

Date of Hearing: April 23, 2019

ASSEMBLY COMMITTEE ON HUMAN SERVICES

Eloise Gómez Reyes, Chair

AB 1436 (Mark Stone) – As Amended March 27, 2019

SUBJECT: CalWORKs: eligibility: income exemptions

SUMMARY: Increases, over time in specified increments, the amount of income exempted for purposes of determining a family's eligibility for, and monthly grant level of, California Work Opportunity and Responsibility to Kids (CalWORKs) benefits. Specifically, **this bill:**

- 1) Incrementally increases the amount of earnings excluded when calculating a family's eligibility for CalWORKs, as follows:
 - a) Beginning January 1, 2020, prohibits a family applying for CalWORKs from being eligible for aid unless the family's income, with the exception of the first \$500 of earned income for each employed person, is less than the minimum basic standard of care (MBSAC);
 - b) Beginning January 1, 2021, prohibits a family applying for CalWORKs from being eligible for aid unless the family's income, with the exception of the first \$550 of earned income for each employed person, is less than the MBSAC;
 - c) Beginning January 1, 2022, prohibits a family applying for CalWORKs from being eligible for aid unless the family's income, with the exception of the first \$600 of earned income for each employed person, is less than the MBSAC; and,
 - d) Beginning January 1, 2023, each year thereafter, prohibits a family applying for CalWORKs from being eligible for aid unless the family's income, with the exception of the amount of earned income for each employed person equal to the amount from the prior calendar year as increased by an amount equal to the increase in the California Necessities Index (CNI) for the fiscal year in which the adjustment becomes effective, is less than the MBSAC, as specified.
- 2) Incrementally increases the amount of income exempted when calculating a family's monthly CalWORKs grant amount, as follows:
 - a) As of January 1, 2020:
 - i) If disability-based unearned income is less than or equal to \$500, exempts from income calculations: all disability-based unearned income *plus* the amount of nonexempt earned income making up the difference between \$500 and the disability-based unearned income, *and* 50% of remaining nonexempt earned income; and,
 - ii) If disability-based unearned income is greater than \$500, exempts from income calculations: the first \$500 of disability-based unearned income, *and* 50% of all earned income.

- b) As of January 1, 2021:
 - i) If disability-based unearned income is less than or equal to \$550, exempts from income calculations: all disability-based unearned income *plus* the amount of nonexempt earned income making up the difference between \$550 and the disability-based unearned income, *and* 50% of remaining nonexempt earned income; and,
 - ii) If disability-based unearned income is greater than \$550, exempts from income calculations: the first \$550 of disability-based unearned income, *and* 50% of all earned income.
 - c) As of January 1, 2022:
 - i) If disability-based unearned income is less than or equal to \$600, exempts from income calculations: all disability-based unearned income *plus* the amount of nonexempt earned income making up the difference between \$600 and the disability-based unearned income, *and* 50% of remaining nonexempt earned income; and,
 - ii) If disability-based unearned income is greater than \$600, exempts from income calculations: the first \$600 of disability-based unearned income, *and* 50% of all earned income.
 - d) As of January 1, 2023:
 - i) If disability-based unearned income is less than or equal to an amount equal to the amount from the prior calendar year as increased by an amount equal to the increase in the CNI for the fiscal year in which the adjustment becomes effective, exempts from income calculations: all disability-based unearned income *plus* the amount of nonexempt earned income making up the difference between the CNI-adjusted amount and the disability-based unearned income, *and* 50% of remaining nonexempt earned income; and,
 - ii) If disability-based unearned income is greater than an amount equal to the amount from the prior calendar year as increased by an amount equal to the increase in the CNI for the fiscal year in which the adjustment becomes effective, exempts from income calculations: an amount equal to the CNI-adjusted amount of disability-based unearned income, *and* 50% of all earned income.
- 3) Prohibits a continuous appropriation, as specified, from being made for purposes of the provisions of this bill.
 - 4) Makes technical changes, including deleting outdated language.

EXISTING LAW:

- 1) Establishes in federal law the Temporary Assistance for Needy Families (TANF) program, which provides block grants to states to develop and implement their own state welfare-to-work programs designed to provide cash assistance and other supports and services to low-income families. (42 United States Code Section 601 *et seq.*)

- 2) Establishes the state's TANF program, the California Work Opportunity and Responsibility to Kids (CalWORKs) program. CalWORKs provides cash assistance and other supports and services to low-income families and is administered by the counties. (Welfare and Institutions Code [WIC] Section 11200 *et seq.*)
- 3) Establishes income, asset, and real property limits used to determine eligibility for the CalWORKs program, and CalWORKs grant amounts, based on family size and county of residence. (WIC 11150 to 11160, 11450 *et seq.*)
- 4) Requires any CalWORKs recipient who is required to participate in welfare-to-work activities to enter into a written welfare-to-work plan with the county welfare department, requires the welfare-to-work plan to include the activities and services which will move the recipient into employment, and establishes additional requirements related to the plan, as specified. (WIC 11325.21)
- 5) Defines “disability-based unearned income,” within the CalWORKs program, as state disability insurance benefits, private disability insurance benefits, temporary workers’ compensation benefits, social security disability benefits, and any veteran’s disability compensation. (WIC 11451.5(b)(2))
- 6) Defines “earned income” as gross income received as wages, salary, employer-provided sick leave benefits, commissions, or profits from activities such as a business enterprise or farming in which the recipient is engaged as a self-employed individual or as an employee. (WIC 11451.5(b)(1))
- 7) Requires all lump-sum income received by a public social services, including CalWORKs, applicant or recipient to be regarded as income in the month the lump sum was received, with the exception of nonrecurring lump-sum social insurance payments, as specified. (WIC 11157(a))
- 8) Exempts the following from consideration as income for purposes of public social services, including CalWORKs, programs, as specified:
 - a) Income that is received too infrequently to be reasonably anticipated;
 - b) Income from college work-study programs; and,
 - c) Any award or scholarship provided by a public or private entity to or on behalf of a dependent child based on that child’s academic or extracurricular achievement or participation in a scholastic, educational, or extracurricular competition. (WIC 11157(b))
- 9) Establishes a schedule of minimum basic standards of adequate care (MBSAC) for higher and lower cost counties, to be adjusted for cost-of-living increases or decreases as stipulated, to ensure, as specified: safe housing, minimum clothing, low-cost adequate food budget, utilities, allowance for essential and not otherwise provided medical and related care, and other items. (WIC 11452)
- 10) Prohibits a family applying for CalWORKs from being eligible if the family’s income minus \$90 of earned income for each employed person is less than the MBSAC, as specified. (WIC 11450.12(a))

- 11) Exempts the following when calculating a family's income for the purpose of determining the amount of their CalWORKs grant:

If the family's disability-based unearned income does not exceed \$225

- a) All disability-based unearned income, plus any amount of not otherwise exempt earned income equal to the amount of the difference between the amount of disability-based unearned income and \$225; and,
- b) Fifty percent of all not otherwise exempt earned income in excess of the amount applied to the difference between the amount of disability-based income and \$225.

If the family's disability-based unearned income exceeds \$225

- a) All of the first \$225 in disability-based unearned income.
- b) Fifty percent of all earned income. (WIC 11451.5)

- 12) Requires a family's income, once calculated per various CalWORKs rules stipulated in statute including deduction of the earned income disregard, to be deducted from the maximum aid payment for that family size as adjusted for any applicable cost-of-living increase in order to arrive at that family's monthly CalWORKs grant level, as specified. (WIC 11450)

FISCAL EFFECT: Unknown

COMMENTS:

CalWORKs: CalWORKs is the state's TANF program, providing eligible low-income families with cash grants and supportive services aimed at helping them to secure education, training, and employment. CalWORKs is administered at the county level; it is funded largely through the federal TANF block grant and state maintenance-of-effort contributions. Families participating in CalWORKs have access to a range of services that can include child care and services aimed at addressing mental health needs, substance use disorders, experiences of domestic violence, and learning disabilities, among other issues. Unless deemed exempt or otherwise not required to participate per CalWORKs rules, parents are required to develop and participate in a welfare-to-work plan. CalWORKs-approved welfare-to-work activities can include public or private sector subsidized or unsubsidized employment; on-the-job training; community service; secondary school, adult basic education and vocational education and training when the education is needed for the recipient to become employed; specific mental health, substance use disorder, or domestic violence services if they are necessary to obtain or retain employment; and a number of other activities necessary to assist a recipient in obtaining unsubsidized employment.

A number of changes to the CalWORKs program were adopted with the passage of SB 1041 (Senate Committee on Budget and Fiscal Review), Chapter 47, Statutes of 2012. These changes included the establishment of the 24-month time clock. Unless exempted per CalWORKs rules, an adult recipient is expected to participate in welfare-to-work activities during the up to 48 months for which they may receive assistance. For 24 of those 48 months, welfare-to-work participation requirements can include a broad range of activities, such as employment, training,

education, and mental health, domestic violence, and substance use disorder services. Once this 24-month time clock “runs out,” CalWORKs welfare-to-work participants must meet the more stringent federal TANF requirements in order to maintain their eligibility for aid. If a CalWORKs recipient does not meet the requirements of their welfare-to-work plan and does not have a permissible exemption or exception to those requirements, they are subject to sanction; sanction results in an individual’s portion of the family’s grant being subtracted from the total grant amount provided to the family to meet basic needs.

The current maximum CalWORKs grant for a family of three living in a high-cost county, if the family has no other income, is \$785 per month. However, many families earn some income and do not qualify for the maximum grant amount. For Fiscal Year (FY) 2018-19, the average monthly CalWORKs cash grant is estimated to be \$568 per household. In FY 2017-18, the average monthly CalWORKs caseload was 423,121 households.

CalWORKs applicant gross income limit: One factor used to determine a family’s initial eligibility for CalWORKs benefits is the gross income limit. Generally, to calculate a family’s gross income, \$90 is subtracted from each employed person in the family’s monthly earned income, and this amount is added to specified remaining earned and unearned income to arrive at the family’s gross income. This non-exempt gross income amount is compared to the “minimum basic standards of adequate care” (MBSAC, described below); if a family’s gross income exceeds the MBSAC level for that family size, they are ineligible for CalWORKs benefits.

The MBSAC provides, in current law, a schedule of dollar amounts intended to reflect the costs of safe housing, minimum clothing, low-cost adequate food budget, utilities, allowance for essential and not otherwise provided medical and related care, and other items. This schedule provides amounts for various family sizes that is adjusted for higher and lower cost counties, to which cost-of-living increases or decreases may be made.

For Fiscal Year (FY) 2018-19, the MBSAC schedule is as follows:

Family Size	Region 1 (higher-cost counties)	Region 2 (lower-cost counties)
1	\$686	\$651
2	\$1,125	\$1,070
3	\$1,395	\$1,324
4	\$1,655	\$1,574
5	\$1,889	\$1,799
6	\$2,125	\$2,021
7	\$2,335	\$2,215
8	\$2,541	\$2,419
9	\$2,757	\$2,614
10	\$2,992	\$2,846
10+	+\$27 for each additional person in an assistance unit	+\$27 for each additional person in an assistance unit

CalWORKs earned income disregard: Another set of calculations is used when determining ongoing eligibility and the amount of CalWORKs cash benefits a family receives. This determination involves the “earned income disregard” (EID), which is the amount of earned income that does *not* count when calculating a family’s monthly CalWORKs grant. Generally

speaking, the EID involves disregarding the first \$225 of income, plus 50% of any remaining earned income, when determining the CalWORKs cash grant level for a family. Depending on the types of income a family receives, EID calculations can vary as follows:

- If a family has no disability-based unearned income¹, or disability-based unearned income that is less than or equal to \$225, the following is exempted when calculating a family's income for the purpose of determining the amount of their CalWORKs grant:
 - (All disability-based unearned income) + (the amount of earned income² equal to [\$225 – the amount of disability-based unearned income]), and,
 - 50% of any remaining earned income.
- If a family has disability-based unearned income that is greater than \$225, the following is exempted when calculating a family's income for the purpose of determining the amount of their CalWORKs grant:
 - The first \$225 of disability-based unearned income, and,
 - 50% of earned income.

After these deductions are applied to a family's gross earned income, the resulting income amount is subtracted from the CalWORKs maximum aid payment (MAP) to determine the amount of the monthly CalWORKs grant. For example, if a family of three living in a higher-cost county with one employed individual has disability-based unearned income of \$175 a month, and earned income of \$800 a month, their benefit would be calculated as follows:

- The \$225 disregard would first be applied to the disability-based unearned income:

$$\text{\$225 disregard} - (\text{\$175 of disability-based unearned income}) = \text{\$50 unused disregard}$$
- The EID would then be calculated:

$$\text{\$800 earned income} - \text{\$50 unused disregard} = \text{\$750 remaining earned income}$$

$$50\% \text{ of } \text{\$750 remaining earned income} = \text{\$375 EID}$$
- The EID would be subtracted from the family's remaining earned income to arrive at the total countable income: $\text{\$750} - \text{\$375 EID} = \text{\$375 total countable income}$
- The total countable income would be subtracted from the MAP for a family of three in a higher-cost county (\$785/month) to determine the CalWORKs grant amount:

$$\text{\$785} - \text{\$375} = \text{\$410 CalWORKs monthly grant}$$

¹Defined within the CalWORKs program as state disability insurance benefits, private disability insurance benefits, temporary workers' compensation benefits, social security disability benefits, and any veteran's disability compensation. (WIC 11451.5 (b)(2))

²Defined within the CalWORKs program as gross income received as wages, salary, employer-provided sick leave benefits, commissions, or profits from activities such as a business enterprise or farming in which the recipient is engaged as a self-employed individual or as an employee. (WIC 11451.5 (b)(1))

Need for this bill: The EID of \$225 plus 50% was adopted as an original component of CalWORKs in the legislation establishing the program, AB 1542 (Ducheny), Chapter 270, Statutes of 1997. (It was reduced to \$112 plus 50% in 2011, but increased back to \$225 plus 50% in 2012.) The goal of disregarding a portion of CalWORKs participants' income is to avoid unduly penalizing increased employment and wages, enabling parents who increase their earned income and participation in the labor force to experience a more gradual decline in benefits as they work to better their family's financial situation. This bill seeks to further that goal by updating the EID for the first time in over 20 years to better reflect today's economy.

According to the author, "[This bill] is an important bill that will help pull California families out of poverty. The CalWORKs program was created to provide cash assistance and access to support services to low income families. The program uses a tool called the Earned Income Disregard (EID) to incentivize families to find work and move towards a smooth transition out of CalWORKs. The EID excludes or disregards a portion of a recipient's income when calculating grant eligibility. This allows families to start working while maintaining much needed support from the program. As their incomes rise, the EID, in theory, should provide a gradual decrease in benefits until the family no longer needs the program.

"However, the amount of income disregarded has not been increased since its implementation in 1998. At the time the state minimum wage was only \$5. Now the state minimum wage is \$12, soon to increase to \$15. Since the value of the EID has decreased, families must make the difficult decision to stop working or cut hours in order to continue using the much needed CalWORKs benefit.

"[This bill] will increase the EID to keep up with minimum wage increases and increasing inflation. This will encourage families to continue working and move towards a life without needing any benefits."

Recommended amendments: In order to clarify that the amounts of income to be excluded for purposes of establishing initial eligibility and determining CalWORKs benefits, beginning in 2023, are the respective amounts from the previous year adjusted per the CNI, *committee staff recommends the following amendments:*

Beginning on line 22 of page 3 of the bill:

20 (5) Commencing January 1, 2023, and annually thereafter, an
 21 applicant family shall not be eligible for aid under this chapter
 22 unless the family's income, exclusive of **an amount equal to the maximum**
 amount of earned
 23 income **excluded pursuant to this subdivision** for each employed person **equal**
~~to the amount~~ from the
 24 prior calendar year as increased by an amount equal to the
 25 increase in the California Necessities Index for the **most recent** fiscal year ~~in~~
 26 ~~which the adjustment becomes effective~~, is less than the minimum
 27 basic standard of adequate care, as specified in Section 11452.

Beginning on line 6 of page 5 of the bill:

5 (4) *Effective January 1, 2023, and annually thereafter, to an*
 6 *amount equal to the **maximum amount of earned income excluded pursuant to***
 7 ***this subdivision for each employed person** from the prior calendar year as*
 8 *increased by an amount equal to the increase in the California*
 9 *Necessities Index for the **most recent** fiscal year ~~in which the adjustment~~*
 9 *becomes effective.*

PRIOR LEGISLATION:

AB 160 (Stone) of 2017 would have increased the time limit for cash aid to adults through the CalWORKs program from 48 months to 60 months and would have increased the amount of income disregarded when calculating CalWORKs ongoing eligibility and aid amounts from \$225 plus 50% of the remaining earned income to \$450 and 70% of the remaining earned income. AB 160 was held on the Assembly Appropriations Committee's suspense file.

AB 1742 (Stone) of 2016 was substantially similar to AB 160 (Stone) of 2017. AB 1742 was held on the Senate Appropriations Committee's suspense file.

AB 1094 (Brown), Chapter 554, Statutes of 2013, expanded the definition of disability-based unearned income under the CalWORKs program to include any veteran's disability compensation.

SB 1041 (Senate Budget and Fiscal Review Committee), Chapter 47, Statutes of 2012, among other things, restored the EID back to the first \$225 plus 50% of additional earnings.

SB 72 (Senate Budget and Fiscal Review Committee), Chapter 8, Statutes of 2011, among other things, reduced the amount of time parents or caregiver relatives could receive CalWORKs aid from 60 to 48 months and reduced the EID from the first \$225 plus 50% of additional earnings to the first \$112 plus 50% of additional earnings.

AB 1542 (Ducheny), Chapter 270, Statutes of 1997, created the CalWORKs program as California's implementation of federal welfare reform which included, among many elements, establishing an EID of the first \$225 plus 50% of additional earnings.

REGISTERED SUPPORT / OPPOSITION:

Support

County Welfare Directors Association of California (Sponsor)
 Western Center On Law & Poverty, Inc. (Sponsor)
 Alliance for Children's Rights
 Armenian Relief Society of Western USA, Social Services
 Asian American Drug Abuse Program, Inc.
 Department of Public Social Services
 Episcopal Diocese of Los Angeles
 Hunger Action Los Angeles Inc.
 Long Beach City College
 Los Angeles County Chief Executive Office
 Los Angeles County Department of Public Social Services

Opposition

None on file

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