny), AB 3X 16 (Evans) and AB 3X 3 (Evans) but are listed collectively in SB 3X 1 (Ducheny) in Section 8.30.

³ The five programs are: Aged & Disabled Program, 250% Working Disabled Program, Pickle Program, Disabled Adult Children Program, and the Disabled Widow Program.

the CalWORKs grant is worth just 54.2 percent of what it was worth 20 years ago.⁴ If the trigger cut is allowed to go into effect, the grant for a family of three will be \$693 a month, **\$1 less than recipients received twenty years ago.**⁵

California Rewarded for Not Cutting CalWORKs Caseload

Caseloads in California welfare programs have been on a steady decline since 1995. From a peak of 900,000 in 1994 the caseload began falling before “welfare reform” in 1996 and continued declining through the middle of 2007 when it hit a low of 454,000 cases. CalWORKs caseloads began to increase in July, 2007 and have increased by 54,000 families through January 2009.⁶ The increase in caseload results in California being eligible for new Temporary Assistance for Needy Families Block Grant funds (TANF) dating back to the fourth quarter of federal fiscal year 2008. The Department of Finance estimates that California will receive \$357 million by July, 2010.⁷

California would not be receiving any extra TANF funds if the Legislature had not rejected the Administration’s proposals in 2007 and 2008 to cut more than 235,000 children off CalWORKs assistance. The Administration has proposed to eliminate cash assistance for any family where the adult is not meeting work requirements and to eliminate aid for U.S. born children of immigrant parents after five years. If the Administration had been successful, CalWORKs would not have a caseload increase and the state would not be eligible for any TANF Emergency Funds.⁸

Stimulus Paying for 80 Percent of New Welfare Costs

The American Recovery and Reinvestment Act (ARRA) is intended, in part, to help states maintain their spending for safety net programs during the recession.⁹ One of the most significant provisions of ARRA was \$2.5 billion in funding for a new TANF Emergency Fund for states which had an increase in TANF program expenditures due to increased caseloads. The TANF Emergency Fund reimburses states eighty cents on every extra dollar of expenditures. Put another way, the federal government is paying 80 percent of the cost of increased TANF caseloads through September 2010. No other program received a federal match of this magnitude.¹⁰

⁴ http://www.cbpp.org/documents/090311_unchartedwaters_signedbudget.pdf at page 49.

⁵ ARRA increases Food Stamp benefits by 13.6 percent.. Cutting CalWORKs grants at the same time, however, reduces the stimulus effect of the Food Stamp increase. Food Stamps can not be used to pay for rent, utilities, insurance, gasoline or for clothes.

⁶ Department of Social Services, CalWORKs Program, Caseload
<http://www.cdss.ca.gov/research/res/pdf/caltrends/CA237Caseload.pdf>

⁷ Department of Finance, Final Estimate of Federal Funds Offset, page 21,
<http://www.dof.ca.gov/documents/Federal%20Stimulus%20Determination.pdf>

⁸ California would be eligible for even more TANF Emergency Funds if Governor Schwarzenegger had not reduced county funding for supportive services by \$50 million last September. The Administration also delayed implementation of the Work Incentive Nutrition System (WINS) that would have added \$40 on to EBT cards of non-assistance Food Stamp cases meeting TANF work requirements. WINS benefits are also eligible for an 80 percent reimbursement.

⁹ See HR 1, American Recovery and Reinvestment Act of 2009.

¹⁰ This analysis is derived in part from a memo from the Center on Budget Policy Priorities, February 2009.
<http://www.cbpp.org/cms/index.cfm?fa=view&id=2693>

“Trigger” Reduces TANF Emergency Funds by \$117 million

By reducing CalWORKs grants by four percent, the state also reduced the amount the state can claim for reimbursement from the TANF Emergency Fund. The CalWORKs cut results in a loss of \$146 million in cash grants to CalWORKs families. Of this amount the state would have been eligible for an 80 percent reimbursement, approximately \$117 million. This means that the actual gain for the state budget was just \$29 million, not \$146 million. CalWORKs families, and the California economy, feel the full effect of the cut however.

Cutting TANF Spending = Bad Economics

Spending on human service programs is one of the most effective ways to stimulate the economy. CalWORKs family incomes are in the bottom 25 percent among all earners and spend virtually all their resources each month on essentials such as food, rent and utilities. A recent study by Beacon Economics of the economic impact of human service spending in California shows that each \$1 million spent on CalWORKs results in \$1.34 million in economic output and \$25,000 in state sales tax revenue.¹¹ Beacon estimated that due to the TANF Emergency Funds four to one reimbursement rate, the state will get \$7.35 million in economic output for every \$1 million in CalWORKs expenditures. Thus the four percent CalWORKs grant cut directly results in a significant loss of employment and state tax revenue at a time when both are badly needed.

CalWORKs Spending 20% Lower Than 15 Years Ago

Even with the recent caseload increase, spending on welfare is twenty percent lower than in 1994 in actual, not inflation adjusted, dollars. California receives \$3.7 billion from the TANF Block Grant each year and must match the federal funds at 80 percent of 1994 spending or roughly \$2.9 billion.¹² Combined together, California has \$6.6 billion in TANF funding each year. The state, however, spends just \$5.2 billion on the CalWORKs program. The remaining \$1.4 billion goes for eligible TANF expenditures on other state programs like child care, foster care and community college assistance to low income adults. In short, CalWORKs spending is not causing the budget problem and is actually contributing \$1.4 billion towards the solution.

Savings Not Worth The Pain

Given that the actual state savings are just \$29 million due to the loss of TANF Emergency Funds, this cut will have little impact on the state’s budget deficit. But it will have a real impact on real families. Due to excessive limits on assets, families on aid must rely on the cash grant for monthly subsistence. Cutting the grant by \$30 a month means a family runs out of food earlier in the month or must delay paying a utility bill. Over time the cut causes some families to fall behind in the rent and become homeless. Recent data confirms this trend:

¹¹ See Child and Family Policy Institute of California, *Spending on County Human Services Programs in California: An Evaluation of Economic Impacts*
http://www.cfpic.org/downloads/CFPIC_Beacon_report09.pdf

¹² Legislative Analyst Office, *Federal and State Welfare Reform Overview*,
http://www.lao.ca.gov/handouts/socservices/2008/Welfare_Reform_03_06_08.pdf

- Applicants for the CalWORKs Homeless Assistance Program increased by 25.6 percent from September 2007 to September 2008 even though it is limited to once a lifetime.¹³
- The California Department of Education reports that 224,000 school children were homeless in 2007-8, a 27 percent increase in just one year. Homelessness among California school children has increased 51 percent since 2004-5.¹⁴

How to Pay for the \$29 Million in CalWORKs Costs

To draw down the \$117 million in stimulus funds the Legislature will have to restore \$29 million from the \$6.6 billion in TANF funds. The Legislature can offset the \$29 million cost from some or all of the following sources:

- \$3.65 million in sales tax by restoring CalWORKs grants by \$146 million. Each \$1 million in additional spending generates \$25,000 in sales tax revenue.¹⁵
- \$18 million in reduced KinGAP payments because the federal government is paying for a portion of the state's existing program. KinGAP has been paid for from the TANF block grant. These funds should be restored to the CalWORKs program and used to offset the restoration of the CalWORKs grant.¹⁶
- Undetermined increased sales and income tax from federal stimulus increases in the Earned Income Tax Credit, the Child Tax Credit and the "Making Work Pay" Credit. California is eligible for more than \$14 billion from these sources and should receive millions in new revenue depending upon how aggressively California draws down these resources.¹⁷

Conclusion

The four percent CalWORKs grant cut¹⁸ is not just bad for families, it is bad for the state. Failing to draw down the \$117 million in federal stimulus funds is unconscionable when families are struggling to make ends meet. The Legislature and Governor should restore the CalWORKs cut before it goes into effect in July.

By: Michael Herald, Legislative Advocate, mherald@wclp.org

¹³ Department of Social Services, Homeless Assistance Program Applications Received, September 2007 to September 2008 <http://www.cdss.ca.gov/research/res/pdf/ca237ha/2008/CA237HASep08.pdf>

¹⁴ See WCLP's *Number of Poor and Homeless Children Increasing in California* January 15, 2009.

¹⁵ See Child and Family Policy Institute of California, *Spending on County Human Services Programs in California: An Evaluation of Economic Impacts* http://www.cfpic.org/downloads/CFPIC_Beacon_report09.pdf

¹⁶ Legislative Analyst Office, 2009-10 Budget Analysis, Social Services. Over a full budget year these savings are worth \$36 million – more than enough to pay for the entire cost of the CalWORKs grant cut. http://www.lao.ca.gov/analysis_2009/ss/ss_anl09003007.aspx#zxee_link_1_1232576020

¹⁷ Legislative Analysts Office, Tax Relief Provisions in the 2009 Stimulus Package, http://www.lao.ca.gov/handouts/Econ/2009/Tax_Relief_03_23_09.pdf