

April 25, 2016

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

LAO  
**75**  
YEARS OF  
SERVICE

# Estimates of Dedicated Funds and Costs for Assembly Subcommittee No. 1 Action

Presented to:  
Assembly Budget Subcommittee No. 1  
On Health and Human Services  
Hon. Tony Thurmond, Chair



This document was prepared in response to Assembly Budget Subcommittee No. 1's request that we update estimates that we previously provided to the subcommittee in relation to its March 30<sup>th</sup> action to repeal the California Work Opportunity and Responsibility to Kids (CalWORKs) maximum family grant (MFG) policy, increase CalWORKs grants by 4 percent, and fund these augmentations first from the Child Poverty and Family Supplement Support subaccount (hereafter "Child Poverty subaccount") to the extent that funds are available, with General Fund support to cover the remaining cost. Over time, Child Poverty subaccount funds would be anticipated to grow, gradually reducing and ultimately ending General Fund support for the augmentations. In what follows, we:

- Provide background on the Child Poverty subaccount and the use of subaccount funds under current law.
- Update revenue and cost estimates we previously provided to the subcommittee.
- Pursuant to a subsequent request by the subcommittee, present estimates for an alternative proposal that excludes the 4 percent increase that was part of the subcommittee's action.
- Describe how future increases to the minimum wage could affect our estimates.



## Background on Child Poverty Subaccount

---

As requested, below we provide background on the Child Poverty subaccount and the use of subaccount funds under current law.

- 1991 Realignment and the Local Revenue Fund (LRF).** The LRF was created by 1991 realignment legislation that (1) transferred several programs from the state to the counties, (2) changed the way that state and county costs are shared for certain other social services and health programs (including CalWORKs), and (3) increased the sales tax and vehicle license fee (VLF) and dedicated these increased revenues to fund the counties' increased fiscal responsibilities. Each year, dedicated revenues are allocated to various accounts within the LRF to fund different programs. Specifically, each year the accounts generally receive as a "base" allocation the amount provided in the prior year. Any dedicated funds that remain after meeting base allocations are distributed to accounts as a "growth" allocation that adds to the accounts' base for the following year. In this way, allocations to LRF accounts generally grow with dedicated revenues over time.
- Under Current Law, Child Poverty Subaccount Funds Pay for CalWORKs Grant Increases.** As part of the 2013-14 budget package, a portion of growth revenues in the LRF were redirected into the newly created Child Poverty subaccount to pay for CalWORKs grant increases. Budget legislation also established an annual process by which new grant increases funded from the subaccount would be provided. Specifically, each year the Department of Finance estimates the (1) cost of previous grant increases that are funded from the Child Poverty subaccount and (2) amount of funds expected to be available in the Child Poverty subaccount. When the amount of available funds is estimated to exceed the costs of prior increases, an additional grant increase is provided in an amount that can be supported by excess subaccount funds. If the subaccount funds are estimated to not be sufficient to pay for all of the costs of prior grant increases, no additional grant increase is provided and the General Fund covers the shortfall.



## Background on Child Poverty Subaccount

*(Continued)*

- 
- To Date, Grant Increases Have Been Provided With Child Poverty Subaccount Funds on Two Occasions.*** Grant increases currently supported by the Child Poverty subaccount include a 5 percent increase provided in March 2014 and an additional 5 percent increase provided in April 2015. In recent years, the annualized cost of these two grant increases has exceeded the amount of available Child Poverty subaccount funds, requiring some General Fund support. However, as Child Poverty subaccount funds have grown over time, the amount of General Fund support has decreased.
  - Estimates of Future Child Poverty Subaccount Funds Are Very Uncertain.*** The future amount of funds that will be available in the Child Poverty subaccount depends on numerous factors that are difficult to predict, such that estimates of the future amount of funds are very uncertain. Some of the main factors that determine the future amount of Child Poverty subaccount funds include (1) future changes in sales tax and VLF revenues, (2) changes in the statewide CalWORKs caseload (which affects the cost of previous and future grant increases), and (3) changes in the costs of several health and social services programs in each of the 58 counties that play into the complex formulas used to allocate growth revenues in the LRF. The estimates we provide later in this document are based on the “main scenario” from our office’s November 2015 publication, *The 2016-17 Budget: California’s Fiscal Outlook*, which assumes that the state will continue to experience economic growth over the next several years. Should growth in the economy slow, revenues received by the Child Poverty subaccount could be much less than our estimates suggest. A slowing economy could also result in higher CalWORKs caseloads, increasing the cost of prior grant increases. Both of these effects would result in less available funding in the Child Poverty subaccount in the future than our estimates suggest.



## Updated Estimates for Subcommittee Action

As requested, below we update estimates we previously provided to the subcommittee in relation to the subcommittee's March 30<sup>th</sup> action.

<b>Estimated Child Poverty Subaccount Funding and Expenditures Under Subcommittee Action</b>					
<i>(In Millions)</i>					
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Child Poverty Subaccount Funds</b>					
Base funding	\$193	\$264	\$341	\$425	\$458
Growth funding	71 <sup>a</sup>	77 <sup>a</sup>	84	33	62
One-time carry-in	69	7	—	—	—
<b>Totals</b>	<b>\$333</b>	<b>\$348</b>	<b>\$425</b>	<b>\$458</b>	<b>\$520</b>
<b>Child Poverty Subaccount Expenditures</b>					
5 percent increase effective March 2014	\$159	\$155	\$151	\$149	\$147
5 percent increase effective April 2015	167	164	159	157	155
Repeal MFG policy effective January 2017	—	110 <sup>b</sup>	220	228	237
4 percent grant increase effective January 2017	—	71	138	136	135
Interaction of 4 percent grant increase and repeal of MFG policy	—	4	9	9	9
<b>Totals</b>	<b>\$326</b>	<b>\$504</b>	<b>\$678</b>	<b>\$679</b>	<b>\$684</b>
<b>Funds Remaining After Expenditures/ General Fund Cost (if Negative)</b>	<b>\$7</b>	<b>-\$156</b>	<b>-\$253</b>	<b>-\$221</b>	<b>-\$164</b>

<sup>a</sup> The 2016-17 Governor's Budget, released in January 2016, estimates that growth funding allocated to the Child Poverty and Family Supplemental Support subaccount would be \$49 million in 2015-16 and \$61 million in 2016-17, resulting in total available subaccount funds of \$311 million in 2015-16 and \$302 million in 2016-17. Under this estimate, total funds would not fully cover the costs of the March 2014 and April 2015 grant increases in either year.

<sup>b</sup> Includes \$1.4 million for one-time automation and administration costs. We note that funding the repeal of the MFG policy with Child Poverty subaccount funds presents operational challenges that, depending on how the repeal is structured, could significantly increase one-time automation costs and potentially delay implementation.  
MFG = maximum family grant.



### **Estimated Child Poverty Subaccount Funds Unchanged.**

The estimated Child Poverty subaccount funds displayed above are unchanged from the estimates we previously provided to the subcommittee. We will be revisiting our revenue and caseload projections for the May Revision and will provide a further update to the subcommittee at that time.



## Updated Estimates for Subcommittee Action

(Continued)

- 
- Cost of MFG Repeal Updated to Reflect Cases Remaining Longer on Aid.*** Our estimate of the cost to repeal the MFG policy has been updated to reflect additional costs associated with certain cases remaining on aid longer than they otherwise would due to the repeal of the MFG policy. Our updated estimate is based on the “low” estimate prepared by the Department of Social Services (DSS), which we view as more realistic than the alternative “high” estimate. We made adjustments to the DSS estimate to reflect (1) our projected reductions in caseload and (2) our assumptions for how costs of cases remaining on aid longer would phase in. Under these assumptions, the total cost of repealing the MFG policy would fully phase in and reach a total cost of roughly \$250 million by 2021-22. We note that this estimate is very uncertain. The remaining cost estimates displayed in the figure are unchanged from our previous estimates.
  
  - Under Rough Assumptions, General Fund Support for Augmentations Could End in 2022-23.*** At this time, our office’s revenue and caseload projections extend only through 2019-20, at which point the General Fund is projected to be contributing roughly \$160 million toward the cost of the augmentations. In order to roughly project in which year the General Fund would no longer be needed to support the 4 percent grant increase and the repeal of the MFG policy, we assumed the subcommittee’s assumptions reflected in the March 30<sup>th</sup> action—specifically, that Child Poverty subaccount funds would grow by \$66 million and that the CalWORKs caseload continues declining each year after 2019-20. Based on these rough assumptions, Child Poverty subaccount funds could fully offset General Fund support for the augmentations in 2022-23. However, if annual growth in Child Poverty subaccount funds after 2019-20 is assumed to be only \$40 million, General Fund support for the augmentations would end one year later in 2023-24. If higher growth of \$80 million each year is assumed, General Fund support would end in 2022-23.



## Updated Estimates for Subcommittee Action

(Continued)

---



***Operational Challenges Could Significantly Increase One-Time Automation Costs in 2016-17 and Potentially Delay Implementation.***

The figure on page 4 includes \$1.4 million in one-time automation and administration costs in 2016-17 related to implementing the repeal of the MFG policy, consistent with the DSS estimate. However, we note that accurately allocating Child Poverty subaccount funds to pay for the repeal of the MFG policy would require a process of identifying how much cash assistance costs increase in each county as a result of the repeal. If such a process does not exist, the General Fund or other county funds may be used to pay for costs related to the MFG repeal that should be borne by the Child Poverty subaccount, or the Child Poverty subaccount may be used to pay for grant costs not related to the MFG repeal that should be borne by the General Fund and other county funds. Precisely identifying the costs of the MFG repeal in this way requires data and reporting that are not currently available. While estimates are not available at this time, costs to modify automation systems to accommodate this reporting could be significant and making these modifications could potentially require delaying the repeal of the MFG policy past the January 2017 deadline in the subcommittee's action.



## Estimates for Alternative Proposal

As requested, below we present similar estimates for an alternative proposal that would exclude the 4 percent grant increase that was part of the subcommittee’s March 30<sup>th</sup> action.

<b>Estimated Child Poverty Subaccount Funding and Expenditures Under Alternative Proposal</b>					
<i>(In Millions)</i>					
	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Child Poverty Subaccount Funds</b>					
Base funding	\$193	\$264	\$341	\$425	\$458
Growth funding	71 <sup>a</sup>	77 <sup>a</sup>	84	33	62
One-time carry-in	69	7	—	—	—
<b>Totals</b>	<b>\$333</b>	<b>\$348</b>	<b>\$425</b>	<b>\$458</b>	<b>\$520</b>
<b>Child Poverty Subaccount Expenditures</b>					
5 percent increase effective March 2014	\$159	\$155	\$151	\$149	\$147
5 percent increase effective April 2015	167	164	159	157	155
Repeal MFG policy effective January 2017	—	110 <sup>b</sup>	220	228	237
<b>Totals</b>	<b>\$326</b>	<b>\$429</b>	<b>\$531</b>	<b>\$534</b>	<b>\$539</b>
<b>Funds Remaining After Expenditures/ General Fund Cost (if Negative)</b>	<b>\$7</b>	<b>-\$81</b>	<b>-\$106</b>	<b>-\$76</b>	<b>-\$19</b>

<sup>a</sup> The 2016-17 Governor’s Budget, released in January 2016, estimates that growth funding allocated to the Child Poverty and Family Supplemental Support subaccount would be \$49 million in 2015-16 and \$61 million in 2016-17, resulting in total available subaccount funds of \$311 million in 2015-16 and \$302 million in 2016-17. Under this estimate, total funds would not fully cover the costs of the March 2014 and April 2015 grant increases in either year.

<sup>b</sup> Includes \$1.4 million for one-time automation and administration costs. We note that funding the repeal of the MFG policy with Child Poverty subaccount funds presents operational challenges that, depending on how the repeal is structured, could significantly increase one-time automation costs and potentially delay implementation.  
MFG = maximum family grant.



***Under Rough Assumptions, General Fund Support for Alternative Augmentations Could Be Eliminated in 2020-21.***

Using the same rough assumptions as before—that Child Poverty subaccount funds would grow by \$66 million and that the CalWORKs caseload continues declining after 2019-20—General Fund support for repealing the MFG policy only would end in 2020-21.





## Potential Impact of Future Minimum Wage Increases

---

As requested, below we describe how future increases to the state's minimum wage might affect our estimates.

- ☑ ***Under Current Law, Minimum Wage Scheduled to Gradually Increase to \$15 Per Hour.*** Pursuant to Chapter 4 of 2016 (SB 3, Leno), the state's minimum wage is scheduled to gradually increased to \$15 per hour by January 2022, unless certain conditions are met that delay the increases.
  
- ☑ ***Increased Minimum Wage Likely to Result in CalWORKs Savings.*** Increases in the minimum wage are expected to affect the CalWORKs program in two main ways. First, CalWORKs families that are employed will receive greater wages, which will reduce the amount of cash assistance received by some families and make other families ineligible for CalWORKs assistance altogether, resulting in savings. Second, the scheduled increases in the minimum wage may result in fewer jobs for the lowest-wage workers by increasing the cost of employing such workers. This may result in a greater number of families without employment that meet CalWORKs eligibility requirements and apply for assistance, resulting in costs. We estimate that the fiscal effect of the increasing minimum wage, once it is fully phased in, could range from annual net savings of a few hundred million dollars to no net savings. A small portion of any savings would impact the cost of grant increases funded by the Child Poverty subaccount. Specifically, we estimate that increases in the minimum wage could potentially decrease the annual cost of these grant increases by as much as several million dollars once the new minimum wage is fully phased in.



## Potential Impact of Future Minimum Wage Increases

(Continued)

---

- Increased Minimum Wage Likely to Increase Sales Tax Revenues.*** Increases in the minimum wage are also likely to increase sales tax revenues collected by the state, primarily through higher prices for taxable goods. This effect is uncertain, but could increase the sales tax revenues received by the LRF by a few percent and result in additional growth of up to a few million dollars for the Child Poverty subaccount once the minimum wage increase is fully phased in.
  
- Taken Together, These Effects Could Slightly Accelerate the Growth of Child Poverty Subaccount Funds.*** Savings in the CalWORKs program and additional revenues allocated to the Child Poverty subaccount because of increases to the minimum wage are uncertain, but could accelerate the growth of Child Poverty subaccount funds. This could potentially mean that the augmentations in the subcommittee's action could be fully supported by subaccount funds earlier than the projections we present here show.