PPIC

Safety Net

CALIFORNIA'S FUTURE

JANUARY 2020

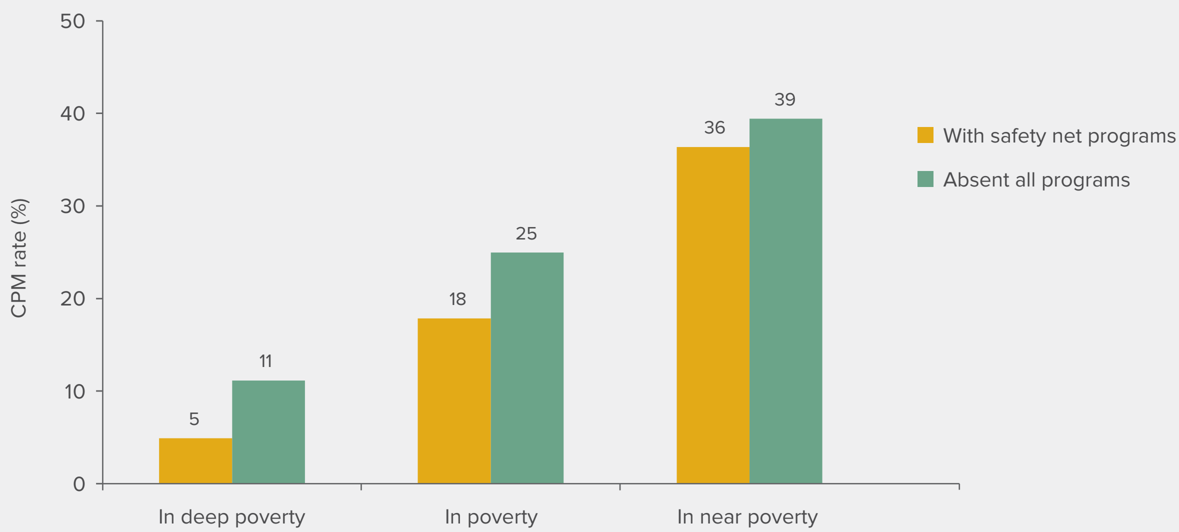
The safety net assists millions of Californians

California's multifaceted social safety net assists low-income adults and children through cash assistance, tax credits, food assistance, and housing supports. It also has several other short- and long-term goals, such as increasing employment, safeguarding access to food, and improving children's health. The largest safety net programs help millions each year. For example, in 2018–19, an average of about 970 thousand Californians—83 percent of them children—received monthly support from CalWORKs, the state's cash assistance program for families with children. And an average of 3.9 million Californians received a monthly food benefit from CalFresh, popularly known as food stamps.

Safety net programs substantially moderate poverty. PPIC research finds that while 18 percent of Californians lived in poverty in 2017, 25 percent would have been poor had it not been for safety net programs. The safety net has an even larger impact on child poverty. Nonetheless, California struggles with high poverty rates and widening inequality. The PPIC Statewide Survey indicates that nearly two-thirds of Californians (63%) believe there is an economic divide between the state's "haves" and "have nots."

California has experienced several years of economic expansion, and caseloads for both CalWORKs and CalFresh continue to decline—a sign that family budgets are improving. In 2017, one in twenty Californians (5%) lived in deep poverty—with incomes below 50 percent of the poverty threshold—but more than a third (36%) had economic resources that were less than 150 percent of the poverty threshold. Robust growth in revenues in 2019 allowed state leaders to expand the state Earned Income Tax Credit (CalEITC) and increase CalWORKs grants, and California is expanding health insurance coverage to some groups of undocumented residents. But families with undocumented members are largely excluded from some large-scale safety net programs—most notably the CalEITC. Moreover, there is ongoing uncertainty about federal funding—which covers the bulk of program costs—and the outcome of the upcoming presidential election could have major implications for the state's safety net.

SAFETY NET PROGRAMS MODERATE POVERTY



SOURCE: 2017 California Poverty Measure (CPM) estimates. The CPM is a collaborative effort between researchers at PPIC and the Stanford Center on Poverty and Inequality.

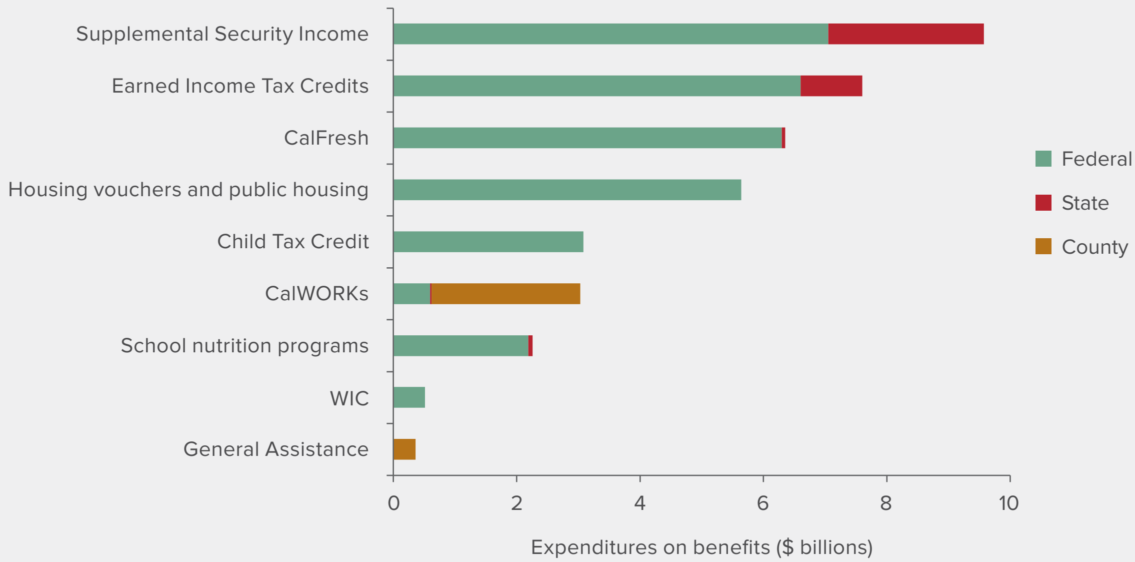
NOTES: Figure shows estimates for all persons. Unlike official poverty rates, CPM rates factor large-scale safety net programs into family resources and incorporate regionally varying cost-of-living adjustments. Right-hand bars show 2017 CPM poverty rates, deep poverty rates, and near poverty rates without safety net resources including CalFresh, school breakfast and lunch, WIC (Special Supplemental Nutrition Program for Women, Infants, and Children), state and federal Earned Income Tax Credits, the Child Tax Credit, CalWORKs, General Assistance, federal and state Supplemental Security Income (SSI/SSP), and federal rental assistance. Poverty denotes combined resources, less necessary work and out-of-pocket medical expenses, that fall short of the CPM threshold, which averaged $32,359 statewide in 2017 for a family of four but ranged between $24,438 and $41,221 across counties. Deep poverty denotes combined resources that are less than half of the CPM threshold. Near poverty denotes combined resources that are less than 1.5 times the CPM threshold.

Federal, state, and local governments work together to deliver major programs

Major safety net programs take several forms and have different types of eligibility, funding, and oversight. For example, CalWORKs and General Assistance provide cash grants, while the Earned Income Tax Credit (EITC) and the Child Tax Credit typically lead to tax refunds.

- **Federal funds are essential to California's safety net.**
  Most safety net programs are underwritten mainly at the federal level. For example, CalFresh benefits are mostly covered by federal funds and the allocation is not capped. In contrast, federal funding for CalWORKs is fixed, and it covers only about half of total program costs. At the same time, the state has far more latitude in spending CalWORKs dollars than it has with CalFresh expenditures.

THE FEDERAL GOVERNMENT PROVIDES THE LARGEST SHARE OF PROGRAM FUNDING



SOURCES: California Department of Education; California Franchise Tax Board; California Department of Social Services; US Department of Agriculture Food and Nutrition Service; Internal Revenue Service; US Department of Housing and Urban Development.

NOTES: CalFresh, CalWORKs, General Assistance, SSI, and WIC amounts for calendar year 2018; school nutrition amounts for federal fiscal year 2018; housing subsidies statistics for 2018; federal EITC and CTC for 2017 tax year; state EITC estimated for 2019 tax year. State and federal EITCs are combined. State Supplementary Payments (SSP) are combined with SSI. State CalWORKs expenditures include amounts for the Cash Assistance Program for Immigrants (CAPI) and CalFresh expenditures include amounts for the California Food Assistance Program (CFAP) and the Work Incentive Nutritional Supplement (WINS). County CalWORKs expenditures shown are mostly the special fund amount provided to counties by the state pursuant to 1991 realignment and Assembly Bill 85 (2013). Not shown are substantial CalWORKs program funds devoted to work services and supports, including child care vouchers, and to Cal Grants for low-income college students. WIC amounts exclude infant formula rebates.

- **California could lose some federal safety net funding.**
  Developments at the federal level could have outsized consequences for California. For example, the Trump administration recently expanded the number of safety net programs covered by the public charge rule, which disallows entry or permanent residency to immigrants if they are likely to be dependent on government assistance. This change is being challenged in court, but it may already be affecting California, which has a large share of households with immigrant members. Also of concern is the possibility of an undercount in the 2020 Census. While California has made significant outreach efforts, the census has been underfunded at the federal level. Young children in particular were undercounted in 2010; federal rhetoric on immigration may have a dampening effect. An undercount could cause the state to lose some federal funding for safety net programs—and undercut the accuracy of information about the state's diverse populations.

- **The state and counties play key roles.**
  The state covers a share of costs that varies across programs. It also typically provides oversight and shapes program rules to the extent allowed by federal law. In 2015, California instituted its own state EITC that augments the federal credit. The state has long augmented Supplemental Security Income (SSI) payments and extended CalWORKs and CalFresh benefits to legal immigrants who are ineligible at the federal level. The state also

augments school nutrition payments by a small amount. The counties administer programs; they also underwrite General Assistance benefits and cover a portion of CalWORKs and some administrative costs.

- **Other local agencies and nonprofits also contribute.**
  Local housing authorities obtain federal grants to administer subsidized housing schemes. Schools and school districts enroll students in free and reduced-price nutrition programs. Local WIC agencies provide pregnant women and mothers with nutrition education and vouchers to purchase specified foods for themselves and for their infants and young children. Nonprofits help families find subsidized child care. And each of California's 58 counties has a First 5 program that is funded by Proposition 10 tobacco tax revenues and dedicated to improving the lives of children age five and under.

California's safety net reduces income inequality; its impact on poverty varies across regions

- **The safety net reduces economic polarization.**
  Incomes are increasingly polarized in California. Comparing individuals with pre-tax family incomes near the high end of the spectrum (the 90th percentile) with individuals near the low end (10th percentile) yields an income ratio of about 12 to 1 in 2017. PPIC research finds that accounting for taxes paid and adding in resources from safety net programs reduces the gap between high and low incomes to about 6 to 1. SSI, CalFresh and other nutrition programs, and federal housing assistance play the largest roles for those at the low end of the spectrum.

- **Child poverty rates vary widely across counties.**
  Child poverty ranges between 8 percent and 26 percent (2015–17 average) across the state's counties, according to the California Poverty Measure. Child poverty was highest in Los Angeles County and lowest in El Dorado County.

- **The impact of safety net programs is largest in the state's inland and northern regions.**
  Safety net programs play a substantial role in lowering poverty in all areas of the state, but their relative importance to family budgets is highest in northern and inland California. Among programs, the federal and state EITCs (combined) and CalFresh have the largest impact.

State lawmakers continue to support the existing safety net

- **The 2019–20 state budget expands the CalEITC and increases CalWORKs grants.**
  The CalEITC—which has been available since 2015 to tax filers with very low earnings—has been expanded for the third time and now includes an additional credit of up to $1,000 for families with children under six years of age. CalWORKs grants have increased for the second year running. In addition, adults who are employed are able to combine their earnings with CalWORKs cash assistance more easily—and their asset limits will be higher starting in June 2020. The state also launched the California CalWORKs Outcomes and Accountability Review (Cal-OAR) in 2019 to assess a wider range of successful outcomes than hours of work.

- **State policymakers have taken a number of other steps to support working families.**
  Most families earn at least some income from employment, and policymakers have taken several steps to support work in recent years. In 2016, California committed to raising the statewide minimum wage to $15 an hour by 2022. The fourth incremental increase—to $13 or $12, depending on employer size—took effect in January 2020. In addition to expanding eligibility for CalEITC, California lengthened paid family leave from six to eight weeks starting in 2020.

- **The state continues to grapple with its housing crisis.**
  Median rent and mortgage payments in California are high by national standards; as of 2017, 25 percent of low-income Californians were spending more than half of their combined earnings and safety net resources on housing. In addition, the state has the second-highest rate of homelessness in the nation. The 2019–20 budget includes funds for tax credits to incentivize building affordable housing; it also increases local responsibility to plan for housing for those at all income levels. In addition, lawmakers provided funds to help cities and counties address homelessness.

Looking ahead

Amid continued uncertainty about federal policy, California has been augmenting and updating its social safety net. By supporting work and offering assistance when and where it is needed most, the safety net can reduce poverty and improve economic mobility. There are several key areas of interest.

Preparing for economic downturns. A second deposit into a special account to support CalWORKs and Medi-Cal brings the total to $900 million; this and the broader reserve fund will give lawmakers additional flexibility during the next economic downturn. However, these reserves will not eliminate the need for budget cuts even in a moderate recession. It will be important to identify the best strategies for supporting these programs when state revenues shrink.

Continuing to expand access to child care. Child care is a major expense for families with infants and preschool-age children—and an important support for working parents. But only a fraction of income-eligible families are receiving subsidies for child care or preschool. The governor is charting a path toward universal preschool for three- and four-year-olds, but important questions about adequate facilities, worker pay, and the overall price tag have not yet been addressed.

Improving housing affordability. California's housing crisis was several decades in the making and cannot be resolved overnight. Continued efforts at the state and local levels are needed to address the shortage of affordable housing as well as homelessness.

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