1. Introduction

Background

In response to federal welfare reform—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)—California enacted the Thompson-Maddy-Ducheny-Ashburn Welfare-to-Work Act of 1997 on August 11, 1997. That legislation replaced the Aid to Families with Dependent Children (AFDC) program and Greater Avenues for Independence (GAIN), the state’s associated welfare-to-work (WTW) program, with the California Work Opportunity and Responsibility to Kids (CalWORKs) program.

CalWORKs is a modified “work-first” program that provides support services to help recipients move from welfare to work and toward self-sufficiency. Beyond encouraging these transitions, CalWORKs also imposes lifetime limits on the receipt of cash assistance by adults. Finally, CalWORKs devolves to California’s 58 counties increased flexibility and financial accountability in designing their welfare programs. With the enactment of the legislation, the California Department of Social Services (CDSS)—the state agency responsible for welfare—and the county welfare departments (CWDs) moved promptly to design and implement the new programs, a process that lasted well into calendar year 1999.¹

The CalWORKs legislation required an independent, comprehensive statewide evaluation of the CalWORKs program. CDSS contracted with RAND for an independent evaluation that would assess both the process of implementing CalWORKs by CDSS, the counties, and allied agencies and the impact (or outcomes) of that implementation on recipients, at both the state and county levels.² Two of three process analysis reports have already appeared³; this is the first of two impact analysis reports.⁴

¹See Klerman et al., 2001.
²For an overview of the evaluation, see Klerman, Reardon, and Steinberg, 1998.
⁴Plans for the impact analysis are described in Klerman et al., 2000; and Haider et al., 2000.
Objectives and Conceptual Model

While the process analysis tries to describe what the welfare agencies did, the impact analysis tries to describe outcomes—the experiences of recipients. In particular, the impact analysis has three objectives: (1) to describe outcomes under CalWORKs and compare them across time, across states, and among California’s counties; (2) to identify, as much as possible, the net effect of CalWORKs, given all the other causal factors; and (3) to conduct a cost/benefit assessment of the CalWORKs program.

To help guide our efforts, we developed a simple model illustrating how we conceptualize the impact analysis. We want to describe outcomes under CalWORKs (the topmost white box in Figure 1.1). While there are a number of outcomes of interest, we focus on the three shown in the box (participation rates, employment, and earnings of current recipients; the size and composition of the welfare caseload; and return to welfare, employment, earnings, poverty, and Medi-Cal coverage).

This task of description extends beyond current outcomes in California as a whole, as shown by the additional boxes behind the white outcomes box in the

![Figure 1.1—Simple Model of How We View the Impact Analysis](RAND_MR1358-1.1)
figure. Specifically, we describe changes over time (i.e., before and after CalWORKs), differences between California and the other states, and differences across California’s 58 counties.

Beyond describing outcomes and how they differ across time and place, we want to understand why they differ. The shaded boxes in Figure 1.1 represent some of the reasons why outcomes might differ. Our primary interest in this evaluation is the assessment of the effect of the CalWORKs legislation, which affects outcomes both directly (“Statewide policies” in the figure) and indirectly—through its effects on CWDs and the welfare programs they implement in their ongoing relations with recipients (“County CalWORKs programs”). In addition, non-CalWORKs factors (the shaded boxes on the right) also affect outcomes. Those factors include pre-CalWORKs welfare reforms, other government policies, and the economy. We provide a brief review of each of these factors, starting with the pre-CalWORKs welfare reforms.

**Pre-CalWORKs Welfare Reforms**

Improvement in outcomes before or shortly after CalWORKs may be the result of pre-CalWORKs welfare reforms. In some cases, those reforms anticipate federal welfare reforms and the details of CalWORKs. Among the recent pre-CalWORKs changes to California’s welfare policies are the following:

- **Cuts in the benefit level**: During California’s financial crisis in the early 1990s, the cost-of-living adjustment (COLA) was suspended and the benefit was cut several times. In real terms, the cumulative effect was a cut in the real benefit of about 30 percent between 1991 and 1998.
- **Work Pays**: In the early 1990s, a series of changes to the benefit structure encouraged work. In 1992, California adopted fill-the-gap budgeting. Then, starting in September 1993, under a federal waiver, the Work Pays Demonstration Project allowed California welfare recipients to keep more of their earnings (see Appendix A for details). In particular, Work Pays

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5The distinction between “programs” and “policies” is not perfect. Almost all policies require programs to implement them. Without caseworkers and other CWD staff, recipients would not be approved for aid and would not receive monthly checks. The effect of changes to the benefit structure are likely to be larger when caseworkers explain them (Meyers, Glaser, and MacDonald, 1998). Nevertheless, benefit structure can usefully be viewed as primarily a policy set at the state level that directly affects the primary outcomes.

In contrast, the CalWORKs legislation provides only an outline of the WTW services to be provided. From that outline, each CWD developed its own complete program model and provided staff to implement it. In the case of such WTW programs, it is useful to think of the CalWORKs legislation and CDSS activities as only indirectly affecting the primary outcomes.

6Appendix A presents a more detailed discussion of these other causal factors and their timing.
lowered the benefit reduction rate (BRR). Under prior regulations, recipients kept the first $30 (plus a $90 work allowance) and one-third of earnings above that level (the “thirty and a third” rule), but the former for only a year, and the latter for only four months. The Work Pays reforms extended the time frame for the “thirty and a third” rule indefinitely.

- **AB 1371**: Responding to the findings of the 1994 Manpower Demonstration Research Corporation (MDRC) GAIN Evaluation (Riccio et al., 1994) and the evaluated success of Riverside County’s work-first (Job Club-centered) program, the 1995 legislation reoriented the GAIN program from a primarily education-and-training-oriented approach to a more work-first approach. Note, however, that on the eve of CalWORKs reforms, these AB 1371 reforms appear to have been only partially implemented at the county level.

**The CalWORKs Reforms**

Using the distinction provided earlier, we consider separately the direct effects of the CalWORKs legislation (statewide policies) and the indirect effects (county CalWORKs programs).

**The CalWORKs Legislation.** Some CalWORKs reforms could have an effect immediately, with only minimal interaction between a recipient and a caseworker or other service provider. This can occur simply with the announcement of the reforms, because people may change their behavior in anticipation of a new policy regime. We refer to the effects of these CalWORKs changes as legislative effects or policy effects. They include the following:

- **Lifetime time limits**: PRWORA required states to limit lifetime receipt of federally funded assistance by adults to no more than five years. However, in California, unlike in most other states, once this limit is reached, only the portion of the payment for the adult(s) ends; the child(ren)’s portion of the grant will continue as long as the other eligibility criteria are satisfied (e.g., minor children, household income level). Furthermore, California’s time-limit clock did not start to tick until January 1998. Thus, the first recipients will not reach time limits until January 2003, which is among the latest dates for any state.\(^7\)

\(^7\)The federal time-limit clock started to tick earlier, in December 1996, so recipients will reach lifetime time limits as early as December 2001. However, consistent with delayed implementation of new programs, the CalWORKs legislation delayed the start of state time-limit clocks until January 1998. As a result, no one’s aid will be terminated until the later date. The state will pay benefits past the federal time limit (but before the state time limit) from state (nonfederal) maintenance-of-effort (MOE) funds.
• **Higher welfare benefits**: The CalWORKs legislation restored the COLA that had been suspended from 1990 to 1997. California continues to have one of the highest benefit levels of any state.

• **Extended Work Pays reforms**: CalWORKs further extended the approach of the earlier Work Pays reforms, lowering the BRR resulting from earnings from 67 percent to 50 percent, and raising the earned income disregard from $30 (plus a $90 work allowance) to $225. The high benefit level and the low BRR result in a benefit structure that strongly encourages work. This combination also implies that earnings must be quite high (about $8.75 per hour at full-time employment) before a recipient is income-ineligible for CalWORKs.

• **Family caps and minor residence rules**: CalWORKs continued a waiver provision first granted in February 1996 that stated that the welfare benefit is not increased for children conceived while the mother was receiving aid and also requires that minors live with an adult.\(^8\)

• **Continued GAIN sanction procedures**: While the CalWORKs legislation changed many aspects of California's welfare program, it retained the GAIN sanction policy (the formal conciliation process to ensure notification and due process) and GAIN's adults-only maximum sanction (payments for the children continue). This relative stability contrasts with a movement in many other states toward a weaker conciliation process and a full-family sanction.\(^9\)

These legislative changes could have prompted responses with only minimal interaction between a recipient and a caseworker or other service provider, perhaps prior to the actual implementation of CalWORKs.\(^{10}\)

**County CalWORKs Programs.** Other CalWORKs reforms could have an effect only (or primarily) through the interactions of caseworkers and contract staff with individual recipients. This, in turn, could occur only after CWD plans were finalized, necessary new staff and contractors were hired and trained, and

\(^8\)Food Stamps and Medi-Cal are provided for the child. This change became effective immediately before CalWORKs, on September 1, 1997 (MPP 44-314).

\(^9\)This discussion considers the policy dimension of sanctioning. There is also an important program dimension. For recipients to be sanctioned, a caseworker (often both a WTW worker and an eligibility worker) must implement the time-consuming sanction process. Klerman et al. (2001) report some reluctance to sanction, on the part of both some senior leadership in CWDs and caseworkers. Thus, it appears that sanctions are often imposed considerably less frequently and considerably less quickly than would be allowed under the CalWORKs statute.

\(^{10}\)See, however, Meyers, Glaser, and MacDonald (1998), who argue that the early effects of the Work Pays reforms were limited because caseworkers did not inform recipients of the changed benefit structure or did not understand its increased incentives for work.
recipients started to participate in program activities. We refer to the effects of these reforms as program effects. They include the following:

- **Job Club**: Reflecting the findings of the GAIN Evaluation in Riverside County, where initial Job Club participation had been shown to raise employment, lower cash assistance, and lower net government costs (Riccio et al., 1994), the CalWORKs legislation mandated near-universal Job Club and the corresponding work-first approach to WTW services. This approach contrasted with the more expensive and apparently less successful human-capital development approach and its emphasis on education and training that had been the focus of the GAIN programs in many counties.

- **Intensive WTW services**: For those who did not find jobs through Job Club, the CalWORKs legislation allowed and provided funding for intensive WTW services, including case management, education and training, and supported work. For those with identified barriers to participation, dedicated mental health and substance-abuse funds were available to provide services. In addition, counties could use WTW funds to provide services to victims of domestic violence.

- **Community service**: The CalWORKs legislation provided for mandatory community service (CS) for those not working the mandated number of hours per week within 18/24 months.11

Unlike the policy effects discussed earlier, these program effects could be realized only after caseworkers and contractors began to provide services to recipients. By the first quarter of calendar year 2000, county WTW expenditures had nearly tripled over their levels two years earlier. Given the large caseload decline of approximately 20 percent over this same interval, the increase in per-case expenditures was even larger.

The new county WTW programs did not go into place instantaneously. Both qualitative fieldwork and the data on county WTW expenditures (see Appendix A) suggest that it took time to add staff and contractors and then to process the backlog of existing cases. Expenditures did not begin to increase until CDSS certified county CalWORKs plans in the spring of 1998, and a major part of the initial expenditures went to planning, preparing office space, hiring, and training. Participants did not receive significantly higher levels of WTW services until late 1998 or early 1999. Furthermore, WTW expenditures continued to increase at

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11See Klerman et al. (2001) for a discussion of when this period begins and how months are counted. CS is also required for those living in remote locations or unable to participate in other activities.
least over the next year and a half (through the end of state fiscal year, SFY, 1999–2000).

This progressive roll-out affected the time at which existing recipients and new entrants received services. In most counties, Job Club did not begin in volume until late 1998, and the surge to provide services to the existing caseload continued through the summer of 1999 (the spring in some fast-moving counties, the fall in slower-moving ones). Services later in the sequence of activities—e.g., treatment for mental health and substance-abuse issues, education and training, post-employment services—were not provided in volume until late 1999 or even later. Thus, we would not expect the new, more-intensive WTW services to have had much effect until late 1998 at the earliest (and then it was mostly the effect of notification at orientation that welfare programs were changing), growing in about mid-1999 (as recipients moved through Job Club) and later for post-Job Club activities.

**Other Government Policies**

Welfare programs are not the only government programs or policies that might have affected outcomes. Other candidate government programs include the following, which were shown as bulleted items in Figure 1.1:

- **Federal EITC**: Operating through the tax code, the federal Earned Income Tax credit (EITC) augments the earnings of low-income families with children. The generosity of the program increased sharply in the early 1990s, so that by 2000 those earning about $10,000 per year could receive a payment of nearly $4,000.\(^{12}\)

- **Minimum wage**: The federal minimum wage rose to $4.75 in 1997 and $5.15 in 1998, and California increased its minimum wage to $5.00 and $5.75 in the same years.

- **Immigration policy**: The 1986 Immigration Reform and Control Act (IRCA) provided procedures through which many previously undocumented immigrants could become U.S. citizens. One of the requirements for legalization was that such individuals could not receive public assistance until five years after their application. Under IRCA, a large number of previously undocumented immigrants were naturalized in 1987 and 1988.

\(^{12}\)On the EITC, see Hotz and Scholz (2000). On the effects of the EITC, see Meyer and Rosenbaum (1999, 2000).
and were thus ineligible to receive public assistance until 1992 (and, as the result of a lawsuit, as late as December 1994).

**The Economy**

The implementation of welfare reform in the late 1990s was coincident with a long and robust economic expansion. We would, in general, expect that an improving economy would lead to improvement in outcomes, including a falling caseload, rising employment and earnings (among current recipients, former recipients, and all single mothers), and falling poverty rates. The recession in California was deeper and lasted longer than in the rest of the nation, but the recovery has been stronger. We would expect these differences to generate differences in California welfare outcomes relative to the rest of the country.

Similarly, the severity of the recession varied widely across the state. There was only a mild recession in the San Francisco Bay area. The recession was much deeper in Southern California, and the recovery stronger. The recession was deep in the northern part of the state, where the recovery has been weaker. Again, we would expect these intercounty differences in economic conditions to generate intercounty differences in welfare outcomes.

**Methods**

This report describes the evaluation’s early efforts to understand the effects of the CalWORKs reforms and other factors on the outcomes of interest. In particular, it lays a foundation by describing outcomes across two of the three dimensions shown in Figure 1.1—the post-CalWORKs period compared with the pre-CalWORKs period and California compared with the rest of the nation. It then presents a preliminary discussion of the causes of this observed variation.

To understand the analyses of the effect of CalWORKs and the other factors, a brief methodological overview is useful. The causal effect (or impact) of a factor is defined as the difference between observed outcomes and what outcomes would have been if that factor had followed some other path. For example, given the actual CalWORKs program, other policies, and the actual path of the economy, what would have been the effect of California adopting a full-family sanction, holding all else unchanged?

There are three leading approaches to estimating such causal effects: (1) random assignment; (2) nonexperimental program evaluation; and (3) simulation. Here, we briefly discuss each approach. Further discussion can be found in other
evaluation reports (e.g., Klerman et al., 2000) and in the national literature on the evaluation of welfare reform (e.g., Moffitt and Ver Ploeg, 1999).

**Random Assignment**

Some welfare programs (e.g., the GAIN program and the Work Pays Reforms) were analyzed by randomly assigning otherwise identical recipients to either the new program or the old program. Because no control group (i.e., a group not subject to the CalWORKs reforms) was created, random-assignment evaluation of CalWORKs is not possible. Furthermore, it is not clear that such a random-assignment approach could have been used successfully to evaluate the full effects of the CalWORKs reforms. See the discussion in Klerman et al. (2000) and the references therein.

**Nonexperimental Program Evaluation**

Nonexperimental program evaluation uses statistical models (regression and its generalizations) to estimate causal effects. In particular, nonexperimental program evaluation compares outcomes from multiple policy environments (usually place-year combinations) to try to isolate the effect of a policy (or program).

Ideally, we would compare two policy environments between which only the policy (or program) of interest differed, while everything else was the same. Random assignment approximates that ideal. In the absence of random assignment (which could not be used for CalWORKs), the multiple factors almost always vary. Single policies are rarely adopted alone; instead, policies are usually adopted as bundles. Economic conditions vary across time and space, as do other factors. Nonexperimental program evaluation, then, proceeds using statistical models to control—as much as possible—for the other changing factors and thereby isolate the effect of the policy of interest.

Clearly, to apply this approach, we need variation in the policy of interest. Since multiple policies (and other factors) nearly always vary across policy environments, we need several policy environments. Finally, standard statistical arguments state that the larger the number of “policy environments,” the more precise will be our estimates.

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13However, we do use the results of other relevant random-assignment evaluations of welfare reform to help understand some of the potential causes for the outcomes we see.
This need for variation has important implications for our analysis strategy and the presentation of our results. The comparative advantage of this evaluation is access to the rich administrative data available for California. When there is within-California variation, we can use these California data to explore the effects of that variation on outcomes. We report such analyses of the impact of the economy in this report; the next report will consider the effects of county expenditures and program choices.

However, when there is variation through time but not variation between counties in California (as is true for many of the CalWORKs reforms), it is essentially impossible to apply nonexperimental program evaluation methods to our California data. The changes through time could result from any of the CalWORKs reforms, from changes in the economy, or from other factors. Given this multiplicity of possible explanations, it is not possible to distinguish between the effects of the different factors using California data alone.

Instead, application of nonexperimental program evaluation methods usually proceeds using variation both over time and across states (i.e., data on multiple states through time). A national literature is emerging that examines the effects of welfare reform, the pre-TANF (Temporary Assistance for Needy Families) waivers, and state TANF programs. However, such national analyses do not exploit the California administrative data, so we perform only limited such analyses as part of the Statewide CalWORKs Evaluation. In this report, we survey this emerging literature and discuss its implications for understanding California’s experiences. Consistent with the currently limited literature, we generally discuss the likely direction and approximate size of effects, but we do not provide exact magnitudes. Perhaps by the second impact analysis report, the literature will have matured enough to enable us to provide more precise statements of effect.

**Simulation**

When we can precisely describe the mechanism through which a policy affects an outcome and we have appropriate data, we can approximate the effect of a policy through simulation. Simulation is a powerful approach that exploits our knowledge of California’s policies and the detailed administrative data. Simulation, however, is only as effective as our ability to describe and to quantify correctly the mechanisms through which policy affects outcomes. Thus, simulation provides insights about the magnitude of the effect of some mechanisms, but it is silent about other mechanisms.
The simulation approach is most easily understood through example. In Section 3, we explore the effect of California’s benefit structure on California’s work activities participation rate. The structure of California’s benefit schedule implies that a recipient can continue receiving cash assistance even when working enough hours to satisfy the participation requirement. By contrast, in many other states, once a recipient is working enough hours to satisfy the participation requirement, her earnings are high enough to make her income-ineligible for cash assistance. This difference raises California’s participation rate. If the benefit level were lower, a working (and therefore participating) recipient would no longer be on cash assistance.

We can approximate the size of the effect by simulation. A simple simulation would recompute the participation rate, dropping anyone with earnings high enough to make them income-ineligible in another state. Averaging over the other 49 states gives us a first estimate of the effect of the benefit structure on the participation rate.

However, a calculation of this type assumes that recipients’ behavior does not change in response to the policy. In this case, the benefit structure itself is likely to (and intended to) affect hours worked and earnings. A lower BRR would usually be expected to cause current recipients to work more. A higher BRR would be expected to cause recipients to work less. For some cases (including this example), we augment our simulations with other information to incorporate the magnitude of this behavioral response into our simulated estimate of the effect of the policy change.

Data

In conducting our analyses, we used three types of data: (1) county aggregate filings with CDSS (and equivalent filings by states to the federal government)—CA 237 caseload data, GAIN 25/WTW 25/WTW 25A welfare-to-work activity data, and County Expense Claims; (2) individual-level administrative data—Medi-Cal Eligibility Data System (MEDS) caseload data, MEDS-Economic Development Department (EDD) match data employment and earnings data, and Q5 quality control audit system data; and (3) survey data—the U.S. Bureau of the Census Current Population Survey (CPS). Appendix B and Klerman et al. (2000) provide more complete descriptions.

\[14\]While we recognize that both men and women are welfare recipients, most adult welfare recipients are women, so we use the pronouns she and her.
Scope of This Report

In summary, we have three challenges: (1) to describe outcomes under CalWORKs and compare them across time, across states, and among California’s counties; (2) to identify, as much as possible, the net effect of CalWORKs, given all the other confounding factors; and (3) to conduct a cost/benefit assessment of the CalWORKs program.

As the first of two impact analysis reports, this report lays a foundation for the second and final report. Given that goal, the present report focuses on describing outcomes under CalWORKs and on comparing them with outcomes before CalWORKs and in other states; most comparisons of outcomes among California’s counties are deferred until next year’s report. In terms of the causal analysis, this report provides some exploratory analyses of the role of the CalWORKs program in explaining observed outcomes—why outcomes in California have evolved as they have over time, and why they have evolved differently than in other states. Again, the discussion of why outcomes are different among counties is reserved for next year’s report. This report also surveys relevant national literatures for insights into California’s experience, especially relative to that of other states. The evaluation’s parallel process analysis reports describe the financial aspects of CalWORKs.

The second impact analysis report will extend these analyses. It will update the descriptive analyses reported here through approximately another year of experience with CalWORKs and will add descriptive analyses of additional outcomes. Also, as mentioned above, it will include a much fuller discussion of the cross-county differences. In addition, it will provide more analyses of the causal effects of CalWORKs. Finally, integrating these fuller analyses with the financial results from the process analysis, the report will consider the costs and benefits of the program.

These two impact analysis reports will be augmented by additional results from RAND’s California Health and Social Services Survey (CHSSS).

Organization of the Report

This report is organized around the structure shown earlier in Figure 1.1. We first describe each of the three outcomes shown in the figure—both before and after CalWORKs and between California and the rest of the nation—starting with an overview of those descriptive findings and following with the detailed support for them. Finally, we examine the potential causal explanations for the
descriptive results, drawing, as appropriate, from the five factors shown in the figure.

Section 2 considers the participation rates and employment and earnings of current welfare recipients. Section 3 considers the size and composition of the caseload. Section 4 considers employment, earnings, and return to receiving aid among welfare leavers, as well as broader outcome measures: Medi-Cal take-up, poverty, and the living arrangements of children. Finally, Section 5 summarizes the results and discusses plans for the coming year.

This report relegates more technical information to the appendices. Appendix A provides a more detailed description of the major policy and economic changes that might influence the outcomes considered here. Appendix B presents additional detail on some of the methods, and Appendix C presents basic information about the data sources and discusses some key data issues. Appendix D presents the results of the policy simulation conducted on participation rates. Finally, Appendix E provides a county-level breakdown of caseload changes over time.

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15Further detail on the analytic methods can be found in the underlying technical reports. Those technical reports are available on the project website: http://www.rand.org/CalWORKs.

16Further discussion of data sources can be found in Klerman et al., 2000, and in Klerman and Haider, 2001.