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Key State TANF Policies Affecting Microenterprise: California

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California's restructured welfare program, California Work Opportunity and Responsibility to Kids (CalWORKs), was enacted in August 1997 and implemented as a Temporary Assistance for Needy Families (TANF) block grant program in January 1998. CalWORKs is a county-administered program. State law and policy establish eligibility rules and program guidelines, but give counties flexibility in designing their CalWORKs welfare-to-work programs. Each county was required to submit a plan describing, among other things, how it will offer a range of welfare-to-work services and provide support services.

California's average cash assistance caseload was approximately 473,615 families in fiscal year 2001. The state's caseload declined by 49 percent between fiscal years 1995 and 2001, compared to a 56-percent decline in the national caseload.

California TANF Funding and Spending (in millions)	
Annual TANF block grant, FY 98-02	\$3,733.8
Welfare-to-Work formula grant, FY 99	\$190.4
80% MOE obligation, FY 00 ¹	\$2,905.8
75% MOE obligation, FY 00	\$2,724.2
State MOE spending (% of obligation), FY 00	\$2,905.8 (80.0%)
Unobligated TANF funds (FY 97 - FY 00 combined)	\$2.48

Source: U.S. Department of Health and Human Services, Administration for Children and Families

¹ In order to receive its full federal TANF grant, a state must meet a maintenance of effort (MOE) obligation. A broad range of spending for needy families, in and outside of the TANF cash assistance program, can count toward MOE. The MOE obligation is based on state expenditures for AFDC and a set of related programs in FY 1994. It is set at 80 percent of those expenditures, and is reduced to 75 percent if the state meets federal work participation rates.

California's maximum monthly cash benefit level for a single-parent family with two children is \$679.² In low-cost areas of the state, the maximum benefit levels are approximately 5 percent lower. California has the third highest TANF cash grant among the 50 states and DC; the national average is \$414 for a family of three. In 2001 California had the 13th highest poverty rate among the states at 13.1 percent, compared to 11.6 percent for the U.S. as a whole. The state median income in 2001 was the 14th highest at \$47,243; the national median was \$42,873.³

TANF Spending to Support Microenterprise

The state has not expressly earmarked any TANF block grant or state MOE funds to be used for microenterprise training or to support microenterprise initiatives. A bill passed by the legislature in 1999 would have designated TANF funds for grants to local microenterprise providers serving CalWORKs recipients and families with incomes below 200 percent of poverty. The bill was vetoed by the Governor.

Initial Participation Requirements

California, like most states, elected to opt out of the federal two-month community service requirement.⁴ For parents not exempt from work activities,⁵ participation in a welfare-to-work plan is required. Parents who began receiving assistance after CalWORKs was implemented who are unable to find unsubsidized jobs after 18 months of participation in a welfare-to-work plan must engage in community service as a condition of receiving further assistance. Families that were receiving assistance prior to implementation of CalWORKs are subject to the community service requirement after 24 months. Single parents must participate in work activities a minimum of 32 hours per week.

Many states require applicants for cash assistance and/or participants in work activities to pursue an initial job search. In California applicants may, at the option of the county and with the consent of the applicant, participate in an initial job search. Recipients are required to participate in a job search for up to four weeks following an employability appraisal.

² Source: Burke, Vee. (2002). *TANF Benefits and Earnings Limits, January 2002*. Washington, DC: Congressional Research Service.

³ Poverty rates and median income are three-year averages for 1999-2001. Source: U.S. Census Bureau, *Current Population Survey, 2000, 2001, and 2002 Annual Demographic Supplements*. This represents the most recent data available.

⁴ A federal TANF provision requires adults to participate in community service employment after receiving assistance for two months unless the state opts out of the requirement.

⁵ The federal TANF statute requires all adults receiving assistance to be "engaged in work" after they have received assistance for 24 months. States have broad discretion to define what counts as being "engaged in work" for purposes of the 24-month requirement.

Countable Activities⁶

A principal way in which participation in microenterprise training could count toward the federal participation rates is as vocational educational training.⁷ In California, vocational educational training can include community college, adult education, and regional occupational programs. Counties must generally limit assignments to vocational educational training to 30 percent of participants in order to avoid a potential financial penalty. Individual participation is limited to situations in which education is needed to obtain employment. State policy allows counties to provide microenterprise training, considered vocational educational training, if this activity meets the needs of their clients.

California allows self-employment as a work activity.⁸ State legislation authorized up to six microenterprise demonstration projects, jointly submitted by providers and county welfare departments, to provide self-employment training and technical assistance to CalWORKs recipients, but the project was not funded.

The following table shows TANF work participation data the state reported for FY 98 through FY 00. The TANF caseload reduction credit reduced the state's effective participation rate to 17.8 percent in FY 98, 8.5 percent in FY 99, and 7.9 percent in FY 00. In all three years the state could have allowed for increased participation in microenterprise training while still meeting TANF participation rates.

The fifth row compares the number of families reported as engaged in vocational educational training to the number of families participating in countable activities that California needed to meet its required overall participation rate. In FY 98 and FY 99, up to 30 percent of those counting toward participation rates could do so through participation in vocational educational training, so in FY 98 California could have counted many more families engaged in vocational training toward the overall rate. In FY 99 California could have counted at least some additional families engaged in vocational training toward the overall rate.

In all three years, the state could have fully satisfied the required overall participation rate simply because a sufficient number of families were participating in unsubsidized employment. Thus,

⁶ Under the federal TANF statute, a state may be penalized if it fails to meet overall and two-parent TANF participation rates. The law specifies the number of weekly hours required to be a countable participant and the permissible activities that can count toward participation. States can authorize and fund activities that are not countable toward the federal participation rate.

⁷ Under the federal TANF statute, only certain activities are countable toward TANF participation rates. Vocational educational training provides the principal category in which participation in education or training can count toward TANF participation rates. States can set their own reasonable definitions of what counts as vocational educational training, but countable participation is limited to 12 months per individual. No more than 30 percent of those counted toward the work participation rate can be in vocational educational training. (Effective in FY 00, the 30 percent limit applied to the combination of individuals in vocational educational training and parents under age 20 engaged in school completion.) A state is free to allow individuals to participate in vocational educational training for more than 12 months, but only 12 months will be countable toward participation rates.

⁸ For federal purposes, hours participating in unsubsidized employment are countable toward TANF participation rates. The federal law does not define unsubsidized employment or require a minimum amount of earnings, and states are permitted to develop their own reasonable definitions.

California could have allowed many more families to participate in microenterprise training outside the rates. In FY 00, in fact, California did allow a higher percentage of families to participate in vocational education than in the previous two years. This was possible partially because California allowed some families to participate in vocational educational training outside the required rate. (See row six.)

Reported TANF Work Participation in California			
	FY 98	FY 99	FY 00
Families in overall participation rate ⁹	494,615	384,170	225,101
Families counting toward work participation rate	179,953	162,225	61,707
Overall participation rate achieved ¹⁰	36.6%	42.2%	27.5%
Overall participation rate required (30% for FY 98, 35% for FY 99, and 40% for FY 00; adjusted downward for caseload reduction credit)	17.8%	8.5%	7.9%
Families engaged in vocational educational training (as a % of participating families needed to meet overall rate) ¹¹	4,498 (5.1%)	8,430 (25.8%)	6,603 (37.1%)
Families engaged in unsubsidized employment (as a % of participating families needed to meet overall rate) ¹¹	156,384 (177.6%)	136,620 (418.4%)	47,702 (268.2%)
Number of participating families needed to meet overall participation rate required (adjusted downward for caseload reduction credit)	88,041	32,654	17,783

Source: U.S. Department of Health and Human Services, Administration for Children and Families

Sanctions for Failing to Comply with Work Requirements

The sanction for failing to comply with work requirements is removal of the noncompliant adult from the grant until compliance. For the second instance of failure to comply, the individual is removed from the grant for a minimum of three months. For subsequent instances, the individual is removed for a minimum of six months. California does not impose full-family sanctions for failure to comply with work requirements.

Time Limit

California has a 60-month lifetime time limit. For those subject to the time limit, assistance to the parent is terminated after 60 cumulative months of CalWORKs receipt, although the children can

⁹ This figure is smaller than the total number of families receiving assistance because some families are not included in this participation rate denominator.

¹⁰ The overall participation rates provided in the third row represent the average of monthly participation rates for the year.

¹¹ These figures are calculated by multiplying the required overall participation rate by the number of families in the rate, and then dividing the number of families reported as engaged in each activity by the product.

continue to be eligible to receive assistance. Months of assistance began counting toward the time limit in January 1998. Circumstances under which a month of assistance will not count toward the state time limit include:

Disability – The individual is exempt from welfare-to-work participation requirements due to a verified disability that is expected to last at least 30 days.

Providing Care – The individual is exempt from welfare-to-work participation requirements because of inability to be regularly employed/participate due to caretaking responsibilities for an ill or incapacitated person residing in the home, a dependent child of the court, or a child at risk of placement in foster care.

Teen Program – The individual is eligible for, participating in, or exempt from Cal-Learn or another teen parent program approved by the California Department of Social Services.

Advanced Age – The individual is 60 years of age or older.

Unaided – The individual is excluded from the Assistance Unit for reasons other than exceeding the time limit.

Aid Is Reimbursed – The cash aid is fully reimbursed as a result of child support collection whether collected in that month or any subsequent month. This includes child support reimbursements for months of aid from other states.

Living in Indian Country – The individual lived in Indian country, as defined by federal law, or an Alaskan native village, in which at least 50 percent of the adults living in the Indian country or in the village are not employed.

Receiving Supportive Services – The individual is a former recipient of cash aid and is only receiving child care, case management, or supportive services.

Grant Amounts \$10 or Less – The recipient does not receive a cash aid payment for the month because the grant amount is \$10 or less.

Counties have discretion to waive the state time limits and not count months of aid for victims of domestic abuse.

In addition, under California state law, recipients may continue receiving aid after reaching the time limit if they meet certain criteria. In order for an individual to qualify for assistance beyond the 60 months, all parents, aided stepparents, and/or caretaker relatives residing in the home of the aided child(ren) must meet any of the following conditions:

Advanced Age – The individual is 60 years of age or older.

Providing Care – The individual is exempt from welfare-to-work participation requirements because of inability to be regularly employed/participate due to caretaking responsibilities for an ill or incapacitated person residing in the home, a dependent child of the court, or a child at risk of placement in foster care.

Disabled – The individual is receiving State Disability Insurance, Temporary Disability Insurance, In-Home Supportive Services, or State Supplemental Program benefits and the disability impairs his/her ability to work or to participate.

Unable to Maintain Employment or Participate – Individual is unable to maintain employment or to participate in welfare-to-work activities, based on the county’s assessment and finding that the individual has a history of participation and full cooperation in welfare-to-work activities.

Unaided –The individual is excluded from the Assistance Unit for reasons other than exceeding the time limit.

Also, the county may determine that good cause exists to waive the 60-month time limit for an individual who is a victim domestic abuse. Domestic abuse is **not** included in the list of criteria that all adults in the household must meet so that an individual can receive aid beyond 60 months. An individual’s aid may be extended due to the domestic abuse good cause waiver without having all others in the household meet an extender criterion.

There is no exemption to the time limit for clients participating in microenterprise training or operating a microenterprise.

Treatment of Income

For determining both ongoing eligibility and benefit amount, \$225 and 50 percent of remaining earnings are disregarded. In determining initial eligibility of CalWORKs applicants, only the first \$90 of monthly earnings for each employed person is disregarded. A single-parent recipient family with two children remains eligible for CalWORKs in California as long as the parent’s monthly earnings are less than \$1,514 (Region 1) or \$1,452 (Region 2).

Self-employed applicants and recipients may choose to deduct either 40 percent or actual expenses from self-employment income to determine net profit from self-employment, which is treated as earned income. Business loans are not counted as income or assets in determining CalWORKs eligibility or benefit amounts.

Treatment of Resources

The resource limit for CalWORKs eligibility is \$2,000 (\$3,000 if the family has a member over age 60). The fair market value up to \$4,650 of one car is not counted toward the resource limit. Property essential to the employment or self-employment of an Assistance Unit member is excluded from the resource limit.

CalWORKs families may establish a restricted account and deposit up to \$5,000 that does not count toward the resource limit. Restricted account funds can be used for business capitalization as well as education and job training expenses and home purchase.

Supportive Services

Child Care

Subject to available funding, California provides child care assistance to CalWORKs recipients who need care for a child under age 11 in order to accept or keep a job or to participate in approved work activities. Counties may also provide child care to children ages 11 and 12 to the extent that funding is available. Child care is available to children incapable of self-care or under court supervision through age 18. If a client is approved to participate in microenterprise training, child care assistance will be available.

CalWORKs child care assistance is available for 24 months after a family leaves TANF, as long as family income is below 75 percent of the state median and there is a need for child care. Subject to available funding, the state provides subsidized child care to working families with incomes up to 75 percent of the state median income. Families with incomes above 50 percent of the state median must make co-payments for subsidized child care on an income-based sliding scale.

Medicaid

There is a joint application for CalWORKs and Medicaid, and under the state's Section 1931 Medicaid eligibility rules, all CalWORKs recipients are eligible for Medicaid.¹² Families who cease to be eligible for Section 1931 Medicaid due to earnings from employment are guaranteed transitional Medicaid for up to 12 months. California extends Medicaid eligibility to children under age 19 in families with incomes below 100 percent of poverty.¹³ Healthy Families, the state's Child Health Insurance Program, covers children in families with incomes below 200 percent of the federal poverty level who are not eligible for no-cost Medicaid.

Other Services

State policy requires counties to provide support services necessary for participation in assigned activities, including child care and transportation. For former recipients who become employed, counties may provide case management and other services necessary to retain employment for up to 12 months from the date of employment.

¹² The 1996 welfare law "delinked" Medicaid from family cash assistance, meaning that TANF recipients are not automatically eligible for Medicaid. The law created new eligibility criteria known as Section 1931, mandating Medicaid eligibility for families that meet a state's AFDC income, resource, and family composition standards in effect on July 16, 1996. States have limited ability to modify these requirements, although a state can broaden Medicaid eligibility by changing its methodology for calculating income or resources for purposes of determining eligibility. Because TANF and Medicaid eligibility rules may no longer be identical, it is possible that some family members could qualify for TANF but not Medicaid, and in many instances family members will qualify for Medicaid but not for TANF.

¹³ States are required to provide Medicaid coverage to children under age six with incomes below 133 percent of poverty and children born after September 30, 1993, with incomes below 100 percent of poverty.