

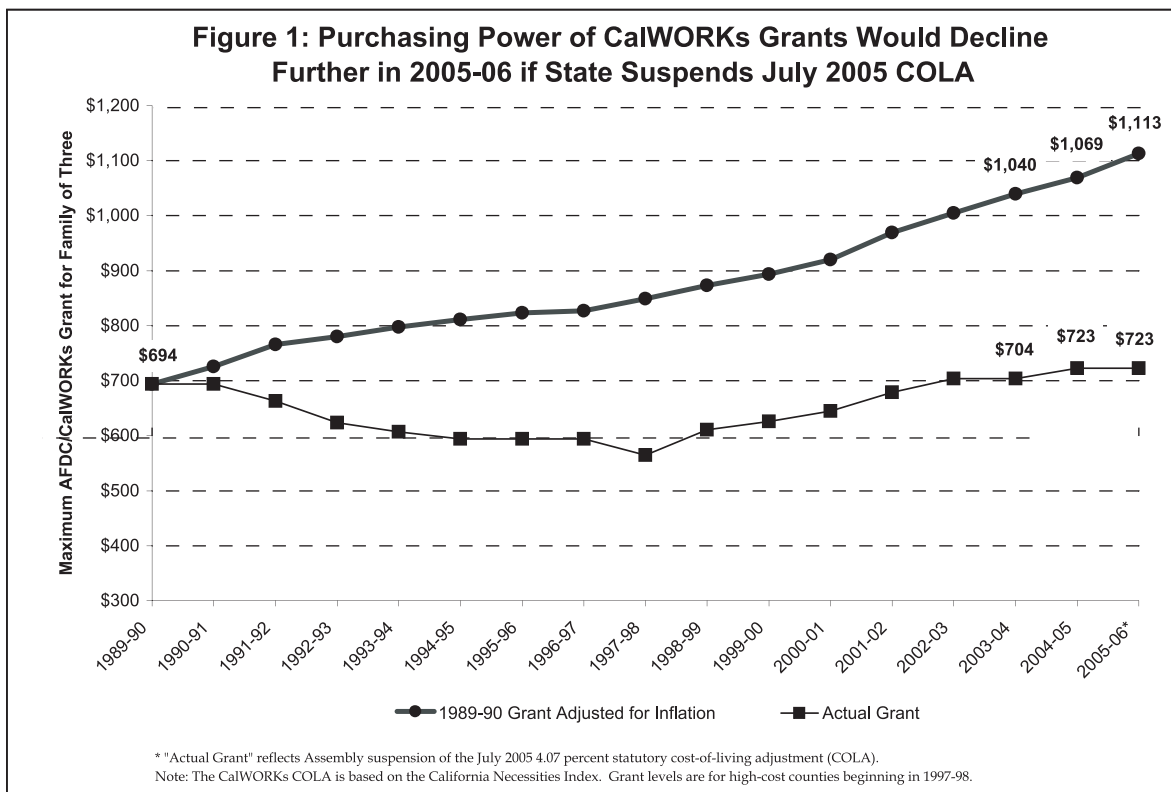
SUSPENDING CALWORKS COLA WOULD FURTHER REDUCE FAMILIES' PURCHASING POWER

State law requires annual cost-of-living adjustments (COLAs) for families participating in the California Work Opportunity and Responsibility to Kids (CalWORKs) Program. The Governor's Proposed 2005-06 Budget eliminates this statutory requirement to provide a COLA and reduces grant levels by 6.5 percent.

The Legislature rejected the Governor's proposals. However, the Assembly and Senate did not agree on whether to fund or to suspend, for one year, the 4.07 percent COLA that is scheduled to take effect on July 1, 2005. The Senate voted to fund the COLA, but the Assembly suspended it. As a result, the CalWORKs COLA will be considered by the Conference Committee on the 2005-06 Budget (SB 77). This *Update* examines the impact of past and proposed actions affecting CalWORKs grants.

CALWORKS GRANTS HAVE NOT KEPT PACE WITH INFLATION

A family of three in a high-cost county currently receives a maximum grant of \$723 per month – \$29 more than the 1989-90 maximum grant of \$694 per month (Figure 1). However, the cur-



rent grant for a family of three would have to increase to \$1,069 per month to have the same purchasing power in 2004-05 as it did in 1989-90. This represents a loss of purchasing power of nearly one-third (32.4 percent) since 1989-90.

The maximum monthly grant for a family of three is scheduled to increase to \$752 in high-cost counties in July 2005. Suspending this COLA would freeze the maximum grant for a family of three at \$723 per month during 2005-06, further reducing families' purchasing power. This suspension would result in combined state General Fund and federal Temporary Assistance for Needy Families (TANF) block grant savings of \$132.1 million in 2005-06.

SUSPENDING THE JULY 2005 COLA WOULD AFFECT STATE'S POOREST FAMILIES

Suspending the COLA would affect about a half million of California's poorest families, reducing their ability to pay for housing and other basic needs. A COLA suspension would also cause some working CalWORKs families to lose their monthly cash grant by freezing the income threshold at which families become ineligible for cash assistance. Under current law, a family of three could earn up to \$1,710 per month (\$9.86 per hour based on full-time work) as of July 2005 and remain eligible for cash assistance. However, a family of three would become ineligible for cash assistance at \$1,651 per month (\$9.53 per hour based on full-time work) if the July 2005 COLA is suspended.

SUSPENDING THE JULY 2005 COLA WOULD HAVE LONG-TERM IMPACT

Suspending the July 2005 COLA would have an ongoing impact on CalWORKs grants by reducing the base used for calculating future grant levels, absent an additional adjustment. For example, even if the state funds a CalWORKs COLA in 2006-07, CalWORKs grants would be lower than they would otherwise have been in the absence of the July 2005 COLA suspension.

ADMINISTRATION CONTINUES TO DENY THE OCTOBER 2003 CALWORKS COLA

The Schwarzenegger Administration continues to deny the statutory COLA that became effective October 1, 2003, due to the reduction in the Vehicle License Fee (VLF) rate. The state law that enacted the VLF rate reduction beginning in 1999 included a provision that linked the COLA for CalWORKs cash grants to continued VLF tax relief between 2000-01 and 2003-04. Specifically, CalWORKs families were to receive a COLA in years when vehicle owners were granted tax relief. The COLA was suspended if tax relief was not granted. Consequently, the October 2003 COLA was suspended because the VLF rate was increased from 0.65 percent to 2.0 percent in 2003. Governor Schwarzenegger's decision to reduce the VLF rate to 0.65 percent in November 2003 required the state to grant a CalWORKs COLA retroactive to October 1, 2003. However, the Administration declined to provide the COLA and legal advocates sued the state.

A Superior Court ruled in 2004 that the denial of the COLA violated state law and that the state must provide the COLA retroactively to October 1, 2003. The Administration appealed the ruling, thus staying the payments until the appeal is resolved. Denying the October 2003 COLA reduces CalWORKs spending by \$222.0 million in 2004-05 and \$130.7 million in 2005-06 and reduces the maximum grant under current law in 2005-06 by \$26 per month for a family of three in high-cost counties.

CONCLUSION

The state continues to face a budget shortfall of significant magnitude. The proposal to reduce CalWORKs spending by \$132.1 million during 2005-06 by suspending the July 2005 COLA should be weighed against the impact on nearly half a million CalWORKs families. Moreover, suspending the COLA would have long-term consequences by reducing the grant base.

Scott Graves prepared this Welfare Reform Update. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.
