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# California Legislature

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### Joint Oversight Hearing Senate Human Services Committee and Senate Committee on Budget and Fiscal Review, Subcommittee #3

March 10, 2015  
1:30 p.m., Room 3191

### Welfare to Work: Oversight of California's CalWORKs Program

#### Background Paper

#### Summary

California has the highest poverty rate in the nation – nearly one-quarter of the Golden State's residents are poor, living on no more than \$20,090 per year for a family of three. More than one in four children younger than age six exist in poverty in California. During and after the Great Recession, California saw growing rates of childhood deep poverty – those living below 50 percent of the federal poverty line. One of California's most essential anti-poverty strategies is the CalWORKs program, which provides cash assistance to approximately 540,000 families – including more than 1 million children, according to 2014 federal data.

A grant to a family of three in a high-cost California county will go from \$670 per month currently, to \$704 per month in April 2015. The current grant level is 40 percent of the federal poverty threshold (FPL), compared with 81 percent of FPL in 1989 and 55 percent in 1997.

In the past five years, California's CalWORKs benefit has undergone significant grant cuts, the elimination of a Cost of Living Adjustment, and a radical restructuring of the Welfare to Work activities, requirements and time limits. In 2011, the lifetime limit for adults was reduced from 60 to 48 months. Then in 2012, SB 1041 (*Budget and Fiscal Review Committee, Chapter 47, Statutes of 2012*) created a 24-month Welfare to Work time clock, which permits greater program flexibility during the first 24 months, but then imposes far more rigid requirement to remain eligible once the 24-month clock expires. A host of services was legislatively mandated to accompany the shortened clock: Intensive case management and family stabilization services



for those identified as having significant barriers to work; additional subsidized employment slots to give clients the work experience they need; community college, adult education and vocational classes; a more flexible “flow” within the program so that individuals can skip job club and go straight to other paths that may be better suited to their background and skills; and a statewide assessment tool administered at the beginning of the program to help identify barriers.

Based on January estimates by the Department of Social Services (CDSS), more than 7,900 adults will be timing out of the CalWORKs program by the end of June 2015 – roughly three months before the state is expected to bring its assessment tool online. Recent revisions, based on more current data, indicate no clients will time out in the current fiscal year. CDSS predicts that instead, some clients will begin to see grant reduction in July 2015, and that by the end of fiscal year 2015-2016, roughly 2,500 people will have exhausted their 24-month clock.

Meanwhile, implementation of the menu of robust, flexible activities has been chaotic. Notices to require counties to inform clients they are timing out of the Welfare to Work program have overlapped with notices directing counties to implement critical elements of the program. In September 2014, for example, CDSS sent a letter instructing counties how to inform clients that they were nearing the end of their 24-month clock. Three weeks earlier, on September 4, the department had sent instructions and guidance for implementing the Family Stabilization program. CDSS sent updated instructions to counties on January 27, 2015 on how to implement the new WTW flow requirements.

This hearing will seek to resolve questions about the implementation of various elements of the program. It also will evaluate whether the flexibility in service choices and more robust array of services that were promised to clients in conjunction with the loss of time on the program have materialized statewide.

## **Background**

### ***Poverty in California***

Even before President Lyndon Johnson declared the war on poverty in July 1964, the federal government had been trying to define an adequate amount of income for survival. Ultimately, an official federal poverty measure was developed based on the estimated price of a low-cost family food plan, as determined by the U.S. Department of Agriculture in 1962, multiplied by three to reflect research showing that food purchases are about one-third of family monthly income. The poverty rate is updated annually to reflect price shifts in food, but the basic formula remains intact. The 2015 poverty threshold for a family of three in the United States is \$20,090 per year.

Soon after the official poverty measure was adopted, it began drawing controversy for what was left out – geographic cost of living differences, an accounting for differentials in family costs based on family composition, child care, transportation, health costs, and others. More than three decades later, in response to those longstanding criticisms, researchers at the National Academy

of Sciences recommended a new poverty threshold that included those costs, as well as the benefit of public aid.<sup>1</sup> In 2013 the Census Bureau published its first “research Supplemental Poverty Measure,” intended to provide a more accurate picture of poverty in the United States. For a number of reasons, the federal poverty measure was kept intact as the official threshold of eligibility for public and other programs.

California’s poverty rate is dramatically different under the supplemental measure, jumping from 16.3 to 23.5 percent - the highest poverty rate in the nation. A more recently developed California Poverty Measure, published by researchers at Stanford University’s Center on Poverty and Inequality and the Public Policy Institute of California (PPIC) attempts to refine California’s data to include geographic and demographic differences throughout the state.<sup>2</sup>

The California Poverty Measure takes into account costs of living besides food, including transportation, child care, medical out of pocket expenses. It also considers the benefit of social safety net programs such as CalWORKs aid, CalFresh food benefits and others. PPIC researchers calculated that while 22.0 percent of Californians were in poverty in 2011 with safety net resources, without such aid, more than 30 percent of the state’s population would be living in poverty. “For children, the effect is much larger: in the absence of need-based safety net resources, a startling 39.0 percent of California’s children would have been in poverty.”<sup>3</sup>

<b>2015 Federal Poverty Thresholds</b>	
<b>Persons in family/household</b>	<b>Poverty guideline</b>
1	\$11,770
2	\$15,930
3	\$20,090
4	\$24,250
5	\$28,410
6	\$32,570
7	\$36,730
8	\$40,890
Each additional	\$4,160 per person
<small>Source: US Health and Human Services Agency</small>	

### *Child poverty*

<sup>1</sup> Citro, Constance, et al. “Measuring Poverty: A New Approach,” National Academy Press, 1995

<sup>2</sup> Wimer, Christopher, et al. “A Portrait of Poverty within California Counties and Demographic Groups,” The Stanford Center on Poverty and Inequality.

<sup>3</sup> Bohn, Sara, et al. “The California Poverty Measure: A New Look at the Social Safety Net,” Public Policy Institute of California, October 2013.

Children are disproportionately represented among the poor. The US Census bureau reported<sup>4</sup> that in 2013, children represented less than a quarter of U.S. residents and more than one-third of all poor people. The nation's overall child poverty rate was 19.9 percent, significantly higher than adults or older adults. Nearly 15 million children live below the poverty level nationally.

In California, no matter which poverty measure you use, the level of need is dramatic. A 2014 Stanford poverty center report found that 26.3 percent of young children – aged 6 or younger - were below poverty under the California Poverty Measure, and 24.9 percent were classified below poverty using the official measure. While California's child poverty rate is well above the national average, there are pockets of poverty within this state where children are especially needy. In Merced County, 2013 research showed a childhood poverty rate of 40.6 percent, while more than one in three children in Fresno, Kern, Tulare, Lake, and Mendocino counties live below the poverty line.<sup>5</sup>

### *Deep poverty and extreme poverty*

Deep poverty is defined as living below half of the federal poverty line: \$10,045 annually for a family of three, or \$12,125 annually for a family of four. Over the past two decades, the proportion of children living in poverty has declined, but the harshest extremes of child poverty have increased, according to a 2014 analysis published by the Center on Budget and Policy Priorities in Washington DC. The center, using federal Census data, estimated the percentage of children across the country living in deep poverty increased from 2.2 percent to 3 percent between 1995 and 2005, and that the number of children living at or below half of the poverty level rose from 1.5 million to 2.2 million.

In California, 7.3 percent of all residents lived below 50 percent of the federal poverty threshold in 2013 or 2.8 million people, according to US Census Bureau data.

California's children, and especially young children, are at the greatest risk of experiencing deep poverty, according to research provided by Stanford University's poverty center, which examined the percentage of young children, older children, working-age adults and elder adults between 1980 and 2013. At 11.2 percent, young children's deep poverty has grown since 2007. The Stanford researchers found that rates of deep poverty grew most steeply among young children during and after the Great Recession.<sup>6</sup>

### **CalWORKs and TANF**

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<sup>4</sup> DeNavas-Walt, Carmen and Bernadette D. Proctor, U.S. Census Bureau, Current Population Reports, P60-249, *Income and Poverty in the United States: 2013*, U.S. Government Printing Office, Washington, DC, 2014.

<sup>5</sup> Bohn, Sarah and Matt Levin, "Child Poverty in California," Public Policy Institute of California, August 2013.

<sup>6</sup> Mattingly, Marybeth J., "Trends in California's Deep Poverty Rate 1980-2013"

In 1935, Congress authorized Aid to Families with Dependent Children, the nation's first welfare program, amid the Great Depression to stabilize the families of jobless Americans, which were estimated to be one-quarter of the nation's workforce. Six decades later, the AFDC cash entitlement program was replaced by the Temporary Aid to Needy Families (TANF), which set time limits on receipt of federal benefits, and mandated work participation rates. The federal Personal Responsibility and Work Opportunity Reconciliation Act or PROWORA (42 U.S.C. 601), which established TANF funding, was designed to give states flexibility in setting eligibility and guidelines and was intended to provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives. States receive TANF funds through fixed block grants as long as states meet maintenance of effort requirements and adhere to federal work participation requirements. The federal statute permits a recipient to receive aid for up to 60 months.

In California, the CalWORKs program provided TANF cash assistance to approximately 540,000 families in 2014 – including more than 1 million children, according to federal data. A family's grant level is determined by the number of family members and the cost of living in the county where they live.

#### *Welfare to Work Program*

Adults eligible for CalWORKs are subject to a lifetime limit of 48 months of assistance under California law. Unless exempt for reasons such as disability or caregiving for an ill family member, adults must participate in work or other allowable activities, including job search, and certain educational activities. Depending on family composition, these activities are required for 20, 30, or 35 hours per week. The program also offers supportive services, such as childcare and – in a limited number of cases – housing support.

Effective January 1, 2013, clients are under a Welfare to Work 24-month clock, which provides an initial 24 months of flexibility around work requirements, but imposes stricter work requirements to receive assistance after the initial 24 months of flexibility is exhausted. These months do not have to be consecutive, and the initial 24 month flexible clock does not “tick” as long as a participant is engaged in federally allowable work activities.

#### *Work Participation Rate*

TANF requires states to meet a work participation rate (WPR) for all aided families, or face a penalty of a portion of their block grant. States can reduce or eliminate penalties by disputing them, demonstrating reasonable cause or extraordinary circumstances, or planning for corrective compliance. It is also important to note that federal formulas for calculating a state's WPR have been the subject of much criticism, including the practice of denying any credit for a significant number of families who meet partial hourly requirements. Many states, including California, did not meet federal WPR requirements in recent years, and California is appealing its penalties and

has put additional measures into place to bolster the rate in future years. CDSS estimates that the state will meet the federal requirement in FFY 2015 with a 52.64 percent participation rate.

### ***Link between deep poverty and welfare reforms***

The impact of federal welfare reform has been lasting. According to numerous researchers, since reforms were enacted in 1996, the poorest families have had reduced access to benefits while working poor families with slightly higher incomes have seen increased access to benefits. A growing body of work links the growth of deep poverty in the United States to welfare reform efforts in 1996 that required adults to work, or lose TANF funding.

One 2014 article written jointly by a professor at University of Michigan and Johns Hopkins University and published by Stanford University's Center on Poverty and Inequality's *Pathways* magazine linked the growth of deep poverty to the PROWRA.

At the same time, in the years since 1996, a new group of American poor has emerged: families with children who are living on virtually no income—\$2 or less per person per day in a given month. These are America's "extreme poor." The U.S. official poverty line for a family of three would equate to roughly \$17 per person per day. What scholars call "deep poverty"—incomes at less than half the poverty line—is about \$8.50 per person per day, over four times higher than our cutoff. This new group of American poor, the extreme poor, are likely experiencing a level of destitution not captured in prior poverty measures, one that few of us knew even existed in such a rich country.<sup>7</sup>

### ***Barriers to employment***

Many TANF recipients face multiple barriers to work, including a low educational attainment, lack of work experience, limited English proficiency, mental and physical health challenges, caring for a child with special needs, a history of domestic abuse, homelessness and other challenges. According to research published by the Urban Institute, surveys in five states and the District of Columbia found that four in 10 recipients didn't graduate high school, 20 percent had little work experience, 30 percent cared for a special needs child and at least 20 percent battled physical illness or mental health challenges.<sup>8</sup>

### ***Refocusing the Welfare to Work program***

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<sup>7</sup> Schaefer, Luke and Kathryn Edin, "The Rise of Deep Poverty in the United States," *Pathways* magazine, Summer 2014.

<sup>8</sup> Bloom, Dan, et al, "TANF Recipients with Barriers to Employment," Urban Institute and U.S. Administration for Children and Families Office of Planning, Research and Evaluation, August 2011.

As states struggle to meet and maintain the required work participation program and as researchers document the failure of the WTW program to reach families with barriers, resulting in a growing class of people in extreme poverty, researchers have begun to consider the elements of success in the program.

The American Psychological Association formed a task force to study the challenges to long term success of welfare to work programs out of concern that many women were improperly prepared to succeed. Among the failures it documented was the premise that WTW programs require women to accept the first available job, “regardless of wages, benefits, or flexibility and “family friendliness.”<sup>9</sup>

According to a December 2014 report issued by the U.S. General Accounting Office, the latest in a lengthy series of studies on improving the success of the TANF program, the authors suggested federal incentives are needed to encourage states to promote career pathways from the program. The 62-page report underscores research that shows successful welfare to work outcomes include an assessment for mental health and substance abuse problems followed by appropriate therapy in conjunction with work preparation activities, subsidized employment programs to create work experience for participants, and training for specific types of jobs.

The report also noted that two states used a career pathways approach of combining occupation-specific training with basic skills education and support services even though some states “have a misperception” that the approach is not allowable under TANF rules. The GAO encouraged the federal Health and Human Services agency to clarify its guidelines for education and other support services as a promising approach to welfare to work success.<sup>10</sup>

### ***Recent changes to California’s program structure***

SB 1041 (*Budget and Fiscal Review Committee, Chapter 47, Statutes of 2012*) made significant changes to CalWORKs’ welfare to work rules. The program restructure, initially proposed by the Governor, was designed to cut program costs as the state struggled with massive recessionary shortfalls. It used a multi-pronged approach, including creating a 24-month Welfare To Work time clock within the state’s 48 month limit to accommodate flexible activities<sup>11</sup> needed preparation for work, but limits aid after those 24 months to only those adults who are meeting stricter federal work participation requirements. Essentially, parents who cannot find work after

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<sup>9</sup> Task Force on Women, Poverty, and Public Assistance, “Making Welfare to Work Really Work,” American Psychological Association

<sup>10</sup> US General Accounting Office, Temporary Assistance to Needy Families: Action is Needed to Better Promote Employment-Focused Approaches, November 2014, <http://www.gao.gov/assets/670/667051.pdf>

<sup>11</sup> In the first 24 months, the flexible activities could include: employment, vocational education; job search; job readiness; job skills training; adult basic education; secondary school; or barrier removal activities.

the first 24 months are removed from the program.

The bill also ended what had been a broadly applied temporary exemption from welfare-to-work requirements for parents of young children and required the state to re-engage them in job finding and other activities. This was replaced by a one-time exemption for parents with children under 24 months. The bill also conformed state work hour requirements to the number of hours of work participation (20, 30, or 35, depending on family composition) required by federal work requirements.

Statutory language in the bill permits counties to provide extensions of the flexible 24 month clock for up to six months and for as many as 20 percent of participants. Consistent with Legislative intent, CDSS testified before a budget subcommittee in February 2015 that the extender is designed to be a target and not a firm cap, however the department issued a letter to counties on January 9, 2015 estimating the number of extended slots each county would have – 327 statewide by the end of fiscal year 2015.

When the Administration presented its proposal to change the time clock in 2012, it was with the stated intent that the program would include earlier and more meaningful engagement with clients at the front end. However, some members of the Legislature expressed concern that these changes were not adequately reflected within those proposals. The Legislature also expressed concern that the more limited time clock may have a disproportionately negative effect on clients whose lives were especially in crisis and who may need more time to become stable.

As a result, the final language included in SB 1041 included direction for the administration to convene a workgroup to identify the statutory and administrative changes that may be necessary to address these concerns. The timeline for the administration to report back on the results of this work group was designed to be short, to make sure that these meaningful changes would be available to clients as the 24-month clock took effect.

AB 74 (*Budget Committee, Chapter 21, Statutes of 2013*) responded to a list of items developed by the CDSS stakeholder workgroup and added a number of specific elements to the 24 month clock. These supports were designed to help adults with barriers to work be better prepared to enter the workforce and sustain employment. They included:

#### *Subsidized employment*

Under the subsidized employment program, wages are partially or fully subsidized for Welfare to Work clients for a limited amount of time through partnerships that counties establish with various employers. The bill expanded subsidized employment by 3,000 slots statewide, although development of those slots is still ongoing, according to CDSS. The state allocated more than \$134 million to 57 counties in the current year budget, and as of February 20, 2015, there were 42 counties participating in the program. A report on subsidized employment efforts is due to the



Legislature on April 1.

### *Online CalWORKs Appraisal Tool (OCAT)*

The bill also required the creation of a standard statewide appraisal tool, which would inform counties what barriers clients faced and result in referrals to appropriate services or to the family stabilization program. The OCAT provides an in-depth assessment of a client's strengths and barriers, including: employment history, interests, and skills; educational history; housing status and stability; language barriers; child health and well-being; and, physical and behavioral health, including, but not limited to, mental health and substance abuse issues. The Governor's proposal initially estimated that the OCAT would be fully deployed to all counties by January 2014, however delays in creating and piloting the tool mean that it still is not available to counties for widespread use. CDSS estimates the OCAT will be available statewide by the end of 2015. Without access to the OCAT, stabilizing services for some clients may not be fully available.

Advocates for the poor and others within the system have noted that this time frame for the OCAT's deployment coincides with the first cohort of clients to time out of the 24 month clock.

### *Family stabilization*

Family stabilization is intended to increase client success during the flexible WTW 24-Month Time Clock period by ensuring a basic level of stability for clients who are in crisis. Services include intensive case management with a caseworker who has a lowered caseload, coupled with identifying and finding supports to address barriers. Clients must have a "Stabilization Plan" with no minimum hourly participation requirements in the welfare to work program. At any point in a client's 24-month clock, a social worker can refer a client to family stabilization services. A crisis that might warrant a referral to family stabilization program could include homelessness or imminent risk of homelessness, unsafe living conditions due to domestic violence or untreated or undertreated behavioral needs.

Many of the services categorized as part of the family stabilization program are currently available to clients, such as mental health therapy, substance abuse treatment and domestic violence counseling. What distinguishes family stabilization from existing practices and services is the intensive case management and a more robust assessment to identify less visible barriers. For the first time, caseworkers also have the ability to refer other family members for services if their troubles are creating a barrier to employment for the adult CalWORKs participant, for example, a child's untreated behavioral needs. As of December 2014, there were 1,300 family stabilization cases opened statewide, and 40 percent of those receiving services were children.

At least one county, Los Angeles, has interpreted the family stabilization statute and instruction letters to say that the program is triggered by the information on the OCAT tool. Los Angeles has deferred initiating the program until the tool comes online later this year. Early statewide data

indicates that some counties have clients in the program while others are not serving clients.

### *Welfare To Work flow*

Additionally, the bill required that CDSS convene a stakeholder workgroup to examine strategies to make the first 24 months as useful as possible, review the flow of the existing welfare-to-work processes in the early months and identify legislative solutions to those issues. One common difference among counties is the process for deciding when job search is beneficial or when participants should move directly to assessment. The new flow, required as of January 1, 2014, mandates that counties consider multiple paths forward when evaluating a client for the program.

### *Housing Support Program*

SB 855 (*Budget and Fiscal Review, Chapter 29, Statutes of 2014*) established in the budget trailer bill a rapid housing support program for CalWORKs clients who were homeless. Included in the program are rental assistance and security costs as well as caseworker engagement with the clients' landlord, home finding, credit repair, financial literacy. The bill allocated \$20 million for the program to 20 counties. County plans project that more than 3,000 homeless CalWORKs families will be placed in permanent housing through the program.

## **Outcomes and expectations**

### *Timed out*

The Governor's January budget estimates 7,934 cases will experience a grant reduction for not meeting CalWORKs federal standards after exhausting the time on their Welfare to Work 24-Month Clock by the end of FY 2014-15. That estimate was based on preliminary data that has since been updated to reflect a more accurate picture, according to CDSS. The Administration's current projections show no clients will time out in the current fiscal year, but that a small cohort clients will begin to see grant reduction in July 2015, which will continue to grow monthly for a total of 2,500 people who have exhausted their 24 month clock by the end of FY 2015-2016.

Counties may grant extensions for up to twenty percent of those cases and the state assumes that some recipients will begin to meet the CalWORKs federal standards to avoid a grant reduction. The state projects that 1,200 of the timed out cases will receive extensions.

### *Continued struggles*

Despite reforms intended to create stronger pathways out of poverty for families in the CalWORKs program, the numbers of struggling families continues. Data on homelessness reported by Los Angeles County shows the rate of homeless families in the CalWORKs program continues to grow significantly through the recession and into 2014, as demonstrated in the chart below.

	<b>CalWORKs Families</b>	<b>CalWORKs Homeless Families</b>
<b>Jul-06</b>	152,722	5,487
<b>November-14</b>	169,910	15,814
<b>% Increase</b>	11%	188%

Source: Los Angeles County Department of Children and Family Services

*Participation in flexible and stabilizing activities*

Preliminary data indicates there has been little increase in the activities that were identified as flexible, as well as those that would indicate family stabilization efforts, such as domestic violence and mental health treatment. This data is limited in multiple ways, but it does raise questions about the degree of implementation of various aspects of the program during the time that clients' clocks have been ticking.

For a summary of that outcomes data, please refer to the attached report from the Legislative Analyst's Office.