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Hearing on Proposition 165

Senate Committee on Health and Human Services

Senate Budget and Fiscal Review

Assembly Ways and Means Committee

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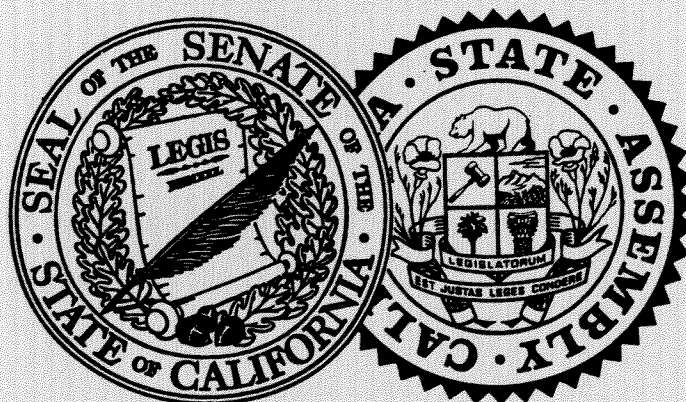
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CALIFORNIA LEGISLATURE

JOINT HEARING OF THE
SENATE COMMITTEE ON
HEALTH AND HUMAN SERVICES;
SENATE BUDGET AND FISCAL REVIEW;
AND ASSEMBLY WAYS AND MEANS COMMITTEE

SENATORS DIANE E. WATSON, ALFRED E. ALQUIST,
AND ASSEMBLYMAN JOHN VASCONCELLOS,
CHAIRPERSONS

HEARING ON
PROPOSITION 165



9:30 AM
THURSDAY, OCTOBER 1, 1992
STATE BUILDING, 107 SOUTH BROADWAY
AUDITORIUM - ROOM 1138
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A G E N D A

JOINT HEARING ON PROPOSITION 165
Thursday, October 1, 1992
State Building, 107 South Broadway
9:30 a.m. -- Room 1138
AGENDA

Overview of Proposition 165

1. Elizabeth Hill, Legislative Analyst

Proposition 165 - Budget Issues

2. Steve Gold, Director, Center for the Study of States, Rockefeller Institute
3. Richard Sybert, Director, Office of Planning and Research
4. Janis Nielsen, California League of Women Voters
5. Dr. Naomi Caiden, Chair, Department of Public Administration
California State University, San Bernardino

Proposition 165 - Education Issues

6. Diane Brahams, State PTA Representative
7. Denise Rockwell (Woods), President, National Education Association Chapter,
United Teachers of Los Angeles
8. Maureen DiMarco, Secretary of Child Development and Education

[Break For Lunch]

Proposition 165 - Health and Human Services Issues

9. The Most Reverend Phillip Straling, Bishop of San Bernardino/Riverside
Catholic Diocese
10. Michael Wald, Jackson Eli Reynolds Professor of Law
Stanford Center for the Study of Families, Children, and Youth
- 10a. David Illig, LAO Officer, Senior Fiscal & Policy Analyst, Social Services Section
11. Wendy Lazarus, Children Now
12. Genevieve Heron, IHSS provider for Frankie Banks
13. Claire Deffense, Chair, Area Board X Governmental Affairs Committee
14. Dr. Lewis King, Dean, College of Medicine, Drew Medical School

O P E N I N G
S T A T E M E N T

T R A N S C R I P T

SENATOR ALFRED ALQUIST: This is the second joint public hearing pursuant to Section 3523.1 of the Elections Code on the so-called Taxpayer Protection Act of '92 (Proposition 165), which is before the voters on the November 3rd ballot.

Joining the Senate Budget and Fiscal Review Committee is the Senate Health and Human Services Committee, chaired by Senator Diane Watson, and members of the Assembly Ways and Means Committee, chaired by Assemblyman John Vasconcellos, who was unable to be with us today.

I have a few comments of my own to make before I ask others to do so.

In seven of the last ten years the Legislature has failed to send a budget to the Governor by the constitutionally required June 15th deadline.

One major reason, of course, is the lack of revenues to fund the increasing demand for public services to meet California's diverse and expanding population growth.

The second reason is the two-thirds vote requirement that allows a small minority of legislators to block passage of a budget. California is one of only three states out of the 50 that has such a requirement.

The third reason involves initiatives, not like the one before us today, that allows special interest groups to establish major constraints that limit the Governor and the Legislature in enacting a balanced budget. The Governor and the Legislature are currently faced with federal requirements, state mandates, court-ordered mandates, statutory requirements, and constitutional provisions that mandate 92 percent of the spending in our state budget.

While Proposition 13 resolved the skyrocketing property tax increases in the late '70s, it also contributed to a \$250 billion loss in revenue and a shift in education funding from the local level to the state.

Proposition 98 established in the State Constitution mandates that require K through 14 education to be funded at the minimum guarantee of approximately 40 percent of the state's budget, regardless of any other fiscal priorities.

And Proposition 99 requires the cigarette tax revenue to be spent on specific health related programs, and many changes must be made with a four-fifths vote of the Legislature.

Proposition 165 will be appealing to those voters who want to cut the Governor's and the Legislature's pay when a budget isn't enacted by June 15th. And this measure will also be appealing to voters who want to reduce AFDC benefits by 25 percent.

Yet a closer review of this initiative reveals that public testimony and participation in the budget process is reduced by the Prop. 165 provisions that shorten the Legislature's review of the Governor's budget.

A closer review will demonstrate that this Governor and future governors in California will have powers that no other state affords their chief executive.

A still closer review will indicate that the provisions of this initiative will eliminate the Legislature's ability to override a Governor's veto action if a fiscal emergency is declared.

This point cannot be emphasized enough: If by unanimous vote the Legislature sent to the Governor a budget and the Governor refused to sign the bill, the Governor can then declare a fiscal emergency, enact his or her own budget without regard to legislative or public budget priorities. And this is not the vision needed to ensure the success of California's future.

In today's hearing we will examine the fine-print provisions of Proposition 165. This morning's testimony will be focused on the constitutional role of the Legislature and the executive branch that's contained in the Governor's initiative.

Testimony will also be heard on the potential impact this initiative would have to the state support of our children's education. And after lunch we will hear from health services and children's advocates on the potential loss of funding under the passage of Proposition 165.

The Governor's own campaign on behalf of Proposition 165 raises several questions:

Is the Governor really asking California voters to approve a constitutional amendment that his own staff admits is constitutionally flawed? After all, if the Legislature passed a bill and asked the Governor to sign it, acknowledging it was unconstitutional, the Governor would never do so.

Who drafted Proposition 165, and if this is a technical error, how come it took nearly a year for the Administration to discover the error of these five repeated questions on this very same subject? And I don't think that that is something we want to have decided by the court.

With me so far this morning, although we are expecting any number of other Members, is the Vice Chairman of Budget and Fiscal Review Committee, Senator Frank Hill. Senator Hill, any comments?

SENATOR FRANK HILL: Well, thank you, Mr. Chairman. I appreciate being here. I think the concern that I have this morning is focusing on, really, the balance of power issues. While we would disagree on the two-thirds vote requirement of passing a budget, I would think that we would share as

legislators what this is going to impact, the balance of power in our three branches of government. I'm especially concerned about this new issue that was raised at the hearing that we had up in Sacramento last Monday about whether or not the Legislature is going to maintain its authority for legislative override.

And so, I would ask any of those witnesses that are coming forward, at least for my benefit, if they could focus on that issue, because that, to me, is the Republicans' very disturbing concern whether or not there is indeed going to be the possibility of a legislative override; and the reality is there is no guarantee that any one party is going to control the Governor's office in the foreseeable future and I think we need to look at it in that context. And I look forward to participating in the hearing.

Thank you, Mr. Chairman.

SENATOR ALQUIST: We'll call first this morning as our first witness, Ms. Elizabeth Hill, who is our Legislative Analyst.

Good morning, Ms. Hill. You may speak from there or from here. I think you might be more comfortable here.

MS. ELIZABETH HILL: Thank you very much, Mr. Chairman, and Members. It's a pleasure to be here today. The hat that I'm wearing today is a little bit different than our traditional legislative hat. We do have in the Legislative Analyst's office a statutory mandate to produce impartial analyses of state ballot measures, and it's in that role that I appear before you today.

Proposition 165 makes significant changes to the state's budget process and calendar as well as public assistance programs. With me today is Mr. David Illig, who you also heard from on Monday in Sacramento. And if it meets with the committee's pleasure, I would suggest that I cover the state budget process issues this morning and then Mr. Illig could set the agenda overview for you before you get into the public assistance issues this afternoon because I see that you have a fairly full agenda.

So if that meets with your pleasure, I'd like to focus on the six major budget process provisions in Proposition 165, and I'd be happy to answer any questions that you may have.

The first issue is the budget submittal date. Proposition 165 delays the date for submittal of the Governor's budget to the Legislature from January 10th to March 1st of each year. The effect of this change would be to reduce the amount of time by about seven weeks that the Legislature has both to analyze and review the Governor's budget estimates and proposals, to compress the time available to the Legislature to seek public input, to conduct your budget hearings, and the budget conference committee processes.

The second budget change is that a late budget forfeits legislative salaries and expenses. Under Proposition 165, if the Legislature fails to pass a budget bill by the existing constitutional deadline of June 15th, which remains unchanged in the Proposition, then the Governor and the Members of the Legislature would forfeit their salaries and expenses, travel, and per diem from that day forward until the budget is passed and signed by the Governor.

The third budget provision is the late budget which allows the Governor to continue the prior year budget of the State of California. If a budget bill is not signed by the Governor by July 1st, Proposition 165 allows the Governor to declare a fiscal emergency. If the Governor does so, then the prior year's state budget becomes the state's operating budget for the new fiscal year with the following adjustments for four constitutionally protected spending programs.

First, funding for K-12 schools and community colleges, which would be increased to the level required by Proposition 98. And then finally the three other elements protected by the Constitution: state debt service costs, the homeowners' exemption reimbursement to counties, and state mandated local program reimbursement which are required by the Constitution.

The Governor would be allowed to reduce funding for all other categories of expenditures, including entitlement programs, as needed to balance state revenues and expenditures. These spending cuts would become effective 30 days after the Legislature is notified unless the Legislature passes and the Governor signs a budget bill prior to the time the cuts would become effective.

It should be noted that this declaration of a fiscal emergency and the resulting operating budget are not sufficient to end the forfeiture of salaries and expenses that we mentioned a moment ago. The Legislature must pass and the Governor must sign a budget bill in order for the forfeit period to end.

These provisions could result in either costs or savings to the state. The impact in any year could be very large, depending on the circumstances. Savings would result to the extent that the cuts proposed by the Governor to the working budget take effect. Increased costs, however, could result to the extent that state agencies continue to spend at the prior year level and that that level would be higher than the Legislature would have approved in a new budget.

The fourth budget provision is the post-budget spending cuts which are allowed. Proposition 165 grants the Governor increased authority to reduce expenditures after a budget bill becomes law, again by declaring a state of fiscal emergency. At present, as you know, Mr. Chairman and Senator Hill, the Governor may issue an Executive Order requiring agencies to curtail spending for state operations, but spending for entitlements and local assistance programs

basically are not affected.

This measure provides that the Governor may reduce any category of expenditure, except for the constitutionally protected categories that I mentioned a moment ago.

I note on your agenda that you're hearing from several education witnesses later in today's hearing, and clearly there is some open -- the education portion is open to some interpretation, because particularly in this post-budget fiscal emergency, the way the wording of the measure is constructed, it says, "...except for expenditures protected by Article 16, Section 8", which is the Prop. 98 section of the Constitution. But as you know, there is also an inclusion on test(?) 3(?) in that if revenues of the state have declined, then you have a situation where the guarantee would then be lower. And what would actually happen under that circumstance, in our view, is open to interpretation.

Now, when could a fiscal emergency be declared? First, if cumulative state revenues are below budget projections by 3 percent or more; if cumulative state expenditures are exceeding projections by 3 percent or more; or finally, if cumulative state revenues and expenditures are each more than 1.5 percent, then you would be in that circumstance.

As with the case of a delayed budget, spending cuts proposed by the Governor would take effect 30 days after notification of the Legislature, unless the Legislature passes and the Governor signs alternative budget balancing legislation. These provisions could result in substantial savings in any year in which the Governor makes cuts to enact a budget.

The fifth provision is that cuts can be made without changes in existing law. Proposition 165 allows the Governor, whenever a state fiscal emergency has been declared, to make spending cuts that would currently require a statutory change in order to be effective. These cuts could include reductions in public assistance grants and health benefits. In addition, the governor could reduce state employee salaries or work time by up to 5 percent unless collective bargaining agreements allow such reductions -- excuse me, if collective bargaining agreements allow such reductions.

And finally, the Governor's approval is required, in our view, for budget related legislation. The plain language of the measure appears to revise the Constitution's existing provisions governing how a bill becomes a law. Currently, a bill may become a law without the Governor's signature in two ways: the Legislature may override a Governor's veto, or the Governor may allow a measure to become law by taking no action on the bill. proposition 165 specifically requires certain budget related legislation to be signed by the

Governor in order to become law.

As noted earlier, if a fiscal emergency has been declared by the Governor, a budget bill passed by the Legislature after July 1 would require the Governor's signature in order to become law. Also, if a fiscal emergency has been declared after the enactment of a budget measure, measures passed by the Legislature as alternatives to the budget cuts proposed by the Governor would need the Governor's signature in order to take effect. Thus, in both of these cases it would appear that the Governor's authority to determine the state's response to a fiscal emergency would be greatly enhanced.

This issue of the signature required, I know has been a point of dispute in Monday's hearing and will probably be subject to testimony today. I can tell you that by statute a readability committee is an advisory body to me as we decide how to write our analyses of the propositions. This was one issue that we had the readability committee focus on in particular, and their advice to me at that time was that the plain language of the measure needs to be brought to the voters' attention as we had both when the initiative was circulating for signature when we did our initial analysis and then in the final analysis we prepared for the voter's pamphlet.

I'd be happy to answer any questions that you may have, Mr. Chairman.

SENATOR ALQUIST: Senator Watson.

CHAIRPERSON DIANE WATSON: I just want to say welcome to all of you, and sorry that I'm late, and I have one question for Ms. Hill.

I hear the success of the hearing on Monday was very successful, Senator Alquist, and I thank you for that, and I thank you for bringing this issue right out into the public. There's an article in the Sacramento Bee that talks about the Governor's office stating that the proposition is constitutionally flawed. As I understand it, there's a provision in there that prohibits the Legislature from overriding the veto.

Is there any way, prior to the vote, to get an injunction against that particular proposition on the ballot? Is there any way to stop it before it goes to the people?

MS. HILL: Senator Watson, I'm not an attorney. I know that a suit was brought under the single subject provisions related to Proposition 165 and the measure was upheld on those grounds. To the best of my knowledge, there would be no way at this point to do what you have suggested.

CHAIRPERSON WATSON: Is there any attorney here with us that can address that issue? Can we invalidate a provision before it goes to the vote of the people?

SENATOR ALQUIST: I would think, Senator Watson, that the "No on 165 Committee" would almost certainly explore that option.

And Senator Watson, I started the meeting in order -- because we do have a long schedule, but you are scheduled to handle the gavel today and perhaps you have a statement of your own.

Ms. Hill, apparently that's all of the questions.

SENATOR HILL: Mr. Chairman, I have some questions.

CHAIRMAN ALQUIST: Senator Hill.

SENATOR HILL: Senator Watson, do you want to do your...?

SENATOR WATSON: Well, let me just very quickly again welcome everyone here. And of course, I'm highly concerned about the impact of the initiative on the people of California, particularly the people of Los Angeles County since this is the largest county and the most diversified county, and the provisions will hurt the effort of the County Board of Supervisors as well as the people in the city to deliver their services. I am concerned about the health care, particularly clinics, mental health, social services, that will be severely affected under the provisions of this bill.

I am hoping that we, through these hearings and also through the kind of press that we hope to have between now and November 3rd, highlight the flaws in this proposal. What we need to do is educate the public so they will know. I am hearing in my office now from welfare recipients that didn't know that the budget last year cut them and that the budget this year also cut their grants and the impact of 165 will be devastating. People just have not tuned in and I guess we haven't done the job of getting the message out.

So with the press here I'm hoping that this will be a major step in trying to educate the public as to how flawed this proposition is. It's called "The Taxpayers' Protection and Fiscal Responsibility Act." That name in itself deludes people into thinking it's going to protect them in some way when it really will hurt people that we need to help and we're committed to help.

With that, I appreciate those who are coming to make presentations, and I hope that the press will follow 165 all the way into the polls so that we can get it defeated and then we can start on really a reform.

I want to thank Ms. Hill for, again, her very articulate and cogent remarks relative to 165, and I hope the remainder of the day that we can continue to have such relevant information that will help people make the right decision.

Senator Hill.

SENATOR HILL: I've got a couple of questions. Thank you, Madam Chair, for Liz.

Liz, it's your opinion that the provision requiring a signature indeed does not allow for a legislative override of a veto after that June 15 deadline is past?

MS. HILL: Senator Hill, what we indicated is that it appears to change that, and clearly this is an issue of judicial interpretation, but just looking at the plain language of the measure, the word "sign" is repeated numerous times in both Sections 4 and 5, which are the budget sections of the measure.

SENATOR HILL: Okay. A couple more technical issues. You talked about whether or not Proposition 98 was guaranteed, and if you're in the circumstance the Governor declares a fiscal emergency, we have revenue drop by at least 3 percent, is the issue that we adopted a budget based on some projection, revenues are off by 3 percent, is the issue that you're talking about then whether or not the Governor would have the authority to reduce the 98 guarantee because we have fallen below those 3 percent projections?

MS. HILL: You have several competing issues at once. You have the situation that you've just outlined which, depending on also what was happening with local property taxes and average daily attendance, which are also factors in the Proposition 98 guarantee calculation along with state general fund revenues, if that were to affect the then Proposition 98 guarantee amount with the wording of the measure, which says "except expenditures protected by the article that applies to Proposition 98", there would be some interpretation because the guarantee may have at that point in time changed.

However, as you know, the Legislature also, usually in a control section of the budget act, specifies what the Proposition 98 guarantee will be for the upcoming fiscal year. So you could also have a situation where the budget act expresses a guarantee level which now would be higher than the new one. Well then, does the wording of this measure apply, for example, to the budget act guarantee amount in the control section, or what the new Proposition 98 guarantee would be, given changes in the factors with the proposition?

The other factor you have, of course, is now you have a situation with both some retroactive recapture and loan payments that now are in the Proposition 98 equation. How would those be interpreted by the courts?

SENATOR HILL: And so your conclusion is it's just not clear. You don't know whether or not the Governor would unilaterally have the authority to say we no longer -- the 98 guarantee has fallen and so I unilaterally have the authority to reduce those expenditures.

MS. HILL: We're saying it's open to interpretation.

SENATOR HILL: Last question, Madam Chair, if I could, deals with the 3

percent trigger, that fiscal emergency. How much is 3 percent? How many times in the last 4 or 5 years have we been off in terms of the finance projections by 3 percent? How many times would you attribute that fiscal emergency?

MS. HILL: Well, certainly in the last 3 years, Senator Hill, our revenues have declined relative to the initial budget estimate by that amount. Generally on the expenditure side, it has not swung as much as our recent experience with revenues, particularly because of the recession. But in the last 3 years you would have that situation.

SENATOR HILL: So the last Deukmejian budget and the last two budgets the revenues have been off by that 3 percent amount. And so if this had been in effect the Governor would have the authority to declare a fiscal emergency and all the additional powers.

MS. HILL: To the best of my knowledge.

CHAIRPERSON WATSON: A couple of questions before you leave. Number one, if Proposition 165 is to pass, does it supersede any other provision in any other statute that has to do with these budgetary provisions relative to the 98 and maybe Proposition 99 that raises revenues? What would be the impact of provisions in -- particularly, the fiscal provisions in 165 have?

MS. HILL: To the best of my knowledge, Senator Watson, I mean this would be the latest expression of the people's intent and be placed in the Constitution. I think one of the issues you may be getting at is also, say, the interaction with the education issues and in that case the measure does not amend that provision, it references it. So it would not change the Proposition 98 guarantee but I think what you would have, in effect, is some uncertainty as to how the two measures interact together under different scenarios.

CHAIRPERSON WATSON: So, to the extent that there are provisions under certain code sections, it would amend those code sections, the ones that are named here.

MS. HILL: Those only.

CHAIRPERSON WATSON: Okay.

My next question is, we get fiscal information from the Finance Department (the Governor's department), from your department, Leg Counsel, from the Controller, from Ways and Means, and our Budget and Fiscal Committee -- five different sources. Often, those numbers don't jive, and I think that's been the problem over the years. I remember a letter from Ways and Means six years ago saying that we're in a deficit posture(?). It wasn't IOU to A-OK -- we were not A-OK -- and I think Pete Wilson realized that after taking over from the Deukmejian Administration. Is there any way in 165 that we can be able to know

what the real and actual figures are? How do we collaborate across all those different sources of information to know the real figures?

MS. HILL: Senator Watson, my reading of the proposition rests that determination in the Department of Finance. It's the Department of Finance's estimate of the cumulative 3 percent revenues, expenditures, or some combination of the two, that would dictate the fiscal emergency provisions in Proposition 165.

CHAIRPERSON WATSON: Well, that's what I think is feeding a lot of the problem, because as I said, the figures are different from each one of those sources usually, and some way we've got to know what -- and, you know, the May revise always hits us upside the head with reality and it seems to me we ought to do a better job of becoming projected and accounting.

I listen to the Controller a lot because he knows what's in the bank accounts, and that has a lot of meaning to me. You know, what money we really have on hand and what money we owe out and who we have to pay. So some way we're going to have to have more accurate reporting of what our fiscal picture is, and I don't know if the Finance Department has that level of accuracy. It hasn't in the last few years.

That's a comment more than a question.

We want to thank you so very much for coming here to Los Angeles and for bringing us this information relative to 165.

MS. HILL: Thank you very much. As I mentioned, I covered only the budgetary portion.

CHAIRPERSON WATSON: Senator, do you have another question?

SENATOR HILL: I do, Liz, before you go. Senator Watson just raised an interesting thought in my mind. Would it be possible for a governor to use over-optimistic revenue projections from the Department of Finance, or maybe use the most optimistic -- we've got 5 different projections about what's going to happen to the economy -- we will choose the UCLA School of forecasts if that happens to be the most optimistic one -- get a budget passed, and then to obviate or to eliminate the contentiousness of making some of the budget cuts while we're trying to get a budget adopted? At what point then could you say we're off our 3 percent, we used over-optimistic revenue forecasts and now I can make these cuts unilaterally because I've declared a fiscal emergency? Is that scenario plausible or possible?

MS. HILL: In my judgment it is possible. Of course, it would depend what the Legislature and the Governor did in terms of appropriating those revenues, then what sort of effect it may have on the spending reductions that the

Governor would be authorized to make.

SENATOR HILL: It just seems to me the legislative reality is that we would -- nobody wants to make the tough decisions about the tough cuts and if somebody's willing to go along, and the Department of Finance is willing to go along with an optimistic revenue projection that gives us more money to spend, more than likely most of the Legislature is going to jump at that. At what point then does the 3 percent analysis come in that allows the Governor to trigger a fiscal emergency?

MS. HILL: That determination has to be made on a quarterly basis. So at the end of each of the quarters of the fiscal year -- September...

SENATOR HILL: So at the end of that first quarter, theoretically he could come back and say we're off by 3 percent, doesn't look as good as we thought, and I'm going to declare a fiscal emergency.

MS. HILL: It's theoretically possible.

Thank you very much, Madam Chair and Members, and Mr. Illig will be available later on the health and welfare provisions. Thank you.

CHAIRPERSON WATSON: We appreciate it.

Steve Gold, Director, Center for the Study of States, Rockefeller Institute.

MR. STEVE GOLD: Thank you very much.

I would like to say first of all that my Center studies state budget problems and solutions all over the country. We probably spend more time looking at California than any other state because it's the biggest and the problems here are some ways worse than other places.

I've been asked to provide some perspective about how the California budget problems compare to those in other states and also how the policies in California, and particularly those in this proposition, compare to those in other states.

CHAIRPERSON WATSON: Mr. Gold, too, would you direct some of your comments toward the initiative process, which is unique to very few states, and which appears to be the way we are making policy in California through initiatives. So you might want to give us the national perspective on the initiative process as you go through.

MR. GOLD: Sure.

And, also, I've prepared some written comments. I'm going to go beyond it in some ways and just summarize it in others.

Basically, first I'll talk about the causes of the fiscal problems, then how taxes and services in California compare to other states, and finally talk about policies in other states, both adopted so far and the ones that I think need to

be looked at in the future.

Now as is well known, all states are having fiscal difficulties, and the most important reasons are the recession and burgeoning Medicaid costs. Also, the enrollment increases in the schools and corrections increases and inadequate tax systems are also major reasons why states are having budget problems. There are any list of reasons why states are having budget problems -- increases in AFDC are not as important as the factors I've just mentioned. Although most states who've had big increases in AFDC in the past two years, it is such a small percentage of the budget that it's not as important as the recession and Medicaid and school increases.

It's interesting to note that although California has had big increases in AFDC caseloads, they're not particularly large by national standards. Clearly, the most recent information available from the American Public Welfare Association Journal in February of 1989 and January of 1992, the increase in AFDC caseloads in California was only the 21st highest in the country. So it was not far above average.

And it's interesting to note that Arizona, which has much lower benefits than California, had the second biggest increase.

So no other state has targeted AFDC as an area for cuts in the way that California has, and in fact, the cuts that were enacted last year and this year are bigger than the reductions that have been adopted in the last year, two years, than any other state.

Now, even though most states are having budget problems, the problems in California are much worse than most other states, if not much worse than any other state. And there are three factors I want to mention in regard to why these problems are so big in California.

(NOTE: Mr. Gold's testimony was inaudible due to technical difficulties. Refer to Mr. Gold's written testimony for content.)

MR. RICHARD SYBERT: ...(beginning of his testimony is inaudible)...I'm here at your request to testify regarding the proposed budget cutting mechanisms under Proposition 165, the Taxpayer Protection Act on this November's ballot.

I understand that a representative of the Office of Child Development and Education may testify on other aspects of the act later today, so I'll confine my own comments to a comparison of the budget cutting mechanisms in the initiative with those of other states.

As you know, the Act would provide California's Governor with the ability to reduce spending to meet revenues when there's a deficit and the Legislature cannot or has not acted to close it. In certain defined circumstances, the

Governor would then be empowered to close the deficit through cuts in approximately 50 percent of budget categories.

Several months ago my office, the Office of Planning and Research, conducted a comprehensive survey of the 50 states -- I have a copy here with me and I'd be happy to provide the Members with a copy afterwards -- to compare the mechanisms available to other state governors to reduce a budget.

What we found, in a nutshell, was that California was almost alone in hamstringing its chief executive in the budget arena. At least 44 other states give their governors more authority than California currently does to bring spending into line with revenues. There are only five other states -- Florida, Louisiana, Maine, Michigan, and New Hampshire -- which deny their governor such authority, and at least one of these -- Florida -- is currently working on legislation to correct this.

Moreover, we found that the powers proposed under the Act fall about in the middle of the range of such authority granted other state governors. In other words, Prop. 165 is a fairly moderate version of what is fairly standard gubernatorial authority. One may argue whether or not on the merits a governor should have this authority, but it's simply inaccurate to claim that it is unusual or extreme.

CHAIRPERSON WATSON: On that issue, the budgetary process is described in the Constitution of California. Are there similar provisions in these other states, or in other states, that compare to ours? Are we that far out of line in terms of our constitutional provisions relative to the budget process?

MR. SYBERT: Senator, forgive me, can you try to rephrase it? I'm not sure I understand and I want to answer correctly.

CHAIRPERSON WATSON: Our Constitution gives the authority to the Legislature to work the budget. The Governor proposes and then we analyze and work and present a budget. In other states, is the constitutional authority similar, comparable?

MR. SYBERT: Yes. That is the basic structure. In addition, what most other states have done is they have recognized a potential gridlock situation when the governor and the legislature can't agree on a budget. That's happened in other states as well. And the rationale is that all right, while the debate continues, meanwhile we have spending programs and we have revenue coming in, and since deficit spending is forbidden under most state constitutions, including California's, there's got to be a mechanism to make sure a state doesn't go into deficit spending while that debate is going on. And most other states have resolved this by giving the executive branch, the governor, limited

authority, under guidelines, under prescribed limitations, to cut spending while that debate is going on, to bring it into line with revenues, and that, it's my understanding, is also the intent of Prop. 165.

CHAIRPERSON WATSON: Thank you.

MR. SYBERT: Thank you.

Naturally, the extent of independent gubernatorial budget authority varies among these 44 other states. I've blown up a chart here, and copies attached to my written comments that you have, to demonstrate the different categories. At the lower end -- I don't know if you can see this, this is at the bottom of the chart -- at the lower end a governor is permitted to achieve minor savings by reorganizing executive branch departments, by consolidating them and impounding some of their budgetary funds. There are five states -- Kentucky, Montana, Nebraska, Illinois, and Bill Clinton's Arkansas -- that grant this kind of limited authority.

At the upper end -- this is at the top of the chart here -- there are 20 states that permit their governors to reduce any expenditures necessary to bring them into line with revenues with few or no limits as to the budget categories that may be cut, and in addition, to reorganize the executive branch. These 20 states include some of our neighbors -- Arizona, Nevada, and Oregon.

Now, in between these two ends of the spectrum, the remaining 19 states give their governors a variety of limited mechanisms. There are relatively crude ones such as requiring that cuts be made pro rata across the board. Examples of that are Alabama and Georgia. Or that cuts be made under an agreed set of priorities, as in Arkansas. And then there are other states, such as Connecticut, where the governor has discretion to make cuts up to a certain percentage. Or, as another example, Missouri, where the governor can make cuts only in certain nonexempt categories of the budget.

CHAIRPERSON WATSON: Excuse me. I just would like to announce the presence of Assemblyman Bob Epple. Thank you for joining us. Continue, please.

MR. SYBERT: Thank you, Senator.

In this middle group of 19 states, the executive branch cannot be unilaterally reorganized.

Again, Prop. 165 is in this middle ground of mechanisms. It does not, or would not provide the governor with unlimited discretion as to where to make cuts, but instead would allow him to make spending reductions in about 50 percent of the budget categories. The other half of the budget, including debt service, education -- and I know Secretary DiMarco will speak to this later today -- local subventions, and 95 percent of state employees' salaries would be

exempt from any cuts.

Now, this may be contrasted, for example. Let me show you a second chart here.

What we've done on this second chart -- what the second chart shows, Members, it's a list of states, some of the states that provide their governors with independent budget cutting authority, and it shows the percentage of their budget expenditures that may **not** be cut. It shows the exempt percentages. And you can see that at the top Minnesota and North Carolina say everything's open to being cut; they exempt nothing. At the bottom, Massachusetts exempts over 80 percent of its budget. California, under Prop. 165, again would be about two-thirds of the way down. Fifty percent of the budget would be protected and 50 percent would be open to cuts. This may be contrasted, for example, with some of the larger industrial states perhaps more analogous to California: Pennsylvania, where none of the budget is exempted from cuts; New York, where only 6.8 percent may be exempted; or smaller states such as Arizona and Colorado where only education is exempted.

As I said, we present data on this chart as to 21 states that exercised this kind of budget authority in 1991, and two-thirds of them were more generous to their governors and their ability than Prop. 165 would permit the California governor.

I believe that it is inaccurate to claim, as some have, that Prop. 165 would give the governor unlimited budget power. Instead, Prop. 165 would give the governor the ability, if he or she and the Legislature cannot agree on a budget, and only if there is a projected deficit, to make cuts based on the then-current or most recent budget baseline in about half the budget categories and then only enough to close the projected deficit. Prop. 165 does not let a governor write a budget. It lets him close a deficit according to set criteria and an established budget baseline, either while the budget debate goes on or with the current budget still in place. Those are two very different things.

I heard testimony earlier this morning about the fear, and I believe Senator Alquist referenced this in his opening remarks, that somehow Prop. 165 repeals the standard constitutional provision of a legislative override; that the Legislature on a two-thirds vote could override a governor's veto.

The Attorney General, yesterday, came down with an opinion, which I understand is now public, that that is not the case; that there is no repeal of the legislative override in Prop. 165 and that simply is not an issue. You cannot repeal, according to the Attorney General, a constitutional provision by implication; and therefore, Prop. 165 does not remove the legislative override.

The Legislature would still be able, by a two-thirds vote, to pass a budget and have it be law.

CHAIRPERSON WATSON: Let me draw your attention to the Sacramento Bee article, September 29 "Error Makes Proposition 165 Constitutionally Flawed." Judge Gordon, Director of the Governor's campaign for 165...that there is a small, minute technical error...so that could be corrected by the courts, and that is the flaw that we are referring to. There is an admission to the fact that it is an error.

MR. SYBERT: Madam Chair, I want to be careful. I am a lawyer. I'm not here to testify on behalf of the initiative or the initiative campaign. I'm here to testify as to what we found referencing other states. But I do know that the Attorney General has found and issued an opinion that that is not the case. He has issued an opinion that there is no such error. I have an extra copy of that and I'd be happy to give it to you if you'd like to take a look at it.

CHAIRPERSON WATSON: Well, Mr. Gordon, who was responsible for putting it on the ballot, said it was an error. So you have some conflict with the people who developed Proposition 165, is what you're saying.

MR. SYBERT: My own personal opinion, not speaking on behalf of the Governor or anyone else, speaking on behalf of me, is that I don't believe there is an error, and apparently the Attorney General believes also that there is no error.

CHAIRPERSON WATSON: All right. My next question to you would be this: Now, in current law the government must submit -- the governor must submit a balanced budget, and it gives a time certain. And in current law, the Legislature is required to pass a budget and there's a requirement of two-thirds. Do you feel that the new authority in 165, and I'm going to read directly from it, "would allow the Governor to declare a fiscal emergency and reinstate the prior budget adjusted for constitutionally required increases and any reductions needed to balance anticipated revenues and expenditures when a new budget has not been passed." Does that language not give the governor the authority to declare a budget or to write a budget?

MR. SYBERT: I do not believe so. My reading of the Act is that if there is no budget, for whatever reason, if there is no budget, and if there is a projected deficit, because remember, if there is no projected deficit none of this kicks in in the first place, if there's no budget, number one, number two, if there's a projected deficit, then number three, the governor is required to take the prior year's budget as a baseline and he is permitted to make cuts in about 50 percent of those categories only to the extent required to close that

projected deficit.

CHAIRPERSON WATSON: But this allows the governor to rewrite the budget.

MR. SYBERT: Well, I think strictly speaking it allows the governor, under very strict circumstances, to rewrite a very small portion of the budget, but it certainly doesn't even come close to allowing him to...

CHAIRPERSON WATSON: Small, large, it really doesn't make any difference. The rewrite is the trigger word there. What I see, this very clearly gives the governor the authority to rewrite a budget in a fiscal emergency.

The concern I have is that there is a two-thirds requirement, for obvious reasons, to pass a budget. That makes it more difficult or brings more people into the decision on a budget that impacts over 30 million people for the State of California. I feel that it flies in the face of representative policymaking. The 120 people write that budget and the governor can lower figures, can't increase them but can lower figures. It gives the 120 people and their constituents the representation on that budget. Now, Proposition 165 changes that and puts it into the hands of one person to then rewrite, and that flaw does not allow us to go back and correct it through an override.

MR. SYBERT: Madam Chair, I have great respect for you and I'm going to have to...

CHAIRPERSON WATSON: It doesn't have anything to do with respect. Just answer the question.

MR. SYBERT: I'm going to respectfully disagree with almost everything you said.

CHAIRPERSON WATSON: It's all right to disagree with me because I'm disagreeing with you, so it's okay.

MR. SYBERT: Let me just very briefly go down the laundry list of disagreements.

Number one, I think there is an enormous difference between being able to affect one, two, three percent of the budget and being able to affect 100 percent of it.

CHAIRPERSON WATSON: We're not talking about size. We're talking about the authority, and the authority says the governor can... One provision or 100, does the governor have that authority under 165 or not?

MR. SYBERT: But I am talking about size and I don't think you...

CHAIRPERSON WATSON: No. No, no. Answer my question. Does 165 give the authority to the governor to rewrite one provision?

MR. SYBERT: One provision?

CHAIRPERSON WATSON: One provision, or more.

MR. SYBERT: Under certain specified circumstances.

CHAIRPERSON WATSON: Or more. Yes/no?

MR. SYBERT: Under certain specified circumstances. Unfortunately, it's not a yes or no question.

ASSEMBLYMAN EPPLE: Madam Chair? Perhaps I can rephrase this. Does the Act give authority to the governor to spend money when an appropriation has been made by the Legislature?

MR. SYBERT: Forgive me, sir. Could you -- I didn't catch a couple of words there.

ASSEMBLYMAN EPPLE: Does the initiative give the authority to the governor to spend money without an appropriation having been made by the Legislature?

MR. SYBERT: Again, I'm speaking after my own personal reading of it. I don't represent the initiative and I'm not here to give formal legal advice. My reading of the initiative is it doesn't -- no, I don't think so, because the governor has to take the existing budget baseline.

ASSEMBLYMAN EPPLE: Okay, But, if there is no appropriation that's been made by the Legislature, no budget approved, and he acts to spend after that date under the authority granted in this, and he is doing it without an appropriation of the Legislature.

MR. SYBERT: I think you would want to get an expert legal answer to that, but I suppose there is an implication that there's a continuing appropriation from the current or just prior year's budget baseline.

Madam Chair, may I continue?

I'm sorry, I got a little distracted and I was in the middle of disagreeing with you on everything and I forgot the last...

CHAIRPERSON WATSON: You think I'm going to remind you what you were disagreeing with me on? (Laughter.)

MR. SYBERT: The last four or five points. Oh, I know, you made reference again to the assertion that the Legislature would be unable to have any opportunity to redress the governor's action, and again, I don't believe that's the case. Apparently, the Attorney General doesn't believe that's the case. Under current law, without Prop. 165, you need two-thirds to pass a budget and you need two-thirds to override a governor's veto. As I understand the Attorney General's Opinion, with Prop. 165, if the governor vetoes a budget and the Legislature then overrides by two-thirds, that budget becomes law. That's the way I understand the Attorney General's Opinion, and again, I have an extra copy of it if the committee would like it.

CHAIRPERSON WATSON: As I understand, there's a provision in 165 that

requires the governor's signature and what it does on that budget by a certain deadline. What that does is to eliminate the possibility of a veto override by the Legislature.

MR. SYBERT: My understanding, Senator Watson, is that that is not the case and the Attorney General has apparently opined that that is not the case.

CHAIRPERSON WATSON: Well, Mr. Gordon says it was an error and should have not been in there. That's the person who put the proposition on the ballot.

MR. SYBERT: I read the same article in the Sacramento Bee and all I can tell you is since my arrival in Sacramento about 20 months ago I have been stunned at how often the newspapers get it wrong.

CHAIRPERSON WATSON: Oh, maybe that's the reason, you just got here 20 months ago. Okay, all right.

MR. SYBERT: Let me briefly finish up my prepared remarks and then if there are any additional questions I'd be happy to respond to them.

Again, this OPR survey that looked at the other 49 states, we found that there is a correlation between greater gubernatorial authority and smaller deficits. The states whose governors have significant or full budget cutting authority this year faced average budget shortfalls of 2.5 percent of planned expenditures. That is less than half the average 5.7 percent shortfall of states like California whose governor has little or no authority. Putting that another way, states whose governors can reduce spending when the Legislature cannot tend to run substantially smaller deficits.

We also looked at the court cases which have challenged some of these powers, and as you might imagine, there are a number of those. These kinds of budget cutting powers are sometimes challenges of violation of the separation of powers. According to the court cases, most of these budget cutting powers are upheld. The general rule is that such authority is constitutional and it doesn't violate the separation of powers if it is constrained within broad policy limits that are set in statute. It looks to me like the Taxpayer Protection Act appears to meet this test because it sets which budget categories may be cut and which not.

In conclusion, Madam Chair, and Members, the breath of the governor's authority to cut the budget that is established in the Taxpayer Protection Act is common and it is normal in many other states and it generally passes legal muster. Prop. 165 is a fairly mild version of such authority...it falls about in the middle. Again, the alternative is deficit spending which is constitutionally forbidden.

I appreciate the opportunity to comment and I'd be happy to respond to any

further questions or comments that Members may have.

SENATOR HILL: Madam Chair, if I could, I've got some questions. The first one, Mr. Sybert, deals with your original chart talking about California being in the group of four or five -- I guess six states that had no authority in terms of budget reductions. My question is, as you look at that authority -- this is under the proposed authority -- the Governor declares a fiscal emergency -- how many of those other states does the governor have the blue pencil authority?

MR. SYBERT: You mean the line item veto?

SENATOR HILL: Line item veto.

MR. SYBERT: Senator, we did not look at that but I would be happy to try to get that information and get it back to you.

SENATOR HILL: It just seems to me that if you make the argument that really California has a very weak governor, that there are only five other states that have the -- that don't have this kind of new budget authority that part of that -- part of the tremendous leverage that the Governor has in our budget process is his ability to blue pencil, and it seems to me somehow that has to be adjusted in there in terms of being a fair comparison of other states and other governors' authority. I know that not all other states does the governor have that blue pencil authority.

MR. SYBERT: I think that is a fair comment and I will get that information to you, but I also suspect the answer is going to be that most of them have the line item veto. I know that they have it in Arkansas, because Bill Clinton has said that if he's President he wants it as the national President. So I suspect Democrat, Republican, across the board, most governors have that authority.

SENATOR HILL: But again, that would be a -- it seems to me that's just an additional power that the governor has that somehow isn't reflected in terms of...

MR. SYBERT: Sure. That is a fair comment and I will get that information to you.

SENATOR HILL: You know, this issue about whether we get or need to have a signature or not is a great concern to me. I'd like to see that Attorney General's Opinion. You could just send it to me. I'd like to get a copy of that. It seems to me that's a very critical piece of this whole budget authority is whether or not indeed after you get past that June 15 deadline whether or not there's an ability to override a veto of whatever governor, and I know there's a difference of opinions but I think that's a real critical part. That's just a comment, not really asking a question.

MR. SYBERT: Senator, we had our budget cuts, so rather than spend 29 cents on a stamp, I'm just going to give it to you.

SENATOR HILL: Okay.

Two other questions that I'd like to get your response to. On the second chart, I think the issue was California -- if Prop. 165 passes, the governor would have the authority to reduce half of the state budget. Put him right in mid-range, or actually two-thirds or so of the way down. That implies that the governor would have no authority in terms of -- I assume -- maybe this is not a correct assumption -- my assumption is that includes the governor would have no authority to reduce K-14 appropriations. That that's part of the 40 percent that she had. I assume the other things add up to 10 percent.

MR. SYBERT: I believe that's the case. I know there has been some dispute as to whether that exemption is limited to the Prop. 98 guarantee or whether it extends to an education appropriation greater than the Prop. 98 guarantee. It may be an academic question. I don't know how soon we're going to get an appropriation greater than the guarantee. I believe that Secretary DiMarco is prepared to address that a little later.

SENATOR HILL: But my comment is not, you know, what happens if we end up with an expenditure over the 98 guarantee, but what about the real world exempt we've had the last couple of years. If we pass a budget, make an assumption on what the 98 guarantee is going to be, we found out the last couple of years our assumptions were overly optimistic. That triggers the governor declaring there's a fiscal emergency. This year we had a \$2.3 billion recapture in overpayment. So my question is, if Prop. 165 is successful, does the governor have the authority to reduce the K-14, the Prop. 98 guarantee under this year's scenario by that \$2.3 billion?

MR. SYBERT: I'm really going to ask you to hold that question for Secretary DiMarco. She simply is more qualified than I am.

SENATOR HILL: Okay. I guess -- the Analyst testified: we're not sure. It's an open-ended issue: I'm not sure. If indeed it turns out that the governor would have that authority to reduce the 98 guarantee by the 2.3 -- I assume just by the \$2.3 billion, then the percentage of authority the cut that the governor would have in terms of your chart would not be 50 percent but indeed somewhere in the neighborhood of 10 percent, because if you take out the 40 percent, the K-14 suffer.

MR. SYBERT: Senator, again, please ask Secretary DiMarco, but my understanding is that nobody has suggested that the minimum guarantee itself, which is some 41 percent, would not be exempt.

SENATOR HILL: No, no. I understand that. But it seems that the way that you come up with the 50 percent figure, in terms of half the budget would be protected, is assuming that all 40 percent of the K-12 expenditures would also be protected.

MR. SYBERT: Yeah.

SENATOR HILL: If indeed it turns out, as the Analyst says it's an open-ended question, and we'll find out -- I see Secretary DiMarco here -- that the governor has the authority to reduce that \$2.3 billion under this year's real world scenario, then the reality is the governor's authority here, in terms of his authority to cut spending, you would have to -- actually, what you'd have to do in terms of the chart that you would have would be to add that to the 50 percent. You'd have to add additional 40 percent to the budget which would give him the authority to reduce, indeed, a total 90 percent of the state budget.

MR. SYBERT: I don't read the numbers the same way. If -- and we would need to crunch the numbers...

SENATOR HILL: Let me put it this way.

MR. SYBERT: No, I understand what you're asking and I would like to respond. If you assume that the governor would have the ability to cut what in retrospect is an overpayment to the schools above what turns out to be their actual Prop. 98 guarantee, then at most, I suspect, that would push the 50 percent figure, exempt figure, down to 40/45 percent. The major -- a major portion of the budget would still be protected and would still put California right in the middle.

SENATOR HILL: But when you calculate up that figure, you're totaling in -- you're assuming that K-14 expenditures are exempt from the governor's ability to reduce. That's what I'm trying to get at.

MR. SYBERT: I believe that's correct. We did make that assumption. In most cases, even if there is a -- with 20/20 hindsight or 20/20 accounting, even if it turns out that there is a Prop. 98 overpayment, the vast bulk of education funding will still be within that Prop. 98 minimum guarantee and will be exempt.

SENATOR HILL: But I assume that in terms -- when you put this chart together you're not talking -- when you exempt programs, when you say, for instance, Mississippi Medicaid is exempt, you can't take credit for the portion of programs which could be cut, if only, like you say, if \$2.3 billion and we're still spending \$17 billion on K-14 education, you're putting the entire program into that exempted category.

MR. SYBERT: Well, my understanding, and again, I don't want to punt too often but Secretary DiMarco will respond to this, my understanding is that K-14

education is exempt under the proposition.

SENATOR HILL: Completely.

MR. SYBERT: That's my understanding.

SENATOR HILL: And even under the overpayment scenario there's no authority to go back and retroactively blue pencil that?

MR. SYBERT: That is my understanding, but again, I want to be very careful not to overstate my brief. I'm here to testify what the budget cutting mechanisms are in other states. I can't represent either the Administration or even a thorough legal analysis in answering those kinds of questions.

SENATOR HILL: I guess to get back to my scenario, the way it appears that this chart is put together since you're having entire programs not portions of programs, whether or not you're exempted, I assume to get to Massachusetts 80 percent of all programs have been exempted, you're totaling all of them up, that if indeed the governor has the authority to reduce that Prop. 98 guarantee by the \$2.3 billion, then your 50 percent figure would had to have that additional 40 percent added to it?

MR. SYBERT: Well, what percentage of total K-14 funding was the \$2.3 billion? I mean, we can figure this out real quick.

SENATOR HILL: But I don't believe -- I'm trying to get back to that point -- I don't believe that's how the rest of the chart was pieced together by only saying the \$2.3 billion piece of K-14 was factored in there. I assume that you'd exempt the entire program.

MR. SYBERT: Yes. Because my understanding, again, is that K-14 education is exempt, so we put the whole program in there.

SENATOR HILL: The last question gets back to a concern that I've had, and Mr. Epple talked about that, given the -- the argument has been this only gives the governor authority, because again, I'm trying to analyze this from the perspective of not this Governor but who's the next governor and what if it's of a party that I don't like, just like some of my colleagues here are concerned to that on the opposite, what about giving -- the argument is, well, it only gives the governor authority to cut, and so as fiscal conservative, Senator Hill, you shouldn't be worried about that because even if it's the most liberal Democrat governor who gets elected, their only authority is going to be in terms of reducing programs, that shouldn't make you nervous. My question is, if indeed you have the fiscal deadlock, we don't have a budget in place, isn't it fair to argue that by giving the authority to the governor to continue expenditures, using last year's budget as a baseline indeed gives the governor authority to spend money because it's based on last year's programs?

MR. SYBERT: Again, I think that we need to separate out two issues here. One is the interim ability of the governor while the budget debate is going on, if it lasts past the constitutional deadline, is the interim ability of the governor to cut expenditures, authorized expenditures? The other issue is whether an expired budget, whether the appropriation legally carries on. And I suspect the person who has to answer that is the Controller. You may have a situation where there is no legal authority for the state to actually spend money and the state has to issue IOU's if there is no budget, just as occurred this year, and perhaps the IOU's have to be a reduced rate according to what the governor cuts. But again, that is something that I haven't taken a look at, wasn't asked to, and I really think you would need to talk to the Controller about the legal authority, because, of course, he is the one who pays the bills.

SENATOR HILL: I don't think it's a Controller issue at all. I mean, the real world is this: As we go through the budget process into the budget committee we know the governor does not have authority to spend money, that the Legislature doesn't put the funding in for the Office of Planning and Research or we reduce that by a certain amount, there is no way the governor can spend above that amount. And that really is the balance-of-power trade-off. We know at any time we can pass a budget and the governor has the ability to blue pencil. You know, I got a park blue pencil by the Governor two weeks ago in terms of the budget that he had -- that's his authority to do that. But the trade-off is while he has the ability to make those cuts he also does not have the ability to expend any money. And so my question is, under this scenario, and it isn't a Controller's issue, it's an issue that says if you're going to use last year's budget as a baseline, we've got a fiscal emergency, does the Legislature have the authority, under that declaration of a fiscal emergency, to eliminate the Office of Planning and Research? It doesn't appear that it does. It appears that you start with whatever last year's baseline is in terms of an assumption, and the reality is, hasn't that changed that balance of power because the governor now has authority to expend, albeit only to that level of last year's budget?

MR. SYBERT: Well, there's no question -- I don't know if the scenario you outlined is correct or not. If it is, if there's no legal authority to spend without an appropriation and if there's deemed to be no appropriation, then I imagine you can't spend anything, and instead of having a 2 or 3 percent cut in the budget you have an effective 100 percent cut. I don't know if that's correct or not.

SENATOR HILL: But isn't Prop. 165 giving him that authority? Isn't it

allowing that money for the first time to be spent...

CHAIRPERSON WATSON: Absolutely.

SENATOR HILL: ...when he declares that fiscal emergency? We're deadlocked. We have no budget, it's July 1, the governor has no authority, nobody has any authority to spend out those monies. We're not paying nursing homes or school kids or state employees. We don't have that authority to spend, we've got to send out IOU's. Isn't under the Prop. 165 authority now the governor has the ability to spend all that money from last year's budget?

MR. SYBERT: Again, Senator, my response is that I see there to be two separate issues here. One is the governor's ability to reduce planned expenditures. The other is the ability to actually issue payment. And I think those are two separate issues. I was going to say there is no question that Prop. 165 does shift, to some degree, the balance of power between the branches of government.

CHAIRPERSON WATSON: But doesn't he have the unilateral ability under this to then expend money?

MR. SYBERT: My reading is, I'm not sure that's the case and I haven't looked at that question.

SENATOR HILL: I don't think that there's any legal question about that at all. I don't think there's any disagreement about that issue at all.

MR. SYBERT: Well, again, this is the first time that I've heard that point raised by anyone, which may be a tribute to your insight, but I don't know the answer to that one way or the other, yes/no, up or down.

SENATOR HILL: Richard, I wonder if you could do me a favor, in addition to looking at the Governor's blue pencil authority and how does that compare to other states. How many other states would the governor have the authority to spend last year's budget if we were in a deadlock, in terms of comparing, you know, your analyses that this will put California in the middle of governors' budget authority.

MR. SYBERT: To answer that really requires a legal conclusion that I'm not sure my office is authorized to make. So what I'm going to promise you is that I will look into whether we can respond to that or whether someone else should.

SENATOR HILL: But let's make this assumption, and I don't believe that there's any disagreement by anybody anywhere that if we have a fiscal -- the governor declares a fiscal emergency, July 1 we have no budget -- just like this year -- that the governor has the authority to spend last year's budget. I don't think there's any dispute about that. I think everybody concludes that. My question is, in terms of your chart to show us where we rank at the bottom of

the six states right now, in addition to showing the blue pencil and factoring that in terms of how many other governors have that authority, how many other states would the governor unilaterally have the authority to spend money up to last year's budget once he declares a fiscal emergency? It seems to me that ought to be part of that adjustment in terms of whether or not this is more power or the middle of the road power that other governors can utilize.

MR. SYBERT: Senator, I have to respectfully disagree with your assumption that everybody assumes, everybody knows that this gives the governor the power to spend. As I said, that's a separate issue, and that goes to what we had this year, whether certain programs have to go on being paid, whether through IOU's or through something else. As I read the initiative, Prop. 165 gives the governor the ability to cut planned expenditures. I have not looked at all at the issue that you've raised, and frankly, I haven't heard it raised before today.

SENATOR HILL: But I'm talking -- you're talking, and I hate to beat this point, let me just close with this, you're talking about after the first quarter, as I learned today, the Governor has the authority to reduce by up to 3 -- if expenditures fall off by 3 percent he can blue pencil, come down to that amount. I'm talking about a different scenario. This year's scenario, the July 1 budget, we don't have a budget. My understanding of the initiative was -- you know, in fact, we have a handout here -- it says that if we do not have the budget that a governor declares a fiscal emergency, has the authority to use last year's budget as a spending plan. And so that's my...

MR. SYBERT: Yeah. I understand your observation very well, and again, my response is, I'm not sure whether it's a spending plan or a planned expenditure plan.

SENATOR HILL: Let me just read here on the second point from governor's authority under Prop. 165, "would allow the governor to declare a fiscal emergency and reinstate the prior year budget, adjusted for any constitutionally required increases." Okay, "reinstate the prior year budget". I mean, I think that -- it seems to me very clear.

So my question is, in terms of looking at the blue pencil authority and how does that factor in in terms of your chart, how many other states, if you have no budget, does the governor have the authority to reinstitute the prior year budget? Because it seems to me that's also what you're -- a tremendous amount of leverage. I'm looking at it and saying, hey, Kathleen Brown's the next governor and by god, I want some program cut and I'm going to hold out in the two-thirds vote, we're going to hold up that budget because we want something

cut, and that new governor says, hey, too bad, we don't have a budget on time, July 1, fiscal emergency is going to be declared, we're going to spend last year's budget, tough luck, you guys.

MR. SYBERT: Senator, I will look into that. But again, we're not a legal office. I can't promise you that we can give you a comprehensive answer to that.

SENATOR HILL: But you ought to be able to very easily tell me how many other states would the governor unilaterally on his own declare a fiscal emergency, have the ability to spend last year's budget.

MR. SYBERT: I will look into that, but again, I'm not sure that everybody would agree with that distinction.

CHAIRPERSON WATSON: Senator Hill, it is my understanding that the authority in 165, for the governor to impose a budget unilaterally, is unprecedented.

Do you have any information to the contrary, Mr. Sybert? I understand it's unprecedented.

MR. SYBERT: I disagree with that statement. I do not believe...

CHAIRPERSON WATSON: Is there another state where the governor unilaterally can impose a budget?

MR. SYBERT: There are 44 other states where the governor can unilaterally make changes in the budget.

CHAIRPERSON WATSON: No, no. I'm going to get real specific in my language. Are there any other states that allow the governor the authority to impose -- now, these are the key words -- to impose a budget unilaterally?

MR. SYBERT: Just like 44 other states, Prop. 165 would give California's governor the authority to unilaterally make certain changes in the budget.

CHAIRPERSON WATSON: That was not my direct question and I'm going to -- can you latch on to impose a budget? Can you speak to? Do you feel that 165 allows this Governor to impose a budget? You know, it kind of gets to the question Senator Hill was raising, because, you see, we're talking about last year's budget.

MR. SYBERT: This is my personal opinion. My personal opinion is no, it does not. My personal opinion is that 165 gives the governor the power to make certain changes at the margin on an existing budget. It does not give him the power to write or...

CHAIRPERSON WATSON: Is there any other state -- now, maybe you can answer this -- is there any other state that allows the governor unilateral authority to impose a budget?

MR. SYBERT: There is no state, including California under Prop. 165, that

gives the governor the power to impose an entire budget, nor would Prop. 165.

CHAIRPERSON WATSON: But the Governor can impose the same kind of expenditures that were in the budget the prior fiscal year.

MR. SYBERT: The governor can impose roughly the same kind of cuts that 44 other governors can.

CHAIRPERSON WATSON: That's not the point. And I think you get the point, Mr. Sybert. The point is that Prop. 165 allows the governor unilaterally to implement a prior year's budget figures. Is that a true statement, Ms. Hill? Okay.

Thank you very much, Mr. Sybert. We appreciate your testimony.

MR. SYBERT: Madam Chair, I sincerely appreciate your courtesy. It is not always thus.

CHAIRPERSON WATSON: Moving right on along, and we're going to try to make up for the time that we're behind. I've got to make one adjustment. Dr. Caiden has to run real quick. She's Chair of the Department of Public Administration, Cal State University, San Bernardino. And I would like her to come up now and then we'll call up Janice Nielsen of the California League of Voters.

Before you get started I'd like to also announce the presence of Assemblywoman Barbara Friedman, just joined us. Thank you for coming, Barbara.

DR. NAOMI CAIDEN: Madam Chair and the committee, I'd like to thank you very much for -- I very much appreciate the opportunity of testifying today. I do have to get out to San Bernardino this afternoon to the students, so I'd like to talk a little earlier.

I'd like to start off by saying that I am not an expert on California politics or on California budgeting. One may ask who is, but I have researched, written, and taught public budgeting in a number of contexts, including the historical, also relating to poor countries and to the federal government for a number of years.

I'd also like to mention that I am editor of Public Budgeting of Finance, a quarterly journal. I already gave Senator Alquist a copy and this one is for the committee. It's all I could rustle up on short notice.

CHAIRPERSON WATSON: Thank you very much, Doctor.

DR. CAIDEN: In which there is an article on "California's Structural Budget Crisis" by Jane Savage, which may be of some interest.

I have also circulated a statement for the committee and I could get more statements to anybody later on if they wanted.

You're familiar with the proposition as it stands. It seeks to amend the Constitution to augment the power of the governor in the budget process and to

allow the declaration of fiscal emergencies.

I'm not going to go over the provisions, we've done that for long enough this morning. I would like to say that I believe that as it stands, on the face of it, this would contravene the separation of powers and would substitute, in my opinion, dictatorial power without contributing to the democratic resolution of conflict, to informed and realistic budget debate, and to the resolution of the current crisis, which there presently is in California.

First, the Governor has discretion when to call an emergency. Even when a budget has been duly passed he can refuse to sign it. Secondly, whenever his office shows more than a certain divergence from forecasts, and this, of course, is something that is easily manipulable, forecasts are estimates. The forecasting record in California has not been very accurate, and this is something that can very easily happen.

During the emergency, unless the opinion that we heard in the last testimony stands, it's my reading that the Legislature cannot override the governor even by two-thirds majority and therefore the governor has the discretion and opportunity to substitute his or her own priorities.

CHAIRPERSON WATSON: Dr. Caiden, on that issue. Is there any other state in the Union that allows the governor that kind of unilateral authority?

DR. CAIDEN: I do not know. I am not an expert on state government.

CHAIRPERSON WATSON: Okay.

My other comment is that if politics is entering into this, when Jerry Brown was Governor, we overrode him seven times, and most of those times were on fiscal issues where we disagreed with the large cut. The governor can never increase a line item but the governor can cut or eliminate a line item. And when he did that, our own majority in the Legislature, by two-thirds, overrode his veto and it protected many programs that would have caused great impacts on the life and safety of people. But my question really went to do other states give this authority.

DR. CAIDEN: As far as I can see, the cards are stacked and the governor simply cannot lose. He will win the budget debate.

What I have looked at is in other countries with different systems of government. Where similar unlimited powers over the budget are granted to the executive in other democratic countries, they are usually checked through the cabinet system of government. The executive depends on retaining a legislative majority, and if it loses a vote on the budget it has to resign. There's no similar provision in a separation of power system where the executive and the legislature share power and are expected to check each other.

In my opinion, Proposition 165 would embody the worst of both the systems. It would allow, on the one hand, the executive unlimited power without a reciprocal power by the Legislature to vote him or her out of office, and this to me is the critical point, that it tries to get the best of both worlds. The executive is not responsible to the Legislature and is not checked by the Legislature.

Other aspects of the proposition have been touched on. I believe they're clumsy and possibly counterproductive. The suspension of salaries provision is a kind of collective punishment. It's more redolent of a colonial type relationship than a democratic institution, and it allows more leverage for an irresponsible minority, a one-third minority or something more than a one-third minority in the Legislature to hold things up with the threat of that punishment on their side.

The furlough and salary cuts provision, they single out non-contract employees, they may affect program performance and morale considerably in the state public service. In any cases, they are not a reasoned kind of approach to budget cutting.

What are the problems that Proposition 165 ostensibly seeks to remedy? They may briefly be inferred as four: budgetary irresponsibility, automatic spending, failure to reach agreement, and budget imbalance. And I'd like briefly to go through those four.

The first one is budget irresponsibility. I would maintain that this proposition would increase, not decrease, budget irresponsibility. The governor would have a unilateral power. This is not a responsible position. The Legislature may be ignored and therefore also has no incentive to behave in a responsible way. Neither side has an incentive to behave responsibly.

Second, automatic spending, or what the proposition calls "auto pilot spending". The proposition excludes earmarked areas under the Constitution. There are four areas that are apparently excluded; therefore, those are major areas of automatic spending. There is one, of course, that is not and that is the welfare area which is part of a different part of the proposition. The way this works necessarily, as Steve Gold earlier on pointed out, would be to provide an incentive to get more areas exempted. We would simply have a greater incentive to the kind of government by initiative that we have now. Everybody would simply try to get their areas exempted.

The problem of failure to reach agreement, which is a very big problem in California, as Elizabeth Hill pointed out, the debate period would be shortened, which would make it more difficult to expose the budget to public comment, more

difficult for compromises and agreements to be reached, and the governor himself or herself would have no incentive to gain agreement at all. There's simply no reason if you can always win. Why should you bother to try to gain agreement?

Finally, budget imbalance cannot be resolved by gimmicks. The budget imbalance is related to substantive economical and political issues which, again, the committee has heard about from Mr. Gold's testimony. The failure, and I believe it is a failure, of Graham-Rudman at the federal level should be warning enough. This was a gimmick. It simply complicated processes and it did not contribute, it did not do what it said it would do, which would be to reduce the federal deficit to zero in a given number of years. It couldn't do it. What is needed is reasoned analysis, and a debate with understanding and resolution of problems.

My testimony is very brief because I think this is what I can contribute.

In conclusion, I do not think that Proposition 165 would achieve its ostensible aims, those four points. It would result, in my opinion, in a dangerous transfer of power to the governor who already may veto a budget and has line item veto, and in addition, there is a trigger mechanism available which was not apparently used this year. It would allow the substitution of executive priorities, and more than this, it would contribute to a worsening of the budgetary climate which appears to be poisonous already, making agreement, compromise, cooperation, and responsibility, which is what budgeting is about, more difficult not less.

In my opinion, it would be better, if this were possible, to remove the two-thirds majority requirement, which I have not checked how many budgets would have been passed by the Legislature without that two-thirds requirement, but it does seem to me that this is something exceptional in the United States and that it does make agreement more difficult. The important point is, as again Dr. Gold mentioned, to craft packages, to come to compromises that would make budgets possible. It would be better to remove that requirement than to submit to these vagaries of arbitrary power and the uncertainties that this proposition would bring.

In concluding, I'd like to quote something that A. Allen Post, the previous legislative analyst, once said to me when I interviewed him. And he said that he saw his role as "trying to make politics work at their best and not at their worst". I would submit that this proposition would tend to make politics work at their worst and not at their best.

Thank you, Madam Chair.

CHAIRPERSON WATSON: Thank you so much, Dr. Caiden. Are there any questions

from committee members? We appreciate those very cogent remarks, and we hope we can get you back to your students on time.

I'd like to go back now and ask for Janice Nielsen with the California League of Women Voters. Come forward, please.

MS. JANICE NIELSEN: Good morning. My name is Janice Nielsen and I'm here today representing the League of Women Voters of California.

The League has made the defeat of Proposition 165 its highest priority this fall. The League and its members throughout California are working as hard as we can to educate the citizens of California about the dangerous changes in our system that the enactment of Proposition 165 would bring.

The League is adamantly non-partisan: we never support candidates but we do take strong stands on issues. We have taken the strongest possible stand in opposition to Proposition 165.

Based on the latest Field poll data, it appears that California voters are inclined to agree. After hearing of the proposition, 50 percent indicate opposition while only 37 percent support the measure. The ballot label on Proposition 165 merely says it all: "Grants governor constitutional power to reduce certain expenditures to balance the budget during fiscal emergencies."

Proposition 165 upsets the balance of power between the executive and the legislative branch. It destroys our system of checks and balances and puts unprecedented, unilateral control of the state budget in the hands of one person. How does this happen?

Currently, the Governor submits his proposed budget to the Legislature by January 10th. Proposition 165 would delay that submission until March 1st, allowing seven fewer weeks for legislative and public scrutiny. If the budget is not passed and signed by July 1st, the governor can declare a fiscal emergency and make cuts in any area not constitutionally protected: health care, law enforcement, transportation, family planning, environmental protection, and yes, education, a point to which I will return in a few moments.

To understand the real magnitude of this constitutional shift of power you have to read Section 12.2 (b) in the initiative. That section clearly indicates that no one can stop the governor's cuts because the legislative override provision is effectively eliminated. 12.2 (b) reads, "Any reductions proposed under subdivision (a) shall become effective 30 days after the proposal is transmitted to the Legislature unless prior to the end of the 30-day calendar period the Legislature passes the budget bill and the bill is signed by the governor."

The League of Women Voters believes that any override of a governor's

actions requiring the governor's approval is no override at all. Indeed, Steve Olson, of the Department of Finance, testified Monday at the legislative oversight hearings in Sacramento, and I quote, "The plain language is in conflict with existing constitutional provisions." Two weeks ago the League of Women Voters and the PTA unveiled the coalition's radio campaign opposing Proposition 165. The radio spots point out the unprecedented and unchecked powers that 165 would give this and all future governors. In response, the proponents of 165 issued a press release saying our spots "blatantly lie to the voters of California." Furthermore, the release stated that "The Legislature can override the governor at any time." This past week, on Monday, after several hours of questioning by both Republicans and Democrats, the proponents of 165 were forced to admit the initiative is flawed. Proponents claim that the wording that would enable the governor to virtually control the entire budget process was the result of a "technical error".

Campaign manager George Gordon said, "It was an error. It should haven't been there." They further stated that, and I quote, "The court can disregard the literal meaning of the language of a law." The operative word here is "can". Maybe the court **can** disregard the language. Can we be sure they will? Can we take that risk?

Initiatives often have a great deal of fine print and this initiative is certainly no exception. The League encourages people to read the fine print. The proponents of this initiative ask us to take a giant step backwards. They ask the voters to ignore the fine print and trust that the issue will be settled after the election.

I can imagine how most legislators must feel about this. Throughout California's history you and the public have had one real weapon against the dictatorial powers of any executive: By two-thirds vote of both Houses, you can tell a governor "no". Proposition 165 changes that rule. When its provisions are triggered you could override the governor's spending decisions by a hundred percent of both Houses and the governor could still ignore your vote simply by refusing to sign the override. I would think the Legislature would be very hesitant to give up their veto override; certainly the League of Women Voters has grave concerns about it.

We do not single out one governor on this matter. We do not believe that this or any future governor should have such immunity from checks and balances.

Even after the budget is passed and enacted the danger continues. Section 12.5 gives the governor the power to declare a fiscal emergency any time the budget is out of balance by 3 percent or more. Simple miscalculations by the

Department of Finance could trigger a so-called emergency. We all know how hard it is to make fiscal projections. In seven out of the last ten years the Department of Finance has made these miscalculations, and since the director of Finance is appointed by and works for the governor, the chances of simple miscalculations might increase as soon 165 becomes law.

Once again, any override would have to be approved by the governor. Section 12.5 (b) reads, "Any reduction proposed under subdivision (a) shall become effective 30 days after the proposal is transmitted to the Legislature unless prior to the end of the 30-day calendar period the Legislature enacts in each House, by roll call vote entered in the journal, two-thirds of the membership concurring, alternate legislation to bring anticipated revenues and expenditures for the fiscal year end to balance and that legislation is signed by the governor."

The proponents of Proposition 165 state that governors in 44 other states have similar authority to keep their budget balanced. This is simply not true. Despite any claims to the contrary, Proposition 165 would give the governor of California more power over the enactment of our state budget than any other governor in the country. In no other state has the public's ability to participate in the budget process been so limited and the legislative override provision been eliminated.

Returning to education funding for a moment. Assertions that Proposition 165 does not affect the level of school funding are misleading. Proposition 165 does not expressly exempt school funding from spending reductions, as stated by the proponents. All of the discretionary money above the Proposition 98 guarantee could be cut by one person alone. It allows the governor to unilaterally reduce funding while still complying with the provisions of 98. This past year the Governor proposed to cut education by 2.3 billion, an action he could have taken unilaterally had 165 been the law. And, of course, higher education is not protected at all.

The Governor claims that this initiative would give him and all future governors a powerful incentive to improve legislative action. In truth, this initiative would give the Governor's own party an incentive to delay the process so that their own leader could ultimately define the budget, perhaps ignoring public priorities. Why compromise when you can have it all?

Although he proposed the initiative, the issue here is not Governor Wilson. This constitutional amendment will give this and all future governors virtually unchecked power. The governor remains in control of the budget process from beginning to end. The League fears the chilling effect on regulatory agencies

and independent boards and commissions whose budgets depend on the whim of the governor alone.

We are familiar with our current Governor and past governors, but what about governors in the future? What would happen if a particular governor disagreed with strict oversight of the nursing homes that care for our elderly? Or for tight enforcement of our environmental protection laws? Or for our worker safety laws?

The proponents of 165 like to focus the discussion of the initiative on the welfare aspects. 165 does nothing to strengthen the already worn safety net for California's 1.5 million poor children and their families. It provides no additional job training, no child care services or health care for the working poor, and does not address the inadequate supply of jobs in California. But talking about welfare just gets us off the main subject of this initiative: consolidation of power in one person.

The League of Women Voters fully recognizes the disenchantment and frustration Californians feel with the budget and legislative process. We share that frustration and constantly work to enact legislation that will make the process more efficient. We are confident that when the public learns the true content of this initiative that they will not be seduced by the welfare provisions and will vigorously reject the unprecedented and dangerous new powers 165 would put in the hands of one person.

In conclusion, I would like to state emphatically that this is a constitutional amendment. It gives the governor virtually unchecked power in the whole entire budget process. Californians will take a great risk of losing our checks and balances if they support this initiative and gamble on a court decision. If this initiative wins and goes to court, it will be the taxpayers who foot the bill for a change in wording that never should have been there in the first place. If it wins and doesn't go to court, we will have sacrificed public and legislative participation for unchecked gubernatorial power. The only way for Californians to win is to oppose 165.

Thank you.

CHAIRPERSON WATSON: I want to thank you for a very fine presentation which I wish would find its way into the press.

MS. NIELSEN: We're doing our best.

CHAIRPERSON WATSON: Just sign your name at the bottom, your organization, and send it into the L.A. Times and all the other papers because I think you said it all -- very logical, very rational, and it makes tremendous sense to me.

Thank you for the research that the League of Women Voters always does. And

what we need to do is take your work and educate the public between now and November the 3rd.

Any questions? All right. You said it all.

MS. NIELSEN: Thank you very much.

CHAIRPERSON WATSON: Members, what I'd like to do is to take up the next three presenters, and I don't know how your time is allotted. If you feel you can sit long enough we could go through and finish our program without breaking for lunch, or we could take up the next three and break for lunch. Since this is a democratic process, would you like us to continue on or would you want to break? Senator, would you like us to continue on rather than breaking for lunch? And, you know, that doesn't preclude you getting up, going out if you need to. I think maybe the economy of time would, you know, if we'd just go on. It's running late.

What I'd like to do is ask the educational presenters to come up now, and then if you want to break for lunch we'll do that.

Diane Brahams is here, representing the State PTA. And if I can ask Denise Rockwell Woods, President of the National Education Association Chapter, United Teachers of Los Angeles, to come up at the same time. And then we'll have Maureen DiMarco. If you'll come up to the first row. Maureen, we'll have you up as soon as they finish.

My name sake...and one of my fine volunteers and interns in my office who knows how to use the airwaves.

MS. DIANE BRAHAMS: Thank you. That's nice.

My name is Diane Brahams and I'm the Community Concerns Advocate for the California State PTA, and I appreciate the opportunity to testify here today.

The California State PTA is strongly opposed to Proposition 165. No single issue on the ballot could be more devastating to education as well as other services to children and families than Prop. 165, and no single issue could be more devastating to our traditional American system of checks and balances in government.

While the proponents of this measure want the public to believe education is protected from cuts, this is simply not true. As you've heard many times today, Prop. 98 provides only the minimum guarantee of funding for schools. Because of a strong commitment to public education, the state has provided, until this year, funding above the Prop. 98 minimum.

If Prop. 165 becomes law during a governor-declared fiscal emergency, the governor would be able to cut education down to the Proposition 98 level. As we learned this year, Prop. 98 does not truly protect education. If Prop. 165

becomes part of our Constitution, the governor will have new unilateral power over the budget to further erode Prop. 98 funding by cutting the base on which it is predicated.

What does all this mean? Well, earlier this summer Governor Wilson proposed a 2.3 billion in education cuts. Under Prop. 165 he could have single-handedly made those cuts. He also could have prevented 110,000 little children from starting kindergarten this year. All of that could have happened without any provision for legislative override and without violating or manipulating Prop. 98.

As you've already heard many times again today, the way the PTA sees it, budget funding levels are always based on, as you've heard, General Fund revenues, personal income, school enrollment, and property taxes. As part of the fiscal emergency language in the initiative, the Department of Finance, appointed by the governor, and the determinates of the revenue calculations, could recalculate the Prop. 98 funding level at any quarter to lower than when the budget was adopted. Nothing in Prop. 165 prevents the Department of Finance from declaring, as part of the fiscal emergency, that their earlier estimate of the Prop. 98 guarantee was an error. Therefore, the Department over-estimated budget calculations will have caused an apparent over-funding of public schools. The governor would then be free to cut school funding to the Department's newly calculated Prop. 98 minimum level and still stay within the constitutional language of Prop. 98.

This means that the initiative empowers the governor to act only on his priorities, not the will of the people. It can have the same effect as suspending Proposition 98 without a two-thirds vote of the Legislature, not the protection the people voted for in Prop. 98.

Funding the budget will be dependent on the honesty, integrity, and good will of the governor, whoever he or she may be, and the Department of Finance, not necessarily in the best interest of our children's education.

Another way that education funding could be hurt under Prop. 165, if, during the budget deliberations, the Legislature casts a two-thirds vote to suspend Prop. 98, there is then no limit to what the governor can cut from the education portion of the budget in a fiscal emergency because the education funding would no longer be protected, or at least for one year.

Although budget cuts are always harsh, these cuts would be particularly devastating. They could probably and really would come in the middle of a year. Classes would be eliminated and teachers would be laid off, and children's lives would be painfully disrupted.

I'm a member of the PTA because children are my first concern, but as a citizen of California I am also concerned about good government, and simply put, Prop. 165 is bad government; it violates American constitutional principles.

Although this year's budget battle was the worst ever, there was eventually a negotiated solution between the Legislature and the Governor, and the Legislature stood firm behind education. PTA was allowed to get out there and advocate for the Hill-Isenberg budget proposal. Under Prop. 165 why bother electing a Legislature? Their ability to override the governor is eliminated because the language of the initiative clearly states the governor must sign the budget.

Earlier this week proponents of 165 asked the citizens of California to ignore this exact language in the initiative, assuring us the courts would straighten this, and I quote, "technical error". This is not just a technical error; it is a major revision in the Constitution.

We are asking the Governor to withdraw his support of Proposition 165. The citizens of California should not have to rely on the courts to pay for an expensive legal proceeding to restore our system of constitutional separation of balance of powers. And Prop. 165 gives one person too much power over the state budget. No one governor, Democrat or Republican, should have that much power to hurt education or place his or her priorities above the will of the people. Our public schools are too important, our children are too important. That's why the California State PTA strongly opposes Prop. 165.

I represent the rank and file PTA parent, and I can't imagine them walking in with the language that's in the ballot books and trying to understand exactly what this is doing to their rights. PTA will be out there educating people, though, on the facts of this initiative.

CHAIRPERSON WATSON: Are there any questions of the presenter? I want to thank you also for bringing to us the point of view of PTA. You always do a good job. And we're going to depend a lot on you and the League of Women Voters to do that education that is not necessarily available to our citizens. And I think that once the word gets out we can defeat 165 but we certainly are depending on your help.

Thank you.

All right, Denise Rockwell Woods.

MS. DENISE ROCKWELL WOODS: Good morning. I'm Denise Rockwell Woods. I'm the Vice President of United Teachers, Los Angeles representing 34,000 teachers and certificated support personnel in Los Angeles, as well as the President of the NEA local of 20,000 members.

In America, every eight seconds of every school day a child drops out of school. In America, every twenty-six seconds of every day a child runs away from home. In America, every sixty-seven seconds a teenager has a baby. Every seven minutes a child is arrested for drug abuse. And in America, every day 100,000 children are homeless, every year 300,000 are in foster care, and 500,000 are in over-crowded juvenile detention centers.

Our children are the casualties of a government that sadly has forgotten that it is the trustee for all of the children of the nation, not just the rich and the well-to-do. Our children are the casualties of a Governor who has forgotten the sage words that remind us that those of us who are strong must help those who are weak.

Children should not be punished because their parents are poor or on welfare or live in a state where unemployment is on the rise and where corporations would rather leave this state and country to gain higher profits than pay decent wages. Children should not have to dig through school trash cans after the breakfast and lunch programs to find good food to take home to supplement or simply be the evening meal. Children should not have to stay away from school because they are ashamed because they have no clothing or no permanent shelter. Children should not have to drop out of school to earn substandard or minimum wages to help support or be the sole support of their families.

Welfare recipients and their children must not be used by the Governor as Willie Horton was used by President Bush to ensure a political victory. In this case, a victory that would give the Governor complete budgetary control, render the Legislature, you who are our local representatives, unnecessary and thereby destroy the system of checks and balances. This system of checks and balances was the only thing that kept this school district from being in greater debt this fiscal year.

We are concerned that the citizens of California not be fooled by this power grab proposition. We must not allow the Governor, who has no term limitation, to use the welfare issue to further a personal agenda of dictatorial control over the budget. The teachers and certificated support personnel that I represent have a vision of California which sees government as the initiators of policies that ensure that every family has the right to live in a decent home, in a decent neighborhood, offers programs to educate every child to the fullest extent of his or her potential, creates through its economic policies a job for every individual who wants to work, a job which pays at least a living wage. We envision a society where the hungry are fed, the homeless are housed, and the sick are treated.

There's a bold and simmering resentment of poor people in this state and this sinister proposition feeds on it. We feel we must challenge this mean-spiritedness. I don't know about you, but I agree with Congressman Clay that I am ashamed every time I see a person sleeping on a public sidewalk or eating out of a garbage can. Most of our street people aren't really disturbed or ex-drug addicts. More than 50 percent of the homeless are members of families where at last one person works 40 hours a week.

Hungry, homeless, poor people are not responsible for their plight. Government policy, legislative indifference, and gubernatorial callousness cause homeless families and hungry people. Something is seriously wrong in our state when it's easier to get crack cocaine than it is to get a good job or access to higher education.

We came here today to express our distress and concern about how this proposition will impact the children that we teach. We think that this proposition is negative for the poor children of California and we are going to do everything in our power and use all our resources to defeat it.

Thank you for listening.

CHAIRPERSON WATSON: Thank you. I appreciate your point of view. Are there any questions? Thank you so much for coming.

Ms. DiMarco, Secretary of Child Development and Education.

SECRETARY MAUREEN DiMARCO: Good morning, Senator.

CHAIRPERSON WATSON: Morning.

SECRETARY DiMARCO: Thank you for the invitation to address the joint committees.

You've asked me to testify on "what impact increasing the governor's current budgetary authority would have on public education." I will give you brief testimony because it can be stated rather briefly.

The impact on public education can be found in the exclusions of the initiative. The initiative categorically excludes four programs from the fiscal emergency powers of the governor under both scenarios contained in Proposition 165, in our opinion, and that one section that is most appropriate, to which you've asked me to testify about, is that funding for public education as provided in Article 16, Section 8 is explicitly excluded.

In my view, the governor would have no power to propose reductions in support of public schools, period. This would be the case even if the Legislature had appropriated more than the minimum funding guarantee provided in Proposition 98, or if it could be reasonably estimated that the guarantee would drop below the level of appropriations in the budget act. This is because the

exemption for the public schools is categorical. It is not explicitly limited to the minimum amount of the guarantee but, instead, funding for education is provided in the Constitution which sets out a general principle of funding priority for the public school system.

The assertions that have been made that schools could be cut under this initiative, in my opinion and from my analysis, are absolutely incorrect. Schools cannot be touched under this initiative.

Secondly, there is a significant positive impact, in my opinion, for schools from the provisions of this initiative related to the governor's budgetary authority.

As you painfully know, Senator, and have experienced, I know with enormous grief over the economic state of the state itself and the consequences that that has wrought for all of us, most particularly the issues that you and I share, concern for the great economic hit on the State of California has caused us all to have to pass budgets, or participate in their process, that do not fund as fully as we would very much like all of the issues related to children, most particularly public schools. That certainly was the case with the budget most recently passed.

Part of the problem with the budgets that we have had to confront, particularly in the last two years, has been that as the economy declined and the revenues fell off, even far lower than the dismal projections that we started out each January with, there was no way to stem, staunch, or slow the size of that deficit. And so, all of us had to helplessly watch as those holes grew bigger, knowing that the remedies were going to be more draconian; the larger those measure became, the larger the deficit became.

The budgetary authority granted to the governor under Proposition 165, in my opinion, would help slow that, would help limit the size of the deficits ultimately confronted with a final budget, and would keep from -- keep those deficits from accruing at an even higher rate than necessary due to severely declining revenues, and thus, by doing that, would eliminate the threat to public education that might occur and has occurred in past budget processes.

In essence, it is my opinion, in a very short form, the budgetary authority that would be granted to the governor under Proposition 165, as it relates to public schools, the short answer is, on the face there is absolutely no impact at all, public schools cannot be touched; and in the indirect, on the broader budgetary authority, it would help protect schools from being threatened by ever-gaping deficits that run uncontrolled before the Legislature has the ability to deliberate and find a solution.

CHAIRPERSON WATSON: Let me ask a question on this point, Ms. DiMarco. In Section 12.2, subsection (a) of 165 it says, "When a fiscal emergency has been declared the prior year budget adjusted for," and it gives some articles. In those articles, is there language that protects the amount of funding that 98 would have required in that fiscal year we're in, in the current fiscal year, as opposed to the prior year? My question is this. Suppose the prior year's funding was less than what would be required under Prop. 98 in the current year that we're dealing with the budget. The language here says that a prior year's budget could be used.

SECRETARY DiMARCO: It is our opinion, Senator, that whatever the prior year budget is that you are now in the position of having to continue, as appropriations continue in the absence of a budget, that you cannot touch the level of school funding even if it should be determined that it is an over-appropriation either intentionally, by the Legislature choosing to invest above the minimum guarantee, or by operation of revenue decline causing recalculation of Proposition 98 to be lower than the actual spending level.

For instance, in this past year, which we are both so painfully aware of, it was determined that there was an over-appropriation in existence on the K-14 budget, the Prop. 98 guarantee, due solely not to an intentional over-appropriation but to a decline in revenues from the original estimates. It is our opinion under that exact scenario that the governor's budgetary authority under Prop. 165 would not, I repeat, not enable the governor to reduce in any way, shape, or form that appropriation absent legislative action. It is our opinion, to be even more clear, that the only reductions that may be made to the K-14 appropriation, regardless of its relationship to the final calculation of the guarantee, must be made by legislative action.

CHAIRPERSON WATSON: Let's say that we don't have an over-funding situation. Let me give you a scenario.

The Governor asked for a \$2.3 billion cut this year. Under 65, would he have been able to make that cut?

SECRETARY DiMARCO: No. If 165 had been in place and there had been -- let's take the two parts of it, Senator, if I may. During the spring, as we knew that revenues had declined far further than the projections and the over-appropriation became apparent -- the dispute of the amount I won't go into now, I think we did enough of that this summer -- the Governor would not have been able to touch that money. He would not have been able to reduce K-14 spending even though the guarantee calculations had changed.

Then let's move to the second part of 165's budgetary authority which is, it

is now July 1, a budget is not in place, and we know that the school budget is (quote/unquote) "over-appropriated". Again, I will tell you, it is my opinion the Governor still may not reduce that appropriation even as he moves into the next year on emergency powers, that that would require an action by the Legislature.

CHAIRPERSON WATSON: Let me put it this way. Right now it's \$4,185 is the amount of money per child that drives the appropriation. Now, in my scenario there's no over-appropriations in the prior year, and like L.A. Unified it grows by thousands per year, as you know. A given year, year 1998, L.A. Unified and some other districts in Southern California have grown by, let's see, 20,000. If we run over the budgetary deadline and 165 kicks in, the governor calls a fiscal emergency and can institute the prior year's budget -- let's say it's \$4,185 -- but the demand and the situation has changed where we now go to \$5,000 or \$5,185, do you not see this as a reduction if the governor adopts the prior year's budget?

SECRETARY DiMARCO: Senator, what you're asking me is could the governor increase spending in reflection for enrollment growth in the summer months prior to school beginning, assuming that no budget is passed prior to the traditional beginning of the school dates. Certainly for L.A. Unified, some schools begin and did this year under the prior year budget. That is actually what currently occurs. It is not possible under Proposition 165, in my opinion, for the governor to increase the level total dollar amount of spending for any category. He may not spend, under this initiative, in my opinion, and I believe that that is upheld by enough analysis to be clear.

If you are asking, in addition, can the amount be increased by the amount of enrollment growth, the only way that would be able to occur is if the Constitution was written differently and it actually caused an increased factor on the basis of enrollment. As it is, the budget act, as you well know, has a total dollar amount. The calculation factors include enrollment growth. It would be my opinion that more than likely the governor could not make that adjustment for enrollment growth. It could not ensure that there was more money to accommodate enrollment growth because, again, that would be increased spending and the governor...

CHAIRPERSON WATSON: But, Maureen, in essence, would that not be a violation of 98?

SECRETARY DiMARCO: No, Senator, I don't believe it's a violation of 98, because in the absence of the budget you would be suggesting that the governor should usurp legislative authority to make those appropriations. And again,

some of those factors might include whether or not you are above or below the minimum guarantee.

CHAIRPERSON WATSON: But you see, in 165 it always leaves it up to questions because 98 sets out a specific mechanism -- you know it better than I do -- in government, and it says, when we collect the revenues and after we pay all of our indebtedness, then a certain percentage of the revenues goes to education; that's 98.

Now, if the governor takes over and has the authority to use a prior year's budget and there's been growth but we haven't had a decision on how we appropriate the monies, the governor can use the prior year which is thousands of dollars below collectively where it should be. Is that not a violation of 98, in essence, fundamentally?

SECRETARY DiMARCO: Senator, there are too many factors that I can't factor into the scenario. No, I don't believe so because, again, Proposition 98 is a final -- the actual 98 guarantee is a final dollar calculation. Under the assumption that we are in a fiscal emergency because we have reduced revenues, the Proposition 98 guarantee, as you know, goes down. Now it also interacts with a variety of other factors and I certainly don't want to torture any of you by going through all of the possible permutations of test one, test two and test three and its impact on that final calculation. But there are scenarios certainly where you could be remaining at the prior year level because of the reduced revenues that are impliedly assumed in your scenario, I think, and by the fact that we may have a fiscal crisis that's even deeper than that, you could actually be exceeding the Proposition 98 guarantee for that year even including enrollment growth. Again, there's a variety of factors that go into it and enrollment growth is one of them. But again, it depends, as you well know, on the economic status of the state, the collection of revenues, what prior year spending was as well as enrollment growth. It's an extremely complex initiative in and of itself.

This was crafted, I am told, to be very clear not to adjust those factors and tinker with Proposition 98, but the intent of the drafters of this measure and the explicit language, I believe, of the measure states very clearly that education funding is to be exempt, not to be touched, not to be tinkered with. Proposition 98 is absolutely not to be in any way eroded by this measure. Quite the contrary, the intent is to get state spending under control under those dire circumstances that would trigger the provisions of the budgetary authority for the governor in order to protect education.

CHAIRPERSON WATSON: Speaking conceptually, we know how 98 got to the ballot

and we know what the intent of 98 was; it was to give education its proper constitutional guaranteed, its proper share. We fought for 64 days; you were intimately involved in it because the Governor wanted \$2.3 billion cut from the budget. That was the sole issue that really held up a budget decision; that was the sole issue.

I look at the language of 65 and there are just gray areas. And, you know, it sounds real good to say 98 is not going to be touched. But the governor, and as I understand this proposition, he or she would have the authority then to call a case of emergency based on the information that comes from the Department of Finance -- and I listed five different divisions that give us figures and they never jibe -- based on the sole information from the Department of Finance, the governor then unilaterally can call a fiscal emergency. And if we're over the deadline date, can then use the prior year's budget which might or might not be adequate for funding the schools.

Now, conceptually, we wanted to guarantee above all other programs that education was funded properly. I am still concerned because we're using the prior year as one tool and one factor and so regardless of 98, by applying the funding level for prior year could indeed, in my interpretation, violate 98.

SECRETARY DiMARCO: I respectfully have to disagree with you, Senator. And I need to...

CHAIRPERSON WATSON: Put a pen right there. Ms. Hill, am I way off? And then I'm going to let you respond, Ms. DiMarco, but I want to hear from the Leg. Analyst.

MS. HILL: Senator Watson, our reading of the measure under the scenario that you're discussing where a prior year budget goes into effect because the budget for the new fiscal year has not been passed by the Legislature and signed by the governor, for the constitutional required programs, in our view there would be -- if the minimum funding guarantee then in that new fiscal year that had been created was higher than the higher year, there would have to be an increase in the budget. So our view of that is different than what Ms. DiMarco has testified to you on that point.

CHAIRPERSON WATSON: Thank you. Go ahead. I interrupted you, I'm sorry. There's been so much disagreement this morning before you came into the room and these were questions that we wanted to raise and we decided to wait until you came.

SECRETARY DiMARCO: I agree. And clearly, the Legislative Analyst's scenario, which is even more generous than the one that I gave, would then ensure that Proposition 165's provisions are even more of a protection than I

have even categorically stated here. Under either of those statements, either the Analyst's, which would require the automatic adjustment of the guarantee upwards, or under mine, which is a level that remains from the prior year, clearly public education is not able to be cut by the governor under Proposition 165 Budgetary Authority Rules.

CHAIRPERSON WATSON: My colleagues, if you need to jump in, please do. Ms. Friedman?

ASSEMBLYWOMAN BARBARA FRIEDMAN: I just see a puzzled look, I think, on Ms. Hill's face. Do you agree with Ms. DiMarco's summary of the contrasts between your positions?

MS. HILL: Ms. Friedman, I was the lead-off witness this morning, I think before Ms. DiMarco was here and also before you arrived. We think the wording of the measure is unclear on the reverse scenario. What I just testified to was if the minimum guarantee goes up between fiscal years and the fiscal emergency has been declared. But then in taking the other scenario, let's say that more like this situation the revenues have gone down, the prior year amount is over appropriated; we think it's unclear because of the wording of the measure that references Article 16, Section 8, which just says, "expenditures required by".

Now, to us, there are a couple things that could be read there. "Expenditures required by" under test three could potentially go down under that type of a scenario. However, you also have a situation where the Budget Act in a control section outlines the Proposition 98 guarantee. So there would also be an articulation of legislative intent in the control section. How then legal folks would look at that, and I'm not a legal expert, we think at this time is uncertain. I think there's the issue of what the intent of the measure is versus the actual wording of the measure. And in looking at the wording of the measure, which is the only thing in our capacity as an elections office, in this particular case analyzing the measure, our reading is that it's unclear in that scenario.

ASSEMBLYWOMAN FRIEDMAN: So are you saying that there may be a possibility that if this passes and what occurred in this recent year occurs again where there was an over-appropriation based on the revenues that were generated, that if the governor declared a fiscal emergency, then he could then basically cut the money that was over-appropriated from the schools?

MS. HILL: I think part of what is confusing to the committee is that fiscal emergency is under two scenarios and the one you're talking about here is not under the 3 percent scenario but rather, as you mentioned, the budget having not been enacted by the Legislature and signed. As you outlined it, we think that

there is some question about that if you are in an over-appropriation situation from the prior year.

ASSEMBLYWOMAN FRIEDMAN: And the result of that would be then, I guess, there would be a further cut in schools and conceivably the ADA amount could be reduced from the previous year.

MS. HILL: Well, I think you've also hit on another complication, as Ms. DiMarco also indicated. You have a number of factors that determine the Proposition 98 guarantee: average daily attendance, local property tax revenues, and State General Fund revenues; and the interaction of those three would also have to be taken into account in arriving at your decision. You also have a complicating factor from the 1992 Budget Act with the loan repayment provisions now that were enacted as part of this year's budget solution and how that would be interpreted in view of the constitutional issue of "expenditures required by", and that's a quote out of the Section 12.2 of the measure, Article 16, Section 8, and that would be the relevant section that would have to be interpreted.

CHAIRPERSON WATSON: On this point, who does the calculation of all these different factors, Ms. Hill, under 165?

MS. HILL: In terms of these four constitutional exemptions, it would be my reading that it's the Department of Finance that makes those determinations.

CHAIRPERSON WATSON: We, under a fiscal emergency, are out of the calculating business. Right? If there is a fiscal emergency and the governor can assume the authority and the powers given to that person in 165, the calculations can be done without the legislative committees: Ways and Means, fiscal committees, on the Senate side Budget and Fiscal Review. We then would not be able to put our factors into the equation for consideration. Is that correct?

MS. HILL: Again, there's two fiscal emergencies: one fiscal emergency where the Department of Finance would make the determination is at the end of the first, second, or third quarter, if there had been the three percent. Now, the measure also uses the term "fiscal emergency" which can be declared if, on July 1st of the year, the budget bill has not been passed by the Legislature and signed by the governor.

CHAIRPERSON WATSON: It's July 7th now. Take your scenario from July 7th.

MS. HILL: Okay. So the budget has not been passed or signed by the governor. Then the prior year budget would be in effect from the prior year with adjustments for the constitutional issues that are mentioned.

CHAIRPERSON WATSON: Made by whom?

MS. HILL: It's my understanding, and I believe Deputy Director Olson testified to the committee on Monday, that in part it would depend if the Legislature, if 165 passed, clarified through legislation as to how that portion would be implemented. Absent a clarification by the Legislature for that period, then the Department of Finance would make that determination.

CHAIRPERSON WATSON: Would be the only body to make that determination. If we made a clarification in the Legislature that the Ways and Means and the Budget and Fiscal Review committees along with the figures coming from other sources would have to be calculated in, the governor could veto that bill, right?

MS. HILL: That's correct. It could be vetoed.

CHAIRPERSON WATSON: So, then in conclusion, it could be the Finance Department alone making these determinations.

MS. HILL: It could be, Senator Watson. Whether it will be would depend...

CHAIRPERSON WATSON: But it could under 165. I'm just trying to understand 165 from the funding mechanism and, Ms. DiMarco, I'm just trying to get some clarification in my own mind as to whether we place education at risk under 165.

SECRETARY DiMARCO: Senator, I appreciate that because you and I share the greatest concern that public education be placed in any risk at any time. The Department of Finance's calculations, as Mr. Olson testified on Monday, I quote from his testimony if I may, which should help reinforce to you that they share the same opinion I've testified to. Mr. Olson said, and I quote directly from his written testimony submitted at the same time as his oral, "In the Department of Finance's view the governor would have no power to propose reductions in support of public schools. This would be the case even if the Legislature had appropriated more than the minimum funding guarantee provided in Proposition 98 or if it could be reasonably estimated that the guarantee would drop below the level of appropriations in the Budget Act. This is because the exemption for the public schools is categorical." Again, I'm quoting from Finance. "It is not explicitly limited to the minimum amount of the guarantee, but instead to funding for education as provided in the Constitution which sets out the general principle of funding priority for the public school system." Finance does share the same view and Mr. Olson did testify to that.

In the case of gubernatorial veto, all the override authority of the Legislature is in place under this initiative and it's been confirmed. I think you had testimony this morning as to the Attorney General's Opinion confirming that again. At any time should the governor veto anything...

CHAIRPERSON WATSON: Prior to your arrival there was a great bit of doubt

about whether or whether or not the Legislature could move to override a governor's veto.

SECRETARY DiMARCO: Correct. And because of that doubt, as you know, an Attorney General Opinion was sought and has been released in it's full text and I...

CHAIRPERSON WATSON: Yeah. But the Attorney General has just one opinion and I would like...

SECRETARY DiMARCO: Well, the Attorney General's Opinion is, for a lawyer in particular, the short answer is "no", period. I've never seen an attorney write a sentence that said "no", period or "yes", period. And then goes on to explain, and I'll quote from this, "Under well-established rules of statutory and constitutional construction, Section 5 of Proposition 165 should not be interpreted to impliedly repeal the Legislature's power to override a gubernatorial veto. Failure of the governor to sign a budget bill cannot prevent the bill from becoming law under other constitutional provisions including by Legislative override. The budget bill becoming law is not contingent upon the provisions of Proposition 165; rather, the emergency powers in Proposition 165 are contingent upon the budget bill. Thus, once a budget bill becomes law, including by means of a Legislative override, the fiscal emergency provisions under Proposition 165 are of no effect."

CHAIRPERSON WATSON: The Attorney General is the attorney for the governor, for the executive branch.

SECRETARY DiMARCO: I would submit for the State of California, Senator, I think that's what he thinks he got elected to do.

CHAIRPERSON WATSON: And one of the proponents of the bill, very clear. So I would expect his opinion to be written that way.

SECRETARY DiMARCO: I would ALSO suggest, Senator, that if this is passed that it would be litigated and I don't know who wants to go and suggest that the Legislature's override authority has been impaired by this measure. It certainly will not be us. But the Attorney General Opinion and the testimony that you've sought in these two hearings certainly should give you a very thick legislative intent and proponents...

CHAIRPERSON WATSON: Well, there was some admission on the part of one of the sponsors of the bill, as reported in the Bee...

SECRETARY DiMARCO: Mr. Gordon wasn't correct.

CHAIRPERSON WATSON: Yeah, Director of the Governor's campaign for 165.

SECRETARY DiMARCO: I believe if you call Mr. Gordon, he will tell you that he misunderstood the question, that he was referring to something else. I can

tell you that I checked after having read that because it certainly was not my interpretation based on my understanding of the provisions, and knowing full well that I was coming here today. That in fact, I believe, also is why the Attorney General Opinion is quite important. The press release released by the campaign which was handed to me this morning is also very declarative of the same point; it makes it very clear. I think whether Mr. Gordon's answer was correctly reported by the press or he misunderstood the question, that article certainly is incorrect and it is very clear to me, and I assume the Attorney General's Opinion will show that to you as well, that the override authority of the Legislature in no way, shape, or form has been impeded, eroded, or changed by the provisions of Proposition 165.

CHAIRPERSON WATSON: Mr. Gordon -- I'll just finish up here -- said it was an error, so I guess Mr. Gordon is in error saying it was an error. But what it spells out to me is that there are some flaws in this 165 and I think 165 -- we've been talking all morning and afternoon on just the fiscal aspect of the budget and not even just barely touching on the welfare aspects of it and it seems like there's two distinctly different issues in 165 which to me would fall on its face and should be thrown out because it deals with two major constitutional policies. And so, so much for flaws.

Mr. Epple.

ASSEMBLYMAN EPPLE: I wanted to add one additional thing dealing with the flaws, since you're referring to the Attorney General's Opinion. The Attorney General's Opinion seems to hold that there is an implied repealing of a section of the Constitution, when, in fact, 165 doesn't attempt to do it; it adds a new section that sets a separate category of budget and that's those passed after July 1st. I don't believe it, in fact a court's going to find that this attempts to repeal any portion of the budget or the power to appeal -- or to veto. My problem is is how can we depend upon an Attorney General's Opinion that doesn't deal with the question of whether or not this deals with a special case requirement in the Constitution of a budget arising after a specific date as opposed to repealing the right of the Legislature to act.

SECRETARY DiMARCO: Again, my reading of the Attorney General's Opinion, I think it's fairly clear, and perhaps I misunderstood your opening statement, is that you may **not** impliedly repeal and you do not.

ASSEMBLYMAN EPPLE: That's correct.

SECRETARY DiMARCO: And this does not.

ASSEMBLYMAN EPPLE: And 165 does not do that. It, in fact, establishes a separate case where a budget has not been passed by a certain date and specific

new actions that will be taken under that consideration. That doesn't repeal another section of the Constitution.

SECRETARY DiMARCO: Again, I can only say to you, Mr. Epple, that the Attorney General has opined that it does not, the proponents have made it very clear that they do not believe it does, the legal advisors for the Administration have examined that question and Mr. Olson testified again on this Monday at the Sacramento hearing, and again I'll say categorically it does not override. As the Attorney General said, Proposition 165 does not drive the budget bill; the budget bill authority and powers of the Legislature are intact and still would hold. I don't know how to be any more clear than that. Case law certainly supports that; I could cite you the cases, but I don't think we want to do a legal brief.

ASSEMBLYMAN EPPLE: I think the Supreme Court of the State of California has to look at that initiative as in the most liberal construction to uphold it. And in order to uphold it, I think they'd have to find that it was clear, that it established a separate and different criteria for a new circumstance and that it was no longer after that date in the old circumstance of the budget bill.

SECRETARY DiMARCO: If I may, Mr. Epple, let me quote from Kennedy Wholesale, Inc. vs. State Board of Equalization. It's a 1991 case; it is the holding Supreme Court case on this issue and I quote from the opinion, "In order for the second law to repeal or supersede the first, the former must constitute a revision of the entire subject so that the court may say that it was intended to be a substitute for the first". Board of Supervisors vs. Lonnigan(?) from the same year and Hensner vs. West American Finance Company also support that opinion of the court, and clearly, nowhere is there any intent as to that issue evident at all. In fact, the proponents have formally declared that the intent is to allow to affirm legislative overrides. I could go on and give you a lot more legal cites, Mr. Epple, but I believe it's very clear that that issue is absolutely not present here.

ASSEMBLYMAN EPPLE: Well, okay. I want to point out that I believe that when it goes before a Supreme Court that, in fact, all of those nice opinions probably will never be gotten to because the court's going to find that it's clear on the face and they'll never get to the opinions that all these people are giving, because in order for there to be any opinion evidence given, whether the legislative opinion or the opinion of the makers of the initiative, you have to have an ambiguity. And unfortunately, I don't believe that this is ambiguous at all. It says clearly that after July 1st, this is the process. And that is a new process that does not repeal any other process; it sets aside and sets

apart a new process. That's where we're going to find the danger in this and we're going to end up with a process that cannot be overridden.

SECRETARY DiMARCO: Well clearly, Mr. Epple, we disagree, but I can assure you, if we get to court on the issue of whether or not legislative overrides have been repealed by this measure, you and I will weigh in on the same side.

CHAIRPERSON WATSON: Ms. Friedman.

ASSEMBLYWOMAN FRIEDMAN: If it's appropriate, I'd like to change the subject from Prop. 165's effect on public education to Prop. 165's effect on school-age children, directly.

SECRETARY DiMARCO: I'm going to have to say that my specific charge, and I checked with the committee staff, was on public education. As far as outside of the school setting, Secretary Gould and Director Anderson testified in Sacramento to that and I believe you have their written testimony as well as their others. Within the purview of the education request I am prepared to respond to your questions, but beyond that, for programs that I'm not responsible for, I'll have to defer to Secretary Gould.

ASSEMBLYWOMAN FRIEDMAN: Well, I'd like to ask the question. If you don't feel prepared to answer it, I would certainly respect that.

As I understand it, the Governor had articulated his approach to many issues but especially dealing with children as prevention. And I wanted to direct myself to the portion of Prop. 165 that cuts Aid to Families with Dependent Children by 10 percent. And I believe the Legislature just cut Aid to Families with Dependent Children by, I believe, 5.4 percent.

CHAIRPERSON WATSON: 5.8.

ASSEMBLYWOMAN FRIEDMAN: 5.8 percent. And as I understand it, about 70 percent of AFDC recipients are children under 10. I've spent a lot of time visiting the schools in the district that I currently represent, which includes MacArthur Park, Pico Union, Silver Lake, Koreatown and other areas, and one of the things that teachers have talked with me about is children coming to school hungry, children coming to school not ready to learn, children coming to school even in kindergarten, below grade level, even in kindergarten.

So my question is -- my concern is that this is the exact opposite of prevention and that this is going to increase the number of children that come to school hungry. I believe that right now, or before the 5.8 percent cut, that the average grant to a single parent with two children was somewhere around \$630/\$640, around that area. So if we were to add 5.8 -- I'm hoping someone is going to help me with the arithmetic on this -- but a 10 percent cut on \$630 is about \$63.

CHAIRPERSON WATSON: \$663 is the maximum grant for three.

ASSEMBLYWOMAN FRIEDMAN: \$663. A 10 percent cut of that -- and is that right now with the ...

CHAIRPERSON WATSON: And then with the budget cut, 1992 grant level would be \$425, and then the Governor's 165 budget cut will take it down to \$597. And just to give you a comparison, the average rent is \$811/\$818 in the state, in the high-rent areas -- San Francisco, Los Angeles, San Diego.

ASSEMBLYWOMAN FRIEDMAN: My concern is the fact that this is going to have on children. As I mentioned, I spent a lot of time in schools in my district. During the interim I spent some time at the California Youth Authority at Ventura. So we see the results of when kids do not get what they need educationally, emotionally, nutritionally. How can this possibly fit into any notion of prevention?

SECRETARY DiMARCO: Again, I am not the expert on the provisions of welfare nor do I feel comfortable testifying on them, but I can respond to your question in a broader sense.

Anyone who has gone through the pain of these last two budgets is clearly aware that the State of California has far greater needs than we are able to meet, and, clearly, that when that occurs that we are ending up with enormous needs without the revenue there in place.

I am greatly concerned that when you look at the trends that have been projected even by the most conservative, or the most optimistic perhaps is the better word -- which doesn't usually go together -- people in the state and in the economic community, I have to tell you, that we are on an absolute collision course; that we already saw that this year and the collision course has already met -- the front part of the engines have been damaged on both education and children's health issues as well as all kinds of other issues that I think all of us believe are human investment issues. The reality is is that you're going to have to take that question in a broader context.

If the State of California continues to have the kinds of deficits that we've experienced in the last two years or, frankly, any kind, given the tightness of the state's fiscal picture, I'm concerned that we are going to have a state's economy that cannot support our children anywhere, anytime, in any issue area.

On that broader context I have to say to you that the State of California must be able to have a solid economic base. That first priority, I could tell you, means that you must be able to live within the amount of money that you have in place. I am not going to certainly pretend to open up a discussion on

the relative merits of tax increases versus cuts versus something else, but I will tell you that the reality for every Californian is that when your income goes down, you have to make choices, you have to make priority choices and you have to live within your income. And I will give you a very painful personal example.

My husband is a senior research engineer in the aerospace industry. I should say "was". My husband has been laid off from his job at Douglas Aircraft because of this recession, and as a result, functionally our household account was just cut in half a month ago, diminishing our family budget. Now, that doesn't mean that I'm going to do all the things I'd like to do, including setting aside monies, a responsible person for retirement, or setting aside money in a savings account for an emergency, and I could go on and on with the analogy. The reality is, I cannot, we cannot continue to spend at a level for which we have no resources. Neither can I, at this point, certainly see that I should run up my credit cards and hope for better days around the corner. I don't see them coming nor is that responsible fiscal management. I don't like the outcomes; clearly, there are choices that are going to be made in our household account that are not going to be the best prevention. They're going to be holding on while we re-establish a new economic base, and that new economic base, obviously I'm hoping means my husband's re-employed and that I remain employed, and that way we can continue on with the plans that we've made for our economic well-being and our future.

The State of California is in a much more acute version of that personal scenario I've just shared with you. In order for our children's needs to be met, the debate is not over. The provisions of the initiative as it relates to welfare, they are over the economic principles that are governing -- or not governing California's fiscal structure and the actions of all of us collectively in making sure that we have not only a solid balanced budget but also...

CHAIRPERSON WATSON: Maureen, that sounds goods, but the bottom line...

SECRETARY DiMARCO: ...but also, Senator, but also we do establish a revenue base that will support those growing needs of our children.

CHAIRPERSON WATSON: Okay. But the bottom line should not drive the policy where it comes to child growth and development.

The thing that really hurts me, Ms. Friedman, is that the vision of this department that Ms. DiMarco's heading up was there with a lot of us way long before a lot of people in this room were in the Legislature or associated with it. And what we wanted to do was to have an advocacy department for children

and for families, and when I hear you spout that line, Ms. DiMarco, I am very disheartened because it's the same thing the Governor was saying to us when we spent 64 days saying no to him. Under any conditions, any conditions, I would never approve of a \$2.3 billion cut to education. If that's all we had, better we put it into education and close the prisons, close CYA, and I argued with my caucus. I said if we close a university, we close CYA -- one for one.

I am very disheartened to hear you go through all of that rhetoric. We know budgeting; we have the responsibility for doing it. But where's the advocacy for education for children? You ought to be fighting to get every single dollar out of the revenues for children, and I think your question was a very cogent one. Let's look at the school-age children across education lines, the social service lines. What is our commitment to them? Should we not fight for them? I could give a care less about the figures that come out of the Department of Finance. What I care about is our children and how we find in this budget a way to support children, and I just don't hear that coming from you and I'm so disappointed.

SECRETARY DiMARCO: Senator, I'm sorry that you don't hear it in my comments because my advocacy is no less intense than it has ever been, and I can assure you that my advocacy is for children not just for this week but it is for the long haul. Our children have, no question at all, diminished in their economic and social well-being over more than a decade. In fact, I would submit it's been two decades. Someone declared victory in the war on poverty in the '60s and went home, and it was as premature declaration, in my opinion.

CHAIRPERSON WATSON: Agreed.

SECRETARY DiMARCO: Children's agenda will never be served without the resources they are to serve it, and that requires, in my opinion, it requires some solid responsible action by all of us as adults to ensure that it will be.

Yes, I wish with you, Senator -- I think you and I could probably construct a budget, given unlimited resources, that would address every issue and you and I would be in total unanimity. The reality, however, is that we have lost \$25 billion, as you well know, over the last two years. In order for us to accommodate that and make sure that our children are taken care of as best we possibly can through this time and build a base for the future, we do have to face those hard realities.

The \$2.3 billion cut to schools I have to object to. I've been very quiet about it. I wish not to replay the budget battle but I beg your indulgence while I explain.

The \$2 billion budget cut that's been alleged was a cut from a budget that

Governor Wilson submitted in January that had a \$2 billion increase in it for schools. We fought hard to try and hold on to that increase. Ultimately, year over year, we were able to carve a budget, working together with the Legislature, yourself included, that increases school funding for this school year over the prior one by \$1 billion. If you ask me next was it enough, I will tell you categorically, Senator, it was not. It is not. Am I telling you it was the best we could do? Absolutely. The projections that we have for next year based on the commitments that we have made in this budget for this year and next year for schools show that we will have the grand total of new revenues, after we pay for our commitments to schools, for every other service in this state, of \$155 million, which is not enough for health and welfare, not enough for public safety, not enough for higher education. But we did, painfully, with great agony, make decisions together this summer, none of which did we feel were fully adequate at all, to try to do the best we could within the realities that we have gained.

Together, I would hope, Senator, I know your commitment to this, I know your long history to this. We must not only debate as advocates for our children over how best to spend the money in the budget, but we must join together to build the economy back in this state so that we do not dig ourselves into these economic holes; again, otherwise we will never meet our children's needs. And I submit to you that the time for that disaster is not very far away, measured in months, in my opinion, not years.

SECRETARY DiMARCO: Ms. Friedman, I'm sorry to have just cut you off. I just couldn't resist the opportunity to say those things. That's all right, Ms. DiMarco and I go round about like this a lot but we're coming from the same place about children.

I just wanted to point up that I just am disappointed to hear that line of argument and to hear you spread over into other areas when you just got through saying, "I'm only here to speak to education." Now you're talking about economic development and raising revenues and so on. I'm just really disappointed but we'll talk about that one on one.

Sorry.

ASSEMBLYWOMAN FRIEDMAN: You really represented how I would have responded to that.

There is one thing I do want to say. I appreciate, and while I have sympathy for your personal situation -- you talked about the fact that you and your family will now have to make choices on things you want to cut. The people that we are talking about do not have choices. They have no choices. It's to

buy food or not to buy food.

SECRETARY DiMARCO: Again, Ms. Friedman, I am not at all -- and I think if you look at my history you'll know that I am probably even more sympathetic to that than some people that you work with. My concern is is I just don't know where to get it. I know what I would like to do in my personal situation. I don't have the resources and I have to make adjustments so that I can. I don't like the outcomes but the reality for California is we are running out of taxpayers that will be able to support at any level the people who are needy and people who are in need of the services that you and I do agree that we want to provide.

I think that the issue for us is not to attack each other's solutions as wrong and then go on and say we won or we lost, but the issue is is that we need to join more people in the discussion, that you and I probably agree on at least 95 percent. You may not like the approach that I've taken, you may not like the approach that the Governor has taken, but I think that our goals may be the same. The sooner we'll be able to pursue that the better our children will be served in the future.

Secretary Gould has certainly given you a long testimony, including the offsets that there are to the reductions as far as the specifics in welfare, and again, I'm not the person who should testify to that. But I can tell you this, that my advocacy, as Senator Watson wishes to see continue -- I thank you, Senator; my portfolio is strengthened -- I can assure you that in those discussions both within the budget context and within our analysis of this measure have included my pushing very hard and Secretary Gould's support for ensuring that everything that we can possibly do to offset the cash grant in services to ensure children's health and welfare and well-being has been done and will continue to be done.

CHAIRPERSON WATSON: Let me just say -- and thank you so much, Ms. DiMarco, for coming here and getting on the hot seat -- 165 is not a solution, and I want everyone in this room to know my position. It is not a solution, it does not gain us anything. We lose so much and we put our children at risk.

There are two issues, and I have to keep harping on that. There's a reduction in the welfare grant and the possibility of a reduction in educational financing. It also sets the governor up to be a dictator and to be able to run government single-handedly because there's a process that is in the Constitution that is a reserve for the Legislature, and that is to appropriate funding. And the way I read 165, with its warts and all, is that it throws all of that into court, it throws it all into a great amount of disagreement. You know, you read

an Attorney General's Opinion, and we've had any number of opinions here. But what it does it sets up a situation where we must question everything that we thought we had the authority to do under 165. It's a terrible proposition. It's a grab of authority. It disregards the lives of a lot of people under the color of budget concerns. And the information is even narrower now than it was. So I think this is a threat to the balance and the economy and the welfare of the people of California.

And with that, we're going to move on. I thank you, Ms. DiMarco, for your presentation here. I would like to ask the committee members now, we have The Most Reverend Phillip Straling who is the Bishop of San Bernardino/Riverside Catholic Diocese and I'd like to pay him the courtesy and let him go on now, and then after that we can take a quick break to get a bite to eat or whatever. Would that be agreeable? If so, let me ask The Most Reverend Straling to come forth now.

Father, thank you for being here.

BISHOP PHILLIP F. STRALING: Good afternoon. My name is Phillip F. Straling and I am the Catholic Bishop with jurisdiction over the counties of San Bernardino and Riverside. This makes up the Catholic diocese of San Bernardino. I also serve as the Vice President of the California Catholic Conference, and I might just make a note on that. The California Catholic Conference is a combination of all twelve Catholic dioceses of California, the Metropolitan Archdiocese of Los Angeles and San Francisco. So it represents all twelve of us and I am the Vice President of that Conference.

I want to thank you for the opportunity to appear here today and to discuss the concerns of the California Catholic Conference with Proposition 165, the Welfare and Budget Reform Act.

As I begin my testimony, I'd like to context my remarks against the realities of our current economic and social scene in California. I feel it is essential to do so for too frequently in today's world we rush off to solve major problems, lacking both knowledge and understanding. The result of our ill-conceived action then compounds our problems and further jeopardizes our well-being.

The major problem that we see with Proposition 165 is that it presents a series of ill-conceived solutions to the major social and economic problems of our day. It appears that those who developed the Proposition 165 did so based on myths and stereotypes that ill-serve the seriousness of the issues to be addressed.

Further, lacking both knowledge and understanding of the real issues,

Proposition 165 would, if passed, produce immeasurable suffering in the lives of the most vulnerable members of our society: poor children. At the same time, it would deliver a mortal blow to effective government in our state.

Permit me to share with you my concerns in the first area mentioned. The premise of Proposition 165 is that California's budget problems are being created, in part, by an uncontrolled growth in welfare triggered by a benefit that is making California the U.S. Mecca for people who don't want to work. I wonder if those who developed Proposition 165 have been following the news recently or have any memory of recent history. News headlines daily give us information of the worst economic recession to hit Southern California since the Great Depression. Perhaps they've been quick to forget the devastation of the industrial base of the early '80s that turned cities and towns in Ohio and Pennsylvania into ghost towns and produced one of the largest in-country migrations from the northeast to the west and southwest. Or perhaps they don't remember the unprecedented foreclosures and land sales that dislocated thousands of farm families in the mid-'80s. Obviously, they remember nothing of the savings and loan collapse coupled with one of the worst banking crises in our history, a collapse that is continuing to have a particularly adverse effect on the building industry throughout California. Perhaps they choose to forget the great tax giveaways of the '80s that have created the worst income gap between the rich and the poor in our country since records began to be kept in this area. And finally, perhaps they fail to realize that the Cold War ended and approximately 20+ percent of California's thriving economy of the '80s is fast disappearing.

I wonder if they ever read the newspapers: The story of September 3, 1992 of the San Bernardino Sun that the Commerce Department reporting that income growth adjusted for inflation declined by 1.9 percent in 1991, the worst decline on record going back to 1970.

The story of August 12, 1992, Los Angeles Times that reported that in cities with populations over 100,000+, more than one-fourth of the children are living in poverty, that approximately 10,000 American children die of poverty each year. In the county in which I live, San Bernardino, the figure is 34.4 percent of the children are living in poverty. The story concluded that "Children are the poorest citizens in California and are suffering the consequences."

Or the headlines of September 26, San Bernardino Sun that read, "Job Picture The Worst In 10 Years."

Yes, California has some serious economic problems contributing to some very serious social problems, and yes, these problems are placing severe strains on

the fiscal well-being of the state. But I think based on the evidence available to us that it's safe to say that the major causes of the state's fiscal problems are a changed world economy coupled with a changed world political reality. These factors, coupled with the short-sighted, greed-oriented and failed economic policies of the '80s need to be addressed if we are to rebuild our national and state economy. I fail to see how any responsible person could blame the economic tragedy of the '90s on helpless children. Seventy percent of the recipients of AFDC in California are children -- 1.6 million children. Of this number, 200,000 are infants. Or blame it on unemployed workers, trying to hold their family together, or the aged, the blind, or the disabled.

Yet, that in fact is what Proposition 165 would do -- to punish these groups as though they were the cause of our problems. Proposition 165 would, if passed, immediately reduce welfare benefits by 10 percent and in six months, if the adult member of the family did not find work, benefits would be reduced by an additional 15 percent. This would be in addition to the benefit cuts that will be experienced by most beneficiaries within the next month as a result of this year's budget resolution. A family of three would have a combined benefit -- AFDC and food stamps -- reduced to \$751 a month, or \$9,012 a year. Using today's poverty line of \$11,570 for a family of three, that family would be made to live at 79 percent of that which is established by federal government barely sufficient for a family's survival. Further, the benefit would be frozen at that level for seven years. If the present economic crisis continues for another two or three years, that family, in 1995, would be living with an income level equivalent to 65 percent of the established poverty line.

In a state where many AFDC families are already spending in excess of 50 percent, some as high as 70 or 80 percent, of their income for shelter, reductions of this nature would serve only to increase the already unacceptable number of homeless families as well as ensure the destruction of many more innocent young lives. Further, these cuts would make the quality of our lives unbearable and surely hamper any real possibility of any economic revival in our state.

I could go on in this area for much longer, but I honestly feel that we all, at least those of us in touch with human faces of poverty in our streets, are sufficiently pained by the present circumstances without imagining the horrors to come if the short-sighted and mean-spirited Proposition 165 is adopted.

Proposition 165 is not satisfied with wreaking havoc in the lives of poor children, families, aged, and disabled. Proposition 165 would reconstruct our state government by effectively destroying the balance of powers between the

legislative and executive branches of government. It would, if passed, vest the equivalent of absolute fiscal power in whoever sits in the governor's chair. This would essentially destroy the systems of checks and balances designed by our forefathers and mothers as a safeguard for our democracy. Short-sighted and myopic thinking on the part of the proponents of 165 would jeopardize the established process of good government designed to ensure that the common welfare of all people is served by a balanced representative government.

Recently, we Catholic bishops of the United States published a statement, titled, "Putting Children and Families First - A Challenge For Our Church, Nation, and World." Our motivation in issuing this statement is captured in the opening paragraph:

"Our nation is failing many of our children. Our world is a hostile and dangerous place for millions of children. As pastors in a community deeply committed to serving children and their families, and as teachers of a faith that celebrates the gift of children, we seek to call attention to this crisis and fashion a response that builds on the values of our faith, the experience of our community, and the love and the compassion of our people."

Further, in the statement, we advance a criteria for a national policy. I think this criteria could serve us well here in California. And I will conclude my remarks this afternoon by applying this criteria to our state.

Our great State of California must move beyond partisan and ideological rhetoric to help shape a new consensus that supports families in their essential roles and insist that public policy support families, especially the poor and vulnerable children. In pursuing this goal, we, as a state, should advocate for policies and programs that

- Put children and families first
- Help but don't hurt families and children
- Ensure that those with the greatest need get the most help
- Support policies and programs that empower families to meet their responsibilities to their children
- Fight economic and social forces that threaten children and family life
- Build on the strengths of families, reward responsibility, and sacrifice that people make for children.

While I find myself unable to see any real value in 165 by way of fashioning a response that will enhance the well-being of the poor children and their families, or, for that matter, any segment of our society, let me state categorically, the defeat of Proposition 165 is not our exclusive goal. It's not our goal to embarrass any political personage or party. Our goal, looking

beyond the defeat of 165, is to impel all to build with one another a society, a state, and a nation, a world with a clear priority for all families and children in need.

And I sincerely thank you.

CHAIRPERSON WATSON: Thank you, Bishop. Are there questions or comments? We thank you for this compassionate view of 165. I just wish we had proponents in the room that could hear you, but we are recording this session and we will see that your printed words are distributed. Thank you so very much.

BISHOP STRALING: Thank you very much.

CHAIRPERSON WATSON: Members, let's take a break until 2:00. There are cafeterias in the building, and for those of you who have not been able to present -- Michael Wald, Wendy Lazarus, Genevieve Heron, Claire Deffense, and Dr. Lewis King -- we will be back in the room for your testimony at 2:00.

Thank you so very much.

(BREAK)

CHAIRPERSON WATSON: We're going to try to finish up by 3:30. We will follow the order on the file, and we'll start with Michael Wald, Jackson Eli Reynolds Professor of Law at Stanford Center for the Study of Families, Children and Youth, who's done extensive research in this area. Is Dr. Wald here?

DR. MICHAEL WALD: I'm Michael Wald. I am a Professor at Stanford Law School, where I have taught since 1967. I teach courses dealing with public policy toward children, courses on child abuse and neglect, general development of public policy, child custody, and a number of other courses. I'm also formerly the director of the Stanford Center for the Study of Families, Children and Youth, which is an inter-disciplinary research center at Stanford which has been funded by private grants to do research on public policy issues as they affect children.

In addition to my research work over the years, I've been actively involved in the child welfare system. I was, last year, appointed by Chief Justice Malcolm Lucas to a committee, 40-person task force, looking at the future of the state courts and, particularly, I'm on the task force looking at the future of courts dealing with children. I've been the primary draftsman of most of the child abuse and neglect laws in California, and I'm a former chairman of the State Advisory Committee on Child Abuse and Neglect and various other government groups.

I guess I was invited to testify because I did this report which all of you

have here and which you've also, I think, received in your offices and in the mail because I mailed it out to all current legislators and candidates.

I want to start off by just saying something about why I did this report, when I decided to do it, and how I proceeded in terms of it.

I decided to do the report last February, late January/early February, when there was a large article in the New York Times. It was talking about welfare reform all around the country, and that the most extensive proposal with regard to welfare reform was the one being proposed in California, at that point as an initiative to qualify for the ballot, and that California might set a trend for the rest of the country. I then looked at a lot of the literature about welfare reform and saw that virtually all of the research that had been done focused on welfare reform purely as a question around work incentive and whether different proposals create more or less work incentive. And none of the studies that had been done looked at what was the impact of different kinds of proposals and systems on the well-being of the children. Since the AFDC (Aid for Families with Dependent Children) program is a children's program -- and as you all know, of the slightly over 2 million recipients, a million and a half are children -- it seemed appropriate to look at what would be the effect of various kinds of welfare proposals on the children.

This was done, it was funded by the Stanford Center for the Study of Children and Youth, by no outside sources. Actually, the only funding that was involved was the publication costs. And as normally with academic work, in draft form it was widely distributed to a very large range of people of different perspectives including people in the current Governor's Administration for comments and went through revisions by comments all the way through. But it was something that I did on my own without being involved with any other groups.

To summarize briefly the main conclusions, in looking at each of the provisions of 165, there is no question that anybody looking objectively at the data would have to conclude that if 165 became law, it would be extremely harmful to a large number of children. Moreover, it would be extremely harmful to that group of children who are already the most at risk in our society: of having health, academic, emotional and other developmental problems; children living below the poverty line; children who already have multiple risk factors affecting their lives as a result not only of the low income on which their families have to live, but because many have experienced family disruption; many live in dangerous neighborhoods; they have schools and other resources that are often inferior to what are generally available to children. Hitting on top of that, further reductions in their well-being cannot help but make them worse

off.

Basically, to break it down, why will children be worse off; and not every child will, but I'm talking about the great majority; certainly 70 percent of the million and a half children. They will be worse off for one of two reasons: As a result of 165, either their parents will have substantially less income available and these are parents who already have inadequate income to be able to provide for the day-to-day needs of their children; or for those parents who are able to find jobs to replace the lost income. The great majority of them will not be able to find adequate child care for their children at the points when they are working. The proposal does not provide for any child care and these children will be put, many, many of the children will be put in inadequate child care. At particular risk, in terms of these factors, are the 200,000 infants; children one year or under who constitute the largest proportion of any age group that are receiving benefits at this point. So essentially one out of six or one out of seven children is under the age of one, a time when if there's going to be child care at all, it has to be extraordinarily high quality child care with a great deal of continuity, and this is not available and will not be available for the children. How will this play out in terms of these children's well-being? There'll be two different factors that will have an effect. One is for the group whose parents lose the income. Essentially right now, families in terms of cash income, as you all know, are receiving approximately \$22 a day in cash income under the AFDC program. They will be reduced to \$17 a day for all of their non-food needs; their rent and everything else. This is a family with a mother and two children. More than half of all recipient families at this point pay 50 percent or more of their income to housing. In Los Angeles County over 70 percent pay more than half of their income for housing. The only way that the families who lose the income will be able to make up for this income is by moving into more crowded housing conditions; some will become homeless, certainly; others will move into more crowded housing conditions, more housing that is older, that has lead-based paint, that is dangerous.

Moreover, they will be less able to get children to medical care; there will be much greater stress. There is substantial evidence, I've documented all of this in this volume so I won't go into a great deal of detail, there will be much greater stress on the parents, and the biggest single predictor of whether a parent physically abuses a child, and particularly seriously physically abuses a child, is a low-income parent under a lot of stress. We are going to see more physical abuse. We are going to see more children doing poorly in school because in overcrowded housing conditions they are going to be sick more often;

they are not going to be able to study as well. Despite which for many of these children are heroic efforts by their parents and other relatives to try and care for their well-being, they face very great problems.

For those whose parents are able to work, and unlike some of what has been said by the proponents, in order to make up for the cuts for the great bulk of the parents, they would have to work 20 hours a week in order to make up for the cuts. This notion that you can do it in six to ten hours a week, assuming there are any six to ten hour a week jobs in the world of which there are very few, assumes no child care costs whatsoever. As soon as you take into account any child care costs for when the time that the parent works, the parent has to work 20 hours a week just to break even. Half of all of the parents have children 5 -- half of all of the children are 5 years or under. It's not that the parents can go to work while their children are in school for a period of time, they are going to have to find child care. For very young children the child care situation in our state and in our country, and California is better than most places in the country, is really very gruesome, it's very grim. Kids are exposed to multiple caretakers when what the basic thing kids need is stability. I will not go through the large body of research on the impact of unstable child care on children, particularly very young children, but it is highly associated with delinquency, with dropping out of school, with troubles in peer relationships and falling behind in school. This is an overwhelming body of research that relates inadequate caring in the first year or two years and inadequate child care to these kinds of developmental problems.

Okay. Unfortunately, very few of the parents will even be able to respond to this in terms of finding work because they won't have the child care. Some will and they'll leave kids in dangerous situations. Next year it is certainly going to be the case if 165 passes that we're going to read in the L.A. Times a story that says, "Fire Kills Four Children" and it's going to turn out that a seven-year-old was left in charge of four-year-old, three-year-old in a house in which there was a wiring problem, a fire started, and then the paper's going to focus on why did mother leave children alone, why is a seven-year-old caring for -- and then there'll be blame of mother. Nobody's going to write the story that says, "As a result of Proposition 165 four children died in a fire", but that will be the result; it will be directly because the mother was trying to get employment at points when she had no child care available, that accidents occur, that injuries occur, illnesses and death.

In essence, all of this is somewhat detailed in developmental things. I would like to end by pointing out a fundamental moral question that's involved

in this. This whole structure of 165, and I believe strongly that we need reform of the welfare system, that there are real problems with it -- recipients think there are problems, everybody thinks there are problems -- but this whole structure is being justified as saying we're going to create a bunch of penalties and hope parents respond to this, to these penalties and work more by these penalties. But if the parents are unable to respond to it, if the parents don't respond to it, it isn't the parents that are harmed by this, it's the children that are harmed by this. So what we're carrying out is a grand experiment trying to alter parental behavior in which the consequences of a failed experiment will be substantial harm to children. If such an experiment were proposed to a university human subjects committee, it would not pass, we would not be allowed to do it because it is unethical to conduct such an experiment where children might be harmed.

That's what's happening with Proposition 165. Alternative ways of welfare reform could help parents and children. This is just not going to do it.

CHAIRPERSON WATSON: Any questions?

Dr. Wald, I want to say probably your report is the only and probably the finest empirical study on the effects, the consequences of it. I think the points that you make that the punishment goes to children ought to be the one single factor to defeat this proposition. If you were in here when we heard those who were from the Governor's office speak, they seemed to be more concerned about the budget and how we arrive at the final budgetary line than the impact on the people that these budgetary categories serve. We're going to depend on you and some of the others too to get this word out. We've got to do a lot of educating between now and November. Right now, you know, when you say "welfare" it's the favorite whipping boy or girl for the taxpayers and I think that's why the Governor called it the "Taxpayers Protection Act".

DR. WALD: And if I may say something in...

CHAIRPERSON WATSON: Please.

DR. WALD: ...two things in response to that. One is that it also seems enormously troubling from an ethical perspective that to tie the two parts of this together, essentially to take a budget thing and make children's welfare the victim of a budget thing...

CHAIRPERSON WATSON: Right.

DR. WALD: ...you just don't hold them hostage; you do a budget thing and let that be faced by voters directly. There is something wrong with that.

The other part is that it really plays on what are enormous misconceptions about the system, some of which I try, many of which I try and point out in the

report, which really came home to me clearly when I would talk to my friends in a law school or social acquaintances about what I was working on and I would say to them, "Tell me the percentage of welfare mothers who are teenagers" because lots of the publicity is this is going to deal with teenage issues. I say, "Tell me the percentage." Of my friends who keep up with the newspapers to some degree -- they're academics, they do other things, some of them look at this -- the lowest estimate I got was 20 percent, most estimates were around 40 percent and lots of them were 60 percent of the parents were mothers. When I would tell them that only 7 percent were teenagers they'd fall off of a chair and when I'd say only 1.8 percent of all of the parents were below 18, 9,000 out of 500,000 mothers are below 18 and that's what this is saying we're going to deal with the teenage thing, it really makes it look differently.

Moreover, you get the family unity argument: we're going to do family unity. The family unity which is in the -- it's actually in the ballot arguments and in the pro-165 literature, basically says that the provision that requires teenage mothers under 18 to live with their parents promotes family unity. Well, as I say, to begin with there are only 9,000 such mothers, the overwhelming bulk of whom already live with their families. We're talking about one or two thousand teenagers, many of whom were abused and neglected, and we're going to cut benefits for 500,000 mothers, a million and a half kids, to deal with 1,000 families. Anybody who would think about this in a serious way could not come to the conclusion that this is sensibly thought out. And the fact that the Administration never developed -- when I started this I wrote to people and said, "Send me your background papers that have done the analysis on children", I was never able to get a background paper looking at the impact on children.

CHAIRPERSON WATSON: It's not surprising. If there are no questions, I want to thank you, Dr. Wald. If you can stay around for a few more minutes in case we need you as a resource person.

DR. WALD: And I do have some extra copies if any people here would like one.

CHAIRPERSON WATSON: Great. If you will give them to the Sergeants there, then they can see that they get distributed to anyone who wants them. Thank you so very much.

DR. WALD: Thank you.

CHAIRPERSON WATSON: David Illig is from the Legislative Analyst's office and if you can come up real quickly and just give us a quick overview, we'd appreciate it.

MR. DAVID ILLIG: I've been asked to just provide brief comments on a few of

the provisions of Prop. 165 that haven't already been discussed, and among those are the fact that the proposition also allows for grant adjustments based on the actual budget act appropriation and caseload growth as projected by the Department of Finance. This, in effect, means that either the Legislature could choose any given appropriation and then the grants would be adjusted, or the governor could, through a line item veto, reduce the appropriation, and that could also affect AFDC grants.

Further, the initiative would repeal the language that limits trigger reductions to the AFDC and SSI/SSP COLAs. Thus, the trigger provisions elsewhere in statute could affect the actual grant base through the combination of the trigger cuts themselves and the map adjustment procedure.

In addition, the proposition would exclude from the grant any children conceived while the parents are on aid as long as the parents are in the caseload. In other words, if the parents are not on the caseload but the children are, then additional children would not be excluded.

And finally, the proposition makes a number of changes to the General Assistance program, and among these, it limits the General Assistance grants. It does not allow them to be higher than AFDC grants regardless of what a county would choose to provide. It allows in-kind aid to be counted as part of the General Assistance grants and it provides the counties discretion to reduce grants below AFDC grants should they decide to do so for budgetary or caseload reasons.

There are a number of other components ...

CHAIRPERSON WATSON: So are you saying -- let me be sure I understand you. The grants can be cut deeper than 25 percent?

MR. ILLIG: In the General Assistance program?

CHAIRPERSON WATSON: Oh, okay. In the GA.

MR. ILLIG: In the GA program.

CHAIRPERSON WATSON: Now what about AFDC?

MR. ILLIG: Well, in AFDC, yes. The 10 percent reduction applies to everyone, the additional 15 for anyone on aid more than six months. But if the budget act appropriation itself is too small to support an AFDC grant at that level, then yes, it would be further reduced.

CHAIRPERSON WATSON: Now, it says in those first six months you'll have a 10 percent cut and the second. If the governor declared a fiscal emergency within the second six months, he could cut the grant to any level that he would choose?

MR. ILLIG: That would certainly be possible, yes.

CHAIRPERSON WATSON: Wow! We've got to get that out. Okay. Excuse me.

MR. ILLIG: Those were the major provisions that haven't been discussed earlier. If there are further questions.

CHAIRPERSON WATSON: Mr. Epple?

This is the kind of information that doesn't appear obvious in the beginning. Number one, I think it's unconstitutional because of the two separate issues in this one proposition and the prohibition against that. But when you go down and there's even more power in the hands of the governor, because the governor can reduce down to almost zero -- am I to understand that that's the case?

MR. ILLIG: Conceivably that could be the case. Whether that would actually occur is...

CHAIRPERSON WATSON: Well, I mean, but the possibility is there.

MR. ILLIG: The possibility would be there.

CHAIRPERSON WATSON: All right. Well, thank you for that information. I'm sure we got that recorded because I want to be able to point out the loopholes in this.

MR. ILLIG: And I might point out one possible limit to that and that is maintenance of effort requirement in Chapter 19 of the Social Security Act which would potentially put our Medi-Cal dollars at risk, but beyond that, then the possibility for waivers presumably the grants could be further reduced.

CHAIRPERSON WATSON: Yeah. Right. Senator Alquist, do you have any comments? All right, thank you very much.

Okay, going back to the agenda we'll call Wendy Lazarus, Children Now. Wendy's not here. Oh, I'm sorry.

MS. WENDY LAZARUS: Good afternoon. Thank you. I am the Vice President for Policy with Children Now, which is a statewide policy and advocacy organization. I've devoted the last 20 years of my life to being a policy analyst for children and families and being an advocate and I bring that experience to looking at this question of Prop. 165.

I want to try to speak to you just very briefly on behalf of all of the children of California, the 7.8 million children who won't have a chance to vote on November 3rd, but whose futures are probably more affected by what is in the fine print of this initiative than any of us in the State of California. These kids, as you know, are 26 percent of our population and we've just got to be very, very careful about how it will affect each and every one of them.

In doing our own analysis -- let me just say that Children Now is privately funded. To ensure that our analysis of things can be objective, we take no government money, we're funded by private foundations, corporations, and

interested individuals. And our board of directors includes a really wide spectrum of leaders from across the state representing every stripe on the political spectrum from business leaders like George Roberts and Richard Atlas to community leaders like Anita DeFrance from down here and the Honorable Cruz Reynoso.

So we have taken an extensive look at what's in this and I've provided some materials -- you can see all of this in more detail. But looking at everything all together, we think that Prop. 165 represents the most harmful measure to California's children of any proposal in recent memory in California; and that's for three reasons which I'd like to go over with you just briefly.

First is you've heard a lot about the budget authority from the standpoint of good government. There is also an angle affecting children which is terribly important. By upsetting the constitutional checks and balances in the state budgeting process, we are really touching the lives of every single child in the state. I don't think there's a single child who doesn't benefit from some state service, either public schools, immunization programs, abuse and neglect programs, drug education programs. For every one of these children the continuity of these programs is now going to be left in the hands of just one person and that is the governor. So that just for instance, and I want to stress that these comments are not directed at the Governor who is now governor, this could be anybody, and let's just say we have a governor who believes that a parent belongs at home taking care of their child and for that reason decides to cut funding for child care and for child care licensing. That is the kind of power that Prop. 165 would allow and that is the kind of inconsistent commitment to kids that we simply can't allow.

For the kids who have no vote and no high-paid lobbyist to represent them, they simply can't get by with a shortened budgeting process of public input, and you know this does shorten that process instead of beginning in January, beginning in March. Kids need a public airing of the budget issues, they need the checks and balances, and I would say to you, most of all they need the kind of consistency in programs. What good is a drug education prevention program if it's here one year and gone the next based on the whim of whoever is governor. So that aspect has just got to be seen as a critical children's issue.

Secondly, the second major reason we think this is so damaging to kids has really been laid out very well by Professor Wald and that's the million and a half children who will be hurt by this attempt at welfare reform. You've heard from him what it will mean in terms of their ability to have a roof over their head, their ability to have food on the table and quality child care.

The other aspect we ought to be concerned about is that besides the harm there, this proposal is really a double whammy for them because it doesn't even constitute real welfare reform. I think we are all in agreement that we need to reform the welfare system, but this initiative does nothing to make health care and child care available so that parents can work. It does nothing to improve the training and education so that parents are better equipped to find jobs. It does nothing to create the jobs for the many parents who desperately want them and now can't get them. So we are eager to work with you all to fashion real welfare reform; this is not that.

Finally, the third reason we're so concerned is that we really believe that Prop. 165 will cost taxpayers and children a lot more in the long run. You know, it's not simply the immediate harm to children that we're looking at, from depriving them of the basics, but it's very clear that this is bad for kids in the long run. As you probably know, kids who grow up in a poverty situation are much more likely, three times as likely, to die before their first birthday, four times as likely to become pregnant as teenagers, and much more likely to drop out of school later on.

You know, each year we do this report card on children which looks at how our kids are doing on staying in school, getting prenatal care, and I am willing to predict to you today that if Prop. 165 passes, kids are going to be worse off on nearly every measure that we look at in this report card and taxpayers are going to pay a lot more when we have to treat untreated health problems in expensive hospital settings and when we have to somehow deal with kids who have dropped out of school and are not prepared for the job market.

Lastly, I want to say from the standpoint of costing taxpayers more, I don't know if people have focused on the fact but because AFDC is a federally matched program, California will lose an estimated \$400 million in matching funds at exactly the time when we certainly need the investment that we can find from revenues from other sources.

So for the sake of the 7.8 million kids in California, we really appreciate your airing of this subject and hope that you'll help us let voters know why this will be so bad for California's children.

Thank you.

CHAIRPERSON WATSON: We also appreciate your input and the statistics that you brought to us today. Children Now has been prevalent in the halls of Sacramento, always advocating for children and we're going to send you up to the Secretary of Child Development and Education.

Thank you so very much. Any questions, Members? All right.

We're going to ask now for Genevieve Heron. Ms. Heron, I think you have somebody with you that you want to introduce when you come up also. Genevieve is an In-Home Supportive Services provider for Frankie Banks and she'll tell you about Frankie Banks. Welcome.

MS. GENEVIEVE HERON: This is my Auntie Frankie Banks; she's 100 years old, my great aunt. And she's been living with me since '78. And she had a stroke during 1983; she was 92 at the time she had a stroke. And she has a provider which is my daughter, I take care of her only at night and I have someone at home because I'm sick myself. I've done home-care work since 1959 off and on and I've been nursing in convalescent homes and hospitals. And I specialize with geriatric people.

This Prop. 165 and the devastation that it will have on the older people -- And as Frankie, the doctors when Frankie had her stroke -- it was on her left side and they were very surprised that Frankie recovered, but I think it's because she was at home and I knew what to do for her and to give her the proper care because they didn't give her very much chance to survive because older people don't survive. And by working with older people in a home and convalescent homes, I know that it's best for an older person to stay in the home with their family. I took care of my mother and father, my grandmothers, and they do much better in their own home, in their own surroundings, with their own family and people that can see that they get the proper care.

My mother had a girlfriend just put into the convalescent home. The convalescent homes do not provide lotions, they do not provide incontinent pads, because I had to take it to her. Her clothes get stolen, they get very upset. I've seen people come into the convalescent home and a couple of weeks, they'd be dead -- that's a fact -- because it's not good for them. And I think the best thing in the world is for them to have the providers because a lot of these people, they don't have families and their providers become a part of them, their life; they are their arms, legs and their sight. They take care of them, they take care of their business, they become their children, and they have somebody to take care of. In the convalescent homes, in the high sanitariums, they don't have the personal touch or the personal care. And these are people that have given their lives to this country; they helped build this country to where it is today. And I think that we do them a very disservice when we don't provide for them.

Do you have anything to say, Frankie? No? Okay.

CHAIRPERSON WATSON: Did she want to say something?

MS. HERON: "No," she said.

CHAIRPERSON WATSON: Well, we're just so happy to have you here, Ms. Banks, and anyone who can survive as long as you is a testament to proper living and good care. We hope that you can stay in your home and receive that service.

I understand that cuts in IHSS are going into effect today and that will cut back some of the hours that -- 12 percent cuts will cut back some of the hours that the clients will be served, and that's going to have a devastating effect on many of the clients. However, to the extent that the family and neighbors come in, you know, they can kind of close that gap. But the intention of that program was to care for people in their homes where, as you point out, they can be in a mindset to try to get well. In the familiar surroundings, I think the studies will show they thrive.

So we're hoping that we can offset in many ways the reduction in fees for these services but it doesn't look too good right now. But I'm hoping the next fiscal year will be a better, more encouraging time for this program.

But thank you so much for coming and we certainly welcome you to stay until the end of our hearing if you can. What we have to do is to join together in a coalition to be sure that 165 is defeated November the 3rd. So get that word out to everybody: We don't want it.

Thank you.

Claire Deffense, Chair of the Area Board X Governmental Affairs Committee.

MS. CLAIRE DEFFENSE: Hello, my name is Claire Deffense. I'm the parent of a child with a developmental disability. I also chair the Governmental Affairs Committee of Area Board X, but I'm not speaking for Area Board X today; I'm speaking for myself and for my son, and I know that there are other parents and children like us and I hope I speak for them, too.

At the outset I'd like to ask a favor of you and the audience. My testimony will contain my story but it's not just my story, it's the story of my son, too, and he's still a child. I would ask that you in the audience to please respect his privacy and use discretion in any retelling of his story.

You've asked about the effect of Proposition 165 on children with disabilities and their parents. I've read Proposition 165 and I'm concerned that it attempts to give the governor virtually unchecked power to repeal or suspend the laws, such as the Lanterman Act, which have been adopted by the Legislature to protect children and adults with disabilities. Proposition 165 will do this by allowing the governor to suspend entitlements whenever the Legislature fails to adopt the governor's budget and whenever the governor's own budget estimates are incorrect. An entitlement is my son's right to receive treatment for his disability as provided by the Lanterman Act. An entitlement

is my son's right to an education as provided by California special education laws. Without an entitlement there is no right to services, and generally where there's no right to services there are no services or they're inadequate services or there are fewer services. These services mean the world to our children. They provide the opportunity for a normal home life, for an education, for jobs, and for independence.

In my own son's case, he is at home with me today only because of his entitlement to services. Two years ago my son, 10 years old at the time, experienced a severe behavioral regression. He was hospitalized for 40 days but he could not handle being away from me and being sent to an isolation room for hours on end, and he was released in worse condition. His old school didn't want him back and he was refused admittance to every school he applied to. School and regional center professionals recommended out-of-home placement but even residential institutions were refusing placement. Meanwhile, without school or services, he was getting worse. The regional center began to recommend the state hospital.

I knew from experience that he would never recover from another hospitalization but I was beginning to believe that it was the only option. Fortunately, we had friends who believed in Renoe. One was a clinical director of a children's day treatment program and she finagled an admittance for him. Another suggested in-home behavior intervention and referred me to an agency. I began to get the idea that maybe Renoe could get the services he needed at home.

I will admit that his treatment was expensive. The first year probably cost as much as a year in the state hospital, but it worked. In less than a year he was able to move to a special education school and his behavior intervention hours were cut. The second year probably cost less than half of a year at the state hospital. This year he's moved to a public school campus and instead of behavior intervention he gets only after-school care. This year will probably cost less than one-fifth of a year at the state hospital, and there's a good reason to believe that the next year will cost even less. He's doing very well in school and at home and he's back to his normal, happy, cheerful self.

What scares me, though, is the thought of what would have happened if Renoe had not had a right to treatment. I had to fight every step of the way to get the services he needed and won only because he was entitled by law to those services. If he had not had the entitlement, he would have been sent to the state hospital and he would have stayed there.

Now that he's at home I still get scared at the thought that his services could be cut. I know that if the entitlement is suspended, the first services

to be cut will be those to children at home, such as In-Home Support Services. The theory being that they don't really need the services since they're already at home. But without those supports, I'm not sure if I could keep my son at home. He needs the structure and I need the respite and the security of knowing that if anything happens again I can quickly access the right treatment.

I didn't want to end this testimony on a depressing note. I'm very proud of my son and very grateful for the services and people that worked for him. I want to end this testimony by reading a poem written by this 12-year-old autistic child.

The man had tears after all his years.
He went to grind grain over near the plane.
He stood to gleam and he started to dream.
He dreamed he heard the stomping of pilgrims' feet
and the bumping of freedom's feet.
Then it all went away and he heard the screaming
of passion's stress and people shot in the
wilderness.
He heard people using strife at the sound of
people locked in chains and people losing their
life.
Then it all went away.

California also has a lot to gain from its people with disabilities.

CHAIRPERSON WATSON: Thank you so much. Any questions or comments from committee members?

How will your son be impacted by the reduction in rates?

MS. DEFFENSE: The reduction in rates for In-Home Supportive Services?

CHAIRPERSON WATSON: Yes.

MS. DEFFENSE: He receives through the regional center services under behavior intervention.

CHAIRPERSON WATSON: Oh, yes. And you know the plan with the budget that was adopted is to further regionalize the centers that provide you with the services.

MS. DEFFENSE: Right.

CHAIRPERSON WATSON: How's that going to affect you?

MS. DEFFENSE: Well, to the extent that they can attract workers at the rates that they're required to pay, then he may not get the services.

CHAIRPERSON WATSON: Now, you said your son was in a public school, special classes?

MS. DEFFENSE: Right.

CHAIRPERSON WATSON: So he does not require special education in a different institution but he can go to whatever they have in the public school.

MS. DEFFENSE: To a special education class in a public school, and the goal is ultimately to mainstream him so that he will need no services.

CHAIRPERSON WATSON: Very good. What kind of transportation services do you receive?

MS. DEFFENSE: He gets bussed to the school.

CHAIRPERSON WATSON: Uh huh. And how far away from your home is that?

MS. DEFFENSE: It's pretty far. They usually are to find the right place. It's about 10 miles, about an hour.

CHAIRPERSON WATSON: What area do you live in?

MS. DEFFENSE: I live in Woodland Hills. The school is in Northridge.

CHAIRPERSON WATSON: Thank you so very much.

MS. DEFFENSE: Thank you.

CHAIRPERSON WATSON: Dr. Lewis King, who is Dean of the College of Medicine at Drew Medical School. Dr. King, welcome.

DR. LEWIS M. KING: Madam Chairperson and Members, my name is Lewis M. King. I am Dean of the College of Medicine, Charles R. Drew University of Medicine and Science. Simultaneously I am also the Associate Dean for the College of Medicine at UCLA and a professor at UCLA.

I have served a community for over 20 years situated at the heart of South Central Los Angeles, better known as Watts. Our medical center, anchored by the Martin Luther King, Jr. Hospital, serves a population of 1.6 million people: 44 percent of them Black, 36 percent Hispanic, and the rest, 20 percent, consisting of Native Americans, white, and Pacific Rim migrants. These people are generally poor, 41 percent under the poverty line, relying on the safety net of welfare and medical benefits for basic survival. About 81 percent of all patients at my center are Medi-Cal patients, or have no ability to pay.

My testimony today is directed particularly to the implications of Proposition 165 for health care of California.

Proposition 165 is based on the premise that basic health care funding is a luxury...a luxury over which the governor should be allowed discretion. It is therefore, at least on this issue, if not all others, fundamentally flawed in treating health care for the poor as a luxury. Health is a right; a fundamental human right that must never be at the discretion of any individual.

This proposition takes dead aim at poor people, 54 percent of them white. The mortality rate for poor of all colors with incomes below the poverty line is approximately 50 percent higher than for others. For all chronic diseases that lead the state's list of killers, low income is a special risk factor -- heart disease, 25 percent higher for low income; cancer; infectious disease; traumatic

injury and death; increase in disability days, increase in mental health problems. Proposition 165, if enacted, would place in the hands of the governor power to do the following:

1. To turn off the life support system of 15 percent of California citizens, or over 45 percent of the patients of my hospital center.
2. Deny 750,000 patients access visits to care, or at my center 150,000 patient access visits each year to our facility.
3. Further undermine a very fragile primary care and prevention system deferring urgent care for the increasing populations of AIDS patients, substance abuse patients, infectious disease patients, high-risk pregnancies, trauma and violence, promoting only hospital-based emergency care.
4. Promote late diagnosis leading to higher costs for health care services.
5. Simply transfer on paper fiscal costs as a magical solution, but in reality creating greater costs and real human suffering, resulting in the exhibition of depression, delinquency, disease, and death.

I recall on the April 29 rebellion working with the gangs, and their major concern was the health care for their mothers and children and their grandmothers and mothers, and one of the things we provided at the medical center was health care for these women. Their constant pain may be in fact the absence of these services.

A line item reduction of Medi-Cal service costs by any governor will not only create a community of very ill people but also destroy our medical education training programs which develop a new cadre of health care professionals and particularly our network of community-based physicians who historically have been the only providers of care for the poor. Even now at this present time restrictions in Medi-Cal have driven out of practice in South Central Los Angeles 40 percent of the community-based physicians. Any further tampering with Medi-Cal funding will result in almost a complete elimination of the community-based physician, the bedrock of health care for the poor in our communities.

Proposition 165 is a narrow, ideologically driven, fiscal control strategy that demonstrates no concern for real human consequences. It is the equivalent of the 1812 British law that declared that "anyone attempting to commit suicide would be put to death." It is the equivalent of solving the problems of a delinquent parent or father who fails to be an adequate parent by giving the police chief the right to deny his child the right to food. The problem is not

the poor; it is the poverty of our leadership.

This proposition, the product of false consciousness, promotes mediocrity and diminishes the value of humans in a state that has previously been the standard bearer in the search for excellence and the protector of rights of every human being to adequate health care. Health care funding must be stable and predictable since it deals with issues of life and death. At the minimum, it should be exempt from any continuous tinkering.

CHAIRPERSON WATSON: Dr. King, you certainly have a reputation of looking at our young people at risk. You have done some research over the years as to how we validate them by trying to assess their intelligence. Can you kind of tie that work in to what you would see as the consequences if this were to go forward? We already have had tremendous cuts in the budget already that are impacting right now and the cuts that impacted last year. Can you kind of expand as to behavior and what you see relative to education?

DR. KING: Thanks for the opportunity, Senator.

One of the things we have seen over the years is the very fragile institutional structures we have in our communities, dependent largely upon the safety net of governments. As we begin to undermine these safety net actions which support the family structures, which support the historical community institutions, we further promote the feelings of distrust, fear, and anxiety among our youth. And we further promote a cadre of youth who would be relegated to a particular attitude in their community which sees that some of us are better prepared and some of us are less prepared.

What you make reference to is my work having to do with how youth are evaluated and streamed into various groupings at an early age by use of very common testing instruments which negate their very existence. Testing instruments which begin early in life which I'll call "intelligence tests" which are only based upon the western value system which are defined largely by codes of a narrow class in this society.

What we do when we undermine this fragile economic base for these youth is to force them further and further away from opportunity structures to correct historical destabilization in family structures, in institutional structures, in economic systems and social structures, in the kind of lifestyles that ought to be there as a bedrock, as a safety net for these youth.

I can elaborate with more examples but I know your time is short. But in essence, if you give the authority to one individual to make such cuts in our system, what you are doing essentially is giving this individual the authority to decide on individual life, authority over the rights of individuals, health,

education, and welfare, and that, in a fundamental sense, is inappropriate and incorrect.

CHAIRPERSON WATSON: I keep having to point to the fact that we have two basic policies in this one proposition. One would give the governor authority to declare a fiscal emergency and take over that process, and the other is to address the welfare program and make these cuts there. I see them going hand-in-hand and I just wanted you to bring out your studies that you've been doing because once we start to destabilize even more so -- I mean, poverty in itself is a destabilizer, and then not being able to, to just finish this up, being able to pay one's rent. It means they're forced out and we don't have adequate number of housing units as replacement housing so we further destabilize.

Go ahead, please.

DR. KING: You emphasize another important point. One of the issues of my work over the last 20 years in the community has been how does one overcome dependency and how do you break into the consciousness born of a dependent person. The classic example that I may refer you to is our alcoholism program. Alcoholism is a problem of dependency. If you construct treatment models that are based upon dependency you cannot treat a problem of dependency by institutions of dependency. If you continuously erode the possibilities to develop institutions that remove themselves from dependency, if you erode that you only create further and exacerbate the problems of dependency. That's a very important point to understand.

You can only break in to welfare and education and health issues if you can break in to the psychological consciousness which emanates out of a poverty circumstance, and you do that by constructing a net of activity which facilitates the development of independent institutions which would become the context for the evolution of consciousness of independence rather than consciousness of dependency. And every time you threatened the stability of funding as these propositions clearly do, you foster another level of dependency and you begin to reduce the person again to survival at the worst level and remove the possibilities of them breaking free psychologically and becoming independent, free citizens which can evolve independent strategies for their own development and reconstructional reality.

That is the fundamental issue that undergirds these kinds of propositions, the destabilization, the uncertainties, the indiscriminate cuts: no one knows for certain what will happen because their fundamental rights can be threatened by one single individual. That is really the fundamental issue.

CHAIRPERSON WATSON: I appreciate your input on that. I just wanted to hear what you've been doing. Are there any questions from our colleagues here?

Well, with that, I want to thank you so much for coming down and testifying. I want to thank the few people who are left in our audience, but I think it has expanded, our hearing today has expanded our informational base and has really pointed this proposition up as it should be seen in its true light, and that is a fraud on the public. It's just a very mean-spirited grab of the legislative process on the budget and also the welfare cuts at the expense of our children, that cynical plan to just cut and cut and cut until we are going to force youngsters into chaotic situations.

So we have an obligation to defeat this measure and I think this second hearing today will help us to do that. And with that, if there are no closing statements on the part of my colleagues here, I will declare this joint hearing adjourned.

Thank you.

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WRITTEN
TESTIMONY
SUBMITTED

The California Budget from a National Perspective

Hearing on Proposition 165
Budget Committee and Health and Human Services Committee
California Senate
Los Angeles, California
October 1, 1992

Steven D. Gold, Director
Center for the Study of the States
Nelson A. Rockefeller Institute of Government
State University of New York
Albany, New York

I have been asked to place California's budget problems and policies in a national perspective. My comments are divided into three parts:

- o Causes of fiscal problems
- o Comparison of taxes and service levels with other states
- o Policies in response to these problems

Causes of Fiscal Problems

California's fiscal problems are much more severe than those in the typical state. On the other hand, California has some things going for it that make other states envious.

There are three principal reasons why California is in worse shape than most other states. Two of these are long-run, and the third is short-run:

1. California must cope with bigger increases in populations to be served than most other states. California has had unusually large increases in public school enrollment and immigration. For example, public school enrollment increased 3.4% between 1991 and 1992 vs. a 1.5% increase nationally.

(The Center on Budget and Policy Priorities has shown that welfare rolls have not been growing much faster than in other states, when account is taken of California's rapid population growth in general.)

2. The fiscal limitations adopted since 1978--especially Proposition 13, the Gann limits, and Proposition 98--have forced California to get along with much smaller increases in resources than most other states. The restrictive effect of the limitations themselves was particularly marked because California was one of the very few states that avoided a general tax increase in the 1980s.

California has changed from a high-tax, high-spending state to an average-tax, average-spending state. I will elaborate on this point below.

3. A third, less permanent difference is your relative economic performance, which has been weaker than the national average during this recession. As the Center for the Continuing Study of the California Economy has shown, defense cutbacks and the volatile, depressed construction industry account for the unusual severity of the

recession in California. Longer term, the high cost of living and doing business in California will be a continuing negative, but on other hand, the traditional strengths of the California economy and your exposure to the Pacific Rim will probably help you to out-perform the national economy.

There is one other factor that has contributed to the severity of this downturn in California relative to other states--the reliance of the state government on a highly progressive personal income tax. While that income tax structure is laudable from the viewpoint of equity, it also has the effect of making tax revenue unusually volatile. This volatility is exacerbated in a downturn by the indexation of the income tax.

Adding it all up, the \$14.3 billion deficit in 1991 and this year's \$10 billion deficit were much larger than the gaps in most other states, even taking into account the difference in the size of state budgets. They were certainly among the largest in the country. Their relatively large size resulted from many of the factors I have mentioned--larger than average workload increases, a sharper than average economic downturn, and the volatility and indexation of the income tax--as well as your indexing of certain spending programs (like welfare benefits) that are rarely indexed elsewhere.

Does California Have Cadillac Services? How High Is Its Tax Burden?

In 1978, state and local tax revenue per \$100 of personal income was \$14.62, the fourth highest in the nation; the national average then was \$12.08. In 1990, California's state-local tax revenue was \$11.41 per \$100 of personal income--about equal to the national average, \$11.46.

Although California imposes a relatively high personal income tax burden on high-income taxpayers, other taxes are not particularly high. Thanks to Proposition 13, local taxes are significantly below the national average (although these figures do not include many of the fees that proliferated in the 1980s):

State-Local Tax Revenue in Fiscal Year 1990

	California	United States
Total	\$11.41	\$11.46
State	7.50	6.87
Local	3.91	4.65

California's tax burden is still not particularly high despite last year's tax increases. I estimate that in fiscal year 1992 state tax revenue per \$100 of personal income in California was \$7.61, while nationally it was \$6.95.

Recently I heard Governor Wilson assert on a nationally televised program that California has a "Cadillac system of government services" in comparison with other states. Valid comparisons of services among states are extremely difficult to make, but the Governor's statement is open to question in several respects. While some aspects of California service levels seem high compared to other states, the opposite appears to be the case for certain services. Because of the legacy of Proposition 13, California has had to stretch its resources much more than is common elsewhere.

Examples of low service levels

- o Elementary-secondary schools are probably the most important service for which states and local governments are responsible, and the average class size in California is nearly the highest in the country. In the Fall of 1990, only Utah had a higher pupil/teacher ratio.
- o According to *Care of the Mentally Ill: A Rating of State Programs* (1990 edition), California's mental health programs are below average. California was identified as one of the four states where the quality of programs was deteriorating most. (This study was published by the Public Citizen Research Group and the National Alliance for the Mentally Ill.)

New Yorkers often look to California as a place that delivers services at much lower cost than they do. For example, your average reimbursement for nursing homes is half of that in New York, and the ratio of prisoners to prison staff is also much lower.

Possible examples of high-level services

- o *Higher education.* California has traditionally had a high-quality, low-cost (to students, if not to the state) educational system. As a result of fee increases over the previous four years, the *university* system in 1991-92 had tuition and fees that were slightly above average, although *community college* tuition and fees were the lowest in the nation.
- o *Welfare benefits.* In nominal dollars, California benefits are considerably higher than those in most states, but account must be taken of the cost of housing, which is also well above average. The Center on Budget and Policy Priorities estimates that benefits adjusted for housing costs are only the 17th highest in the country. Another important point is that even in the most generous state, welfare benefits and food stamps fall well short of the poverty line.
- o *Medicaid.* California is among the most generous states in the number of optional services covered by Medicaid. Elimination of many of the optional services would not, however, save the state a great deal of money. While the priority of particular optional services is a valid issue, most of them may be regarded as desirable because the cost of prevention is often less than the cost of dealing with an illness after it has worsened.

Can the adjective Cadillac be fairly applied to the general level of services in California? Not really. No service is more important (and has stronger political support) than elementary-secondary education, but with such large class sizes California compares unfavorably to nearly all other states. The broad coverage of the Medicaid program and the past high quality of the higher education system may warrant the term Cadillac, but they are not typical of the general level of services.

Spending depends on salaries and the level of employment. A recent study published by the Center for the Study of the States shows that California has considerably higher salaries for state and local employees than most other states. The study does not reach a judgment about the justification for those salaries, maintaining that each state should compare salaries to those of private sector employees with similar responsibilities (also taking fringe benefits into account). The relatively high cost of living certainly

warrants somewhat higher salaries in California than in other states. The key question is: How much higher?

Policies

There are some important similarities between the policies adopted recently in California and those in other states.

Nationally, in 1991 and 1992, state fiscal policies can be summarized as follows:

Taxes

There were many tax increases in 1991 and few in 1992. Last year, 34 states raised taxes, for a total increase of \$14.4 billion. This represented close to 5 percent of total tax revenue and is often touted as the largest increase ever enacted in a single year. That is misleading for three reasons:

- o Two-thirds of the increase was in two states, California and Pennsylvania.
- o Only 12 states raised taxes as much as 5 percent. (In 1983, there were twice as many.)
- o In real dollars, increases in 1967, 1969, and 1971 were higher.

This year, tax increases were only \$1.1 billion, not counting continuation of temporary increases (\$1.4 billion) and taxes on health care providers (\$1.8 billion). Approximately a half dozen states had large tax increases.

Spending

Little information is available yet summarizing spending policies this year. It appears, however that the following generalizations can be made about policies adopted in 1991 and 1992.

Spending increased about 5 percent each year.

Three programs--Medicaid, elementary-secondary education, and corrections--accounted for virtually the entire rise.

Higher education was a prime target for cuts: nationally, it received less money in 1991-92 than in 1990-91. As a result, tuition is soaring.

Welfare was cut in many states, especially ones with relatively generous benefits. General assistance was hit more often than AFDC.

Gimmicks

Many states, like California, relied in part on gimmickry to avoid the pains of expenditure cuts or tax increases.

Devices included accrual accounting, delays in local aid, cutbacks of pension contributions, asset sales (in some cases, to state agencies), unrealistic estimates of spending or revenues, and plain old fashioned borrowing.

Taxes on health care providers played a major role in balancing the budget in many states. The revenue from these taxes can be used as a match for federal aid.

How does California fit with these national patterns?

California is similar to many other states in several ways:

Heavy reliance on tax increases in 1991 (including higher income taxes on the affluent) and avoidance of substantial tax increases in 1992

Welfare cuts

Tuition or fee increases for higher education

Partial reliance on gimmicks and optimistic assumptions

Governor Wilson is to be applauded for attempting to force contemplation of long run trends. Your local government realignment enacted last year was the most far-reaching change in state-local relations adopted in many years.

Outlook

In my book, *The State Fiscal Agenda for the 1990s* (NCSL, 1990), I predicted that states would face a very difficult fiscal environment in the 1990s.

The economy will grow more slowly.

Federal policy will add to state problems, e.g., through mandates.

Demographic developments will cause spending to increase, especially the growing school-age population, senior citizens over 85 years old, and increasing immigration.

Courts will force higher spending for schools, prisons, Medicaid, and mental hospitals.

AIDS and the drug war will become more expensive.

More will have to be spent on children and for adult retraining.

Voters will resist tax increases.

Confronting these problems, states ought to reform spending, taxes, intergovernmental policies.

The delivery of services must be reformed, increasing reliance on incentives and markets, giving greater weight to accountability, and targeting resources more carefully. In cutting budgets, states should be careful (a) not do long run damage to important institutions and (b) to maintain equity.

Reforms should not just be fiscally driven. I doubt that the best way to design reforms is in the budget process, especially when dealing with complicated

intergovernmental issues. The 1990s are a period when bipartisan commissions can play an important role in developing innovative policies that are difficult to structure in the legislative process. Such commissions may be able to assemble reform packages that reflect trade offs and concessions that parties would be unlikely to accept on a piecemeal basis. Some commissions might focus on particular problems, but others might be permanent, such as a state Advisory Commission on Intergovernmental Relations.

Tax systems should be reformed, but tax levels will continue to increase. The long run budget gaps facing states are so substantial that it is unrealistic and undesirable to deal with them solely by cutting or restraining spending. From a national perspective, two obvious areas for California to consider are broadening the sales tax base and increasing local taxes. California is among the lowest states in terms of the number of services subject to the sales tax.

In this period of fend-for-yourself federalism, state policies affecting local governments should be reformed, including reconsideration of sorting out, reform of aid programs, greater local revenue diversification, and relaxation of many mandates.

In the years ahead, state and local governments should face up to the need to restructure their programs. Some useful themes are found in the book *Reinventing Government* by David Osborne and Ted Gaebler, but the approaches discussed there do not offer easy answers for the challenges confronting governments.

States have taken a much more prominent role in our federal system as the federal government has cut back since the late 1970s. They need to rethink many of their traditional policies in the coming decade, or else the pendulum will swing back toward greater control by Washington, which can hopefully be avoided.



PETE WILSON
GOVERNOR

State of California

GOVERNOR'S OFFICE OF PLANNING AND RESEARCH
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RICHARD SYBERT
DIRECTOR

STATEMENT OF RICHARD SYBERT, DIRECTOR OF OPR, REGARDING BUDGET-CUTTING MECHANISMS UNDER THE TAXPAYER PROTECTION ACT (PROP 165)

GOOD MORNING, MR. CHAIRMAN AND MEMBERS. MY NAME IS RICHARD SYBERT. I AM STATE PLANNING DIRECTOR AND THE HEAD OF THE GOVERNOR'S OFFICE OF PLANNING AND RESEARCH. I AM HERE AT YOUR INVITATION TO TESTIFY REGARDING THE PROPOSED BUDGET-CUTTING MECHANISMS UNDER PROPOSITION 165, THE TAXPAYER PROTECTION ACT ON THIS NOVEMBER'S BALLOT.

I UNDERSTAND THAT REPRESENTATIVES OF THE ~~DEPARTMENT OF FINANCE,~~ THE OFFICE OF CHILD DEVELOPMENT AND EDUCATION, ~~AND THE DEPARTMENT OF EMPLOYMENT DEVELOPMENT~~ WILL TESTIFY ON OTHER ASPECTS OF THE ACT, SO I WILL CONFINE MY OWN COMMENTS TO A COMPARISON OF THESE BUDGET-CUTTING MECHANISMS TO THOSE OF OTHER STATES.

AS YOU KNOW, THE ACT WOULD PROVIDE CALIFORNIA'S GOVERNOR WITH THE ABILITY TO REDUCE SPENDING TO MEET REVENUES WHEN THERE IS A DEFICIT, AND THE LEGISLATURE CANNOT OR HAS NOT ACTED TO CLOSE IT. IN CERTAIN DEFINED CIRCUMSTANCES, THE GOVERNOR WOULD THEN BE

EMPOWERED TO CLOSE THE DEFICIT THROUGH CUTS IN APPROXIMATELY 50% OF BUDGET CATEGORIES.

SEVERAL MONTHS AGO THE OFFICE OF PLANNING AND RESEARCH CONDUCTED A COMPREHENSIVE SURVEY OF THE FIFTY STATES TO COMPARE THE MECHANISMS AVAILABLE TO OTHER STATES' GOVERNORS TO REDUCE A DEFICIT.

WHAT WE FOUND, IN A NUTSHELL, WAS THAT CALIFORNIA WAS ALMOST ALONE IN HAMSTRINGING ITS CHIEF EXECUTIVE IN THIS AREA. AT LEAST FORTY-FOUR OTHER STATES GIVE THEIR GOVERNORS MORE AUTHORITY THAN CALIFORNIA CURRENTLY DOES TO BRING SPENDING INTO LINE WITH REVENUES. ONLY 5 OTHER STATES--FLORIDA, LOUISIANA, MAINE, MICHIGAN, AND NEW HAMPSHIRE--DENY THEIR GOVERNOR SUCH AUTHORITY, AND AT LEAST ONE OF THESE--FLORIDA--IS WORKING TO CORRECT THIS.

MOREOVER, WE FOUND THAT THE POWERS PROPOSED BY PROP. 165 FALL ABOUT IN THE MIDDLE OF THE RANGE OF SUCH AUTHORITY GRANTED OTHER STATE GOVERNORS. IN OTHER WORDS, PROP 165 IS A FAIRLY MODERATE VERSION OF WHAT IS FAIRLY STANDARD GUBERNATORIAL AUTHORITY. ONE MAY ARGUE WHETHER OR NOT, ON THE MERITS, A GOVERNOR SHOULD HAVE THIS AUTHORITY, BUT IT IS SIMPLY INACCURATE TO CLAIM IT IS UNUSUAL OR EXTREME.

THE EXTENT OF THE GOVERNOR'S INDEPENDENT BUDGET AUTHORITY VARIES AMONG THESE 44 OTHER STATES. AT THE LOWER END, A GOVERNOR IS PERMITTED TO ACHIEVE MINOR SAVINGS BY REORGANIZING EXECUTIVE BRANCH DEPARTMENTS. FIVE STATES--KENTUCKY, MONTANA, NEBRASKA, ILLINOIS, AND ARKANSAS--GRANT THIS LIMITED AUTHORITY.

AT THE UPPER END, A GOVERNOR IS PERMITTED TO REDUCE ANY EXPENDITURES NECESSARY TO BRING THEM INTO LINE WITH REVENUES, WITH FEW OR NO LIMITS AS TO THE BUDGET CATEGORIES THAT MAY BE CUT, AND TO REORGANIZE THE EXECUTIVE BRANCH. 20 STATES GIVE THEIR GOVERNORS THIS KIND OF AUTHORITY, INCLUDING ARIZONA, NEVADA, AND OREGON.

IN BETWEEN THESE TWO ENDS OF THE SPECTRUM, THE REMAINING 19 STATES GIVE THEIR GOVERNORS A VARIETY OF LIMITED MECHANISMS. RELATIVELY CRUDE ONES INCLUDE REQUIRING THAT CUTS BE MADE ACROSS THE BOARD, AS IN ALABAMA AND GEORGIA; OR THAT CUTS BE MADE UNDER AN AGREED SET OF PRIORITIES, AS IN ARKANSAS. IN OTHER STATES, SUCH AS CONNECTICUT, THE GOVERNOR HAS DISCRETION TO MAKE CUTS UP TO A CERTAIN PERCENTAGE, OR, AS IN MISSOURI, CAN MAKE CUTS ONLY IN CERTAIN NON-EXEMPT CATEGORIES OF THE BUDGET. THE EXECUTIVE BRANCH CANNOT BE UNILATERALLY REORGANIZED IN THESE STATES.

PROP 165 AGAIN IS IN THIS MIDDLE GROUND OF MECHANISMS. IT WOULD NOT PROVIDE THE GOVERNOR WITH UNLIMITED DISCRETION AS TO WHERE TO MAKE CUTS, BUT INSTEAD WOULD ALLOW HIM TO MAKE NECESSARY SPENDING REDUCTIONS IN ABOUT 50% OF THE BUDGET. THE OTHER HALF OF THE BUDGET, INCLUDING DEBT SERVICE, EDUCATION, LOCAL SUBVENTIONS, AND 95% OF STATE EMPLOYEES' SALARIES, WOULD BE EXEMPT FROM ANY CUTS. THIS MAY BE CONTRASTED, FOR EXAMPLE, WITH PENNSYLVANIA, WHERE NONE OF THE BUDGET IS EXEMPTED FROM CUTS; NEW YORK, WHERE ONLY 6.8% IS EXEMPTED; OR ARIZONA AND COLORADO, WHERE ONLY EDUCATION IS EXEMPTED.

I BELIEVE IT IS INACCURATE TO CLAIM, AS SOME HAVE, THAT PROP. 165 WOULD GIVE THE GOVERNOR UNLIMITED BUDGET POWER. INSTEAD, PROP. 165 GIVES THE GOVERNOR THE ABILITY, IF HE AND THE LEGISLATURE CANNOT AGREE ON A BUDGET, AND ONLY IF THERE IS A PROJECTED DEFICIT, TO MAKE CUTS, BASED ON THE THEN CURRENT OR MOST RECENT BUDGET BASELINE, IN ABOUT HALF OF BUDGET CATEGORIES, AND THEN ONLY ENOUGH TO CLOSE THE PROJECTED DEFICIT. THOSE ARE TWO QUITE DIFFERENT THINGS. PROP. 165 DOES NOT LET A GOVERNOR WRITE A BUDGET. IT LETS HIM CLOSE A DEFICIT ACCORDING TO SET CRITERIA AND AN ESTABLISHED BASELINE, EITHER WHILE THE BUDGET DEBATE GOES ON, OR WITH THE CURRENT BUDGET STILL IN PLACE.

WE ALSO FOUND THAT THERE IS A CORRELATION BETWEEN GREATER GUBERNATORIAL AUTHORITY AND BETTER STATE FISCAL MANAGEMENT. THE STATES WHOSE GOVERNORS HAVE SIGNIFICANT OR FULL BUDGET-CUTTING AUTHORITY THIS YEAR HAVE FACED AVERAGE BUDGET SHORTFALLS OF 2.5% OF PLANNED EXPENDITURES, LESS THAN HALF THE AVERAGE 5.7% SHORTFALL OF STATES LIKE CALIFORNIA WHOSE GOVERNOR HAS LITTLE OR NO AUTHORITY. PUT ANOTHER WAY, STATES WHOSE GOVERNORS CAN REDUCE SPENDING WHEN THE LEGISLATURE CANNOT, TEND TO RUN SUBSTANTIALLY SMALLER DEFICITS.

FINALLY, IN OTHER STATES THESE PROVISIONS ARE OCCASIONALLY CHALLENGED AS A VIOLATION OF THE CONSTITUTIONAL SEPARATION OF POWERS. HOWEVER, MOST ARE UPHELD. THE GENERAL RULE IS THAT SUCH AUTHORITY IS CONSTITUTIONAL, AND DOES NOT VIOLATE THE SEPARATION OF POWERS, IF IT IS CONSTRAINED WITHIN BROAD POLICY LIMITS SET IN STATUTE. THE TAXPAYER PROTECTION ACT APPEARS TO MEET THIS TEST, AS IT SETS WHICH BUDGET CATEGORIES MAY BE CUT, AND WHICH NOT.

IN SUMMARY, MR. CHAIRMAN AND MEMBERS, THE BREADTH OF THE GOVERNOR'S AUTHORITY TO CUT THE BUDGET ESTABLISHED IN THE TAXPAYER PROTECTION ACT IS COMMON AND NORMAL IN MANY OTHER STATES, AND GENERALLY PASSES LEGAL MUSTER. IN FACT, PROP 165 IS A FAIRLY MILD

VERSION OF SUCH AUTHORITY, FALLING ABOUT IN THE MIDDLE OF SUCH MEASURES. THE ALTERNATIVE IS DEFICIT SPENDING, WHICH IS FORBIDDEN UNDER MOST STATE CONSTITUTIONS INCLUDING CALIFORNIA'S. PUT SIMPLY, WHEN THE MONEY ISN'T COMING IN AS PLANNED, AND THERE IS POLITICAL GRIDLOCK, SOMEONE HAS TO BE ABLE TO RESPOND.

THANK YOU FOR THIS OPPORTUNITY TO COMMENT. I WOULD BE PLEASED TO RESPOND TO ANY QUESTIONS OR COMMENTS THAT THE CHAIRMAN OR MEMBERS MAY HAVE.

**Governor's Authority to Act on State Budget,
Subject to Guidelines,
in the Absence of Legislative Action**

FULL AUTHORITY

**Can Reduce Budget without Legislative Approval
Can Reorganize Departments without Legislative Approval**

(20 States)

Alaska	Idaho	← Nevada	Rhode Island
Arizona	Indiana	North Carolina	Tennessee
Colorado	Kansas	North Dakota	Vermont
Georgia	Maryland	Oklahoma	Wisconsin
Hawaii	Minnesota	← Oregon	Wyoming

SUBSTANTIAL, BUT CONSTRAINED AUTHORITY

**Can Reduce Budget without Legislative Approval
Cannot Reorganize Departments without Legislative Approval**

(19 States)

Alabama	Mississippi	Ohio	Utah
Connecticut	Missouri	Pennsylvania	Virginia
Delaware	New Jersey	South Carolina	Washington
Iowa	New Mexico	South Dakota	West Virginia
Massachusetts	New York	Texas	

VERY LIMITED AUTHORITY

**Cannot Reduce Budget without Legislative Approval
Can Reorganize Departments without Legislative Approval**

(5 States)

Arkansas	Kentucky	Nebraska
Illinois	Montana	

NO AUTHORITY

**Cannot Reduce Budget without Legislative Approval
Cannot Reorganize Departments without Legislative Approval**

(6 States)

California	Louisiana	Michigan
Florida	Maine	New Hampshire

Abstracted from *Budgetary Processes in the States*, published by the National Association of State Budget Officers.

*Guidelines include percentage caps, categorical exemptions, or proration.

Authority to Cut Spending

State	Approx % of Spending Exempted	Exempted Categories
Minnesota	0	none
North Carolina	0	none
Pennsylvania	0	none
Alabama	2.4	debt service
South Carolina	2.4	debt service, other items that may be exempted by proviso in the appropriation legislation
Delaware		federal and state mandated programs
New York	6.8	debt service, pledged revenues associated with bond issues
Georgia	7.0	law enforcement, prisons, mental health
Mississippi	10.3	Medicaid
Rhode Island	28.3	core safety net programs such as cash assistance
Arizona	31.8	K-12 education
Colorado	31.8	K-12 education (partial and if revenues improve)
Connecticut	34.2	direct care programs
New Jersey	34.2	direct care programs
Tennessee	42.1	K-12 education, Medicaid
California <i>(under Prop. 165)</i>	50.0	debt services, Proposition 98 (R-14 education), constitutional expenditures, State employees' salaries
Missouri	50.5	K-12 education, higher education, revenue sharing, certain mental health programs, student financial aid
Iowa	65.6	K-12 education, local aid, entitlements under specified conditions
Ohio	73.7	human services, education, correction, revenue-generating programs
Indiana	78.0	military officers and Armory Board, State Supreme Court, Court of Appeals, State Fair Commission, higher education, local aid
Maryland	79.7	prisons, Medicaid, human resources
Massachusetts	80.3	all program areas are exempt, except allotments to agencies under the Governor's control

Post-budget cuts were not necessary in 1991 in the other 23 states that give their governors budget-cutting authority.



THE LEAGUE OF WOMEN VOTERS OF CALIFORNIA

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Statement by the League of Women Voters
For No on Proposition 165
Janis Nielsen, Spokesperson

Proposition 165 Oversight Hearing
October 1, 1992

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Good Morning. My name is Janis Nielsen and I am here today representing the League of Women Voters. The League has made the defeat of Proposition 165 its highest priority this fall. The League, and its members throughout California are working to educate California's citizens about the dangerous changes in our system that the enactment of Proposition 165 would bring.

The League is adamantly non-partisan, we never support candidates, but we do take strong stands on issues. We have taken the strongest possible stand opposing Proposition 165. Based on the latest Field Poll data, California voters appear to be inclined to agree. After hearing of the proposition, 50% indicate opposition, while only 37% support the measure. The ballot label assigned to Proposition 165 nearly says it all, "Grants governor constitutional power to reduce certain expenditures to balance budget during "Fiscal Emergency".



Proposition 165 upsets the balance of power between the executive and the legislative branch. It destroys our systems of checks and balances and puts unprecedented, unilateral control of the state budget in the hands of one person.

How does this happen?

Currently the governor submits his proposed budget to the legislature by January 10. Proposition 165 would delay that submission until March 1 allowing seven fewer weeks for legislative and public scrutiny. If the budget is not passed and signed by July 1 the governor can declare a fiscal emergency and make cuts in any area not constitutionally protected: health care, law enforcement, transportation, family planning, environmental protection, and yes....education, a point to which I will return in a few moments.

To understand the real magnitude of this constitutional shift of power you have to read section 12.2(b) in the initiative. That section clearly indicates that no one can stop the governor's cuts because the legislative override provision is effectively eliminated. Section 12.2(b) reads, " Any reductions proposed under subdivision (a) shall become effective 30 days after the proposal is transmitted to the legislature unless, prior to the end of the 30-day-calendar period, the legislature passes the budget bill and the bill is signed by the governor".

The League of Women Voters believes that any override of a governor's actions requiring the governor's approval is no override at all. Indeed, the Department of Finance testified Monday that they believe that 165's veto override provisions are in direct conflict with existing constitutional provisions.

Two weeks ago the League of Women Voters and the PTA unveiled the coalitions radio campaign opposing Proposition 165. The radio spots point out the unprecedented and unchecked powers that 165 would give this and all future governors. In response the proponents issued a press release calling our spots, "a disgrace... that blatantly lie to the voters of California." Furthermore, the release stated that "the legislature can override the governor at any time."

On Monday, after several hours of harsh questioning by both republicans and democrats, the proponents of 165 were forced to admit the initiative is flawed. They admitted that the wording that would enable the governor to virtually control the entire budget process was the result of a technical error, that was essentially inconsequential. They further stated that, "the court can disregard the literal meaning of the language of a law." The operative word is "can." Maybe the court can disregard the language. Can we be sure they will?

Initiatives often have a great deal of fine print that we as voters are encouraged to read. The proponents of this initiative ask us to take a giant step backwards. They are asking the voters to ignore the fine print and trust that the issue will be resolved after the election.

I can imagine how most legislators must feel about this. Throughout California's history, you and the public have had one real weapon against dictatorial powers of the executive. By a two-thirds vote of both houses, you can tell a governor "NO".

Proposition 165 changes that rule. When its provisions are triggered, you could override the governor's spending decisions by a 100% vote of both houses, but the

governor could still ignore your vote simply by refusing to sign the override.

I would think the legislature would be very hesitant to give up their veto override. Certainly the League of Women Voters has grave concerns about it. We do not single out one governor on this matter. We do not believe that this or any future governor should have such immunity from checks and balances.

Even after the budget is passed and enacted the danger continues. Section 12.5 gives the governor the power to declare a "fiscal emergency" anytime the budget is out of balance by 3% or more. Simple miscalculations by the Department of Finance could trigger a so called "emergency". We all know how hard fiscal projections are to make. In 7 of the last 10 years the Department of Finance has made these miscalculations and since the Director of Finance is appointed by and works for the governor, the chances of similar miscalculations might increase as soon as 165 becomes law.

Once again, any override would have to be approved by the governor. Section 12.5(b) reads, "Any reduction proposed under subdivision (a) shall become effective 30 days after the proposal is transmitted to the legislature unless, prior to the end of the 30-day-calendar period, the legislature enacts in each house by rollcall vote entered in the journal, two thirds of the membership concurring, alternate legislation to bring anticipated revenues and expenditures for the fiscal year into balance and that legislation is signed by the Governor."

The proponents of Proposition 165 state that governors in 44 other states have similar authority to keep their budgets balanced. That is simply not true. Despite

any claims to the contrary, Prop 165 would give the governor of California more power over the enactment of our state budget than any other governor in the country. In no other state has the public's ability to participate in the budget process been so limited and the legislative override provision been eliminated.

Returning to education funding for a moment, assertions that Proposition 165 does not affect the level of school funding are misleading. Proposition 165 does not expressly exempt school funding from spending reductions as stated by the proponents. All of the discretionary money above the Proposition 98 guarantee could be cut by one person alone. It allows the governor to unilaterally reduce funding while still complying with the provisions of Proposition 98. This past year the governor proposed to cut education funding by \$2.3 billion, an action he could have taken unilaterally had 165 been the law. And of course, higher education is not protected at all.

The governor claims that this initiative would give him and all future governors a powerful incentive to improve legislative action. In truth, this initiative would give the governor's own party an incentive to delay the process so that their own leader could ultimately define the budget, perhaps ignoring public priorities. Why compromise when you can have it all?

Although he proposed the initiative, the issue here is not Governor Wilson. This constitutional amendment will give this and all future governors virtually unchecked power. The governor remains in control of the budget process from beginning to end. We fear the chilling effect on regulatory agencies and independent boards and

commissions whose budgets depend on the whim of the governor alone.

We are familiar with our current governor and past governors, but what about governors in the future. What would happen if a particular governor disagreed with strict oversight of the nursing homes that care for our elderly, or for tight enforcement of our environmental protection laws or our worker safety laws?

The proponents of 165 like to focus the discussion on the welfare aspects of this initiative. 165 does nothing to strengthen the already worn safety net for California's 1.5 million poor children and their families. It provides no additional job training, child care services or health care for the working poor, and does not address the inadequate supply of jobs in California. Talking about welfare just gets us off the main subject of this initiative ... a consolidation of power in one person.

The League of Women Voters fully recognizes the disenchantment and frustration Californians feel with the budget and legislative process. We share that frustration and constantly work to enact legislation that will make the process more efficient. We are confident that when the public learns the true content of this initiative, that they will not be seduced by the welfare provisions and will vigorously reject the unprecedented and dangerous new powers 165 would put into the hands of one person.

This is a constitutional amendment. Californians will take a great risk of losing our checks and balances if they support this initiative and gamble on a court decision. If this initiative wins and goes to court, it will be the taxpayers who foot the bill for a change in wording that never should have been there in the first place.

If it wins and doesn't go to court, we will have sacrificed public and legislative participation for unchecked gubernatorial power. The only way for Californians to win is to oppose 165.

PROPOSITION 165. BUDGET PROCESS. WELFARE.

PROCEDURAL AND SUBSTANTIVE CHANGES.

INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE

Statement of Dr. Naomi Caiden, Professor of Public Administration, California State University San Bernardino, before the Senate Health and Human Services Committee, Senate Committee on Budget and Fiscal Review, and Assembly Ways and Means Committee, Los Angeles, Thursday, October 1 1992.

1. I should like to thank the committees for the opportunity to be here today and to testify before them on Proposition 165. I am currently Chair of the Department of Public Administration at California State University San Bernardino. I have taught, researched and written on public budgeting in a wide variety of contexts for over twenty years. For the last four years, I have been the editor of Public Budgeting and Finance, a quarterly journal for academics and practitioners.

2. Proposition 165 seeks to amend the Constitution of the State of California to augment the powers of the governor in the budget process. It would allow the governor to declare fiscal emergencies during which he would have unlimited authority to make increases or decreases in the budget. If passed, this proposal would contravene the separation of powers and substitute dictatorial executive power, without contributing to the democratic resolution of conflicts, informed realistic and productive budget debate, or resolution of the current California budgetary crisis.

3. At the heart of the proposal is the power of the governor to declare a "fiscal emergency" in two sets of circumstances and to take certain actions during that emergency. Both the circumstances and substantive powers granted to the governor allow him or her unilateral, virtually unchecked power. First, the provision to allow the governor to declare an emergency if a new budget has not been signed by June 15 each year gives the governor discretion when to call an emergency. A budget may have been duly passed by a two-thirds majority of the legislature, but if the governor chooses not to sign it, he or she may declare a fiscal emergency. Each year the decision is up to the governor. Second, the governor may declare a fiscal emergency during the fiscal year if revenues are 3 percent below budgetary forecasts or expenditures are 3 percent above budgetary forecasts, or each is 1.5 percent below or above forecasts respectively. Apart from normal forecasting difficulties, particularly for revenues, forecasts are notoriously easy to manipulate since they are not firm figures but estimates, opening the possibility for deliberate under or over estimates, and thus triggering declaration of fiscal crisis.

4. Once a fiscal crisis has been declared, the governor has power

to change the budget. In both cases, the legislature cannot override the governor, even if it musters two-thirds majority, since the governor's signature is required. Thus, the governor's version necessarily prevails, his or her priorities stand, and the state of fiscal emergency continues, until the governor's agreement is obtained. The legislature cannot override the governor who, during the fiscal emergency, has complete power to put into place his or her own budget priorities. The cards are stacked: in this arrangement the governor cannot lose.

5. Where similar unlimited powers over the budget are granted to the executive in other countries, these are checked by the Cabinet system of government. The executive is dependent on retaining a majority of the legislature, and if it loses a vote on the budget, it has to resign. There is no similar provision in a separation of powers system, where executive power is independent of the legislature, and the two branches of government share powers and check each other. Proposition 165 embodies the worst of both systems, allowing the executive unlimited power over the budget, without reciprocal power by the legislature to vote it out of office.

6. Other provisions of the proposition are clumsy and possibly counterproductive. The suspension of salaries if the budget is not passed by June 15 is a collective punishment, more characteristic of a colonial relationship than modern democratic institutions, and which provides even more leverage for an irresponsible minority. The furlough and salary cut provisions in case of budgetary imbalance during the year single out non-contract employees, would have unpredictable results on programs, and would probably adversely affect morale.

7. What are the problems the proposition ostensibly seeks to remedy? They may be briefly inferred as (a) budgetary irresponsibility; (b) automatic (auto-pilot) spending; (c) failure to reach agreement; (d) budget imbalance. The proposition, if passed, would not solve any of these problems, and would probably worsen them.

(a) Budgetary irresponsibility is likely to increase: the governor is given unilateral power over the budget, while the legislature which constitutionally holds the power of the purse, may be ignored, even if it can muster a two-thirds majority. Neither has an incentive to responsible behavior. The governor already has considerable budgetary power, notably a line item veto.

(b) The proposition excludes the major areas of automatic spending which are protected by the constitution, with the exception of the welfare area. It therefore does not prevent automatic increases in spending in these areas, and provides an incentive to protect more expenditures through constitutional means, further reducing flexibility.

(c) The proposition would shorten legislative debate on the budget by about two months because presentation of the governor's budget would take place in March instead of January. The reduction of time for debate would make gaining agreement more difficult, rather than easier. In any case, the governor would have no incentive to try to reach agreement since the executive could impose its will by unilateral fiat.

(d) The proposition would not cure budget imbalance, which is related to substantive political and economic issues that cannot be resolved by gimmicks. The failure of the Gramm-Rudman legislation at federal level exemplifies the poverty of this approach. Giving more power to the governor, bullying the legislature, and complicating processes through mechanistic measures, does not substitute for reasoned analysis and debate toward the understanding and resolution of problems.

8. In conclusion, Proposition 165, if passed, would not achieve its ostensible aims. It would result in a dangerous transfer of power to the governor, allowing unilateral implementation of executive priorities. And it would contribute to a worsening of the budgetary climate, making agreement, compromise, and responsibility more difficult to achieve. It would be better at this time to facilitate budgetary agreements by making it easier to pass budgets through the removal of the two-thirds majority provision, than to increase budgetary conflicts and submit to the vagaries of arbitrary power that our constitution is designed to prevent.



CALIFORNIA CONGRESS OF PARENTS, TEACHERS, AND STUDENTS, INC.

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My name is Diane Brahams and I am the Community Concerns Advocate for the California State PTA. I appreciate the opportunity to testify before you today.

The California State PTA is strongly opposed to Proposition 165. No single issue on the ballot could be more devastating to education, as well as other services to children and families, than Proposition 165. And no single issue could be more devastating to our traditional American system of checks and balances in government.

While the proponents of this measure want the public to believe education is protected from cuts, this is simply not true.

As you know, Prop 98 provides only the "minimum guarantee" of funding for schools. Because of a strong-commitment to public education, the state has provided, until this year, funding above the Prop 98 minimum. If prop 165 becomes law, during a Governor declared "fiscal emergency" the governor would be able to cut education down to the Prop 98 level. As we learned this year Prop 98 does not truly protect education. If prop 165 becomes part of our Constitution the Governor will have new unilateral power over the budget to further erode Prop 98 funding by cutting the base on which it is predicated.

What would that mean? Well, earlier this summer Governor Wilson proposed \$2.3 billion in education cuts. Under Prop 165 he could have single handed made those cuts. He also could have prevented 110,000 little children from starting kindergarten this year.

All of that could have happened without any provision for legislative override. And without violating or manipulating Prop 98.

Budget funding levels are always based on estimates of General Fund revenues, personal income, school enrollment, and property taxes. As part of the "fiscal emergency" language in the initiative, the Department of Finance, appointed by the Governor and the determinants of the revenue calculations, could re-calculate the Prop 98 funding level, at any time, to lower than when the budget was adopted. Nothing in Prop 165 prevents the Dept. of Finance from declaring, as part of the fiscal emergency, that their earlier estimate of the Prop 98 guaranteed was in error. Therefore, the Departments over estimated budget calculations will have caused an apparent "over-funding" of public schools. The Governor would then be free to cut school funding to the Departments newly calculated Prop. 98 minimum level and still stay within the Constitutional Language of Prop 98.

Another way that education funding could be hurt under Prop 165.

If, during the budget deliberation, the legislature casts a two-thirds vote to suspend Prop 98, there is then no limit to what the governor can cut from the education portion of the budget in a "fiscal emergency," because the education funding would no longer be protected.

Although budget cuts are always harsh, these cuts would be particularly devastating because they would occur during the middle of the year. Classes would be eliminated. Teachers would be laid off. And children's lives would be painfully disrupted.

I am a member of PTA because children are my first concern. But as a citizen of California I am also concerned about good government. And, simply put, Prop 165 is bad government and violates American Constitutional principals.

Although this year's budget battle was the worst ever, there was eventually a negotiated solution between the Legislature and the Governor. And the Legislature stood firm behind education.

Under Prop 165, why bother electing a legislature? Their ability to override the governor is eliminated because the language of the initiative clearly states the governor must "sign" the budget.

Earlier this week the proponents of 165 asked the citizens of California to ignore this exact language in the initiative, assuring us the courts would straighten this, and I quote "technical error."

This is not just a technical error, it is a major revision in the Constitution! We are asking the governor to withdraw his support of Proposition 165. The citizens of California should not have to rely on the courts or pay for an expensive legal proceeding to restore our system of Constitutional separation of balance of power.

Prop 165 gives one person too much power over the state budget. No one governor, Democrat or Republican, should have that much power to hurt education or placed his or her priorities above the will of the people.

our public schools are too important. Our children are too important. That's why the California PTA is strongly opposed to Proposition 165.

Text of prepared testimony given by

Bishop Phillip F. Straling

Diocese of San Bernardino

before the

California Senate Health and Human Service Committee

California Senate Budget and Fiscal Review Committee

California Assembly Ways and Means Committee

California Assembly Intergovernmental Committee

on Thursday, Oct. 1, 1992, regarding

**The Government Accountability
and Taxpayer Protection Act**

(Proposition 165 on the November 1992 California General Election Ballot)



GOOD AFTERNOON. MY NAME IS PHILLIP F. STRALING. I AM A Catholic bishop with jurisdiction over the counties of San Bernardino and Riverside making up the Catholic Diocese of San Bernardino. I also serve as the vice-president of the California Catholic Conference.

I want to thank you for the opportunity to appear here today and discuss the concerns of the California Catholic Conference with Proposition 165, the welfare- and budget-reform act.

As I begin my testimony I would like to context my remarks against the realities of our current economic and social scene in southern California. I feel it is essential to do so, for too frequently in today's world we rush off to solve major problems lacking both knowledge and understanding. The result of our ill-conceived action then compounds our problems and further jeopardizes all our well-being.

The major problem that we see with Proposition 165 is that it represents a series of ill-conceived solutions to major social and economic problems of our day. It appears that those who developed Proposition 165 did so based on myths and stereotypes that ill serve the seriousness of the issues addressed. Further, lacking both knowledge and understanding of the real issues, Proposition 165 would, if passed, produce immeasurable suffering in the lives of the most vulnerable members of our society, poor children. At the same time, it would deliver a mortal blow to effective government in our state.

Permit me to share with you my concerns in the first area mentioned. The premise of Proposition 165 is that California's budget problems are being created, in part, by an uncontrolled growth in welfare triggered by a benefit that is making California the U.S. Mecca for people who don't want to work. I wonder, if those who developed Proposition 165 have been following the news recently or have any memory of recent history. News headlines daily give us information of the worse economic recession to hit southern California since the Great Depression. Perhaps they have been too quick to forget the devastation of the industrial base in the early '80s that turned cities and towns in Ohio and Pennsylvania into ghost towns and produced one of the largest in-country migrations from the Northeast to the West and Southwest. Or perhaps, they don't remember the unprecedented foreclosures and land sales that dislocated thousands of farm families in the mid-'80s. Obviously, they remember nothing of the of the savings-and-loan collapse

coupled with one of the worse banking crises in our history, a collapse that is continuing to have a particularly adverse effect on the building industry throughout California. Perhaps, they choose to forget the great tax giveaways of the '80s that have created the worse income gap between rich and poor in our country since records began to kept in this area. And finally, perhaps, they fail to realize that the Cold War ended and approximately 20-plus percent of California's thriving economy of the '80s is fast disappearing.

I wonder if they ever read the newspapers:

- The story of Sept. 3, 1992, in the San Bernardino *Sun*, that had the Commerce Department reporting that income growth, adjusted for inflation, declined by 1.9 percent in 1991, the worse decline on record going back to 1970.

- Or, the story of Aug. 12, 1992, *Los Angeles Times*, that reported that in cities with populations of 100,000-plus, more than one-fourth of the children are living in poverty; that approximately 10,000 American children "die of poverty" each year. In the county in which I live, San Bernardino, the figure is 34.4 percent. The story concludes that, "Children are the poorest citizens in California and are suffering the consequences."

- Or, the headline of Sept. 26, in the San Bernardino *Sun*, that read, "Job picture the worst in 10 years."

Yes. California has some serious economic problems, contributing to some very serious social problems. And yes, these problems are placing severe strains on the fiscal well-being of the state. But, I think based on the evidence available to us that it is safe to say that the major causes of the state's fiscal problems are a changed world economy coupled with a changed world political reality. These factors coupled with the short-sighted, greed-oriented and failed economic policies of the '80s need to be addressed if we are to rebuild our national and state economy. I fail to see how any responsible person could blame the economic tragedy of the '90s on helpless children. Seventy percent of the recipients of AFDC in California are children — 1.6 million children. Of this number, 200,000 are infants. Or blame it on unemployed workers trying to hold a family together, or the aged, blind and/or disabled.

Yet that in fact is what Proposition 165 would do — punish these groups as though they were the cause of our problems. Proposition 165 would, if passed, immediately reduce welfare benefits by 10 percent, and in six months, if the adult member of the family did not find work, benefits would be reduced an additional 15 percent. This would be in addition to the benefit cuts that will be experienced by most beneficiaries within the next month as a result of the this year's budget resolution. A family of three would have combined benefits — AFDC and food stamps — reduced to \$751 a month or \$9,012 a year. Using today's poverty line of \$11,570 for a family of three, that family would be made to live at 79 percent of that which is established by the federal government as barely sufficient for a family's survival. Further the benefit would be frozen at that level for seven years. If the present economic crisis continues for another two or three

years, that family in 1995 would be living with an income level equivalent to 60-65 percent of the established poverty line. In a state where many AFDC families are already spending in excess of 50 percent, some as high as 70 and 80 percent, of their income for shelter reductions of this nature would serve only to increase the already unacceptable number of homeless families, as well as insure the destruction of many more innocent young lives. Further, these cuts would make the quality of all of our lives unbearable and surely, hamper any real possibility of any economic revival in our state.

I could go on in this area for much longer but I honestly feel that we all, at least those of us in touch with the human faces of poverty in our streets, are sufficiently pained by present circumstances without imaging the horrors to come if the short-sightedness and mean-spiritedness of Proposition 165 is adopted.

Proposition 165 is not satisfied with wrecking havoc in the lives of poor children, their families, the aged and disabled. Proposition 165 would reconstruct our state government by effectively destroying the balance of powers between the legislative and executive branch of governments. It would, if passed, vest the equivalent of absolute fiscal power in whoever sits in the governor's chair. This would essentially destroy the systems of checks and balances designed by our forefathers and mothers as a safeguard for our democracy. Short-sighted and myopic thinking on the part of the proponents of 165 would jeopardize the established processes of good government designed to insure that the common welfare of all people is served by a balanced representative government.

Recently, we Catholic bishops of the United States published a statement titled, *Putting Children and Families First — A Challenge for our Church, Nation and World*. Our motivation in issuing this statement is captured in the opening paragraph:

“Our nation is failing many of our children. Our world is a hostile and dangerous place for millions of children. As pastors in a community deeply committed to serving children and their families, and as teachers of a faith that celebrates the gift of children, we seek to call attention to this crisis and fashion a response that builds on the values of our faith, the experience of our community, and the love and compassion of our people.”

Further, in the same statement, we advance a criteria for national policy. I think, this criteria could serve us well in California. I will conclude my remarks this afternoon by applying this criteria to our state:

Our great state of California must move beyond partisan and ideological rhetoric to help shape a new consensus that supports families in their essential roles and insists that public policy support families, especially poor and vulnerable children. In pursuing this goal we as a state should advocate for policies and programs that:

- Put children and families first.
- Help. don't hurt, families and children.
- Insure that those with the greatest need get the most help.
- Support policies and programs that empower families to meet their respon-

sibilities to their children.

- Fight economic and social forces which threaten children and family life.
- Build on the strengths of families, reward responsibility and sacrifice for children.

While I find myself unable to see any real value in Proposition 165 by way of fashioning a response that will enhance the well-being of poor children, their families or, for that matter, any segment of our society, let me state categorically the defeat of Proposition 165 is not our exclusive goal. It is not our goal to embarrass any political personage or party. Our goal, looking beyond the defeat of Proposition 165, is to impel all to build with one another a society, state, nation, a world with a clear priority for all families and children in need.

Thank you.

References

For those interested in reading further into the scenarios of a post Proposition 165 world I would strongly recommend any or all of the following:

Welfare Reform and Children's Well-being, issued by Stanford Center for the Study of Families, Children and Youth.

Harder Times: the Working Poor and Wilson's Welfare Cuts, by Casey McKeever.

Beyond Rhetoric: the Facts About Poverty and Welfare in California, and the Government Accountability and Taxpayer Protection Act of 1992, by Marcia K. Meyers, MPA, and Sally Brown, MSW.

Transferring the Burden, Delaying the Cost, an analysis of the Government Accountability and Taxpayer Protection Act, by the San Francisco Department of Social Services.



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10 REASONS WHY CALIFORNIANS SHOULD
OPPOSE PROPOSITION 165
(September update)

Governor Wilson has proposed a ballot initiative, Proposition 165, which will be on the November ballot. While the proposal claims to help taxpayers and children, it will not. In fact, it will seriously harm the poorest and most vulnerable children in California, could have adverse consequences for the well-being of more well-off children, and will cost taxpayers more in the long run.

Millions of children who receive state services in any area from education to child abuse and neglect prevention could be affected by the proposition's dismantling of the constitutional checks and balances in budgeting. In addition, 1.5 million children -- one in five children in California -- will be affected by the proposal because they live in families which receive Aid to Families With Dependent Children (AFDC). AFDC, commonly known as welfare, is a federally mandated program run by the state. The program was set up as a transitional safety net to help families, mostly single mothers and their children, to get through financial crises such as divorce, unemployment, or illness. Cost of living adjustments to AFDC grants were signed into law by former Governor Reagan as an inflation buffer. The key features of the proposal follow:

Budgetary changes:

- Move the introduction of the budget by the Governor from January 10 to March 1, and maintain the July 1 deadline for legislative approval.
- Allow the Governor to declare a fiscal state of emergency if a budget is not passed and signed by July 1 or whenever state revenues drop 3% below projections.
- Give the Governor, during a fiscal state of emergency, the authority to reduce spending on programs not specifically protected by the constitution. The reductions would automatically go into effect unless the Legislature passes a budget within 30 days *and it is signed* by the Governor.

AFDC changes:

- A 10% cut from Jan. 1992 levels in AFDC grants (from \$663 to \$597 each month for a family of three);
- An additional 15% cut (\$597 to \$507 per month for a family of three) after 6 months unless the adult recipient is unable to work;
- Denial of additional benefits for children who are conceived while either parent is on AFDC;
- One year of lower benefits to families who move to California from other states;
- A \$50 monthly bonus to teen parents if they stay in school, but a \$50 reduction in the grant if they drop out of school;
- Elimination of special assistance for poor women pregnant with their first child.

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In addition to the aspects of the initiative that affect children, there are several other important features:

- Cost-of-living reductions after 1996 for the elderly, blind and disabled under the Supplemental Security Income program -- SSI;
- Elimination of the duty of counties to provide general assistance benefits for people with no other means of support, including disabled persons who are awaiting approval of their SSI applications.

This fact sheet outlines ten reasons Californians should oppose this proposition.

#1: The proposition is anti-child.

Children make up 70% of all people on AFDC in California and they are the ones who will bear the consequences of this proposal. In most cases the plan would cut Aid to Families with Dependent Children grants by 25% from January 1992 levels -- from \$7,956 annually for a family of three to \$6,084. Even with the additional food stamp money available, a grant of this size leaves a family with only \$8 a day to house, clothe and feed each child.

#2: The proposition gives the Governor unprecedented powers over the lives of California's children.

Children's programs make up the majority of the state budget. Under the "fiscal state of emergency", the Governor will have sole authority to cut these, or any other, programs. Because revenue projections are done by the Governor's own Department of Finance, it is very easy for him to create a fiscal state of emergency. The Legislature cannot even override the Governor's veto of a budget bill that it passes during a fiscal state of emergency. This is the ultimate violation of the constitutional system of checks and balances.

#3: This proposition is based on myths about Aid to Families with Dependent Children.

Governor Wilson has described California as a welfare magnet for people from other states and countries. In fact, a much greater cause of the growth in the number of people needing assistance is the condition of the economy. A recent state-by-state analysis by the nonpartisan Congressional Budget Office found that all of the "growth spurts" in AFDC since 1973 have occurred during periods of economic decline. In the current recession, California's welfare rolls have not grown as fast as other states' rolls. In 1990, California's population grew faster than 47 other states while its welfare rolls grew faster than 29 states. Five western states -- with benefits about half of California's -- all had greater AFDC growth rates than did California.

Most families on AFDC are not recent immigrants. The nonpartisan Legislative Analyst, through a study of the birthplaces of children on AFDC, found that families do not move to California to take advantage of higher grant levels. In addition, undocumented persons are not eligible for welfare, and only 3% of California's AFDC recipients were on welfare in another state.

Also, most families on Aid to Families with Dependent Children are small and on welfare for a short time. The typical family has one parent and two children and 90% of recipients have three or fewer children. Most AFDC recipients go off aid within three years.

#4: The proposition punishes children when their parents cannot find jobs -- a particularly harsh measure in this recessionary job market.

California has lost more than 600,000 jobs since May 1990. It is unrealistic to expect unemployed parents to find jobs after 6 months, while the state is *losing* jobs. This proposal penalizes children for the current economic conditions when their parents do not have adequate job opportunities.

#5: Although the proposition claims to help taxpayers, it will have minimal impact on the state's budget problems and will cost taxpayers more in the long run.

The AFDC program makes up only 6% of the state's general fund and the estimated \$700 million in welfare savings that would result from the governor's proposal represents less than 2% of the total general fund. While these grant cuts will have a minimal impact on the budget shortfall, they will have serious long-term effects on children and taxpayers.

Such sudden income reductions can have devastating effects on a child's health, educational success, and psychological well-being. Society will end up paying more later for this neglect in the form of higher health insurance premiums, higher prison costs, lost productivity to the economy, and higher costs of training undereducated workers. This proposal will clearly undermine the Governor's other preventive initiatives in preschool education and teen pregnancy prevention.

#6: There are more sensible alternatives for dealing with the state's budget problems.

Solving the state's budget problems by giving one person the sole authority over the state budget is undemocratic and a serious threat to important children's programs. There are other sound alternatives. The California State Commission on Finance has identified \$21 billion in tax expenditures which could be eliminated to generate needed revenues. For example, limiting business meal and entertainment deductions to 50% would save the state \$225 million and eliminating oil company tax loopholes would bring in another \$2-300 million. Streamlining the state's many health programs and recouping the \$3 billion in uncollected child support payments are also crucial parts of the solution.

#7: The proposition will cause California to lose millions of dollars in badly needed federal matching funds.

Because the federal government helps finance the AFDC program, California will lose an estimated \$400 million in federal matching funds if this proposal is adopted. At a time when the state economy is weak, it is important to bring in as much outside money as possible to stimulate growth. In addition, since more recipients will now turn to county-operated aid programs, this proposal in fact shifts costs from the federal government to the counties which face severe budget shortages and will simply be unable to find the dollars.

#8: The proposition will lead to more hunger and homelessness among children.

Currently, AFDC grants do not cover a family's basic needs. Rental housing costs alone in most urban areas of California are higher than the entire AFDC grant, leaving no money for food, clothing and other basic necessities. If Prop. 165 passes, it is estimated that 170,000 more children will be hungry and 95,000 families will become homeless. After a 4.4% reduction in AFDC grants was imposed in 1991, the Hamilton Family Shelter in San Francisco had to turn away an average of 439 people every month. This is a 395% increase over the months preceding the grant cut.

#9: The proposition claims to bring about welfare reform, but doesn't.

Simply cutting grants will not result in more people going to work, as this proposal suggests. The most effective ways to put people back to work are to help create jobs, train people for them, and stimulate the economy. Access to affordable health care and child care are also necessary before people will be able to work. Programs such as GAIN (Greater Avenues for Independence) provide people with job training and education so they are better equipped to find jobs. In addition, better enforcement of child support payments from absent parents is a crucial part of any strategy to keep people off welfare. Better collection of child support can lift families out of poverty and off welfare and prevent them from going on welfare in the first place.

#10: The proposition appears to violate constitutional protections.

The provision to require a family needing assistance to wait one year before receiving full California benefits probably violates the Equal Protection clause of the U.S. Constitution. Several Supreme Court decisions have found other such residency requirements to be unconstitutional.

In sum, this proposition represents the single most harmful anti-child measure in recent memory. The initiative hurts the state's children by upsetting the constitutional checks and balances in state budgeting and by dramatically reducing AFDC grants. Because children cannot vote or represent themselves in this public debate, they need every Californian to become educated about the harm in this proposal. We all have a responsibility to protect children's interests as these decisions are made. We urge all voters to oppose this measure and ask candidates to do the same.

For more information on the No on 165 Campaign write:

NO ON 165
980 Ninth Street, 16th Floor
Sacramento, CA 95814

APPENDIX I.
Source: N.C.S.L.

Deadline for Submission of Governor's Budget to the Legislature and
Legal Source of Deadline

State	Legal Source of Deadline		Submission Date Relative to Convening Date				
	Constitutional	Statutory	Prior to Session	Within One Week	Within Two Weeks	Within One Month	Over One Month
Alabama	X			X			
Alaska		X	X (OR)	X			
Arizona		X		X			
Arkansas		X					X
California	X ¹				X ²		
Colorado	X ¹				X ²		
Connecticut		X				X ³	
Delaware		X				X	
Florida		X	X ⁴				
Georgia		X		X			
Hawaii		X	X ⁵				
Idaho		X		X			
Illinois		X					X
Indiana		X	X ⁶				
Iowa		X				X	
Kansas		X			X ⁷		
Kentucky		X			X ⁸		
Louisiana		X		X			
Maine		X					X ⁹
Maryland	X				X		
Massachusetts	X					X	
Michigan		X			X ¹⁰		
Minnesota		X				X	
Mississippi		X	X ¹¹				
Missouri	X					X	
Montana		X		X			
Nebraska		X			X ¹²		

State	Legal Source of Deadline		Submission Date Relative to Convening Date				
	Constitutional	Statutory	Prior to Session	Within One Week	Within Two Weeks	Within One Month	Over One Month
Nevada		X			X		
New Hampshire		X					X
New Jersey		X				X ¹³	
New Mexico		X		X ¹⁴			
New York	X				X		
North Carolina	Other			X ¹⁵			
North Dakota		X	X ¹⁶				
Ohio		X				X ¹⁷	
Oklahoma		X		X ¹⁸			
Oregon		X	X ¹⁹				
Pennsylvania		X				X	
Rhode Island		X					X
South Carolina		X	X				
South Dakota		X	X ²⁰				
Tennessee		X				X	
Texas		X		X			
Utah		X		X ²¹			
Vermont		X				X	
Virginia		X		X			
Washington		X	X ²²				
West Virginia	X			X ²³			
Wisconsin		X			X ²⁴		
Wyoming		X	X ²⁵				
TOTALS	8	41	11	14	10	11	5

NOTES

1. Colorado - Date of the governor's budget is constitutional. By statute, agency budget requests must be submitted to Joint Budget Committee by November 1.

2. Colorado - Date listed is for final submission. Agency budgets are due November 1.
3. Connecticut - In even years, budget is due on first day of session.
4. Florida - Budget must be submitted to the legislature at least 45 days prior to regular session.
5. Hawaii - Budget must be submitted to the legislature 20 days prior to the session.
6. Indiana - Budget document that is submitted one or two weeks prior to the session does not necessarily reflect budget message that is given sometime during first three weeks of session.
7. Kansas - On or before eighth calendar day except in the session following election of a new governor, in which case budget must be submitted on or before the 21st calendar day.
8. Kentucky - Budget must be submitted by tenth legislative day; newly elected governor submits by fifteenth legislative day.
9. Maine - Legislature convenes in December prior to first session. Budget is due no later than Friday following first Monday in January. In years with a new governor, budget is due no later than Friday following first Monday in February.
10. Michigan - Long-range capital budget, 30 days.
11. Mississippi - The governor's budget must be submitted to legislature by November 15, except in first year of a governor's term, when the deadline is January 31.
12. Nebraska - On or before January 15 of each odd-numbered year. Governor in first year of term has until February 1 to submit budget.
13. New Jersey - New governor allowed one month or more.
14. New Mexico - Statutes provide later date (twenty-fifth legislative day), however; legislature traditionally receives budget on first day or at pre-session conference of standing finance committee.
15. North Carolina - By custom. (No statutory or constitutional provision.)

16. North Dakota - Budget submitted to Legislative Council only on December 1; rest of legislature receives by third day of session.
17. Ohio - If new governor, by March 15 (approximately 75 days after convening).
18. Oklahoma - Budget must be submitted on the first day of session in January.
19. Oregon - Budget must be submitted on December 1; if new governor, February 1.
20. South Dakota - Not later than the first Tuesday after the first Monday of December.
21. Utah - Submitted within three days after start of session; confidential copy submitted to fiscal analyst 30 days prior to session.
22. Washington - By December 20 prior to January's annual session; 20 days prior to any supplemental session.
23. West Virginia - Within ten days, odd-numbered years and the first day of session, even-numbered years.
24. Wisconsin - Convening date is determined by scheduling resolution while budget submission date is statutory. (Usual time difference has been about two weeks.)
25. Wyoming - On or before December 1 of the year preceding the year the legislature convenes in budget session.

Amount of Time Legislature/Committee Has to Consider Budget

State	Number of Weeks from Time Governor Submits Budget Until the End of Legislative Session/ Fiscal Year Legislature Has to Consider the Budget	Number of Weeks Appropriations/ Finance Commit- tee Has to Con- sider the Budget
Alabama	15	5
Alaska	Varies ¹	2
Arizona	8-10	6-8
Arkansas	28	12
California	20	2
Colorado	N/L	3
Connecticut	Odd Year - 17 Even Year - 13	Odd Year - 12 Even Year - 9
Delaware	22	7
Florida	9	15
Georgia	7 ⁴	5 - 6
Hawaii	15	9
Idaho	N/L	N/L
Illinois	N/R	N/R
Indiana	14	3
Iowa	13 - 15 ⁵	0
Kansas	N/L	Varies ⁷
Kentucky	8	5 - 6
Louisiana	N/L	4 ⁸
Maine	9	10
Maryland	10	5
Massachusetts	26	15 - 20
Michigan	37	24
Minnesota	15 - 16	15 - 16 ¹¹
Mississippi	16 ¹²	15 ¹³
Missouri	Long Sess. - 20 Short Sess. - 14	Long Sess. - 20 Short Sess. - 14
Montana	20	11 ¹⁴
Nebraska	14	12
Nevada	20	16
New Hampshire	20	Varies
New Jersey	20	16 - 18 ¹⁵
New Mexico	Odd Year - 8.5 Even Year - 8	Odd Year - 8 Even Year - 3
New York	10	10
North Carolina	20	20
North Dakota	Varies ¹⁶	Varies ¹⁷
Ohio	20 - 22	8 - 10
Oklahoma	24	12
Oregon	Incumbent Governor - 32 New Governor - 24	Incumbent Governor - 26 New Governor - 24
Pennsylvania	18	8
Rhode Island	14	10 - 12

State	Number of Weeks from Time Governor Submits Budget Until the End of Legislative Session/ Fiscal Year Legislature Has to Consider the Budget	Number of Weeks Appropriations/ Finance Commit- tee Has to Con- sider the Budget
South Carolina	22	4 - 8
South Dakota	12	6 - 7
Tennessee	12 - 16	3
Texas	18	N/L ¹⁹
Utah	6	5
Vermont	N/L	House - 8 - 10 Senate - 10 - 12
Virginia	8 1/2	6
Washington	3	12
West Virginia	N/L	N/L
Wisconsin	22 ²⁰	12 - 16
Wyoming	12	10 ²¹

KEY: N/L - No limit
N/R - No response

NOTES

1. Alaska - Budget to be submitted December 15, legislature convenes second or third Monday in January, regular session limited to 120 days.
2. Alaska - Theoretically, the entire session, but recent practice is for the first body to pass the General Appropriations Bill for the operating budget by the 90th day of the session.
3. Colorado - The Joint Budget Committee begins budget considerations in early or mid-November and introduces a budget bill several weeks prior to the end of the legislative session. This occurs in March or April in most years.
4. Georgia - This includes a one-week recess for budget hearings.
5. Iowa - Until the end of the session; late April - even years; early May - odd years.
6. Iowa - Technically, from the time the governor delivers the budget message until the end of session.
7. Kansas - Consideration of "regular" appropriations bills is subject to self-imposed schedule and varies accordingly. "The budget," as a whole, is typically considered throughout the session and the wrap-up or "omnibus" bill is often the last or nearly last bill to be enacted.

8. Louisiana - Typically, both House and Senate committees have approximately 4 weeks each.
9. Maine - In each legislature's first regular session (odd-numbered years) until mid-June. "Current services" budget is passed usually by April.
10. Maine - In first regular session, Appropriations Committee receives "current services" and "supplemental" budgets in January. Each, of course, must be finalized by mid-June (statutory adjournment).
11. Minnesota - Conference committee can and does meet until day of adjournment in odd-numbered budget years.
12. Mississippi - In the first year of a four-year administration; in the second, third, and fourth year, the legislature has 12 weeks to consider.
13. Mississippi - In the first year of a four-year administration; in the second, third, and fourth year, the committee has 11 weeks to consider.
14. Montana - Eight weeks in joint subcommittee; three weeks additional to complete in House Appropriations Committee.
15. New Jersey - Sixteen to 18 weeks available but committees typically use 10 to 12 weeks for formal deliberation.
16. North Dakota - The governor submits his proposed budget to the Budget Section of the legislature at its organizational (2-3 day) session in December of every even year. The legislature goes into session on the first Tuesday in January of every odd year. The 1987 session completed its work on April 19, 1987 - 105 calendar days.
17. North Dakota - The first house usually has until the 31st legislative day to consider the budget. The second house usually has until the 48th legislative day to consider the budget. Conference committees made up of members from both houses often work on the budget to the last legislative day.
18. Texas - The regular session is limited to 140 calendar days, beginning the second Tuesday in January of odd-numbered years. The fiscal year begins on September 1. If the budget is not adopted in regular session, the governor would call a special session (30 day-limit).
19. Texas - No specific limit, but the House and Senate usually have passed their bills by the 15th week (105 days) to allow four or five weeks for the work of the

conference committee and final passage of the general appropriations bill.

20. Wisconsin -

Until June 30 or "upon passage of budget."

21. Wyoming -

Generally hold hearings for four weeks prior to the start of the session. A fifth week is spent in hearings, reviewing budget action already taken, and finalizing appropriations for preparation of appropriations bills.

APPENDIX 3.
Source: N.C.S.L.

Provisions or Procedures to Finance the Current Operations of
State Agencies Until Passage of the Appropriations Act(s)

State	State Has Provisions or Procedures to Finance the Current Operations of Agencies Until Pas- sage of the Appropriations Act(s)?	Continuing Resolutions	Current Year Levels	Other
Alabama	No			
Alaska	No			
Arizona	No			
Arkansas	No			
California	No			
Colorado	No			
Connecticut	No			
Delaware	No			
Florida	N/R	N/R	N/R	N/R
Georgia	No ¹			
Hawaii	Yes		X	
Idaho	No			
Illinois	N/R	N/R	N/R	N/R
Indiana	No ²		X	
Iowa	No			
Kansas	No			
Kentucky	No			
Louisiana	Yes			X ³
Maine	No ⁴			
Maryland	No ⁵			
Massachusetts	No			
Michigan	No			
Minnesota	No			
Mississippi	No			
Missouri	No ⁶			
Montana	No			

State	State Has Provisions or Procedures to Finance the Current Operations of Agencies Until Passage of the Appropriations Act(s)?	Continuing Resolutions	Current Year Levels	Other
Nebraska	No			
Nevada	No			
New Hampshire	Yes	X		
New Jersey	No ⁷			
New Mexico	No ⁷			
New York	Yes		X	
North Carolina	Yes	X		
North Dakota	No			
Ohio	No			
Oklahoma	No			
Oregon	Yes	X		
Pennsylvania	Yes		X	
Rhode Island	Yes		X	
South Carolina	No			
South Dakota	No ⁸			
Tennessee	No			
Texas	No			
Utah	No			
Vermont	No			
Virginia	No ⁹			
Washington	No			
West Virginia	No			
Wisconsin	Yes		X	
Wyoming	No			
TOTALS	No=39; Yes=9; N/R=2	3	6	

N/R = No response

NOTES

1. Georgia - There are two exceptions: 1) payment for debt service (General Obligation Bonds) is continuous; and 2) dedicated revenue for the Department of Transportation would be available to be spent by that department.
2. Indiana - The state has a very limited "Emergency Contingency Fund" (\$5-\$6 million), which in very rare circumstances may be used at the discretion of the state budget agency.
3. Louisiana - No specific provisions.
4. Maine - No General Fund appropriations; although this situation has not occurred in Maine, dedicated revenue funds could be allocated by "financial order."
5. Maryland - Budget must be enacted; otherwise session cannot adjourn sine die.
6. Missouri - Except for payment of the public debt.
7. New Mexico - In FY83/84, the state discontinued the use of a continuing resolution within the Appropriations Act.
8. South Dakota - Appropriations always are completed by the first week of March, the new fiscal year starts on the following July 1.
9. Virginia - Since a biennial process is used, failure to amend the Appropriations Act during a short session simply would cause the previously adopted budget to prevail.

**STATE BALANCED BUDGETS:
CONSTITUTIONAL AND STATUTORY PROVISIONS
GUBERNATORIAL AND LEGISLATIVE AUTHORITY**

State	Constitutional and Statutory Provisions				Gubernatorial Authority			Legislative Authority		
	Governor must submit a balanced budget	Legislature must pass a balanced budget	Governor must sign a balanced budget	May carry over deficit	Governor has line item veto	Can reduce budget without legislative approval	Restrictions on budget reductions	Votes required to override gubernatorial veto	Votes required to pass revenue increase	Votes required to pass budget
Alabama	C,S	C,S	C,S	..	*	*	ATB	Majority elected	Majority	Majority
Alaska	S	S	..	*	*	*	..	3/4 elected (a)	Majority elected	Majority elected
Arizona	C	C	C	*(b)	*	*	(c)	2/3 elected	1/2 elected	1/2 elected
Arkansas	S	S	S	..	*	..	ATB,MR	Majority elected	3/4 elected	3/4 elected
California	C	..	..	*	*	..	*	2/3 elected	2/3 elected	2/3 elected
Colorado	..	C	C	..	*	*	..	2/3 elected	Majority present	Majority present
Connecticut	S	S	..	..	*	*	MR	2/3 elected	Majority present (d)	Majority present (d)
Delaware	C	C	C	..	*	*(e)	*	3/5 elected	3/5 elected	Majority elected
Florida	S	C	S	..	*	*(f)	..	2/3 elected	Majority	Majority
Georgia	C	C	C	..	*	*	ATB	2/3 elected	Majority	Majority
Hawaii	C,S	..	C,S	..	*	*	..	2/3 elected	Majority elected	Majority elected (g)
Idaho	..	C	..	..	*	*	..	2/3 elected	Majority	Majority
Illinois	C	C	..	..	*	..	..	3/5 elected	Majority elected	3/5 elected
Indiana	C	C	C	..	*	*	..	Majority	Majority	Majority
Iowa	C	C	..	..	*	*	ATB	2/3 elected	Majority	Majority
Kansas	C	C	C	..	*	*	MR (h)	2/3 elected	Majority elected	Majority
Kentucky	C,S	..	C	..	*	..	*	2/3 elected	Majority elected	Majority present
Louisiana	C,S	S	C,S	*	*	*	MR	2/3 present	2/3 elected	1/2 elected
Maine	S	C	S	..	..	..	ATB (i)	2/3 present	Majority elected	(j)
Maryland	C	C	..	..	..	*	..	(k)	Majority	Majority
Massachusetts	C	C	C	*	*	*	..	2/3 present	Majority	Majority (l)
Michigan	C	C	C	..	*	..	..	2/3 elected	Majority elected	Majority elected
Minnesota	S	S	..	..	*	*	MR	2/3 elected	Majority elected	Majority elected
Mississippi	S	S	S	..	*	*	MR	2/3 elected	2/3 elected	Majority
Missouri	C	..	C	..	*	*	..	2/3 elected	Majority elected	Majority elected
Montana	C	C	..	..	*	*(m)	MR	2/3 elected	Majority	Majority
Nebraska	C	..	..	..	*	..	..	3/5 elected	Majority	3/5 elected
Nevada	S	C	..	..	..	*	..	2/3 elected	Majority	Majority
New Hampshire	S	..	..	*	..	..	*	2/3 elected	Majority	Majority present
New Jersey	C	C	C	..	*	*(n)	..	2/3 elected	Majority	Majority
New Mexico	C	..	..	..	*	*(o)	..	2/3 present	Majority	Majority
New York	C	..	(p)	*	*	*(q)	(q)	2/3 elected	Majority	Majority
North Carolina	C	C	..	..	..	*	..	..	Majority	Majority
North Dakota	S	S	S	..	*	*	ATB	2/3 elected	Majority (r)	Majority (r)
Ohio	(s)	(s)	..	..	*	*	..	3/5 elected	Majority elected	Majority elected
Oklahoma	C,S	C	C	..	*	*	ATB	2/3 elected (t)	Majority	Majority (t)
Oregon	C	C	C	..	..	*	(u)	2/3 elected	Majority	Majority
Pennsylvania	C,S	..	C	*(v)	*	*	..	2/3 elected	Majority elected	Majority elected
Rhode Island	C	C	S	..	..	*	..	3/5 elected	Majority	Majority
South Carolina	(w)	C	C	..	*	*	ATB	2/3 present	Majority	Majority
South Dakota	C	C	C	..	*	*	..	2/3 elected	2/3 elected	Majority elected
Tennessee	C	C	C	..	*	*	..	Majority elected	Majority elected	Majority elected
Texas	..	C	C	..	*	*	..	2/3 elected	Majority	Majority elected
Utah	S	C	S	..	*	*	ATB	2/3 elected	Majority	Majority
Vermont	..	..	..	*	..	*	(x)	2/3 present	Majority	Majority

See footnotes at end of table.

STATE BALANCED BUDGETS—Continued

State	Constitutional and Statutory Provisions				Gubernatorial Authority			Legislative Authority		
	Governor must submit a balanced budget	Legislature must pass a balanced budget	Governor must sign a balanced budget	May carry over deficit	Governor has line item veto	Can reduce budget without legislative approval	Restrictions on budget reductions	Votes required to override gubernatorial veto	Votes required to pass revenue increase	Votes required to pass budget
Virginia	S	...	...	(y)	•	•	MR (z)	2/3 present	Majority elected	Majority elected
Washington	S	...	...	...	•	•	ATB	2/3 elected	51%	51%
West Virginia .....	...	C	C	...	•	* (aa)	ATB (aa)	2/3 elected	Majority	Majority
Wisconsin	C	C	C	...	•	•	...	2/3 present	Majority present	Majority present
Wyoming	C	C	C	...	•	•	...	2/3 elected	Majority	Majority

Source: National Association of State Budget Officers, *Budgetary Processes in the States* (July 1989); updated April 1982 by The Council of State Governments. Update reflects literal reading of state constitutions and statutes.

Key: C - Constitutional
 S - Statutory
 ATB - Across the board
 MR - Maximum reduction dictated
 • - Yes
 ... - No

- (a) Joint session.
- (b) May carry over "casual deficits," i.e., not anticipated.
- (c) Governor may reduce budgets of administration-appointed agencies only.
- (d) Must have quorum.
- (e) Budget reductions are limited to executive branch only.
- (f) The Governor and elected cabinet may reduce the budget. The reductions must be reported to the legislature and advice as to proposed reductions may be offered.
- (g) If general fund expenditure ceiling is exceeded, 2/3 vote required; otherwise majority of elected members.
- (h) Reductions allowed only to get back to a balanced budget.
- (i) Governor may expend funds up to one year. Certain restrictions apply to ATB reductions.
- (j) For emergency enactment, 2/3 votes required.
- (k) Governor has no veto power over the budget bill, but vote of 3/5 elected required to override veto on other bills.
- (l) For capital budget, 2/3 votes required.
- (m) May reduce appropriations by 15 percent except debt service, legislative and judicial branch ap-

propriations, school foundation programs, and salaries of elected officials.

- (n) May not reduce debt service.
- (o) May reduce budget of agencies under Governor's control only.
- (p) Technically, the Governor is not required to sign a balanced budget, however, in order to consummate the spring borrowing the Governor must certify that the budget is in balance.
- (q) May reduce budget without approval only for state operations; only restriction on reductions is that reductions in aid to localities cannot be made without legislative approval.
- (r) Emergency measures and measures that amend a statute that has been referred or enacted through an initiated measure within the last seven years must pass both houses by a 2/3 majority.
- (s) There is no constitutional or statutory requirement that the Governor submit or the legislature enact a balanced budget. There is a constitutional requirement that the legislature provide sufficient revenues to meet state expenses. The Governor is required by statute to examine monthly the relationship between appropriations and estimated revenues and to reduce expenditures to prevent imbalance.
- (t) Emergency measures require a 3/4 majority for override. Budget bills usually require Emergency Clauses and therefore require 2/3 vote for passage.
- (u) Governor recommends a biennial budget that is subject to legislative approval.
- (v) May carry over deficit into subsequent year only.
- (w) Formal budget submitted by Budget and Control Board, not Governor.
- (x) May not change legislative intent when reducing budget.
- (y) The Constitution specifies that expenditures shall not exceed revenues at the end of the biennial period.
- (z) The Governor has power to withhold allotments of appropriations, but cannot reduce legislative appropriations.
- (aa) May reduce spending authority.

SOURCE: Council of State Governments, BOOK OF THE STATES: 1992-1993

Gubernatorial Budget Authority and Responsibility

State	Must Present Balanced Budget	Must Sign Balanced Budget	Line Item Veto	Reorganize Departments w/o Leg. Approval	Spend Unanticipated Federal Funds w/o Leg. Approval	Reduce Budget without Leg. Approval	Restrictions on Budget Reductions
Alabama	X	-	-	-	-	X	ATB
Alaska	X	X	X	X	-	-	-
Arizona	X	X	X	-	X	X	-
Arkansas	X	X	X	X	X	-	-
California	X	-	X	X	-	-	-
Colorado	X	X	X	-	X*	X	-
Connecticut	X	-	X	-	X	X	MR
Delaware	X	X	X	-	-	X	X
Florida	X	X	X	.*	-	X**	MR
Georgia	X	X	X	X	X	X	ATB
Hawaii	X	X	X	.*	partial*	X*	-
Idaho	.*	.*	X	-	X	X	X
Illinois	X	-	X	-	-	-	-
Indiana	X	X	-	X	X	X	-
Iowa	X	-	X	-	X	X	ATB
Kansas	X	X	X	-	X	-	ATB
Kentucky	X	X	X	X	X	-	-
Louisiana	X	X	X	-	-	X	MR
Maine	X	X	-	-	X*	-	ATB
Maryland	X	.*	-	X**	X	X	X
Massachusetts	X	X	X	-	X	X	-
Michigan	X	X	X	X*	..*	-	***
Minnesota	X	X	X	X	-	X	MR
Mississippi	X	-	X	-	X	X	-
Missouri	X	X	X	-	.*	X	-
Montana	X	-	X	X	X	-	MR
Nebraska	X	-	X	X	X	-	X
Nevada	X	X	-	X	.*	X	MR
New Hampshire	X	-	-	-	X	-	-
New Jersey	X	X	X	-	-	X	-
New Mexico	X	X	X	-	X	-	-
New York	X	.*	X	-	X	X**	***
North Carolina	X	-	-	X	X	X*	-
North Dakota	X	X	X	X*	..*	X	ATB
Ohio	X	X	X	-	-	X	X
Oklahoma	X	X	X	X*	X**	X*	X
Oregon	X	X	X	-	-	X	ATB,MR
Pennsylvania	X	X	X	X*	..*	X***	-
Rhode Island	X	X	-	X	-	X	X
South Carolina	X	X	X	-	-	X	X
South Dakota	X	X	X	-	-	X	-
Tennessee	X	X	X	X	-	X	-
Texas	X	X	X	-	-	X	-
Utah	X	X	X	-	X	X	ATB
Vermont	-	-	-	-	X	X	X
Virginia	-	-	X	-	X	X*	MR
Washington	X	-	X	-	X	X	ATB
West Virginia	-	X	X	-	X	X	X
Wisconsin	X	-	X	X	X	-	-
Wyoming	-	-	X	-	X	X	ATB
Puerto Rico	X	X	X	X	X	X	-
TOTAL	44	33	42	28	30	38	

Notes: ATB....Across-the-board cuts only
MR....Maximum reduction dictated

SOURCE: National Association of State Budget Officers, BUDGET PROCESSES IN THE STATES: 1992

APPENDIX 6.

Executive Authority to Cut the Enacted Budget
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State	No restrictions ¹	Can cut only across the board	Maximum percent reduction	Must consult with the legislature	Other	Authority
Alabama		X				Constitutional: Amendment No. 26
Alaska	X					Statutory: AS 37.07.080 (g) (1) and (2) ²
Arizona	X ³					None ³
Arkansas					X ⁴	Biennial legislation
California						None
Colorado					X ⁵	Constitutional: Article X, Sec. 16 Statutory: C.R.S. 24-75-201.5
Connecticut			5% ⁶		X ⁷	Statutory: Sec. 4-85 PA 91-3 JSJ (Sec. 20 and 46)
Delaware	X ⁸					None ⁸
District of Columbia (N/R)						
Florida (N/R)						
Georgia (N/R)						
Hawaii	X					Constitutional: Article III, Sec. 16
Idaho	X ⁹					Constitutional and statutory
Illinois	X ¹⁰		X ¹¹	X ¹²		N/R
Indiana	X					Statutory: 4-12-1-12

State	No restrictions ¹	Can cut only across the board	Maximum percent reduction	Must consult with the legislature	Other	Authority
Iowa		X				Statutory: Chap. 8.31
Kansas		X ¹³			X ¹⁴	Statutory: KSA 75-6704 (across-the-board) and KSA 75-3722 et. seq. (other)
Kentucky			5% ¹⁵			Statutory: 48.130
Louisiana			10% ¹⁶		X ¹⁷	N/R
Maine (N/R)						
Maryland			25% ¹⁸		X ¹⁹	Statutory: State Finance and Procurement Article, Sec. 7-213
Massachusetts (N/R)						
Michigan				X	X ²⁰	Constitutional: Article V, Sec. 20 Statutory: 18.1371-18.1372, 18.1382, 18.1384, 18.1391-18.1392, 18.1395, and 18.1453; Michigan Compiled Laws
Minnesota (N/R)						
Mississippi					X ²¹	Statutory: 27-104-13 and 31-17-123
Missouri	X ²²					Constitutional: Article IV, Sec. 27 Statutory: Sec. 33.290 RSMO
Montana			15% ²³			Statutory: Sec. 17-7-140
Nebraska						None ²⁴
Nevada	X ²⁵					Statutory: NRS 353.225
New Hampshire				X ²⁶		Statutory: RSA 9:16-a Fiscal Committee: RSA 14:30A

State	No restrictions ¹	Can cut only across the board	Maximum percent reduction	Must consult with the legislature	Other	Authority
New Jersey (N/R)						
New Mexico					X ²⁷	Constitutional: Article IV, Sec. 30
New York	X					Constitutional: Article VII, Sec. 2
North Carolina		X			X ²⁸	Statutory: Executive Budget Act, General Statutes 143-25
North Dakota		X ²⁹				Statutory: 54-44.1-12 and 54-44.1-13
Ohio	X					Constitutional: Article VIII, Sec. 1 Statutory: Title I, Vol. 2, Chap. 126.08
Oklahoma		X				Constitutional: Article 10, Sec. 23
Oregon	X ³⁰					..30
Pennsylvania	X					Constitutional: Article IV, Sec. 16 ³¹
Puerto Rico (N/R)						
Rhode Island				X	X ³²	N/R
South Carolina		X		X		Statutory: Appropriations bill
South Dakota	X					SDCL 4-8-23
Tennessee				X	X ³³	Constitutional: Tenn. Code Annotations, Article 3, Sec. 18
Texas					X ³⁴	Constitutional: Article 16, Sec. 69 Statutory: Chap. 317, Government Code ³⁵
Utah (N/R)						

State	No restrictions ¹	Can cut only across the board	Maximum percent reduction	Must consult with the legislature	Other	Authority
Vermont				X ³⁶		Statutory: Appropriations bill
Virginia (N/R)						
Washington (N/R)						
West Virginia		X ³⁷				Statutory: WV Statutes 5A-2-20 to 5A-2-22
Wisconsin					X ³⁸	Statutory: Sec. 16.50 (5)
Wyoming		X				Constitutional and statutory

N/R: No response.

Notes:

1. No restrictions Executive can cut selectively or across the board in all areas, without consulting the legislature.
2. Alaska A court decision puts this authority under question.
3. Arizona Although the governor has unilaterally reduced state spending, there is some question about his legal authority to do so (Arizona Legislative Council memo, June 22, 1982). In practice, the legislature has usually approved reductions exceeding 1 percent of expenditures, through amendments to the original general appropriations bill.
4. Arkansas The governor must make cuts according to the guidelines established by the legislature in a bill passed every two years concerning the distribution of funds.
5. Colorado Sec. 24-75-201.5 requires the governor to take the following steps when a revenue shortfall occurs: (1) formulate a plan for reducing general fund expenditures so that the general fund reserve does not fall below one-third of the 3 percent reserve (or below one-half of the 4 percent reserve beginning with the 1992-93 fiscal year); (2) promptly notify the General Assembly of the plan; (3) promptly implement the plan using procedures available under Sec. 24-2-103, 24-30-206, 24-50-109.5, and any other lawful means; and (4) transfer general fund money from the capital construction fund to the general fund (and restrict capital construction projects) if the governor's plan reduces general fund expenditures by at least 1 percent of the total amount of general fund appropriations for the fiscal year. (Details of these procedures are contained in a memorandum dated September 12, 1991, from the Colorado Office of Legislative Legal Services to Senator Ted Strickland.)
6. Connecticut Five percent of an appropriation or 3 percent of a fund.
7. Connecticut The Appropriations Act of 1991, Sec. 20, authorizes secretary of the Office of Policy and Management to reduce other expense accounts by \$33,064,213 and allows the governor to reduce agency allotments to achieve these savings without regard to statutory limits on his authority to do so. Sec. 46 requires the governor to submit a plan to reduce allotments within 30 days of a comptroller's report that projects a general fund deficit of more than 1 percent of general fund appropriations.
8. Delaware No specific statutes detail how deficits are to be handled. It has been the practice in the state, however, for the governor to require agencies to reduce their spending when revenues are short.

9. Idaho The governor can, by executive order, reduce agency allotments as necessary. Reduction of legislative and judicial budgets requires permission of those branches of government. Legislative concurrence is not required.
10. Illinois With respect to executive agency operations and capital.
11. Illinois Two laws this year direct the governor to establish formal reserves: (1) early retirement: \$50 million in savings; up to 1.5 percent of the agency's total appropriation but not more than 5 percent from any one line item and (2) FY1992 Emergency Budget Act: reserve up to \$350 million with specific amounts established by agency but not program or line items. Both are repealed July 1, 1992.
12. Illinois To pass laws and allow reductions in grants and agencies not under control of the governor.
13. Kansas Effective July 1, 1991, the governor has new authority to cut across the board, with certain limitations, to restore the state general fund estimated year-end balance to not more than \$100 million.
14. Kansas As interpreted by the attorney general's opinion, law allows the governor to reduce appropriations as he sees fit (no legislative or judiciary reductions), but only to the extent that cuts would result in year-end zero balance. In the two instances where such reductions have occurred, budget reductions were sanctioned by appropriations acts that permitted the lapse of funds.
15. Kentucky Five percent of budget. If revenues are up to 2.5 percent below official estimates, branch heads are authorized to reduce spending to the extent funds are available in the budget reserve fund and the general fund surplus account. If the revenues are 2.5 percent to 5 percent below official estimates, an enacted reduction plan is implemented, which includes application of budget reserve funds and general fund surplus account resources prior to other budget reduction actions. The law is silent on shortfalls greater than 5 percent.
16. Louisiana Ten percent of a budgetary unit.
17. Louisiana Appropriations for certain retirement programs and minimum foundation program for education may not be reduced.
18. Maryland Twenty-five percent of any item of appropriation.
19. Maryland These items may not be reduced: appropriations for payment of interest and retirement of state debt; appropriations to the legislature, public schools, and the judiciary; and salaries of public officers during term (Maryland Statutes, Finance and Procurement Article, Sec. 7-213). Salaries of merit system employees may be reduced through the secretary of personnel.
20. Michigan The following may not be reduced: expenditures of the legislative and judicial branches and funds for constitutionally dedicated purposes (Michigan Constitution of 1963, Article 5, Sec. 20).
21. Mississippi The governor can cut selectively up to 5 percent. After all agencies are cut up to 5 percent, then additional cuts must be equal and uniform. Authority for cuts exists in two statutes. Under one statute, cuts are initiated at the governor's discretion. The governor, by another statute, is required to cut if revenues fall below 98 percent of the estimate after October.
22. Missouri If revenues do not meet projections used when the budget was passed.
23. Montana Fifteen percent of the budget. The governor may not reduce appropriations for (1) interest and retirement of state debt; (2) legislative branch; (3) judicial branch; (4) school foundation program, including special education; and (5) salaries of elected officials during their terms of office.
24. Nebraska The governor has no legal authority to reduce appropriations, other than administrative controls that may be applied to agencies under the governor's direct control, to manage spending. However, he can request agencies to reduce their expenditures, and he can enforce that request for those agencies where he has appointed the department head. Only the legislature can reduce the appropriation to an agency by amending the appropriation during a regular session or special session called by the governor.
25. Nevada The governor may set aside a reserve of any amount in agencies of the executive branch from general funds appropriated or any other funds available to the agencies.
26. New Hampshire With prior approval of the Legislative Fiscal Committee for executive branch appropriations only.
27. New Mexico Executive may order the limitation on expenditures for agencies only under his direct control. The judicial branch, universities, and public schools operate separately. The legislature is the only entity that can actually reduce appropriations levels.

28. North Carolina The governor also may transfer money from reserve funds and revert capital improvement appropriations. He may not reduce the principal and interest payments on bonds and notes of the state (Constitutional: Article III, Sec. 5 (3)).
29. North Dakota The executive branch can cut across the board without consulting the legislature except when the budget reduction is the direct result of an initiative or referendum action.
30. Oregon An opinion of Oregon's attorney general has concluded that, given a projected revenue shortfall, the executive department may reduce allotments to prevent a deficit during the current biennium but not a future biennium. This "new" power has not been used, the governor choosing to call special legislative sessions to deal with two subsequently projected deficits in 1982. Projected deficits for 1993-95 have raised the issue again for the 1991-93 biennium.
31. Pennsylvania Budget Reform Code requires a balanced budget. The only way a deficit could occur is if revenues do not reach earlier estimates. Because of the balanced budget requirement, there is no requirement as to what the governor and/or legislature must do should a deficit situation occur (governor has line item veto).
32. Rhode Island Appropriations for the general assembly and legislative agencies may not be reduced (Rhode Island Statutes, Sec. 35-3-16).
33. Tennessee The governor may call a special session to deal with a deficit.
34. Texas The Legislative Budget Board must approve.
35. Texas The governor may plead for agencies to reduce spending and/or call the legislature into special sessions to cut appropriations or propose cuts (not to exceed 10 percent) using constitutional and statutory budget execution authority. The governor's proposed cuts, using budget execution authority, requires Legislative Budget Board approval.
36. Vermont However, the governor may control the rate of expenditure by state agencies through his allotment powers. In so doing, he may reduce an allotment if he determines that a lesser amount than was appropriated is required. But he has no statutory authority to unilaterally reduce appropriations in order to balance the budget.
37. West Virginia In order to balance the budget, the governor may make equal and pro rata reductions in all appropriations out of general revenue. Legislative and judicial branches do not have to participate in cuts but usually do.
38. Wisconsin Following budget enactment, if previously authorized expenditures are determined by the secretary of administration to exceed available revenue—but by less than 0.5 percent of the total general fund appropriations for the year—the secretary may unilaterally take action to adjust agency expenditures (except for aid programs) to meet the revenue shortfall. If estimated expenditures are expected to exceed available revenues by more than 0.5 percent of total appropriations, then the governor is required to submit a bill to the legislature to correct the imbalance.

Source: NCSL survey of the National Association of Legislative Fiscal Officers, Autumn 1991.

JOINT HEARING ON PROPOSITION 165

Testimony Prepared for:
Health and Human Services Committee
Budget & Fiscal Review Committee
Ways & Means Committee
October 1, 1992

Chairs:

Senator Diane Watson, Chair
Senate Health and Human Services Committee
Senator Alfred E. Alquist, Chair
Senate Budget & Fiscal Review Committee
Assemblyman John Vasconcellos, Chair
Assembly Ways and Means Committee

by: Lewis M. King
Dean/Vice President
Charles R. Drew Medical School
Drew University of Medicine & Science
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Chairpersons and Members:

My name is Lewis M. King. I am Dean of the College of Medicine, Charles R. Drew University of Medicine and Science, situated in the heart of South Central Los Angeles, in an area known as Watts. Our medical center, anchored by the Martin Luther King, Jr. Hospital, serves a population of 1.6 million people; 44% Black, 36% Hispanic, and the rest, 20%, consisting of native Americans, white and pacific rim migrants. These people are generally poor, 41% under the poverty line, relying on the safety net of welfare (33%) and Medi-Cal benefits (64%) for basic survival. About 81% of our patients are on Medi-Cal, or have no ability to pay. My testimony today is directed particularly to the implications of Proposition 165 for health care of California.

Proposition 165 is based on the premise that basic health care funding is a luxury...a luxury over which the governor should be allowed discretion. It is therefore, at least on this issue, if not all others, fundamentally flawed in treating health care for the poor as a luxury. Health is a right, a fundamental human right that must never be at the discretion of an individual.

This proposition takes dead aim at poor people, 54% of them white. The mortality rates for people of all colors with incomes below the poverty line is

approximately 50% higher. For all chronic diseases that lead the state's list of killers, low income is a special risk factor (heart diseases - 25% higher for low income, cancer, infectious diseases, traumatic injury and death, increase in disability days, increase in mental health problems). Proposition 165, if enacted, would place in the hands of the governor, power to: (1) turn off the life support system of 15% of California citizens, or over 45% of the patients at our King/Drew hospital; (2) deny 750,000 patients access visits to care, (or 150,000 patients access visits each year to our facility); (3) further undermine a very fragile primary care and prevention system deferring urgent care for the increasing population of AIDS, substance abuse, infectious disease, high risk pregnancies, and trauma and violence, promoting only hospital based emergency care; (4) promote late diagnosis leading to higher costs for health care services; (5) simply transfer on paper fiscal costs as a magical solution, but in reality creating greater costs and real human suffering, resulting in the exacerbation of depression, delinquency, disease and death.

A line item reduction on Medi-Cal service costs by any governor will not only create a community of very ill people, but also destroy our medical education training programs, and our network of community based physicians, who historically have been the only providers of care for the poor. Even now, at this present time, restriction in Medi-Cal has driven out of practice in South Central Los Angeles 40% of the community based physicians. Any further tampering with Medi-Cal funding will result in almost a complete elimination of the community based physician, the bedrock of health care for the poor.

Proposition 165 is a narrow, ideologically driven, fiscal control strategy that demonstrates no concern for real human consequences. It is the equivalent of the 1812 British Law that declared that "anyone attempting to commit suicide will be put to death"; it is the equivalent of solving the problem of a delinquent father, who fails to be an adequate parent, by giving the police chief the right to deny his child the right to food.

The problem is not the poor, but the poverty of our leadership. This proposition, the product of false consciousness, promotes mediocrity and diminishes the value of humans in a state that has previously been the standard bearer in the search for excellence and the protector of right of every human being to adequate health care.

Health care funding must be stable and predictable since it deals with issues of life and death. At a minimum, it should be exempt from continuous tinkering.

B A C K G R O U N D

I N F O R M A T I O N



**WELFARE REFORM
AND CHILDREN'S WELL-BEING**
AN ANALYSIS OF PROPOSITION 165

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**The Stanford Center for the Study of
Families, Children, and Youth**

September 1, 1992



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SUMMARY OF REPORT

In November, Californians will vote on Proposition 165, "The Government Accountability and Taxpayer Protection Act of 1992" sponsored by Governor Pete Wilson. Proponents claim that various provisions in the Proposition will reduce welfare spending and dependency. The largest welfare program affected by the Initiative is Aid to Families With Dependent Children (AFDC), a program specifically designed to protect the well-being of poor children. Money for AFDC comes from both the federal and state governments, but the state government alone decides the amount of AFDC grants. Children constitute 70% of the recipients of AFDC; over 1.6 million California children, including 200,000 infants, currently receive support. Based on estimates from national studies, as many as one third of all children born in the 1980's will need support from AFDC at some point before they reach 18.

This report is the first to examine the probable effects of the proposals in Proposition 165 on the physical health, academic performance and emotional well-being of children. Our goal is to provide the public with the information necessary to evaluate the Initiative's full costs and benefits. To do this, we have examined a large body of research, statistics and empirical studies that describe and evaluate the AFDC program in California and elsewhere. We also have done some original analyses of data to obtain a better sense of who receives support, why they need support, how parents are likely to respond to the various elements of the Initiative and how children will be affected.

The AFDC Program. AFDC provides support to children who live in families with very low incomes. About 75% of the children live with a single parent, virtually always their mother. The other parent is permanently absent, generally due to death, divorce, or separation. Approximately 20% of the children live in two-parent families where the primary wage earner is unemployed or working part-time and not earning enough to provide basic support to the family. About 5% of the children live with a non-parent relative or other caretaker. AFDC also provides support to the children's parents. Caretakers, other than parents, receive support if they are needy. Poor single pregnant women without other children also are eligible for support from the time of conception.

Families receive cash grants that vary with family size. The maximum cash grant for a family of three is \$663 a month. Families also are eligible to receive food stamps and most of their medical care is covered by Medi-Cal. Currently, the combined value of the cash

grants and food stamps for a family consisting of a mother and two young children — the most typical AFDC family — is \$10,200 a year.

The Proposals. Proposition 165 would reduce by 10% the cash support provided to all virtually families receiving AFDC; families that receive AFDC for longer than six months will have this support reduced by an additional 15%. The reduction in the cash grant will be partially offset by an increase in food stamp benefits. Nonetheless, the income of a family of three would be reduced to \$9012 a year. The benefit reductions will apply even to single mothers with children younger than one year of age, to parents who cannot find employment or child care, and to recipients who are in education or job-training programs or working part-time. Pregnant women without other children no longer will receive AFDC.

In addition, families that have newborns while the family is receiving benefits would not receive an increase in the cash grant to cover the costs of this child and recipients who have lived in another state in the year before they apply for benefits would be limited to the benefit amount available in that state. Finally, the Initiative contains several proposals focusing exclusively on teenage mothers and pregnant teens. Most importantly, teenage mothers who do not attend school regularly will lose \$50 a month; those who do attend regularly will receive an extra \$50 per month.

According to the Initiative's sponsors: (1) the benefit reductions and other provisions will reduce the number of applicants for AFDC and the length of time recipients receive support; (2) the benefit reductions and legislative changes accompanying the Initiative will result in more recipients working; (3) recipients will be able to replace the lost income through earnings; (4) and the various provisions regarding teenagers will reduce the number of births to mothers younger than 18 and will induce more teenage mothers to complete high school.

Evaluating The Proposals. The current AFDC system does not work well, from the perspective of recipients as well as of the general public. Although there is need for reform, some changes may benefit children, while others may harm them. Evaluating Proposition 165 requires two different types of assessments. First, what will be the actual effects of the specific proposals on both parental behavior and on the well-being of children. To what degree will the goals of the proponents be achieved? Will the proposals have undesired effects or unintended consequences? In analyzing these questions it is necessary to consider the overall effect of the entire package of proposals, since a

ballot initiative, unlike legislation, is an all-or-nothing approach.

Second, are the value judgments reflected in the proposals the right ones? Among the most important value issues are: Should getting AFDC recipients into the workforce be the top priority of welfare policy, regardless of harm to children resulting from the means used to encourage work? If not, what is the proper balance between the goals of protecting children and encouraging work? Should mothers of very young children be forced to work? Should this depend on the quality of child care available to them?

Using this framework, we have examined both the benefits and the harms that children are likely to experience if the Initiative is adopted.

Why Parents Require AFDC Support. The first step in our analysis is an examination of the reasons why families need AFDC. Understanding the situations of these families is essential to understanding how the parents are likely to respond to and be affected by the benefit reductions and other provisions.

In this regard, it is useful to think of AFDC families as fitting into one of three categories (these are our constructs, not legal categories). Among the single mothers, one group is composed primarily of women above 25 years of age, with high school or greater educations, who apply for AFDC following a divorce or separation. One national study found that 1 out of 6 mothers who were not receiving AFDC before a divorce or separation became recipients afterwards. Most of these mothers have little or no earnings before the divorce; their spouses earned most of the family income. These mothers need AFDC to enable them to reorganize their lives following the loss of their spouses' earnings. The fact that nearly half of these mothers have children 5 or younger makes it extremely difficult for them to find jobs which pay enough to support a family, especially given the cost of child care. Although the fathers are required to pay child support, most provide little or no support.

The second group is composed primarily of never-married mothers between 20 and 30, the majority of whom have not completed high school. Many have worked at some point but due to their limited education they cannot earn enough to support their children. Some are not proficient in English. Contrary to popular images, few of the recipients in this group are teens — 5.8% are 18 or 19 and only 1.8% (9,000) are under 18. Many of mothers who begin receiving AFDC in their 20's had their first child as a teen, however. Again, the fathers of these children contribute little support.

The final group consists of two-parent families. The parents in these families have very little education. Over 30% of the parents are refugees, predominantly from the war-torn countries of Southeast Asia.

More than half of all recipients in this group are not sufficiently proficient in English to be able to find jobs with wages adequate to support a family; in times of high unemployment they cannot find any jobs.

Between 50 and 60% of all families that enter the AFDC system receive support for less than a year, although some families enter and exit the system several times. The mothers in the first group tend to be the early leavers; still a number of them require 18 to 24 months of support before they can be self-sufficient, especially if they are trying to complete their education. Without this education they cannot obtain jobs that pay enough to provide adequately for their family. Mothers in the second group generally receive support for 1 to 5 years, although 10 to 15% will remain recipients longer. Their lack of education makes it extremely difficult for them to find jobs that pay wages above the poverty level. Finally, at least half of the two-parent families need support for two or more years, although they may also be working. They too have difficulty earning enough to be completely independent of AFDC, given their lack of education and proficiency in English.

Conclusions. We have carefully reviewed a large body of research that helps us predict how parents are likely to be affected by, and respond to, the provisions in the Initiative. The effects on children will depend upon how parents are affected. Based on these analyses and data we have reached the following conclusions.

First, an analysis of the economic needs of families makes it clear that current grants are too low to allow parents to meet the basic needs of their children. These families all have incomes below the poverty line, which is \$11, 570 a year for a family of three. The poverty line is the federal standard for the minimum income needed to meet the basic needs of children. According to the National Commission on Children, "AFDC fails to meet most families' minimum economic needs." A large percentage of current recipients lack enough income to provide children with safe housing and consistently adequate food; a recent report by Congressional Republicans concludes that AFDC does not provide enough for "basic survival." The proposed reductions would leave a family of three with an income 20% below the poverty line. In public opinion polls Californians state that nearly twice as much income is needed for a minimally adequate income.

The children who receive AFDC already are in great jeopardy because their families have so little income. The National Commission on Children concluded that "poverty and economic instability take a dreadful toll on children." This conclusion is compelled by numerous studies showing that poor children have significantly greater health, academic and emotional problems than children from non-poor families. This is equally true for children living in

families receiving AFDC and for children living in “working poor” families, that is families with incomes below the poverty line that do not receive AFDC.

Second, contrary to the expectations of the Initiative’s proponents, passage of the Initiative is extremely unlikely to result in a reduction in AFDC caseloads: at most there will be a slight decrease in the number of people who enter the welfare system and a small reduction in the length of time some recipients require support. Even with reduced benefits the vast majority of recipients could not earn enough to avoid needing AFDC support. In fact, many experts believe that the entire package of proposals actually will increase caseloads.

Third, at least half of all recipient families will not be able to replace any of the lost income. This group will remain unemployed for much of the time they receive support. Benefit cuts do not address the reasons these parents remain unemployed. Many of these parents lack the skills to get reasonably paying, or any, jobs. Others cannot find or afford child care. Child care is an especially great problem since more than 40% of the children in these families are 5 or younger. Even among the 40 to 50% of the parents who may find jobs, most will still wind up with less money. A parent with even modest child care costs would have to work at least 20 hours a week at \$5 an hour just to make up for the benefit reduction. Particularly among more long-term recipients, most parents will not be able to work this much, unless they receive further education or job training.

Fourth, the children in these families will be considerably worse off overall. As is the case for children in all families, the greatest determinant of their well-being is the care provided by their parents and other caretakers. The loss of income will force parents to live in less safe housing and neighborhoods and to rely on poor quality child care; many parents themselves will provide less adequate care of their children, due to the greater economic and emotional stress they will experience. At greatest jeopardy are the 200,000 infants currently receiving support. If their mothers do not seek or find employment they will lose support critical to meeting their infants’ needs. Yet most of those who are forced into the workforce will be unable to find, let alone afford, the type of child care absolutely essential for children younger than a year old — stable, continuous care by a single caretaker.

As a result, we can expect a decline in the physical health, academic performance, and emotional status of many children. The harms will not, for the most part, be dramatic ones— such as more deaths or life-threatening illnesses — although there will be some of these. Rather, the effects will include more accidental injuries to children, more ongoing physical problems, such as earaches and dizzy spells, far more children

falling behind in school, and more children with emotional problems. Children in families that become homeless or that have their income reduced for longer than a year and infants exposed to inadequate child care will be in special jeopardy. Not all of these problems will not be evident immediately; some will emerge throughout the children’s childhoods and after they become adults. But it is certain that many children’s development will be significantly impaired.

Not all children will be hurt. A small percentage of the families currently receiving AFDC may be able to combine work with AFDC support and be better off economically; their children certainly will benefit from the increased income. In addition, as a result of one proposed change working families not currently receiving AFDC will become eligible to receive AFDC grants to supplement their present earnings; their children should benefit as a result. And older children of mothers who enter the workforce may benefit just from the fact that their parents are working, if the children receive high quality child care.

It also appears that the provisions aimed at potential and actual teenage mothers will not achieve the desired effects. Teenage parenthood does pose special risks for both mothers and children. Preventing pregnancies and helping teenage mothers finish school would alleviate many social problems. Studies from other states indicate, however, that financial rewards and penalties do not induce most teenage mothers to complete school. Many of these teenagers have dropped out of school before becoming pregnant. To increase the number who return to or finish school requires programs that include outreach, special classes, and child care, not just financial incentives.

The Initiative may have other unintended consequences. For example, the benefit cuts may force many recipients to abandon the education or job-training programs provided through California’s GAIN program, since the reductions apply even to parents in such programs. Also, pregnant mothers may feel themselves compelled to have abortions that would have otherwise been unwanted. In sum, it is clear that the number of children harmed will greatly exceed the number helped, under the approach to welfare reform taken in the Initiative. Because an Initiative is an all or nothing approach, there is no way to separate out its beneficial or possibly beneficial aspects.

At the end of this report, we outline some other approaches to welfare reform that could help recipients leave the system and obtain jobs that pay adequately, without jeopardizing their children’s well-being. For example, single mothers with children 3 or older, and the primary wage earner in two-parent families, already are subject to the work requirements of California’s GAIN program. This program requires that participants be enrolled in an education or job training

program or be actively seeking employment. The program also helps with child care and exempts mothers of very young children. Early evaluations of the program are favorable. While it is not the purpose of this report to recommend specific approaches, we believe that a full evaluation of Proposition 165 requires consideration of alternatives that will not harm, and may benefit, children.

In November, Californians will vote on a ballot initiative, Proposition 165, entitled the Government Accountability and Taxpayer Protection Act of 1992 and sponsored by Governor Pete Wilson. Although the Initiative addresses several issues, it is being promoted primarily as a means for reducing welfare spending and dependency. Since virtually everybody believes that the current welfare works badly, the Initiative's promise of welfare reform may appeal to many voters.

The Initiative raises issues far more complex than voting for or against the current welfare system, however. The largest program affected by the Initiative is Aid to Families With Dependent Children (AFDC), a program specifically designed to protect the well-being of poor children. Over 1.6 million children who live in poor families benefit from that program. Children constitute 70% of the recipients of AFDC; the remaining recipients are the parents or other caretakers of the children. If passed, the Initiative would reduce the support provided to virtually all children who receive AFDC by 10%; children in families that receive support for longer than six months will have their support reduced by an additional 15%.

This report analyzes the Initiative from the vantage point of the several million California children who will be most deeply affected by it. It is the first study that examines the probable effects, both positive and negative, of the reductions and the other provisions of the Initiative on the physical health, academic performance and emotional well-being of children.

Written with the assumption that all Californians are concerned about the well-being of children, the report is intended to provide the public with the information necessary to assess the full costs and benefits of the Initiative.

The report reviews the findings of a large body of research, statistics and empirical studies describing and evaluating the AFDC program in California and elsewhere. It also contains original analyses of data, some of which was not previously available.

The report is divided into ten sections. Section One describes the current AFDC program. Section Two presents the main elements of the the proposals in the Initiative that affect children. Section Three contains two proposals. The Fourth section presents the rationales that have been offered in support of the Initiative and a framework for evaluating its effects. Section Five looks at the current economic status of the families, in order to see how they might be effected by the Initiative. Sections Six and Seven describe why parents rely on AFDC, the characteristics of current recipients, and how long families require support. The next two sections examine the likely impacts of the Initiative, first on parents and then on children. Section Ten discusses whether the effects of the Initiative's cuts in benefits can be mitigated by the provision of alternative services to needy children. In the final section, we discuss other options for welfare reform that would not harm children.

AFDC AND OTHER SOURCES OF SUPPORT FOR LOW-INCOME FAMILIES

The AFDC Program

While the Initiative will affect several programs that provide support to needy individuals, the main program that will be altered is Aid to Families with Dependent Children (AFDC). It is this program that most people probably equate with "welfare." This section outlines AFDC, as well as the other sources of support that may be available to families receiving AFDC.

Established by Congress in 1935, the AFDC program provides cash grants to qualifying families whose other income, if any, is not adequate to meet their children's basic needs.¹ States are not required to participate in AFDC, but all 50 states and the District of Columbia do participate. While each state must comply with certain federally-established guidelines, states are largely free to set their own benefit levels and to supervise their programs as they wish. Federal funds pay from 50 to 80% of the AFDC benefit costs in a state (54% on average), depending upon the state's per capita income; the higher the income the lower the federal contribution. In California, a state with a comparatively very high per capita income, the federal government contributes 50%, the state pays 47.5% and counties contribute 2.5%.

AFDC consists of three major components: AFDC-Family Group (AFDC-FG), AFDC-Unemployed Parent (AFDC-U), and AFDC-Foster Care (AFDC-FC). This last program, which provides support for children in foster homes, is not affected by the Initiative. In order to qualify for either of the other components, families must meet certain eligibility requirements, primarily regarding family structure, income, residential status, and assets. Eligibility of families is determined by local welfare offices. Families must provide information monthly, and each family's eligibility is reviewed annually.

AFDC-FG provides support to needy children younger than 19 who have been deprived of parental support due to the death, incapacitation, or continuous absence of one of their parents. Support also is provided to their needy caretakers. Most of these children live with their mothers, although needy children living with single fathers, other relatives and unrelated individuals also are eligible. Additionally, AFDC-FG support is available to low-income, pregnant women during the final trimester of pregnancy. California currently extends this coverage by using state funds to support low-income pregnant women from the time of conception.²

AFDC-U is available only to children in two-parent families. The parent who is the primary wage

earner must be unemployed or working less than 100 hours per month, but he or she must have some history of labor force participation. This parent also must be registered for work and be available for, and seeking, employment. In effect, the program provides support to families in which an unemployed primary wage earner is not covered by unemployment benefits.

To qualify for support for either component a family must have limited assets. The maximum a family may own is \$1,000 of real and personal property, excluding the family home, an automobile worth \$1,500 or less, burial plots or burial insurance, tools of trade needed for employment, household furniture, and other "items essential to day-to-day living." Recipients must be U.S. citizens or legal aliens admitted to the U.S. for permanent residence. Aliens classified as refugees, conditional entrants, parolees or asylees may also be eligible.

If a family meets these qualifications, and some additional eligibility requirements, it is entitled to a monthly cash grant that varies according to family size. Currently, the maximum monthly grants in California are:

Table 1

**Maximum Monthly Grant by Family Size
(June 1992)**

Family Size	Amount
1	\$326
2	535
3	663
4	788
5	899
6	1010
7	1109
8	1209
9	1306
10+	1403

Source: California Welfare & Institutions Code, 11450.

Parents who work may be eligible for partial support if the family's gross income falls below a certain amount, which varies by family size. If a family has earned income, the amount of the AFDC grant is reduced by the amount of earnings. However, to encourage recipients to take even low-paying jobs,

recipients are allowed to disregard certain expenses in calculating their earned income. These include actual childcare expenses up to \$175 a month per child (\$200 for children under two), and \$90 of work-related expenses. In addition, the first \$30 a family earns each month is not counted as income for one year and an additional one-third of the recipient's earnings is disregarded for the first four months of employment (referred to as the 30 and one-third rule).³

California recipients also are subject to the requirements of the Greater Avenues for Independence program (GAIN).⁴ This program, established by the state legislature in 1985, is designed to help recipients become self-sufficient and to ensure that able-bodied recipients do work. Participation in GAIN is mandatory for all principal wage-earners in two-parent families (usually fathers) and all single parents with no children under three (primarily mothers). In some cases both parents in an AFDC-U household are required to participate. Parents who have a disability, a family crisis, or similar conditions are exempted. Those not required to participate may volunteer.

Participation is mandatory until the parent finds a job or stops receiving AFDC. Refusal to enroll or failure to attend GAIN activities is punished by sanctions. For the first sanction, the AFDC grant is paid to a third party for "money management." A second sanction results in the loss of all or part of the grant for three months; further non-compliance results in a six month penalty. In return for participation, the state provides remedial education, job search assistance, assessment, skills training, education, on-the-job training, and pre-employment preparation (work experience assignment in a public or nonprofit agency), as appropriate for each participant.

Other Sources of Support

Families receiving AFDC are eligible for several other federal and state benefit programs, which may supplement their incomes. While the Initiative does not directly alter these programs, they are relevant to assessing the impact on recipient families of the proposed cuts in AFDC grants.

Food Stamps. Established by the Food Stamp Act of 1964, the Food Stamp program provides low-income families with coupons redeemable for food at retail food stores. The program is not restricted to AFDC recipients; any household with a gross income below 130% of the federal poverty line, a net income (gross income less certain deductions) below the poverty line, and less than \$2,000 in disposable assets may qualify.⁵ In California, approximately 76% of AFDC families receive food stamps, so the program provides an important supplement to the AFDC grant.⁶

The dollar amount dispensed in food stamps is determined by the level of a family's income: As a result, AFDC families residing in states where AFDC cash grants are lower receive higher food stamp benefits than in states where AFDC payments are higher, such as California.

Non-Cash Benefits. AFDC and Food Stamps are the two major programs providing cash or its equivalent directly to low-income families in California. The level of these benefits determines how a family lives on a day-to-day basis. In addition, all AFDC recipients are eligible for health-care benefits through state Medicaid programs, Medi-Cal in California. This program pays providers directly for authorized medical services.

Another source of support available to some AFDC families throughout the country is public or subsidized housing, which can substantially reduce a family's housing costs. The availability of public and subsidized housing varies considerably from one state to another. In California, only 12% of the state's AFDC families live in public housing or receive housing subsidies, ranking California 50th among the states.⁷

Families on AFDC may be eligible for other benefits, primarily school lunches and breakfasts, assistance with energy costs, and subsidized childcare. While helpful to many children and parents, support from these programs does not significantly alter most families' economic status.⁸

Participation Rates

During 1992, at any given point in time, approximately 2.3 million Californians are receiving some support from the AFDC-FG and AFDC-U programs. This equals a little over 7% of the state's population.⁹ As noted, the overwhelming majority of recipients, 1.6 million or 70%, are children. Seventy-eight percent of the recipients are in the AFDC-FG program, 22% are in AFDC-U. About 14,000 pregnant women without other children also receive support. In recent years, an increasing proportion of total cases are AFDC-U, as more two-parent families experienced unemployment.

While only a relatively small proportion of the state's parents and children receive support at any one time, a much larger percentage need aid at some point. It has been estimated that, nationwide, over a third of all families with children will experience poverty at least once before the children are 18 and that from 25 to 30% of all children will receive AFDC for some period before they turn eighteen.¹⁰ Thus, AFDC is a critical source of support for a substantial portion of the population.

THE PROPOSALS

Proposition 165 contains six proposals that relate to AFDC.

1. The Initiative would reduce by 10% the monthly cash grant that is provided to all families receiving AFDC. In addition, the statutory requirement that benefits be adjusted to reflect the cost-of-living would be repealed. Because federal food stamp benefits automatically increase when income drops, a part of the AFDC cuts would be offset by increased food stamp benefits.
2. The monthly cash grant would be reduced by another 15% after the family has received support for six months, except in cases where the mother is younger than nineteen and regularly attending high school or vocational school or where the parent(s) is disabled or older than 60.
3. Under current law, families receive a basic grant for the parent(s) and an additional amount for each child. The Initiative would eliminate the additional amount received for all children conceived while the family is receiving AFDC, until the family has not received any support for 24 months.
4. Under current law, a pregnant woman is eligible for support from the time she becomes pregnant, if she meets certain income requirements. The Initiative eliminates this support to poor pregnant women, although they still would be eligible for Medi-Cal.
5. The Initiative establishes new regulations for families headed by mothers younger than nineteen

who have not graduated high school. If the mother attends school and has no more than four absences a month, the family grant would be increased by \$50. The basic grant would be reduced by \$50 for every month in which the mother has more than two unexcused absences. The Initiative also requires teen parents under 18 years of age to live with their own parents or guardians, except in certain circumstances.

6. Under current law, a qualifying family is eligible for a full AFDC grant immediately upon moving to California. Under the Initiative, new recipients who have not been residents of California for at least one year prior to the time they apply for support would receive the same amount of support the family would have received in the state in which the family last resided before moving to California.

In addition to these changes contained in the Initiative itself, the state has received permission from the federal government to alter the "30 and a third" rule, if the Initiative passes. The state was mandated to seek waivers by legislation passed last year. Under the new rule recipients with earned income will be allowed to have one-third of their earnings disregarded indefinitely in calculating the amount of their grants; at present, this disregard applies for only four months. Parents who work while receiving support therefore will be able to retain a greater amount of their earnings. As we discuss later, this change also may increase the number of people who enter the welfare system.¹¹

If the Initiative passes poor children will become even poorer, unless their parents are able to make up for the benefit reductions through increased earnings or other sources of support. The cuts in benefits also will increase the risk of children experiencing developmental problems. Are these outcomes justified by potential benefits from the Initiative's proposals? This section reviews both the rationales that have been given to justify the Initiative and the concerns of those opposing it. We then offer a framework for assessing the potential costs and benefits of the Initiative.

Nobody likes the current welfare system. AFDC clearly serves very important functions, most importantly providing income to children whose families are experiencing economic hardship. Unfortunately, the AFDC program often operates in ways that seem to undermine its purposes. Those who have studied the system find that the benefits are too low to adequately provide for children's needs. Recipients find the system demeaning. At the same time, critics of all political persuasions worry that the current structure induces some people to rely on welfare who are able to be self-sufficient, discourages recipients from working, allows some recipients to remain in the system longer than necessary, and fails to provide a route to self-sufficiency for those recipients who want to leave the system but can't overcome various barriers to employment.

Efforts at reform are being tried throughout the country. California was a leader in this regard, through its adoption of the GAIN program. While further reform may be needed, both the goals of reform efforts and the appropriateness of the means selected to try to achieve the goals require careful scrutiny. There is a tension between the goal of protecting needy children and that of minimizing welfare participation and expenditures. An adequate evaluation of any reform proposal must consider how any given proposal affects each of these objectives of welfare policy.

The goals of the sponsors have been articulated in the Preamble of the Initiative, in the ballot arguments in the voter handbook, and in speeches and press releases by Governor Wilson and members of his administration. All of these documents make it clear that the Initiative focuses exclusively on the cost aspects of the current system.¹² The stated goals of the proponents are to discourage welfare "dependency," to encourage work by recipients, and to reduce welfare expenditures. The specific means that have been selected to try to achieve these ends are based on the following premises and assumptions:

1. Californians who are capable of supporting their families are relying on welfare rather than work. The size of the AFDC population, which has been growing in recent years, is heavily influenced by California's relatively high cash grants. Therefore, if benefit levels are lowered, fewer people will apply for welfare.
2. People receive AFDC for longer periods than necessary, in part because parents can obtain more income from AFDC than they could by working. In order to make low-paying jobs more attractive, benefits should be further reduced after six months, so that work becomes relatively more attractive. It is assumed, moreover, that jobs will be available for all current and future adult recipients, since the inability to find a job does not prevent the loss of benefits.
3. The number of families receiving benefits in California has been rising rapidly in recent years. One of the reasons is an increase in births to unmarried teenage girls, especially those younger than 18. It is assumed that some teenagers are having children solely to be able to establish their own homes. To discourage such births, the Initiative would require most mothers younger than 18 to continue to live with their own parents or guardian.
4. Recipients who begin receiving welfare as teenage parents generally remain in the system for longer periods of time than other recipients. On the assumption that teenage mothers become economically self-sufficient more quickly if they complete high school, the proposals reward teen mothers who stay in school by providing them an additional \$50 a month and penalize those who miss school by deducting \$50 a month from their grants.
5. People who are receiving support should not have additional children. Parents should have children only if they can afford them. In order to end any "incentive" for such births, recipients who have additional children while receiving AFDC will not get the increase in benefits that currently accompanies an increase in family size.
6. California's AFDC caseload is being increased by people in other states coming to California in order to take advantage of California's relatively high cash grants. To reduce any incentive to migrate solely for this purpose, new recipients from out of state will receive only the amount they would have received in their previous state, for a period of 12 months.

7. Allowing pregnant women to receive support from the time of conception is a waste of money. These women can work until late in their pregnancies. Therefore, California's special grant program should be eliminated.

In addition to these premises which have been stated explicitly, there are two other value judgments implicit in the proposals. First, proponents of the Initiative must believe that getting parents receiving welfare into the workforce is an all-important goal, regardless of the ages of their child or the type of care the child will receive while the parent is employed, since the benefit cuts apply even to mothers of newborns and regardless of whether they can find childcare. Second, proponents apparently believe that it is more important for a parent to take a low-paying job than to receive education or training that might prepare the parent for a higher-paying job, since benefits are reduced even for those parents participating in job-training or education programs.

Supporters of the Initiative have not addressed the question of its impact on children, except for one point. They claim that one of the reasons to discourage long-term welfare receipt is that children who grow-up in homes receiving welfare are likely to become AFDC recipients as adults.

Opponents of the Initiative make a number of counter-arguments. First, they take issue with some of the proponents' value judgments. For example, they believe that if the Initiative is adopted many families will certainly have reduced income, that this will be harmful to children and parents, and that it is wrong to jeopardize children's well-being in order to reduce the state budget. Second, they believe that the empirical assumptions underlying several of the proposals are incorrect — the assumption, for example, that California's caseload size is driven by the relatively high cash grants — and that these proposals therefore are unjustified. Third, they argue that others proposals, such as the penalties for missing school, will not have their desired effect and may even be counter-productive.

In deciding whether to support the Initiative, a voter thus must make two different assessments. First, each voter must decide whether the value judgments reflected in the Initiative are the right ones. Among the most important value issues are, should getting welfare recipients into the workforce be the top priority of welfare policy, regardless of any negative effects on children of the means used to encourage work? If not, what is the proper balance between the goals of protecting children and encouraging work? Should mothers of very young children be forced to work? Should this depend on the quality of childcare available to them?

Second, a voter must determine what the actual effects of the specific proposals in the Initiative are likely to be on parental behavior and on the well-being of children. To what degree will the means adopted in the Initiative have desired effects? Undesired effects? Will there be unintended consequences? What will be the overall impact of the entire package of proposals? Since a ballot initiative, unlike legislation, is an all-or-nothing approach, voters must decide whether the Initiative as a whole is desirable.

The starting point for an analysis of these questions is to examine the evidence regarding each of the empirical assumptions that seem to underlie the proposals: For example, what is actually known about whether higher benefit levels induce more welfare use or whether financial penalties prod teen mothers to increase school attendance? At the time of the preparation of this document, supporters of the Initiative had not provided any comprehensive analysis of the evidence suggesting that the proposed changes would, in fact, be likely to achieve the goals specified in their literature.

Knowing whether a particular provision might have some of the desired effects on parents is only the first step in an adequate analysis, however. The proposals obviously will affect different people differently. For example, as a result of the cuts, some mothers might indeed decide to take jobs that they otherwise might not have taken; others will not. Among those who seek employment, some will find and retain jobs; others will not. Some of these jobs may turn out to be good, others less so. Some mothers will find adequate childcare, while others will not. Some teens may decide not to have children (by stopping sex, using contraceptives or having abortions); others will have children nonetheless. Unquestionably, the most that can be hoped for with regard to each of the proposals is that the behavior of some parents will be influenced as the proponents would like.

To the degree that a proposal does not have its desired effects, children will wind up in poorer households. Thus, assessing the likely effects of the Initiative requires weighing the probabilities of various outcomes. An adequate analysis of the proponents' claims would seek to determine:

1. To what degree will the cuts and the other proposals reduce the number of new AFDC recipients?
2. To what degree will the proposals increase the workforce participation by current recipients? Will working parents be able to replace the lost income?
3. To what degree will the various proposals reduce the birthrate among current recipients and among teenagers?

4. To what degree will the proposals facilitate long term self-sufficiency for current recipients?

The impact of each proposal on children then must be considered. A proposal might have the desired effect on parents, yet the outcome will be worse for children. For example, if the Initiative is successful in forcing mothers of infants into the workforce the goals of the Initiative's proponents may be achieved, but the results for children might be quite bad, if they do not receive adequate childcare.

A full assessment requires evaluating the package as a whole. Since each of the proposals potentially can affect differing numbers of people, it is necessary to consider whether any potential benefits from one proposal are outweighed by the possible negative impacts of another proposal that applies to larger numbers of people. For example, the proposals addressing migration and teenage mothers each can potentially affect, either positively or negatively, less than 10% of the total families receiving support. In contrast, the 10% cut in benefits affects all recipients.

Finally, any assessment of the desirability of the Initiative requires some examination of alternative means to achieve the same goals, that may offer less risk to children's well-being. For example, California already has a program, GAIN, designed to move people from welfare to work. This approach is based on very different premises than the Initiative; its effects are currently being carefully studied.¹³ Other states have taken alternative approaches in trying to achieve many of the same goals that Initiative proponents hope to achieve.

The remainder of this report will analyze the Initiative according to this framework. Since we begin with the value premise that in any welfare reform children's interests must at least be considered, if not made paramount, we examine the Initiative both in terms of its sponsors goals and its likely impacts on the well-being of children.

Defining Adequate Income

The central provisions of the Initiative are the cuts in benefits. In order to get a sense of how poor parents and children are likely to be affected by the proposed cuts, it is useful to understand more about the economic situations faced by these families. We will look at the cuts from the perspective of a child in the typical AFDC family—that is, a single mother with two children, one of them under five, living in an urban or suburban area of the state.

Combining AFDC and food stamps, a family of three currently is eligible to receive a maximum of \$850 a month or \$10,200 a year. Under the Initiative, that amount will be reduced to a maximum of \$814 per month for all such families; after a family has received benefits for six months the amount will be reduced further, to \$751 a month or \$9,012 a year.¹⁴ The cash grant will be frozen for at least seven years, regardless of changes in the cost of living.

How should voters think about these amounts? As with all aspects of the welfare system, how one views the adequacy of grants depends on one's goals. It is well-known that California has one of the highest cash grants for AFDC recipients of all the states. As noted, proponents of the Initiative look at the grant solely in terms of welfare costs, arguing that current grants are too high in light of the need to cut state expenditures.

In contrast, a very different focus is appropriate if one is concerned with protecting the well-being of children. From this perspective, the issue is whether the grant level is sufficient to provide every child with adequate food, shelter, clothing and health care. Focusing on children, one would also want to know how family income affects a child's chances of success at school and, ultimately, obtaining a good job.

Unfortunately, the goals of protecting the well-being of poor children and of controlling expenditures in the AFDC Program may conflict, especially when the long-run economic and social costs of leaving children in poverty are ignored. In this section, we examine whether the benefits are adequate to meet the *basic needs* of children and their parents. In later sections, we discuss the relationship between benefit levels and rates of AFDC participation.

Because California's cash grants are relatively high, some people may assume that AFDC families can absorb cuts in benefits without a significant impairment in their standard of living. Governor Wilson has suggested that the cuts will force recipients to cut down on extras, not on basic necessities. The evidence is to the contrary. This can be seen by comparing California's benefits with three widely used measures for assessing the economic well-being of families: 1) the federally established poverty standard; 2) cost-of-living studies; and 3) median family income in the United States.

The Poverty Line. The most widely used standard for measuring the economic well-being of families is the poverty line. The poverty line is a measure of the income necessary to meet people's minimum material needs for shelter, food and clothing. Devised by the federal government in 1964, it was based on the "thrifty food plan," which was developed by the U.S. Department of Agriculture (USDA) to provide families in need with a dietary guide for *temporary* use, in times of economic emergency.¹⁵ In 1964, families generally spent one-third of their income on food; therefore, the federal poverty line was set at exactly three times the cost of the thrifty food plan. Since 1969, the poverty line has been adjusted annually on the basis of the consumer price index rather than on the basis of food costs alone. Currently, the poverty line is set at \$11,570 per year for a family of three and \$13,950 per year for a family of four.

At present, the maximum combined AFDC grant and food stamps for a California family of three equals only 94% of the poverty line — and not all families qualify for the maximum. Under the proposed cuts, benefits will be reduced to 85% of the poverty line immediately and to 79% for families who receive support for longer than six months. Families in which the mother has an additional child while receiving support will live even further below the poverty line since there will be no support for the added child. As shown in Tables 2 and 3, the situation for all families will worsen each year, since the Initiative repeals the statutory requirement of cost-of-living adjustments in the cash grants; such adjustments already had been statutorily suspended until 1996-97.

Table 2

**AFDC and Food Stamp Benefits in California During
the First Six Months of Aid, Under Proposition 165**

Year	Maximum AFDC Benefit Family of 3	Max. Food Stamp Benefit	AFDC and Food Stamps Combined	Poverty Line Family of 3	AFDC as Percent of Poverty	AFDC/Food Stamps as Percent of Poverty
1992-93	\$597	\$217	\$814	\$951	62.7%	85.5%
1993-94	597	232	829	986	60.6	84.1
1994-95	597	248	845	1,021	58.5	82.7
1995-96	597	264	861	1,058	56.4	81.4

Source: Center on Budget and Policy Priorities, Washington, D.C.

Table 3

**AFDC and Food Stamp Benefits in California After
Six Months of Receiving Aid, Under Proposition 165**

Year	Maximum AFDC Benefit Family of 3	Food Stamp Benefit	AFDC and Food Stamps Combined	Poverty Line Family of 3	AFDC as Percent of Poverty	AFDC/Food Stamps as Percent of Poverty
1992-93	\$507	\$244	\$751	\$951	53.3%	78.9%
1993-94	507	259	766	986	51.4	77.7
1994-95	507	275	782	1,021	49.6	76.6
1995-96	507	291	798	1,058	47.9	75.4

Source: Center on Budget and Policy Priorities, Washington, D.C.

What is life like for people living at or near the poverty line? Although there is some controversy about the meaning of the term poverty, and how income and assets should be counted in determining whether a family is poor, the vast majority of people who study income and welfare agree that, for most families, living below the poverty line jeopardizes the basic well-being of all family members.¹⁶ In fact, the Republican members of the U.S. House of Representatives Committee on Ways and Means recently concluded that people with incomes at the poverty line often do not have enough money for basic survival.¹⁷

Most critically, it is very difficult for a family with income below — or even somewhat above the poverty line — to obtain adequate housing, especially in urban areas. In the years since the poverty line was established, housing costs have risen far more rapidly than

other aspects of the cost of living and food costs have declined as a percentage of the family's budget, but the poverty line has not been adjusted to reflect this. It is hardly surprising that a 1989 study by the U.S. Census Bureau found that nearly one out of every five families (18%) with incomes below the poverty line lived in housing that had one or more major physical problems, such as frequent breakdowns in heating or plumbing, serious electrical problems, lack of hot or cold water or a toilet, holes in floors or ceilings, or rats.¹⁸ Some of this housing, built before 1960, also has lead-based paint dangerous to children.

California families receiving AFDC face special problems. According to the U.S. Department of Housing and Urban Development, which calculates Fair Market Rents (FMR), California's rents are the highest in the country, with the possible exception of

Massachusetts.¹⁹ The average metropolitan FMR for a two-bedroom apartment in California is \$750, more than \$220 higher than the national average. Moreover, five California metropolitan areas, where many AFDC recipients reside, rank among the 10 most expensive metropolitan areas for fair market rents in the entire country.

Obviously, families in poverty pay well below FMR for their housing; a recent study found that the average California AFDC family of three paid \$342 per month on rent, not including utilities. To obtain housing within their budget, many AFDC families must live in the poorest quality apartments and in the most dangerous parts of their communities. Many poor families live in over-crowded conditions, often doubled-up with other families. As a result, poor families move frequently in search of better accommodations. As we discuss below, all of these factors adversely affect poor children.

Many poor families also have trouble buying enough adequate food. As we saw, the poverty line is based on the USDA "thrifty food plan." Studies by the U.S. Department of Agriculture have found that five of every six families whose food expenditures meet this plan are not eating a nutritionally adequate diet,²⁰ despite the fact that poor families tend to use their dollars more wisely than other families. The basic problem is a lack of income.

Of course, the circumstances of poor families vary depending upon many factors, such as how long they have been poor, the availability of support from others, and the area of the state in which they live. While not every family with income below the poverty line lives in inadequate housing or lacks money to buy adequate food, there is little doubt that families living below the poverty line are very poor indeed.

Cost of Living Studies. In fact, a substantial body of research indicates that a family at the poverty line has far too little income for a minimally decent living.²¹ A more realistic estimate was developed recently by Consumers Union of America, which examined the "minimum cost of living" for a "bare minimum" existence in California.²² The study identified the minimum amount needed for housing, food, clothing, personal care, public transportation and laundry. The cost of maintaining a car, household furnishings,

childcare, medical care and all other expenses families normally incur for children were excluded. For single-parent households, the necessary monthly amount is approximately \$1200 across all counties: The amount ranged from \$994 in San Joaquin County to \$1428 in San Francisco. Not surprisingly, the amount is similar to estimates made by the general public. In a 1989 Gallup poll, respondents indicated that they believed a family in California required \$16,790 to live above poverty.²³ This is considerably above the poverty line and 150% more than will be available to welfare recipients if the Initiative is adopted.

Median Family Income. The standards discussed so far calculate the income necessary to meet the *minimal* needs of a family without jeopardizing children's physical well-being. But children can also be harmed by relative deprivation. Although large numbers of children overcome the barriers imposed by growing up in poverty, for many children these barriers prove insuperable. Extremely low income forces children to live far from the mainstream of American life. As a result, many children are unable to envision opportunity in the mainstream.

While there is no way of identifying the point at which relative deprivation becomes a strong barrier, many experts consider that anyone living for a substantial period of time at an income less than one-half of the median income is likely to be significantly deprived.²⁴ Median income is the income that represents the exact middle for U. S. families, the point at which half earn more and half earn less.

In 1990, median income for California households was \$35,353.²⁵ Welfare benefits equal only one-quarter of this amount. By this standard, welfare benefits would have to double to provide children with reasonably equal opportunity.

AFDC in California and Other States

By each of these three standards, California's benefits are far too low. Yet, relative to other states, California's AFDC grants are high. As Table 4 shows, California's \$663 maximum monthly cash grant for a three-person family is significantly higher than the national average. In fact, only four states (Alaska, Connecticut, Vermont and Hawaii) offer higher maximum cash grants.²⁶

Table 4

**Maximum AFDC Benefits for a Family of Three High States/
Low States, Ten Most Populous States (1/92)**

High/Low States	Rank	Max. Grant Family of 3	Most Pop. States	Max. Grant
Alaska	1	924	California	663
Connecticut	2	680	New York	577
Vermont	3	673	Michigan	459
Hawaii	4	666	New Jersey	424
California	5	663	Pennsylvania	421
Louisiana	47	190	Illinois	367
Tennessee	48	185	Ohio	334
Texas	49	184	Florida	303
Alabama	50	149	North Carolina	272
Mississippi	51	120	Texas	184
U.S. Average		395	Average	400

Source: U.S. House of Representatives Ways and Means Committee, *Overview of Entitlement Programs, 1992 (Green Book)*.

Some people may assume that because families receiving AFDC in other states “get by” on less, California’s families will not be adversely affected by the cuts. Such assumptions are clearly wrong. It must be recognized, to begin with, that despite the differences in cash grants, California’s “benefit package” is not more generous than most other states. First, families in other states generally receive more food stamps than do California families, since under federal law food stamps are reduced when cash grants are higher. In addition, a far greater percentage of recipients in other states receive housing subsidies. In fact, California has the lowest percentage of families receiving subsidies. Only 12% of California’s AFDC families receive any housing support, while nationally about 26% of recipients receive support; the figures go as high as 60%.²⁷ The fact that Californians, on average, are more affluent than most Americans exacerbates the situation. Not only is the gap between the poor and middle class greater here, thus increasing relative deprivation, the more general affluence pushes up housing costs and leaves the poor even worse-off. In fact, when the relative costs of housing are added into the calculation, families in 30 other states receiving AFDC and food stamps have more income at their disposal (see Appendix B).

The cost of housing is especially important when considering the effects of the Initiative. Housing must be paid for out of the cash grant — which will be reduced by \$156 or 23%. Since housing costs already constitute the families’ largest expense, it will be impossible for many families to continue living in their

current housing. They will have to move to even lower-quality apartments and will still have less cash available to meet other basic non-food expenses.

Most importantly, whether California is more or less generous is beside the point from the perspective of children. It does not help a poor child achieve normal development to know that some other children are even poorer. Regardless of where California ranks, the critical fact is that AFDC recipients everywhere are very poor. Just recently the National Commission on Children, the most broadly representative and politically diverse group of politicians, service providers, community leaders and academicians ever to address the needs of children, concluded that “AFDC fails to meet most families’ minimum economic needs.... In none of the 50 states do combined welfare benefits (AFDC, food stamps, Medicaid, and housing subsidies) provide even a modestly secure standard of living for families with children.”²⁸

The Commission went on to state: “Poverty and economic instability take a dreadful toll on children.... Families with an adequate income are better able to provide the emotional and intellectual, as well as the physical, care children need to become healthy, productive adults. Failure to prevent poverty and address the economic needs of families will inevitably lead to other social ills — more crime and delinquency, more teenage childbearing, more unhealthy babies, more child abuse and neglect, and lower productivity among the working-age population.”²⁹

It is against this backdrop that the Initiative’s approach to welfare reform should be evaluated.

Why Parents Rely on AFDC

We now turn to an examination of who is served by the AFDC system. We begin by describing, in a general fashion, the circumstances that cause parents to turn to the welfare system for support. We then look in more detail at some demographic information regarding the characteristics of current recipients, focusing on those characteristics most relevant for assessing reform proposals. The description concentrates on the AFDC-FG population, since it constitutes the largest group of recipients. Where there are characteristics distinguishing the AFDC-U population that are relevant for policy decisions, they are identified.

In order to be eligible for AFDC, a parent must have very little or no income. One clear question that needs to be addressed is why are AFDC recipients unemployed or earning so little? We attempt to piece together the outlines of an answer, with the caveat that much more needs to be known before anyone can speak confidently about this question. It must also be recognized that the paths onto welfare are highly variable and no comprehensive generalizations are possible.

As previously pointed out, in order to qualify for AFDC-FG there can be only one parent in the household; this is virtually always the mother. The starting point for understanding why single mothers often require support is the fact that, in general, women with children generally have low earnings. They earn little because many mothers work only part-time in order to be available to take care of their children and because women generally earn considerably less than men whether they work part-time or full-time. Various explanations have been offered for this disparity, including the fact that some mothers take lower-paying jobs that offer more flexibility to be with children when necessary; that many women do not prepare themselves for high paying careers since they expect to spend time as primary caretakers of children; and discrimination by employers.³⁰ Regardless of the cause, the fact remains that most mothers depend upon income provided by fathers in order to live reasonably. When that income is lost, or when it has never been available, many mothers find themselves in precarious economic circumstances.

The mothers receiving AFDC become single-parents in three ways. While many people may imagine that most women enter the system as unmarried teenagers with their first child and no work experience, this is not the case. Only half of all mothers who apply for support have never been married and fewer than 8% of all mothers are teenagers. About 40% are

divorced or separated from a spouse, and 7% are the spouses of someone who is incarcerated or incapacitated. Finally, 3% are widows.³¹

Mothers who enter the welfare system following a divorce or separation usually do so because they have suddenly lost the support from their spouse and they are unable to find employment to make up for this lost income. The fact that divorce rates are highest among low-income families increases the likelihood that a divorce will leave custodial mothers in poverty. Even though many married women are in the labor force at the point they become single parents, they often have part-time or low-paying jobs. Even working full-time following divorce, many women still cannot earn enough to avoid poverty.³²

The relationship between divorce and AFDC use was analyzed recently in a study by researchers at the U.S. Census Bureau.³³ Part of the study examined the income and marital status of a large group of women during the years 1983 to 1985. All of the women were married in 1983. During the following two years, about five percent of these women divorced or separated from their husbands. Some of these families were receiving AFDC prior to the breakup, and these women continued to receive AFDC following the split. Most significantly, for present purposes, approximately one out of six mothers (16%) who had not been in the welfare system prior to the split had to apply for AFDC benefits following the divorce or separation. The loss of the fathers' income, the fact that most fathers did not pay child support, and the low wages of the mothers who were working all contributed to this outcome.

Not only does divorce lead to the loss of the father's income, it is very difficult for those mothers who are not working prior to a separation or divorce to begin working immediately. In fact, some mothers who had been working find it necessary to stop work. When a family breaks up, the mother often must search for new housing, help the children enter new schools and deal with their emotional traumas.³⁴ Many mothers (and fathers) experience considerable depression at this point, which can make job searching even more difficult. Some mothers will move to be closer to family or other support systems, which may delay job searches. Finding childcare also may be difficult, especially since more than 50% of all divorces involve children younger than five.³⁵ Finally, some mothers cannot find jobs. All of these problems are exacerbated by the frequent failure of fathers to pay child support.

The situation of never-married mothers parallels, to a degree, that of divorced women, although the proportion of all never-married women who ever

become recipients is considerably higher than the proportion of all divorced women who ever must rely on AFDC. The majority of never-married mothers who apply for AFDC women are in their early twenties. While many enter the welfare system upon birth of a child, others do so upon losing a job, after a personal illness or the illness of a child, or in the wake of losing support from another member of their household. This last route is far more common than generally recognized. Many never-married mothers live with a relative, boyfriend, and even the child's father. Like married mothers, they may be totally or partially dependent upon this person for support. If that person moves out or loses a job, the mother may need to turn to welfare for support. Never-married mothers are unable to find employment for many of the same reasons facing married women upon separation or divorce. Moreover, because never-married mothers of any age tend to have less education than married women, these mothers have even less chance of finding adequately paying jobs.

Among the never-married mothers, teenage mothers constitute a group of special concern. The number of teen mothers actually is quite small as a percentage of all AFDC recipients: As noted earlier, teenagers comprise only 7.7% of mothers receiving AFDC at any given time. Those younger than 18 constitute only 1.8% of all mothers currently receiving AFDC.³⁶

Nonetheless, teen mothers demand special concern because early child-bearing entails risks for both the mother and child, and because the teen mothers are very likely to need support from AFDC, either when they are teens or later on (or both). With regard to welfare participation, estimates from national surveys indicate that over half of all teen mothers will receive AFDC for some period — as many as 40% of whites and 85% of blacks.³⁷ The majority of those who receive support begin doing so following the birth of a child, although others do not enter the system until they are older — largely because they were married or were cared for by their family when they were younger. And while teen mothers constitute only a small percentage of recipients at any given time, nearly 60% of all women who receive AFDC at some point before they are 30 had their first child while they were teens.³⁸

It is estimated that nearly half of all teen mothers do not complete high school during their teen years — about 55% of all whites and Hispanics and 30% of blacks.³⁹ And, approximately 20% of teen mothers have a second child before they turn 20. It is hardly surprising, in light of these facts, that early child-bearing, especially by non-married adolescents, is a major reason women need support from AFDC.

While most attention with respect to welfare

reform focuses on single mothers, the cuts will also affect two parent families in the AFDC-U program. There has been very little research regarding this group, perhaps because the program was not mandatory in all states until 1990. In fact, 40% of all AFDC-U recipients now reside in California.⁴⁰ Absent research, any characterization of recipients must be fairly tentative.

Because of the entry requirements, all of the AFDC-U recipients are either unemployed or work less than 100 hours per month. However, all have worked at least part-time in the year and a half prior to applying for AFDC. The key information about these families is that the primary wage earners tend to have little education, limited proficiency in English, and large families. Over a third of the fathers are older than forty, which may limit employment opportunities. In California, approximately a third are refugees, many of whom face all of these barriers to finding adequate employment. Many others are agricultural workers, experiencing periodic unemployment.

As this picture indicates, most parents in both AFDC programs apply for support because family responsibilities keep them from working or because they can't find employment that pays enough to keep them out of poverty. The welfare system offers them a source of secure income which they cannot obtain in the labor market. Given their responsibilities to their children, AFDC often seems to be the only way to protect the children's well-being, as well as their own.

Demographic Characteristics of Recipients

Further insight into why these parents need support, and how children will be affected by the Initiative, can be gleaned by examining the available demographic data describing current recipients. As previously noted, approximately 2.3 million people currently receive AFDC, 1.6 million children and 700,000 adults. About 6% of the family units consist of a child living with a non-parent caretaker. The remaining families all are comprised of children living with one or both parents, although in some of these families the child is the only AFDC recipient, either because the parent is ineligible for support or is receiving support under the social security disability program.⁴¹

While many people probably have images of the "average" adult recipient, it actually is very difficult to develop a meaningful picture of the "average" adult or family. First, there is enormous variation in the age, race, education and other background characteristics of both adults and children.

Moreover, the main source of published data characterizing recipients provides a somewhat distorted picture of the entire group of people who receive

AFDC each year. This is because the published data are based on a survey, or "snapshot", of the characteristics of families receiving support on a given day each year. But a much larger number of families receive welfare at some time each year than are served on any given day. People who receive support for a short period of time and then leave the system are under-counted in any snapshot; the data therefore are skewed towards a picture of longer-term recipients. Since longer-term adult recipients tend to have less education, not to have been married, and to have had children when they were teenagers, the available data over-emphasize the degree to which all recipients have these characteristics. These caveats should be kept in mind when considering the following description.

In the FG program, over 96% of the adult recipients are women. As noted, few are very young — only 9,000 mothers are younger than 18. Nearly half of the mothers are 30 or older and the average age is 29 (see Table 5). The children, in contrast, are young. Sixteen percent, or more than 200,000 children, are less than 1 year old; approximately 44% are below the age of 6. The average is between 7 and 8.

Table 5

Age of Female Parent Recipients — AFDC-FG (in percent) (Jan. 1991)

Age	% Recipients
Under 18	1.8
18-19	5.9
20-24	20.5
25-29	25.2
30-34	22.2
35-39	13.2
40-44	5.1
45-49	3.0
50-54	2.0
55-59	0.9
60+	0.2

Source: Numbers derived from a special analysis of information in Aid to Families with Dependent Children, Characteristics Survey, January 1991; State of California Health and Welfare Agency.

Most families are small. Approximately 70% of the mothers have 1 or 2 children, the same as non-AFDC families. Only 4% have 5 or more children. AFDC-U families tend to have somewhat more children, but most have 3 or less.

There are ethnic differences in family size: Both African-American and white families average less than 2 children per family, while Asian families and Hispanic families tend to have higher numbers of children (see Table 6). Because Asian and Hispanic adult recipients have larger families, children from these groups constitute a larger percentage of child recipients than their parents do of the adult group.

Table 6

Average Number of Children per Family by Ethnicity/Race of Parent or Guardian (1989-90)

Ethnicity/Race	Average No.
White	1.70
Black	1.85
Hispanic	2.06
Asian	2.83
Other	2.69

Source: Based on the author's calculations using information on ethnicity of children and parents from "Characteristics and Financial Circumstances of AFDC Recipients," U.S. Department of Health and Human Services for fiscal years 1988, 1989, and 1990.

One unusual aspect of California's recipient population is that over 100,000 recipients are children living with a parent who is not a recipient.⁴² Some are children who live with parents receiving social security or other benefits, rather than AFDC. Others are children born in the U.S. to parents who entered the country as undocumented aliens. When these parents later became legal residents as a result of the "amnesty" program, under the terms of the program they were ineligible to receive AFDC. Their children born in the U.S., on the other hand, are citizens and therefore eligible if their parents have little income.

Another important feature of these families, often overlooked in analyzing their well-being, is that in approximately 45% of the families there are adults living in the household who are not receiving support. These may be children older than 18, other relatives, parents who are ineligible for support (such as previously undocumented persons), or unrelated individuals. In some cases, these other individuals may contribute to the household's income, while in others they require support.

Recipients, like the population of California, come from many racial and ethnic backgrounds. The largest number are white; nonetheless, members of minority groups are disproportionately poor and, as a result, disproportionately recipients of AFDC.

There is a significant difference in the two programs with respect to the proportion of African-Americans and of families from Southeast Asia. As shown in Table 7, African-Americans constitute 30% of the FG population, but virtually none of the AFDC-U group. The reverse is true for Southeast Asians; people from these ethnic groups make up a large percentage of the AFDC-U population but little of the FG. Over 30% of AFDC-U recipients entered the country as refugees. Not surprisingly, given this difference, while 94% of FG recipients are U.S. citizens, approximately 40% of AFDC-U recipients are not.

Table 7

Ethnicity/Race of Parent/Guardian (in percent) (April 1990)			
FG		AFDC-U	
Ethnicity/Race	%	Ethnicity/Race	%
White	35.3	White	33.0
Hispanic	29.5	Hispanic	24.0
Black	27.7	Vietnamese	17.6
Other	7.5	Laotian	10.2
		Black	4.8
		Cambodian	4.2
		Other	0.2

Source: Aid to Families with Dependent Children, Characteristics Survey, April 1990; State of California Health and Welfare Agency.

It is often assumed that welfare participation is higher in large cities or urban environments. In fact, while the majority of recipients live in urban areas along with the rest of the state's population, poverty rates and AFDC rates tend to be highest in rural areas and in areas of the state that have large agricultural populations, such as the Central Valley. In the most heavily populated counties, participation rates are relatively low. Because of its size, however, Los Angeles contains approximately 30% of the state caseload (see Table 8).

Table 8

Percentage of Population Receiving AFDC-FG by County (Jan-June 1991)

County	Percent	County	Percent
Alameda	6.0	Orange	2.2
Alpine	7.5	Placer	3.2
Amador	2.1	Plumas	5.2
Butte	6.8	Riverside	5.2
Calaveras	5.0	Sacramento	8.3
Colusa	4.6	San Benito	4.5
Contra Costa	4.2	San Bernadino	8.0
Del Norte	7.5	San Diego	5.1
El Dorado	3.2	San Francisco	3.5
Fresno	10.4	San Joaquin	9.1
Glenn	6.9	San Luis Obispo	2.6
Humboldt	7.4	San Mateo	1.7
Imperial	9.5	Santa Barbara	2.9
Inyo	4.8	Santa Clara	3.9
Kern	8.0	Santa Cruz	3.1
Kings	7.6	Shasta	7.7
Lake	9.2	Sierra	4.3
Lassen	6.7	Siskiyou	7.4
Los Angeles	6.3	Solano	4.8
Madera	7.0	Sonoma	3.1
Marin	1.3	Stanislaus	7.5
Mariposa	5.2	Sutter	5.8
Mendocino	7.2	Tehama	7.4
Merced	9.6	Trinity	6.9
Modoc	9.6	Tulare	10.3
Mono	1.8	Tuolumne	4.8
Monterey	4.1	Ventura	2.7
Napa	2.7	Yolo	5.9
Nevada	2.8	Yuba	10.8

Source: Calculated by author from State of California, Department of Finance, Calif. Statistical Abstract Oct. 1991; and State Department of Social Services, Statistical Services Bureau, Public Welfare in California, January-June 1991.

Unfortunately, the state does not regularly gather some information that might provide the public and policy-makers with a more complete picture of welfare recipients; most of the information collected focuses solely on data needed to establish eligibility. For example, no data are regularly collected on adult recipients' educational background, primary language,

physical and mental status, how long they have lived in California, or their work history prior to applying for AFDC.

Some of this information can be pieced together from various research studies.⁴³ It appears that about half of all parents who receive AFDC have not completed high school. Approximately two-thirds of new recipients have worked in the two years prior to applying for AFDC, but most had income close to the poverty line. Almost 20% have some type of disability that limits their ability to work. Their own parents had less income than the national average for all families, in part because recipients are more likely than non-recipients to have lived with a single parent.

In California, a very large percentage of all recipients lack proficiency in English. A recent study of GAIN recipients in six counties (Alameda, Butte, Los Angeles, Riverside, San Diego, and Tulare) found that from 5% to 32% of new applicants to the AFDC-FG program had limited proficiency in English; among applicants to AFDC-U the range was 23% to 83%.⁴⁴ The highest percentages were in Los Angeles and San Diego, counties which include a substantial proportion of all recipients in the state.

In short, the large majority of parents, both single and married, who receive AFDC lack the education and/or skills needed to earn a reasonable living. Perhaps one-fifth have physical or mental disabilities that affect their ability to work. Because their own parents and relatives also have low incomes, they do not have access to support in times of financial hardship. Many AFDC families live in the counties with higher unemployment rates.

Perhaps most importantly, the great majority of adult recipients are single mothers. Even two-parent families with educational backgrounds similar to these mothers find it difficult to earn an adequate living. Single mothers, faced with childcare responsibility and without the back-up of another parent, often have little choice but to rely on AFDC for a period of time. The fact that so many enter the system is less surprising than the fact that most are able to exit the system within several years, as is shown in the next section.

DURATION OF WELFARE RECEIPT

Probably the major criticism of the welfare system is that too many people remain on welfare for periods longer than necessary. As with many other aspects of the system, perceptions of the problem are based partly on accurate data and partly on myths. This section will focus on what is known about the "dynamics" of welfare use, that is, the patterns of use after people enter the system. It must be recognized, however, that the data describing the length of time people receive support do not tell us anything about whether cutting benefits will influence the amount of welfare current usage. That issue will be discussed in the following section; this section provides only a discussion of the duration of welfare use and of the characteristics that distinguish "short-term" from "long-term" recipients.

Any discussion about welfare dynamics must begin by pointing out that it is impossible to provide a totally accurate description of patterns of welfare use. Researchers face extraordinarily difficult methodological problems in obtaining the type of data of most interest and relevance to policy-makers and the public.⁴⁵ Due to methodological problems reported findings often can be misleading.⁴⁶

Most impressions of welfare tenure in California are derived from the "snapshot" data published annually by the California Department of Social Services discussed in the previous section. These surveys show how many months each current recipient has been receiving support. In general, these snapshots reveal that, at any given time, about half of all current recipients began receiving aid more than two years prior to the survey (see Table 9). California's percentage of longtime recipients is slightly higher than in most states with comparable populations.

Table 9

Time Elapsed Since Beginning of Current Spell (in percent) (January 1991)

Time	FG	U
Less than 6 months	17.4	20.5
6 months to < one year	16.5	17.5
1 year to < 2 years	19.9	16.2
2 years to < 3 years	11.8	13.0
3 years to < 4 years	7.5	6.3
4 years to < 5 years	5.9	4.2
5 years to < 6 years	5.6	4.1
Over 6 years	15.4	16.7
Unknown	0.2	1.5

Source: Aid to Families with Dependent Children, Characteristics Survey, January 1991; State of California Health and Welfare Agency.

The data from these snapshots are useful because they reveal that over 80% of current recipients will experience the full 25% reduction in support. They are less useful in providing a true picture of welfare dynamics. For the reasons previously discussed, snapshots always contain a greater proportion of long-term recipients, thereby suggesting longer stays on AFDC than is actually the case for all people who ever receive support. This concept is somewhat hard to understand. To explain the statistical issue, the staff of the Ways and Means Committee of the U.S. House of Representatives developed the following illustration, using the example of hospitalizations:

Consider a 13-bed hospital in which 12 beds are occupied for an entire year by 12 chronically ill patients, while the other bed is used by 52 patients, each of whom stays exactly one week. On any given day, a hospital census would find that 85% of the patients (12/13) were in the midst of long spells of hospitalization. Nevertheless, viewed over the course of a year, short-term use clearly dominates: out of the 64 patients using hospital services, about 80% (52/64) spent only one week in the hospital. Exactly the same dynamic accounts for the results with regard to welfare experience.⁴⁷

Moreover, these snapshots do not reveal the fact that, even among longer-term recipients, some people

receive support for only part of a year, and others receive only partial support to supplement earnings. For example, a family could receive support from January to March of one year, work for nine months, and return the next January. This is not uncommon among low paid agricultural workers, with seasonal employment. Because of their data-gathering methods, many studies treat such families as having received *continuous* support for two or more years.

Developing a true picture of welfare dynamics requires following a group of new recipients (a cohort) for an extensive period of time and looking at their welfare receipt on a month-to-month basis. (This is called a longitudinal cohort study.) There are very few such studies; none of a totally representative sample for California or for the country as a whole. Even the few studies with reasonably representative samples look at recipients who were on welfare from 10 to 20 years ago. Since the length of time people remain on welfare is influenced by economic cycles, as well as the particular characteristics of the recipients studied (for example, the percentage of recipients who are younger has risen in recent years), the findings of these studies do not necessarily reflect current patterns of use.

For all these reasons, claims about the dynamics of welfare "dependency" must be treated cautiously. In

particular, any claim of precision should be disregarded. This report attempts to identify some reasonable parameters; while these estimates may be off by as much as 20%, they provide a general sense of the nature of welfare use.

The most relevant data for California come from a study looking at California recipients between 1983 and 1985. This study, by David Maxwell-Jolly and Paul Warren, followed a cohort of people who first received AFDC in 1983.⁴⁸ Their patterns of usage were tracked for a three-year period. The cohort reflected the general welfare population in the state, except that it excluded parents who were under eighteen. While such parents tend to have longer-than-average stays on welfare, they constitute only a very small percent of initial welfare "adult" recipients. Thus, the data will underestimate the length of stays for the entire population at that time only slightly.

As shown in Table 10, about 45% of all AFDC-FG recipients in this study were off aid within one year, 55% within two years, and 60% within three years. About 40% were still receiving support after three years. There were significant regional differences, reflecting both variations in the availability of employment and in the characteristics of recipients. The length of stay was shorter for AFDC-U participants.

Table 10

Percent of Recipients Off Aid at the End of Specified Intervals for those Entering AFDC During February 1983

Length	AFDC-FG				AFDC-U			
	Bay Area	South Valley	South State	Rest of State	Bay Area	South Valley	South State	Rest of State
1 year	43	42	41	47	57	53	54	57
2 years	59	51	53	59	71	64	70	68
3 years	63	55	59	64	76	68	76	74

Source: D. Maxwell-Jolly and P. Warren, California's Welfare Dynamic, California State Senate Appropriations Committee and Joint Oversight Committee on GAIN Implementation, 1989.

Whether a recipient was still receiving support after a given period of time tells only part of the story, however. A number of recipients who were receiving welfare at the end of 2 or 3 years had left welfare for a period of time. In fact, over 80% left welfare at some point. Only 18% of FG families and 12% of AFDC-U families received aid continuously during the 3 years (see Table 11).

Table 11

Lengths of First Spells for Those Entering AFDC During February 1983 (cumulative percent)

On AFDC Less Than	AFDC-FG			AFDC-U		
	Bay Area	South Valley	South State	Bay Area	South Valley	South State
3 months	22	19	23	19	14	15
6 months	41	40	41	45	41	44
1 year	60	59	58	66	68	66
2 years	76	76	75	81	85	82
3 years	84	82	82	86	89	88
Median months	9	9	9	6	7	7

Source: Maxwell-Jolly and Warren.

About half of those who left the rolls at some point needed to return before the end of three years; this accounts for the difference between the 45% and 80% figures. The length of time they remained off welfare ranged from 1 month to 3 years; most returns occurred within 1 year (see Table 12).

Table 12

Cumulative Percent of Terminating Recipients Who Return (All Adult Recipients)

Time Since Ending Aid	AFDC-FG				AFDC-U			
	Bay Area	South Valley	South State	Rest of State	Bay Area	South Valley	South State	Rest of State
1 month	13	15	19	4	8	12	12	10
6 months	29	36	34	32	21	34	25	29
1 year	36	44	41	27	42	30	30	36
3 years	47	56	50	51	37	55	38	46

Source: Maxwell-Jolly and Warren.

As previously mentioned, changing demographics, economic cycles, rates of out-of-wedlock births and the nature of available jobs all will cause variation in the need for AFDC at different times. For example, one recent study by two economists, R. Mark Gritz and Thomas MaCurdy, involving a nationwide sample of young mothers who received AFDC for some period between their 16th and 24th birthdays, indicates that even young mothers often leave the system relatively quickly. More than half of the mothers in their sample left the welfare system within a year.⁴⁹

From these cohort studies, we can draw some general conclusions about welfare dynamics. At least half of those who enter the welfare system probably will leave within a year. Another 20-30% will leave the system, at least for a period of time, within 3 years. Between 20 to 25% of all initial recipients may receive continuous support for three years or longer. And a small proportion, perhaps 10 to 15%, will rely on AFDC support for 8 or more years.

There is a good deal of movement on and off support. Of those receiving support in California at any

given time, approximately one-third (36%) have had previous periods of receipt. There are a number of reasons for this. Because a large proportion of adult recipients have low job skills, they often find employment in industries subject to economic fluctuations. This is particularly true for recipients working in agriculture, where employment is subject to seasonal fluctuations, weather and general economic conditions. Since many agricultural workers are not covered by unemployment insurance, AFDC serves this function.

Among single mothers, many must leave jobs because of family responsibilities. The loss of childcare, personal or family illness, financial problems that force the parent to give up housing, the loss of transportation as well as other factors make it difficult for many single parents to remain employed. Such personal crises affect many people. But they have a far greater impact when a parent is single, since there is no one to step in at a time of emergency, and they can be particularly devastating when a person is poor and doesn't have the resources to cope with a crisis and continue to work. Finally, some lose jobs because of poor performance or leave jobs because they don't like the working conditions or find the pay too low.

For AFDC-FG recipients, there are three routes off AFDC: full-time employment, marriage, and a move to other sources of support, such as disability benefits. While earlier studies found marriage to be the main means of exit,⁵⁰ the recent study by Gritz and MaCurdy found that most recipients younger than 24 left AFDC to work. Significantly, from the perspective of children, this study also found that most mothers who left welfare for work experienced a decline in income and greater month-to-month fluctuations in resources. Among AFDC-U recipients, increased earnings is the basic route of exiting the AFDC system.

What distinguishes those parents who have longer spells of welfare receipt? Again, less is known about this than one might expect. Various studies report different findings. Since no study looked exclusively at California, inferences must be drawn from studies of populations somewhat different from California's recipients. The results of such studies have been summarized in a recent review by economist Robert Moffitt. He concludes that "exit rates are higher for women with higher wage rates, higher educational levels, greater levels of non-transfer non-wage income (that is support from others), and for those with fewer children."⁵¹

One group that is generally thought to be at very high risk of requiring support for long periods of time is teenage mothers. Since about half of these mothers do not complete high school, this concern seems reasonable. The evidence on this issue is not clear, however. Most studies have looked at samples of recipients in the 1960's and 70's, or even earlier. During those periods,

teenage mothers were less likely to complete high school than at present.

A more recent study looked at a large group of women who were 14 to 16 years old in 1978.⁵² Their fertility and welfare receipt were tracked from 1979 to 1985. Among all the women in this sample who received AFDC, women who gave birth to a child as a teen did not have appreciably longer periods of welfare receipt than women who gave birth between 20 and 24 years of age. The women's marital status and ethnicity were the biggest predictors of length of welfare receipt. Never married mothers were far more likely to require support for two or more years.

One of the major questions is whether people become more "dependent" on welfare after they have remained on for a period of time; in other words, whether receiving welfare, in and of itself, makes it more difficult to get off the longer one stays on? One of the reasons proponents of the Initiative want to limit the length of time a recipient can receive welfare to a very short time is the assumption that length breeds dependency. Again, this is an issue about which there is considerable debate and uncertainty. It is difficult to distinguish conclusively between the effects of length itself and the fact that those who stay longer have fewer skills.

Economist Rebecca Blank has studied this question recently.⁵³ She reports that there is "some large group which enters AFDC with virtually no alternative opportunities, for whom the possibility of leaving improves slowly over time, but who will be on welfare a long time. There is another group which appears to have opportunities to escape AFDC early, but who become less and less likely to leave AFDC as time passes." This latter group might be thought of as becoming "dependent." Yet, even this group continues to move off welfare at a relatively constant pace. Blank concludes therefore that, even though some women receive support for long periods of time, the evidence does not indicate that this is a *result* of their being on welfare. Instead, it reflects the fact that they have little chance to work their way off welfare, or to marry. In other words, length may generate dependency somewhat, but the impact seems small.

In sum, it appears, not surprisingly, that single mothers with the best job skills (or marriage prospects) and who are well situated to take jobs leave welfare most rapidly. The same holds true with respect to AFDC-U recipients. Wage earners with the strongest past ties to the labor force, and with the most skills, find jobs most easily. Among the AFDC-U group language barriers may play an especially important role. The recent six county evaluation of GAIN reports that among the recipients in the AFDC program for longer than 2 years the following percentages of recipients had

limited proficiency in English: Alameda 55.5%; Butte 24.4%; Los Angeles 82.7%; Riverside 38.8%; San Diego 53.9%; and Tulare 42.8%. And, for all groups, the duration of receipt is related to unemployment levels: People leave faster when there are more jobs. These findings are highly relevant to an examination of the probable effects of the Initiative's provisions, which we turn to next.

Our focus is on children. But assessing the Initiative's impact on children requires examining the likely effects on parents. The consequences for children will depend on how parents respond to the cuts in benefits and other new requirements. They also will depend on how the proposal affects parents' ability to provide adequate emotional support for their children.

The General Cuts in Benefits

We begin by examining the likely effects of the two main provisions of the Initiative — the initial reduction in benefits and the additional reduction after six months. These cuts lie at the core of the Initiative, both in terms of children's well-being and the goals of the Initiative's sponsors.

As previously suggested, these cuts are based on the following assumptions: 1) if grants are smaller, fewer people will find welfare attractive, leading to a decline in caseload size; and 2) that the additional cut after six months will reduce long-term participation by inducing more recipients to find jobs that will enable them to leave the welfare system. Governor Wilson also has contended that, at a minimum, the proposal will do no harm because recipients can and will find part-time work to replace the lost income.

Size of Caseload and Participation Rates. In recent years the number of families entering the welfare system has been growing, both in absolute terms (caseload size) and in terms of the percentage of women ages 15-44 who are receiving support (the participation or dependency rate).⁵⁵ Proponents of the Initiative frequently note that between 1980 and 1989 the number of people receiving welfare grew more rapidly in California than in the nation as a whole, and that welfare participation in California is somewhat higher than the national average. Based on these facts, Initiative proponents argue that California's relatively high cash benefit rates encourage people to enter the system.*

These facts, while true, tell us nothing, however, about why caseloads grew. It certainly does not necessarily follow that either rising caseloads or higher participation rates are caused by California's benefit levels or that the proposed grant reductions will reduce

them. The evidence indicates that the caseload increases and the participation are due to factors other than the grant level.

Benefit levels are one of a number of factors that might influence caseload size or participation rates. Among the other important influences are economic conditions, overall growth in the general population size, the composition of the population (a state with a high proportion of people over 50 probably will have fewer recipients since this portion of the population has few children eligible for AFDC), and the number of divorces and births to teens in the state.

In fact, there is good reason to believe that benefit levels have only a small impact on caseloads and that the reductions proposed in the Initiative will not reduce caseloads. Over the past twenty years, a half dozen studies by economists have examined the relationship between benefit levels and welfare participation. While none of the studies is fully applicable to California, given the particular mix of factors influencing caseloads here, these studies find that while higher benefits may increase participation rates the magnitude of the increase generally is very small.⁵⁶

Actually, despite the rhetoric in the Initiative, even Governor Wilson appears to agree that the proposals in the Initiative will have very little impact on caseload size. According to the budget estimates he submitted to the Legislature this year, if the Initiative is passed, *all of the proposals combined* would result in only a 4% decline in the number of new cases next year. This includes the reductions that are anticipated from the residency requirements, the exclusion of children born to recipients and the provisions related to teens.

A look at the evidence shows why California's caseload growth cannot be attributed to the grant level. First, in 4 of 5 years between 1983 and 1988, California's caseload growth was actually slower than the state's overall population growth. Second, the more recent "explosive" growth is recession related and not unique to California (see Table 13). In fact, caseload growth in California since the recession has been slower than in many states that have been hit less hard

*In discussing comparative caseload size and growth, one issue that might be confusing to the public should be noted. The ballot statement for the Initiative says that California has 12% of the nation's population but pays 26% of the welfare benefits. Some people might take this to mean that California has 26% of the nation's welfare population, double the percentage one might expect if recipients were distributed randomly among the states. This, of course, is not true. California's payments account for a high percentage of the nation's payments primarily because California's cash grants are higher, rather than because California has a higher than average number of recipients, although the latter is true to a much lesser degree. As previously discussed, California is not more generous when the entire benefit package is considered and cost of living factored in.

and have lower benefits. Although, in 1990, California's population grew fourth fastest in the country and it experienced the eighth largest percentage increase in unemployment, the AFDC caseload grew at only the 21st fastest rate. Neighboring states with much lower benefits had much higher growth rates in caseloads than California in 1990. (N.M.,21%; Ariz.,18.1; Idaho,11.7; Nev.,11.1; Ore.,10.5; CA,10.1)⁵⁷

Table 13

**Percentage Growth in AFDC Caseload
(1988-90)**

	1988	1989	1990
California	3.0%	6.9%	9.7%
The West	2.8%	6.8%	9.6%
The South	2.6%	8.7%	10.4%
The Northeast	1.5%	3.5%	8.4%
Nationwide	0.6%	3.3%	8.4%

Source: Congressional Budget Office, 1991

What then accounts for the increasing caseloads? This issue was studied recently by the California Legislative Analyst's Office (LAO).⁵⁸ It attributes the rising caseloads to a variety of factors other than benefit levels. According to the LAO, at least half the caseload growth is directly attributable to increases in the population of women aged 15-44 during the past ten years. In fact, between 1980 and 1988 the percentage of growth in AFDC caseloads in California was proportionate to the percentage of growth in the state's overall population. There also was a large increase in fertility among all segments of the California population during the 1980's, increasing the number of children at risk of needing support. Since California's population increased faster than that of the nation as a whole during the 1980's, it is not surprising that it also experienced a greater than average increase in AFDC caseloads.

As noted above, the most recent caseload growth appears largely attributable to increased unemployment. In a comparison of 13 states in the West and Southwest, states with above average AFDC per capita caseload growth tended to have above-average increases in the number of unemployed.⁵⁹ Among these states, California experienced the highest increase in the number of unemployed during 1990. Moreover, recent caseload growth has been disproportionately in the AFDC-U component, which is generally more sensitive to unemployment levels.

The relationship between unemployment and the

recent caseload growth can also be seen by looking at caseload growth in different California counties. During the first six months of 1991, counties with above-average unemployment also tended to have an above-average percentage of its population on AFDC. On average, 5.95% of the entire California population received AFDC. However, Imperial County, which had the highest unemployment rate in 1990, at 19.1%, had 9.49% of its population on AFDC. In contrast, San Francisco and Santa Clara counties, each with the lowest unemployment rates during 1990, had only 3.5% and 3.8% of their populations on AFDC, respectively.⁶⁰

Among the factors discussed by the LAO, two others deserve mention. The increase in caseloads is in part attributable to a substantial increase in births to teenagers and to unmarried older women. While these trends raise significant policy issues, they have been nationwide, unrelated to benefit levels.⁶¹ In addition, California's caseload has expanded because many refugees, previously covered entirely by the federal government, now have been added to state rolls. While many state officials believe that the federal government should assume full responsibility for helping refugees who cannot find employment, the movement of this group from federal to state caseloads cannot be attributed to benefit levels.

Increases in the overall population do not affect the "participation rate" since, by definition, this means the *proportion* of the population 15-44 receiving support at any given time. Participation rates are influenced, however, by a number of other factors. Interstate comparisons must, therefore, be treated very carefully. Knowing that one state has a higher or lower participation rate than another state, or than the national average, tells us nothing about the reasons for this. Accounting for a state's AFDC participation rate is very difficult, as researchers recognize. All claims about causes must be viewed very cautiously, since many factors might account for observed differences.

The LAO also has identified a number of factors that appear to account for California's relatively high AFDC participation rate. One important element is the composition of California's population, since certain groups are at higher risk of needing welfare support. First, California's divorce rate and rate of births to teenage mothers are among the nation's highest.⁶² As noted, mothers in both these groups often need support from AFDC. California also has a large percent of citizens from ethnic groups that historically have experienced high rates of poverty. In addition, many refugees, admitted to California to enable them to escape political persecution in their native countries, need support from the welfare system while they obtain the language skills and education needed to find employment.

For these, and other reasons discussed by the LAO, it would be expected that the participation rate would be higher in California than in most other states, regardless of benefit levels. This is not to say that benefit rates have no importance. Most studies conclude that they can have a small impact. But little change in the participation rate can be expected from the proposed cuts.

It actually is possible that the entire package of proposals contained in the Initiative and the accompanying waivers recently granted by the federal government will increase caseloads or participation rates. While lowering cash grants, these proposals also change two other elements of the welfare system's economic structure: the amount a recipient can earn before having her or his family's cash grant reduced, and the total amount a recipient can earn and still retain eligibility for some benefits. While these changes will certainly help some poor children whose parents are able to work, it also will make eligible some people who are currently ineligible to receive benefits.⁶³ Thus, cost-saving claims may be considerably overstated.

Reducing Length Of Stay. As with the goal of reducing caseloads, it seems very unlikely that the approach taken in the Initiative will increase the rate at which parents now leave the welfare system or enable those who now remain in the system for many years to become self-sufficient, as desirable as this goal may be. Once again, this is recognized in the Governor's budget estimates, which forecast only a 4% reduction in long-term participants if the Initiative is passed. The research indicates that this is the most that might be expected. A number of studies have examined the relationship between benefit levels and duration of participation in AFDC. While most studies find that higher benefits are associated with longer duration, these studies also find that the impact of grant amounts is very small.⁶⁴ In fact, California has exactly the same percentage of current recipients who have been on welfare for two or more years, 47%, as the nation as a whole.⁶⁵ Moreover, as shown in Table 14, the states with the greatest percentage of long-term recipients do not have especially high benefits.

Table 14

Benefit Levels in States with Highest Percent Population Receiving AFDC More Than Two Years (1989-90)

State	Rank	Cash Benefit	More Than 2 Years
Illinois	1	\$343	57.7%
Michigan	2	465	57.3
Pennsylvania	3	374	55.5
Ohio	4	325	55.3
Mississippi	5	121	55.0
Kentucky	6	225	53.2
Connecticut	7	570	52.2
California	8	637	51.9
Rhode Island	9	498	51.6
New Jersey	10	263	50.9

Source: Characteristics and Financial Circumstances of AFDC Recipients, FY 1990, U.S. Dept. of Health and Human Services.

It must be remembered that the majority of all new AFDC recipients already leave the system within a year, although many need more than six months — the point at which the Initiative would reduce benefits for most recipients — before they are able to find, or take, a job. Another group of recipients, many of whom are participating in education or job training programs, need support for longer, but they generally remain in the system for only 1 to 3 years. (Some of these are teenagers who will be excluded from the cuts if they are in school.) While some of these recipients might abandon their education or training and take a low-paying job because of the impact of the cuts — which may not be desirable from anyone's perspective — they often will remain eligible for support because the jobs they can get pay so little.

For those recipients who now require longer periods of support, cuts in benefits will not push them out of the system for the simple reason that most long-term recipients do not have the skills or job prospects that would enable them to earn enough to leave the system. A very different approach is needed to deal with this fact — one that emphasizes education and job-skill training — so that participants acquire the skills necessary to earn more than poverty wages. And, for a proportion of recipients, especially women with young children, only programs that both increase the income from work, such as increasing the Earned Income Tax Credit, and provide childcare, will allow them to be independent of welfare and still have enough income to live at a decent level.⁶⁶

The fact that many recipients cannot work their way off AFDC was spelled out by Robert Moffitt in his review of welfare participation studies. He states that "95 percent of those on the AFDC rolls would, if off the program, retain eligibility for benefits.... Thus the problem of welfare 'dependency' cannot be ascribed to the work disincentives of the program."⁶⁷ Put differently, Moffitt is saying that for the vast majority of current long-term recipients any employment they might find would not pay enough to make them ineligible for AFDC.

The end of this report provides a brief discussion of some policies that can help reduce, and perhaps even end, long-term welfare use — policies that do not jeopardize the well-being of children in the process. But they require investments not only in job-training and education programs, but in increased health coverage, increased child-support enforcement, and perhaps government-provided jobs. Not only are such programs altogether absent from the Initiative, many existing programs are being cut, increasing the likelihood that the Initiative will have many unintended consequences. Without such policies, there is little hope of reducing the proportion of long-term recipients.

Increasing Work By Recipients. Perhaps the central argument of the Initiative's supporters is that, at a minimum, recipients can make up the lost income with just a small number of hours of work per week — the Governor claims that 6 to 10 hours will be needed. While the number of recipients wouldn't be reduced, the amount of state payments would be, thereby freeing funds to reduce the deficit or fund other programs.

Proponents believe that the cuts will push non-working parents into the job-market. Along with this stick, recipients also will be provided a carrot to induce more work. As previously mentioned, benefits currently are reduced one dollar for every dollar earned, after certain exemptions are counted. One of those exemptions allows the first \$30, plus one-third of the remaining earnings, to be disregarded for the first four months of work. After that, only the \$30 exemption is allowed. As a result, many recipients have little incentive to combine work and AFDC support.

In compliance with legislation passed last year, the state has received permission from the federal government, which sets the requirements, to apply the full \$30 and a third disregard for as long as the recipient has earnings, if the Initiative passes. Since working recipients will be able to retain more of their earnings, they will have more incentive to work.

There are five issues raised by the claim that recipients can work to make up the lost income: (1) Is the claim correct? How much incentive for additional work does the proposal create? (2) Will those who find

work be able to replace the lost income? (3) Can current recipients actually find employment? Are the jobs available? Is childcare? (4) What percentage of recipients who can find work are likely to do so? This is critical from a child's perspective. If a parent does not choose to work, assuming she or he can, it is the child who gets penalized for the parent's behavior. Is this sensible? (5) Finally, is it a sound idea to try to make all parents work more? In particular, do we want to force mothers of newborns or of children under two to place their children in childcare? If yes, should this be contingent on the availability of high-quality childcare? Are there other people who should not be forced to work — those, for example, whose children have disabilities?

This section focuses on the first four issues (the last will be discussed later). To summarize our conclusions, about half of all recipients who require support for more than 6 months will not find further employment. Perhaps a third to a half of current recipients will be able to find regular part-time work and the childcare that will enable them to take jobs. Most of these families will not be better off economically as a result; they will break-even or will not net enough to replace the lost income. The great majority of families, therefore, will be worse off economically.

The start of any analysis begins with the current work efforts of recipients. At any point in time, approximately 7 to 8% of California's recipients report earnings, mostly from part-time work.⁶⁸ This is slightly *above* the national average. Since recipients move in and out of the labor force while receiving support, between 20 and 30% report earned income at some point; some recipients have unreported earnings. Taking this last group into account, it seems likely that between 40% and 50% of all recipients work at some point.⁶⁹ Many of these parents are undoubtedly among those recipients who exit AFDC relatively quickly.

Most of those who now work do not work regularly. To get a sense of why this is so, it is useful to think about the situation of many recipients. As noted earlier, women generally earn considerably less than men, regardless of the women's level of education. Women on AFDC are even more restricted with respect to the types of jobs for which they are qualified.

Childcare responsibilities further limit the types of jobs single mothers can take. Unless they have help from family members or friends, they face both the necessity of finding affordable childcare and the need to work relatively close to be available in emergencies. If they do find work, it usually is at the low end of the employment structure. This makes them particularly vulnerable to changes in unemployment levels. In addition, family crises, health problems and other factors can force many of these mothers in and out of the labor market. Some parents need to stay home to

care for a child with disabilities. Finally, a portion of AFDC mothers suffer from physical or emotional problems that impair their ability to work, let alone earn enough to exit the welfare system. The children of this last group will be especially harmed by cuts in family income.

While families receiving AFDC-U, which have two parents available, do not face the childcare problems confronting single mothers, most of these parents have less than high school education and a large percentage do not speak English. When these parents work, it usually is in the secondary labor market, where the wages remain low.

Will the carrots and sticks in the Initiative change this pattern? Determining whether these parents can or will stay in the labor force and predicting whether those with no work history will begin working, or work enough to replace the lost income, is very difficult. Some inferences can be drawn from evidence regarding the impact of previous changes in the 30 and a third rule. Prior to 1982, the disregard applied to all recipients, nationally, for one year. At that time, the rule was changed to the present four months. Before 1982, an average of 14% of recipients reported earned income each year. Following the change, that figure dropped to the current 8%. Judging by that shift, just changing the disregard will influence only a small percentage of recipients.

If the Initiative passes, both the benefit level and the disregard will change, so evidence from changes in the disregard alone provides only partial insight. Directly relevant, however, are the findings of economist Gary Burtless. After reviewing the research examining the relationship between grant levels, the amount of earnings recipients may retain, and work by AFDC recipients he concluded: "A reform that reduced tax rates and reduced support levels simultaneously would undoubtedly raise work effort among the poor, at least slightly, but it also would harm the living standards of families already at the margin of American life."⁷⁰ This is precisely the reform being proposed in California (tax rates is a term for the disregard rule and support levels a term for the cash grant). According to Burtless, somewhat more work can be expected, but on average poor children and parents will have less money as a result of the changes.

Why will recipients be worse off economically on average? To begin with, while the change in the 30 and a third rule will enable some currently working recipients to retain enough of their earnings so that they are better off even with the reduced grant, most currently working recipients will find themselves worse off unless they increase their hours of work. Otherwise, the reduction in the grant level will exceed the extra amount they can keep from their earnings.

For those not currently working, who comprise over 90% of recipients, there is a question whether there are jobs available for workers with their job qualifications, especially during this time of recession. Experts offer different conclusions.⁷¹ Research is only partially helpful; most studies do not match the available jobs with the places where recipients live, either with regard to counties or, in larger counties, location within the county. Even if jobs were available, many mothers will be unable to find childcare, especially mothers with infants. The lack of "off-hour" care may also prevent recipients from taking some existing jobs.

Finally, many recipients who find work will not be able to replace the income lost due to the cuts. The Governor's claim that a recipient would only need to work 10 hours per week to break-even assumes no childcare costs. A recipient with childcare needs would have to work at least 20 hours a week at \$5 an hour just to come out even.⁷² And with this combination of work and welfare they would still be living below the poverty line.

A small percentage of parents may not work due to personal problems, such as depression or substance abuse, or because they prefer not working to the extra income, or because they have so lost touch with the labor market that they cannot imagine working. The Initiative, however, is not a targeted approach to dealing with this group. Cutting benefits to "punish" them for not working is to deprive their children of resources, as well as the children of all those who want to work but cannot find jobs. It is like blowing up an entire city to destroy a few buildings; unfortunately, all of the buildings are occupied.

Summary. In sum, the Initiative will not do much to prevent initial entry onto AFDC, nor will it result in any real increase in the numbers of parents leaving the system in less than six months. If our estimates are correct, and they are consistent with the Governor's, 30 to 60% of new recipients will continue to need support for somewhere between six months and two years and an additional 20 to 40% will be on longer, even after the changes in benefits and the other programs.

There may be some increase in the percentage of recipients who work part-time, but even so most children will experience a decline in income. While an unknown proportion of families will replace the lost income, few families will be better off. That few parents will be better off economically, even if they work, raises two concerns. First, as discussed later, requiring parents of infants and toddlers to work may be quite harmful to these children. For these children the Initiative offers no chance of increased well-being, only the risk of substantial detriment. Second, except for teenagers,

recipients who want to get more education in order to improve their long-term economic prospects will be unable to do so, unless they are willing to absorb the entire cut. As a result, many more children will continue living in poverty, albeit with a working parent. As we discuss later, it is parental poverty, not receipt of AFDC, that harms most children.

Cal-Learn and Other Provisions Relating to Teenagers

For the reasons noted earlier, as well as because adolescents seem to be less capable as parents, it clearly is desirable to encourage young women to delay parenthood. The Initiative seeks to address the issue of teen parenthood in two ways: first, by provisions that require younger teens to live with their own parents; and, second, by provisions designed to encourage teens who have a child to remain in school. While the goals are indisputably good, the means chosen in the Initiative may well do more harm than good. In terms of improving the life choices of both the teen mother and her child, other approaches appear to be far preferable.

The Co-Residence Requirements. Under the Initiative, teenage mothers younger than 18 would be eligible for benefits only if they live with a parent or other relative. Exceptions would be made if the parent or legal guardian refuses to have the teenager, the physical or emotional well-being of the teenager would be threatened by living with her parent, or the teenager has been living away from the parent for a year. As previously mentioned, the justification for this provision is that it will discourage some teenagers from having children and encourage family unity.

Evaluating this provision is difficult. Since no state has ever mandated co-residence, it is impossible to say whether the proposal will have any effect on the number of births by those under 18. It must be recognized, however, that this provision is applicable to a very small number of cases. There are fewer than 9,000 teen mothers under 18 who receive AFDC; 70% of these are 17 years old and 20% are 16 years old.⁷³ We did not find estimates of how many of these teens live independently.

Several anthropological studies suggest that some teenagers become mothers in order to be treated as adults and to escape from their families.⁷⁴ Even for those teenagers the co-residence rule may have little effect. Young teenage girls would have to be aware of the provision and take it into account when deciding whether to have sexual relations or to terminate a pregnancy. If one wants to assume that 16- and 17-year-olds plan ahead to this extent, then one also should assume that 17-year-olds who want to become independent can wait a short period and have the child

when they turn 18. More realistically, it seems unlikely that many 16- and 17-year-olds are this calculating, so that the proposal probably will have a minuscule impact on birthrates.

It is possible, however, that some young mothers who have a child and want to set up their own household will decide or be required to remain at home as a result of the proposal. This may have both good and bad consequences. There is a small body of research comparing teenagers who live with their parents and those who live on their own according to a variety of criteria. These studies suggest that teen mothers who live with their parents are much more likely to continue their schooling and slightly less likely to have repeat pregnancies.⁷⁵

All the studies, however, compare teen mothers who *chose* to remain in the parental home with those who chose to leave. The findings from these studies, therefore, tell us little with respect to teen mothers *required* to live in the parental home by the state, which might yield very different results. There are several reasons for concluding that negative outcomes will predominate when teens are forced to live with their families.

A teen mother's place of residence influences the mother's emotional well-being, her parenting behaviors and the development of her child. As we shall see more fully later, the evidence regarding the impact of residence on parenting behaviors, and on the children of teen mothers, is inconsistent. But there is reason to worry that coerced co-residence will be harmful to many teen mothers themselves. While the teen's parents may be able to provide needed support, being a teen mother does not end the normal conflict between adolescents and their parents.⁷⁶ To the contrary, the presence of a new baby can be a source of constant conflict, generating hostility about differences in child-rearing philosophy, the teen mother's behavior, and the role and responsibilities of the grandparent. The teenager may be regularly blamed for having the child. There may be additional disputes focusing on social relations. Those teens who chose to stay with their families may believe that these problems are outweighed by the benefits of parental support. But teens who wish to be on their own may have concluded that the added stress will harm them, as well as their child.

Most importantly, some teen mothers come from abusive or otherwise dysfunctional homes. While the proposal allows teens to request exemption from the co-residence requirement, it is questionable whether this will be a very effective remedy. Some teens may be reluctant to ask. It is unknown whether social workers, many of whom have minimal training, are capable of making these judgments. An adequate home evaluation would be time-consuming and costly; what's more, it is doubtful that such evaluations will take place.

In sum, there may be both gains and losses from this provision. The impact on teen births will undoubtedly be negligible. For those who have children, the benefits to some mothers emanating from parental support will be balanced by the harms to others resulting from increased conflict. The administrative costs will be substantial, or else the exemption provisions will be rendered meaningless. At a minimum, this provision cannot not be seen as much of a reason to vote for the Initiative.

Cal-Learn. Under this program, parents 19 and younger receiving AFDC (including the “parents of unborn children”) will have their AFDC grants increased or decreased based upon school attendance. Many people consider this provision to be an especially desirable feature of the Initiative. Helping teens complete high school is highly desirable. Because of the importance of this goal, the means selected demand careful scrutiny. The evidence indicates that the provision probably will do more harm than good.

As noted, about half of all teen mothers do not finish high school. The drop-out rate for Hispanic females is especially high, as is the drop-out rate for all Hispanics — male and female. In contrast, more than 60% of young black mothers now obtain a degree. As these differences indicate, dropping out of school is influenced by a variety of factors.

Not surprisingly, those leaving school tend to be the students who were doing most poorly to begin with. Recent findings indicate that as many as 60% of Hispanics, 52% of whites and 26% of blacks dropped out before becoming pregnant.⁷⁷ Plagued by poor grades, often behind by a year or more, these adolescents see little to be gained by remaining in school. Other teens drop out upon becoming pregnant, often because they do not want to attend during their pregnancies. Finally, some leave school after the child is born. The added responsibilities of childcare, along with any other disincentives they may have, make school attendance too difficult.

Many different approaches are being tried within California and throughout the country to deal with this problem. The evidence indicates that compared with other approaches the use of financial rewards and punishments is not very effective in inducing dropouts to return to school or in improving attendance among those who have not completely dropped out. Two states have recently implemented programs similar to the Initiative’s, Learnfare in Wisconsin and LEAP in Ohio. Preliminary studies of these programs — primarily Learnfare — find that: 1) Learnfare does not appear to improve school attendance; 2) Many teen parents have been sanctioned (had their grants reduced) under these programs; and 3) The programs are difficult to administer economically and fairly.

Wisconsin’s Learnfare program has been heavily evaluated. In January 1992, the University of Wisconsin’s Employment and Training Institute released results from a formal, multi-year evaluation of the Learnfare program.⁷⁸ They found an extremely mixed picture regarding attendance. While approximately one-third of the teens subject to Learnfare had improved their school attendance, more than half had actually attended less after one year of the program. Moreover, in statistical analyses using data from six school districts, researchers found that even the improvement in attendance could not actually be attributed to Learnfare. Another review of Wisconsin data, by the Center for Law and Social Policy (CLASP), found that the number of Learnfare teens who dropped out of school actually increased during a two-year period under the Learnfare program.⁷⁹

The failure of Learnfare to increase attendance is not the result of an absence of sanctions. During the first year of the program, between 5.2% and 10.6% of all Learnfare teens were sanctioned each month. Twenty percent of those sanctioned were sanctioned for dropping out of school, 50% for failing to comply with monthly attendance requirements, and the remaining students were sanctioned for other reasons (e.g. failure to verify status). Similar results were found in a preliminary review of LEAP. In four of five Ohio counties for which data were available, sanctions were requested for 20% of teen parents subject to LEAP. Roughly two-thirds of those sanctioned were sanctioned for their failure to be enrolled in school.

The research in Ohio and Wisconsin also makes it clear that implementing a sanction program is costly both in dollars and administrative time. The activities of state and county social services agencies, public schools, private schools and independent service agencies all must be coordinated. Establishing uniform procedures throughout the state has proven especially difficult, raising issues of fairness for Learnfare teens. Perhaps most importantly, the University of Wisconsin study found more than 16,000 errors in Learnfare records (including inaccurate ages, faulty attendance records, etc.). A state audit in Milwaukee County alone found improper reductions of welfare benefits for more than 1,100 families, reductions these families could ill afford. Developing procedures to carefully monitor school attendance will be quite costly for California’s school districts, which already have funding problems.

These programs regularly result in the imposition of financial penalties on teen parents, many of whom have already dropped out of school. Yet the penalties often do not generate the desired behavior. The net effect is to punish mothers and their children without achieving many positive outcomes. In light of the questionable value of these penalties, and the resulting

harm that can be done to children, it would seem that more positive approaches should be utilized. A major barrier for many teens is the absence of childcare and transportation. The Initiative makes no provision for childcare; the Governor's budget proposals do request additional funds. While this certainly is desirable, extra funds are already needed for the many teens who now want to return to school but lack childcare. Such expenditures need not turn on passage of the Initiative.

Given the educational difficulties confronting these teens, moreover, just getting them to school is not enough. Many need special programs to help them overcome academic deficiencies, and to become better parents. A number of California school districts have special programs that already have long waiting lists.⁸⁰ Other teen mothers receive special attention in GAIN programs. If the Initiative passes, its focus on financial rewards and penalties may supplant these more promising approaches.

In sum, the harms from the proposed approach seem to clearly outweigh any potential gains. There is little reason to believe that financial incentive will influence the behavior of many teens. The administrative costs may be substantial. Most importantly, the money spent trying to implement this approach could be utilized for programs that already have demonstrated their effectiveness.

Denial of Benefits for Additional Children

Under current law, the total grant amount is linked to family size. Upon the birth of another child, a family receiving support gets an additional \$97 to \$128 per month, depending upon the number of recipients already in the family. The Initiative would discontinue these increases for families in which the new child is conceived while the family is receiving AFDC.

We have not found data regarding the percentage of families receiving support that actually have additional children; the state has not previously gathered this information on a systematic basis. Some recent surveys in California and other states indicate that perhaps 20 to 30% of recipients who remain in the system longer than two years will give birth to another child.⁸¹

While opinions differ about whether it is irresponsible or inappropriate for poor families to have additional children, value judgments of this kind are not the focus of this report. From the perspective of children already in AFDC families, discouraging additional births might be beneficial in some ways. They would receive more parental attention; more importantly, the birth of another child lowers the probability that the parent will be able to earn a reasonable income. If the penalties for additional births served as a *total* deterrent the proposal might be

desirable, viewed solely from the perspective of children.

The critical question is how much of a deterrent a denial of benefits will be. If additional births still occur, all family members will be poorer. For this provision to be effective, the threat of lower benefits would have to induce a large number of women to cease having sexual relations or to use contraceptives or to have abortions.

During the early 1980's, a number of commentators argued that the availability of welfare benefits served as an inducement for poor women to have children. In order to test these claims, researchers began to examine the relationship between benefit levels and family size. As even the critics of the current welfare system recognized, these studies showed that the possibility of obtaining additional benefits did not motivate parents to have additional children.⁸² Fertility rates of recipients appear to be lower than those in the general population and, as previously pointed out, most families on welfare are small, with an average of less than two children.

Possibly, the absence of additional support will serve as a deterrent, even if grant increases do not create incentives. But the data do not seem to support this hypothesis. Throughout the country, the number of children in families receiving welfare is unrelated to benefit levels. In very low-benefit states, where the birth of an additional child leads to virtually no increase in benefits, recipients have as many children as those in higher-benefit states.⁸³

It seems extremely unlikely that passage of the proposal will cause recipients to stop all sexual activity. The provision applies to married couples, as well as single women. Conceivably contraceptive use will increase, although there is no evidence to this effect. Moreover, failure rates for the most reliable forms of contraceptives — the pill, condoms, and diaphragms — range from 6 to 16% a year. If the provision has any impact, it probably will be through pushing women into unwanted abortions.

We cannot reliably estimate the number of prevented births versus the number of families that will lose benefits as a result of this provision. Certainly some families will have additional children; the degree of deterrence is speculative. It is with this framework in mind that voters should weigh the likely impact of this provision on children.

Eliminating Benefits to Pregnant Women

The provision to eliminate AFDC grants to pregnant women has received little attention. This provision applies only to first-time mothers, since pregnant recipients already receiving support are not currently eligible for increased benefits until the child is born, except for a \$70 per month supplement during

the pregnancy, which also is eliminated by the Initiative. Approximately 14,000 women without children receive benefits under this provision at any point in time; a greater number receive benefits during the course of a year.

The underlying assumption behind this proposal appears to be that most pregnant women who receive benefits are in the labor force when they become pregnant and that the availability of benefits encourages them to stop working. If these benefits are eliminated, the Governor's budget proposals estimate savings of \$38 million in state funds. Unfortunately, there are no data available that would enable us to assess the probable impact of the proposal and the likelihood that it will achieve its stated goals. It is not known how many current recipients were in fact working prior to applying for benefits, how much they were earning and in what type of jobs, or why they left work, if they did. Their need for this support therefore cannot be determined.

There are some possible consequences that should be of concern, however, although their magnitude cannot yet be determined. First, as pointed out by the Legislative Analyst, many of these women could apply for General Assistance (GA). This basically transfers responsibility from the state to the counties, although there will be modest savings because GA grants are lower than AFDC grants. More importantly, from the perspective of children, pregnant women may fail to take advantage of other programs, such as Medi-Cal or the federal Women, Infant and Children program (WIC), which provides food to pregnant women. Some mothers may be made aware of these programs by AFDC workers.

As we discuss later, if mothers fail to get medical care, to eat nutritiously, and to avoid behaviors that can damage a fetus, the harm to children from this proposal could be very substantial indeed. And the public would be hurt as well, since lack of medical care etc. is highly correlated with having a low-birth weight infant. Medical care for such infants can cost as much as \$100,000 per child. Such costs could turn out to be an unintended consequence of the Initiative.

Residency Requirements

According to polls, one of the most popular provisions of the Initiative is the restriction on the amount of benefits available to new applicants who have not lived in California for 12 months. Such applicants will receive only the amount they could have received in the state where they last resided, but no more than the maximum California benefit. For those coming from Texas, for example, the maximum benefit would be \$184.

The proposal is based on the assumption that some

people from other states move to California because of California's comparatively high cash grants. Presumably, these families either were receiving AFDC in another state and wanted higher benefits or were willing to quit a job and seek better work here, realizing that if they did not find work they always could apply for AFDC.

The California Department of Social Services estimates that 7% of those who received benefits last year lived in another state within the previous 12 months.⁸⁴ Estimating how many of them fall into either of the categories just mentioned is not possible. It seems likely that at least some portion of new recipients from out-of-state came to California to take a job, to find a job, or to join relatives without any thought that they might have to apply for welfare.

The question of whether welfare benefit levels serve to attract potential recipients to a state has been the subject of a fair amount of research during the past 10 years. Because there are enormously difficult barriers to studying the question in a methodologically adequate way, debate continues. The general conclusion from this research, however, is that benefit levels appear to have little, if any, impact on decisions to move from state to state, although two experts take a somewhat different view, claiming that benefit levels have a small but consequential impact.⁸⁵

All of these studies find that families move for a variety of reasons. The minor importance of benefit levels is evidenced, in part, by the fact that large numbers of people move from high-benefit to low-benefit states and then end up needing to apply for AFDC. In fact, a recent study in the state of Washington found that 20% of new recipients from out of state had come to Washington from California.⁸⁶ In addition, when studies have asked new recipients why they moved to a state, the most common answer was to be near family. This is hardly surprising; a poor family is unlikely to move a great distance without the support system provided by family or a job.

While politicians and researchers seem to be solely concerned with the question of whether high-benefit states are welfare "magnets," looking at the issue from the perspective of children raises a different question. For children, the relevant inquiry is not how many people are attracted to California because of high benefits, but how many will *not be deterred* from moving to California even though they may receive very small grants.

To the extent that families are deterred from moving here, this provision will have no impact on California children, although some non-California children — for example, those whose parents forego the opportunity to move to California to seek better jobs or to join extended family — may be harmed. On

the other hand, to the extent families continue to move to California and end up having to apply for AFDC, the impact on children could be extremely negative. All of the research indicates that there will be little reduction in the number of new applicants from other states. Those families who cannot find work will either have to live on very low incomes here or move to other states. As we shall see shortly, either alternative would be bad for children.

Summary

From the previous discussion it is apparent that little reform of the welfare system can be expected as a result of the Initiative's proposals. The evidence from all prior research demonstrates that the goals of reducing entry into the system, ending long-term reliance on support, preventing births to teens, and improving the prospects of teen mothers cannot be achieved through policies that rely exclusively on economic penalties and rewards. Rather than reducing the number of children and parents living in poverty, the Initiative will push many families into deeper poverty.

The review of the circumstances that cause parents and children to rely on AFDC tells why this is so. The families that must rely on AFDC have no other options. This is especially true with respect to long-term recipients. The great majority of parents lack the education, job skills, or language ability that would enable them to earn enough to provide basic support to their children; in hard economic times many cannot find any employment. Single mothers, who comprise

more than three-quarters of the adult recipients, face the additional barrier of needing care for their children in order to work. This care must be affordable, accessible, and of sufficient quality to protect and promote children's well-being. At least for mothers of very young children, and there are approximately 200,000 mothers with children less than a year old currently receiving support, adequate care is not available.

Most of these parents cannot change their situation in response to financial penalties or even rewards. They need help in acquiring job skills and provision for their children's care. Among single mothers, the half who become single parents as a result of divorce, separation, or death of a spouse often need time to adjust to their new economic and personal situation.

Finally, the data from the programs in Wisconsin and Ohio aimed at teen mothers indicate that financial penalties and rewards, at least at the levels being proposed, are not sufficient to make school a viable or attractive option. The decisions of young women, including those in their early 20's, with regard to childbearing, school and work obviously are influenced by a complex set of factors. Reform efforts that seek to change these behaviors must be based on an understanding of these factors and be tailored to respond to them in ways meaningful to these women.

Because recipients will receive less support the Initiative will have the effect of reducing the budget, at least in the short-run. Since the majority of recipients will be unable to replace the lost income, many children will be poorer. We turn next to examining the likely effects on children.

We now turn to our major concern, the effects of the proposal in its entirety on the well-being of children. In order to understand the potential effects, it is necessary to understand the aspects of a child's environment critical to successful development. With those in mind, we can then examine how these aspects of children's environments are likely to be altered by the Initiative.

Among child development experts there is a considerable degree of consensus regarding the basic elements needed to insure children's well-being. These elements were identified by the National Commission on Children:

The essential ingredients for developing competence and character cut across culture, nationality, and class. All children need loving parents who provide safe, secure homes and encourage their development. They must be fed, sheltered and protected from harm. Their basic health and nutritional needs must be met, as must their mothers during pregnancy. Very early, children must learn to trust others. They must possess a secure and positive sense of their own identity and their place in the world....⁸⁷

The Commission identified two factors as especially critical to whether a child receives these ingredients — the quality of care provided by parents and by the child's other caretakers, and family income. Moreover, they recognized that the two factors are interrelated, since inadequate income often significantly diminishes the quality of care a parent can and does provide.

Inadequate income alters a parent's ability to provide adequate care in a variety of ways. To begin with, there are direct consequences of having too little money. Parents with very low income often cannot provide children with sufficient nutrition; they may be forced to live in unsafe or overcrowded housing; even with Medi-Cal they may not have access to regular medical care; and those who are working often must rely on poor childcare.

Secondly, living in poverty influences a parent's ability to provide the support, monitoring, and stimulation children need. This is especially true for single parents without support systems. It is extraordinarily difficult to manage all of the tasks a single parent must perform; these problems can become overwhelming in the face of very limited income, poor housing, dangerous neighborhoods, and a parent's personal problems. So great is this stress that approximately 30% of AFDC mothers suffer from depression.⁸⁸

In addition, poor children often are served by inferior-quality institutions. For example, they generally attend schools that have fewer resources than schools of non-poor children and their teachers often start with low expectations that students will be academically successful.⁸⁹ They live in dangerous neighborhoods that increasingly lack libraries, responsible role models and community-based organized activities.⁹⁰ Protecting children from these environmental dangers requires heroic efforts on the part of parents; poor parents must do more than other parents just to protect their children from harm. In the face of the stresses of poverty, many poor parents are not able to make such efforts.

The cumulative impact of all these factors severely compromises a poor child's opportunities for normal development. They help account for the fact that children living in poverty experience considerably higher rates of infant mortality, accidents and injuries, academic delays and school failures, and emotional problems. Any estimates of the effects of the Initiative must start with the recognition that the children who will be most affected already are being harmed by living in poverty.

The Reductions in Benefits

A very large percentage of families will receive less financial support as a result of the Initiative. The effect of the Initiative will depend, in part, on how parents respond to this income loss. As the previous discussion shows, there will be a group of children whose parent(s) will be able to replace the lost income through work, but who will remain poor and on welfare, even with part or full-time work. There also will be some families who will be induced to work by the incentives or penalties and who will be able to raise their income above the poverty level. Finally, there will be families unable to replace some or all of the lost income. Although there is no way of knowing precisely what percentage of children will fall into each of the groups, this last group will be the largest.

Our task then is to analyze, from a child's perspective, the probable impacts on each of these groups of children. Obviously, there is concern about the children of those families that fall deeper into poverty. However, in order to fully evaluate the Initiative, the situations where parents are induced to increase their work efforts also must be considered. It is possible that some of these children will benefit, either because family income is increased or just by the fact that the parent is working rather than relying on welfare. On the other hand, in order to work, most single parents

must find childcare. The impact of the parents' work on their children is more likely to be determined by the quality of care these children receive while their parent is working, than on any increase in income. The effects of work conditions on the parents' emotional status also will have an impact on their children.

The Impact on Children Whose Parents Do Not Replace the Lost Income

We begin by examining the likely impacts on those children whose parents are unable to replace the lost income — those parents who cannot or do not find employment and those who will not net enough to replace the lost income, even though they are working. For some children, the reduction will be relatively short term, from a few months to a year. Others will be poor for several years. However, perhaps as many as 20% of those children currently receiving support will live further in poverty for many years.

As a result of the income loss, parents will have to cut back on the quality of food, housing, or other goods necessary to their children's welfare. Some will be forced to move to more dangerous housing or neighborhoods. They will be under more stress, which will lower the care they can provide.

To what degree will these changes worsen the condition of poor children? As just indicated, studies of children show that poor children fare worse than non-poor children, in terms of academic performance, school completion, emotional health, and some aspects of physical health.⁹¹ Knowing that poor children do worse than non-poor children does not reveal the impact of the Initiative, however. All of the families on AFDC *already* are poor. Their children already are suffering from the consequences of poverty. The issue is how much worse off they will be as a result of being even poorer. In addition, some of the deficits manifested by poor children may not be the direct result of poverty. Poor parents often differ from non-poor parents in some important respects; for example, they generally have less education and more often began parenthood as teenagers. We need to know how much income, in and of itself, matters. Finally, it would be helpful to know whether there are differences in the development between poor children in families receiving AFDC and in poor families with a parent working, since it often is claimed that, even if it is bad to be poor, it is worse to be poor in a family receiving welfare.

There are a limited number of studies that directly address these issues; we rely primarily on these studies. In particular, there is a very recent and comprehensive study of children's well-being conducted by researchers at Child Trends, one of the country's leading research groups on children's well-being. The study, which we

refer to by the name of its principal author, Nicholas Zill, compared three groups of children — poor children in AFDC families, poor children in non-welfare families, and non-poor children. The study also examined the effect of poverty itself, separating out by statistical means differences that might be accounted for by other factors, such as AFDC receipt, parental education or family structure. Because it is the most comprehensive examination of these issues, we present its findings in some detail.

Physical Health. Fortunately, due to the availability of Medi-Cal and other public-health services, the general physical health of most poor children is reasonably good. But they still are considerably more likely than non-poor children to suffer from serious medical conditions. If the Initiative passes, this situation will worsen.

First, the reduction in benefits is likely to affect the medical care received by children, particularly with respect to dental care. Perhaps because dental coverage under Medicaid and Medi-Cal has a low reimbursement level and does not encourage preventative care, AFDC children already receive less dental care than non-poor children.⁹² In addition, if parents are forced to move frequently, their ties to their current medical providers will be disrupted, making it more likely that they will rely primarily on emergency care rather than on preventive check-ups.

The health of children will be at further risk because, as already mentioned, many parents will be forced to reduce food purchases as a result of lower income. Inadequate nutrition and hunger, already prevalent among poor children, cause dizziness, fatigue, headaches, ear infections and other persistent medical problems. Those would only be likely to become more common under the Initiative.

One of the worst threats to children's health will come from the fact that cuts in income will force families to find cheaper housing, which generally means lower-quality housing in less desirable living areas. This will increase the number of children harmed by lead poisoning and accidental injuries. For children younger than five years old, the child's blood lead concentration increases as his or her poverty level increases.⁹³ Even low levels of lead poisoning harm a child's central nervous system, impairing mental and physical development.

As mentioned earlier, many low-income families already live in housing containing safety hazards. Their surrounding environment is also more hazardous. Zill found that, on average, for children ages three to five years, 17% of the play environments of AFDC children appeared unsafe compared with 7% of those of non-poor children.⁹⁴ Injuries cause almost half the deaths of children one to four years of age and more than half

the deaths of those five to 14. Studies have found that poor children are five times as likely to die as a result of fire than non-poor children. Both deaths and injuries will increase if families become poorer.

At the extreme, the cuts will push some families into homelessness, which clearly impairs children's physical, mental and educational health.⁹⁵ While precise estimates cannot be made, a study by the Santa Clara County Department of Social Services found that 3000 current AFDC families in that county will have their grants reduced to an amount below what they now pay for rent.⁹⁶ While some of these families may increase their work income, find cheaper housing or both, it seems certain that some will wind up homeless.

As noted earlier, the elimination of AFDC support to pregnant women from the time of conception could have extremely detrimental effects on the children born to these women, if the lack of support results in pregnant women obtaining less medical care or causes them to eat less nutritiously or denies them the support they need to refrain from behaviors that might harm the fetus, such as drug use. Stress, inadequate medical care, poor nutrition and health behavior all increase the likelihood of having a low-birth-weight baby or of injury to the fetus. Low-birth-weight babies in low-income families are more likely to die, to have frequent illnesses, to suffer developmental delays and to have cognitive deficits, leading to academic problems. The lack of medical care may be particularly detrimental for pregnant teenagers, who often do not get medical care and have a high proportion of problem pregnancies and births.

Unfortunately, poor children suffer health hazards from their family environments as well as their physical environments. Parents under substantial stress are less attentive caretakers, contributing to the high rate of accidental injuries. In addition, although the majority of poor children are free from abuse and neglect, children from poor families are subject to significantly more maltreatment than children from non-poor families. In general, the rates of physical and sexual abuse and serious neglect are from four to six times greater in families below the poverty line.⁹⁷ Moreover, some studies find that the deeper the poverty the higher the rate of abuse.⁹⁸ Particularly in those families that undergo the 25% income cut, we can expect an increase in abuse and neglect.

On the positive side, the provision requiring teenage mothers to continue living with relatives also might lead to improved health-care for new babies. The harms associated with the reduction would far outweigh any benefits. While poverty does not always pose a health hazard for children, the risk of a poor child's being unhealthy significantly exceeds the risk

for a non-poor child. This is true despite the fact that poor children whose families receive AFDC have better access to health care than do other poor children. Given these children's current exposure to inadequate nutrition and care, low-quality housing and violent neighborhoods, any increased deprivation would make that care even more inadequate and widen the existing health gap between poor and non-poor children.

Academic Performance. The relationship between family income and academic performance and school attainment is one of the most highly researched issues in studies of poverty. A substantial body of evidence shows that lower income significantly decreases a child's probability of achieving educational success, regardless of other characteristics in her or his family. The evidence further demonstrates that the lower the family income, the greater the likelihood that a child will fall behind in school. The basic picture is reflected in Zill's findings. He found that 26% of AFDC children have repeated a grade, compared with 17% of non-poor children, and that among children four to seven years of age, 52% of AFDC children scored below the 30th percentile on a national vocabulary test compared with 30% of non-poor children. These differences were not the result of differences in parental education, family structure, ethnicity or geographical location.

Two other studies show that the degree of poverty seems to matter.⁹⁹ A national study conducted for the U.S. Department of Education found that the chance of a child falling behind in school decreases by 4% for every \$1,000 of additional family income. The second study found that higher AFDC benefits were associated with small increases in years of schooling completed.

Why does income matter? There are a number of possible explanations. First, as mentioned above, poor children suffer more headaches, dental problems, ear infections and other conditions that cause them to miss school or to function badly in school.

School performance is also influenced by continuity of involvement. Poor children may experience academic difficulties because they change schools more frequently. To the degree that families have to move more frequently to obtain affordable housing children will lose continuity. When families move into crowded living situations, perhaps doubling up with friends or relatives, children will be deprived of space to study and do homework; in fact, such living conditions may make it impossible for some children to focus on school.

Increased poverty is likely to affect some parents' ability to help or encourage their children's academic development. Zill found that young poor children are less likely to be read to by their parents and own fewer books. They are more likely than non-poor children to

live in homes where the television is kept on seven or more hours per day. While these differences may in part reflect educational or intellectual differences between poor and middle-class parents, there also is reason to believe that, in some poor households, the parent is too stressed to read to her or his children.

For example, in the year following a divorce, many mothers dramatically decrease the time they spend reading and talking with their young children.¹⁰⁰ The stress of the divorce and the accompanying depression, in part caused by substantial declines in income following a divorce, deplete many mothers' energy. Since many mothers turn to AFDC for support in the wake of a divorce, it seems likely that the cuts will further interfere with their ability to remain responsive to their children.

Finally, as we will see in more detail, poor children have more behavioral problems, including aggressive acting-out and hyperactivity. These behavioral problems are inextricably linked to academic problems. Zill found that poor children ages seven to 17 are twice as likely as non-poor children to have been suspended or expelled. Fourteen percent of AFDC children have been suspended or expelled, compared with 7% of non-poor children.

As far as academic performance is concerned, the greatest impact of the cuts will be on the children of longer-term recipients. Not only does long-term welfare receipt expose the child to the negative conditions longer, but most studies also find that school problems are cumulative. Zill found that the longer that families have been on AFDC the more likely children are to score below the 30th percentile on national vocabulary exams: 69% in families that received AFDC in more than three of the previous five years, 50% in those that received AFDC for three years or less in the previous five years, 39% in poor families with no AFDC history and 29% in families that were not poor and had no AFDC history.

There are several ways that the Initiative might lead to improved school performance for some children. If more teen mothers participate in special school programs that focus on parenting, as well as academics, this should help their children. Similarly, if more teens graduate high school and thereby increase their long-term economic prospects, the increased income will benefit their children's education. It is possible that if the additional child provision discourages some births the school performance of other children in these families will be enhanced, since presumably they would benefit from more parental time and more available resources. These gains would be offset, of course, by the harm to children in families where the mother does have another child.

Emotional Development. As just pointed out, poor children tend to have more emotional and behavioral problems than other children, although the differences may not be substantial. Zill found that 25% of AFDC children were reported to have developmental problems, compared with 19% of non-poor children, and that on a standardized behavioral test for children ages four to seven years, poor children were almost twice as likely as non-poor children to score above the 90th percentile in severity of behavioral problems. (36 versus 19%).

For all the same reasons that the proposed cuts threaten children's physical health and academic performance, they also are likely to worsen the problems of children already evidencing behavioral problems, as well as to increase the number of children with these problems.

With regard to all the harms identified above, the children of long-term recipients will be most seriously affected, since their parents are least able to replace the lost income and the impact of living in poverty is greatest for those who are poor the longest. During childhood deficits tend to be cumulative. Moreover, these may be the parents least able to help their children initially. Less obvious, perhaps, is the potential impact of the Initiative on children of parents who move to California in hopes of finding a job or reuniting with relatives, but who end up needing to apply for welfare. Many of these families will be entitled to extremely small amounts: A family from Texas, for example, would get \$184 a month. While some of these families may leave California as a result, others will inevitably become homeless, be forced to move in with friends or relatives or attempt to survive on extremely minimal income, either from work or welfare. As discussed above, all of these responses entail threats to children's development.

The Impact on Children Whose Parents Work to Replace the Lost Support

While the percentage of parents who will be able to replace the lost support through increased work is debatable, this certainly will occur in some cases. In fact, a substantial proportion of recipients will increase their hours of work regardless of whether or not the Initiative passes; this is one of the main routes off welfare. Still, some parents who might not otherwise have done so will seek work as a direct result of the Initiative. Included in this group will be mothers who believe that their children are too young to be left in childcare or who feel that the available childcare is inadequate.

The impact on children of the additional work by parents will depend primarily on three factors: the quality of care that children receive while their parents

are working; the effect working has on parents functioning when they are with their children; and whether entering the workforce leads to a significant increase in the families long-term economic status. Assessing the impact of the Initiative on children, therefore, requires examining three issues:

1. Is it good for children to force mothers of infants and very young children to place their children into childcare?
2. What will be the quality of childcare most children receive? Will some children be left without care?
3. Will some children benefit as a result of their parents entering the labor force?

Since the answers to these questions may depend on the age of the child, we examine separately the likely effects on children under and over two years of age.

Requiring Work From Mothers Of Children Under Two. Proposition 165 is unique among welfare reform proposals because it does not exclude mothers of very young children from the work requirement. Reforms in other states, federal laws, and the GAIN program all exempt mothers of children under three from work mandates. (The 1988 federal Family Support Act does allow states to require work of recipients with children over 1 year old.) In contrast, if the Initiative passes the mother of a newborn would have to begin work immediately to compensate for the initial cut. She could wait only until the child was six months old to avoid the larger reduction. Currently, more than 200,000 children younger than one (nearly 20%) receive AFDC support; another 15% are two or three. These provisions consequently will affect large numbers of children.

The proposal is a 180-degree move from the original purpose of AFDC, which was to allow mothers to remain at home with their young children. A policy that effectively requires work when children are younger than two, and especially younger than one, is certainly questionable. Although an increasing percentage of non-AFDC mothers of very young children now work at least part-time, most experts — and most parents — believe it is highly desirable for a child to receive full-time parental care in the first year of life. At a minimum, parents should be given this option. This is the rationale for the widespread support for adopting a parental leave policy; all other industrialized countries have adopted such leaves.

The first year of life is a critical period for parent-child bonding. It is now widely accepted that, in the absence of sound bonding, children are at much greater risk for emotional, academic, and social problems. As the National Commission on Children reports:

In the first few months of life, infants begin to develop strong attachments to important caregivers, particularly their parents. These attachments ...provide children a fundamental sense of internal security.... Secure attachments do not develop instantaneously. They require the consistent availability of one or more adults who are affectionate and responsive to a child's physical and emotional needs. In the absence of strong attachments, many of these children will experience later intellectual deficiencies, social problems, and emotional difficulties.¹⁰¹

Many child-development experts believe that, ideally, all children would have a parent available full-time during their first year, since this is the surest way of providing consistent care and emotional involvement. "Loving attachments develop gradually out of the many moments of engagement that occur between infant and parent during daily feeding, bathing, diapering, and playing. Learning to synchronize interactions also takes time spent together."¹⁰² Enabling low-income parents to care for their very young children may be especially desirable. The amount of stress suffered by a parent is one of the main predictors of poor attachment. For AFDC mothers to be forced to cope with job problems and the need to find childcare, in addition to the stress caused by low income and the difficulties they may have in getting medical care, certainly makes bonding more difficult for these mothers. If the child has physical problems or was born low-birth-weight, conditions far more prevalent among poor children, extra attention is needed. Moreover, through breast feeding poor mothers can help ensure adequate nutrition, facilitate bonding and save money. Breast-feeding is more difficult for working mothers.

Of course, not all parents of newborns can or choose to provide full-time care. Under the right conditions, children can do well with alternative childcare. But, especially for infants and very young children, this care must be of the highest quality; it requires no more than one adult for three children in order to provide attention, physical contact and responsiveness. And the caretakers must be highly committed and well-trained. Exposing children to multiple caretakers is especially undesirable.¹⁰³

Few low-income mothers will be able to find childcare that meets these well-recognized standards. High quality infant care can cost as much as \$10,000 a year per child, far beyond the means of poor families. Even less-than-high-quality care is expensive. AFDC families will need subsidies to obtain quality care. There is not enough subsidized care for all the low-income families that now request it. A recent study by the California Department of Education found that there are twice as many AFDC recipients participating

in the GAIN program desiring placement of their infants in subsidized care as there are slots.¹⁰⁴ If the Initiative passes that demand will certainly increase. Childcare also will have to be provided for the children of teenagers who attend school; the Initiative makes no provision for these needs.

Many parents will turn to relatives and neighbors to fill in. This care will range from good to inadequate; there is substantial reason for concern that relative care will not provide the majority of infants or toddlers with the types of continuous and intimate interactions they require. In the course of their first year of life, many infants will be exposed to multiple caretakers, the worst possible situation. It must be recognized that parents will need to find more than just a few hours of care a week. Just to replace the income lost after 6 months, recipients paying \$2 an hour for childcare will need to work at least 20 hours a week, assuming that they earn around \$5 per hour, the average earnings of recipients now working.¹⁰⁵ The children will be in care longer than the 20 hours, since the mothers must get to and from work. It is not possible that adequate care by a single caretaker can be provided to the more than 200,000 infants affected by the cuts.

There also is reason for concern that working will impair, not improve, the quality of attention that single mothers of very young children can provide to their children. Infants need a great deal of attention from their parents. With the added stress of work, often under poor working conditions, many mothers simply will not be able to provide this type of attention to their newborns. Attention to older children in the family also will decline. Childcare problems may negatively affect the mothers job performance, as well. While there is evidence that the emotional well-being of mothers sometimes is enhanced by work, the research indicates this is true for mothers of older children who like their work and believe that their children are receiving good care.¹⁰⁶

Finally, there may well be other unintended consequences of the proposals. California now provides higher childcare subsidies for recipients participating in GAIN education and training programs than for working recipients. As discussed earlier, the Initiative would push parents out of such programs and into low-paying jobs. AFDC recipients may actually lose benefits. It also is possible that if more slots are made available, places will be denied to the children of low-income workers who do not receive AFDC, but are now eligible for subsidized care. The overall impact on childcare rates created by the increased demand also needs consideration.

Child Older Than Two. In contrast to infant care, most experts believe that, in general, children aged two to five are not harmed, and often are benefited if they

spend time in good childcare. In any case, if, as a result of the Initiative, more parents require childcare, their children will find themselves in no worse a situation than the millions of children whose working parents currently place them in various forms of childcare.

The key issue is whether mothers forced to go to work can find good quality care. In the study by the California Department of Education, discussed above, the lack of available care was not limited to families with very young children; most of the GAIN families had children older than three, and 60% of the children on waiting lists were school-aged. Moreover, there were nearly 200,000 non-welfare children on the waiting lists, many with priority status.

Recent studies indicate that many employed AFDC recipients are dissatisfied with their child care arrangements.¹⁰⁷ The majority of recipients rely on relatives and do so to a greater degree than other working parents. While some do so by preference, many rely on relatives for reasons of cost or because they cannot find group care at the times they work, before 6:00 a.m., after 6:00 p.m. and on weekends. One recent survey of AFDC mothers in Boston, Charlotte, and Denver found that more than two-thirds of the recipients relying on relatives would have preferred some other type of care.¹⁰⁸ The unreliability of relatives, with respect to both availability and quality of care, is a frequently expressed problem.

There is good reason, therefore, for concern that even older children will not necessarily receive adequate care. Just recently, the Panel on Child Care Policy of the National Academy of Sciences concluded that:

Poor quality care ... threatens children's development, especially children from poor and minority families.... Arranging quality child care can be difficult, stressful, and time consuming for all families. However, the problems are inevitably compounded for low-income families who lack time, information, and economic resources. For these families, the choices are often more limited, and the consequences of inadequate care are likely to be more severe.¹⁰⁹

If children receive adequate care, the picture would be quite different, at least with respect to children 3 and older. Children may benefit just from the fact that the parent is working; if the parent is able to increase family income there would be further benefit. Working often raises mothers' self-esteem and broadens their social networks, both of which may enhance their parenting abilities.¹¹⁰ Furthermore, if moving into the workforce becomes the first step in a process ultimately leading to substantial increases in income, this would clearly benefit children, as long as

they receive reasonable quality childcare. The potential positive effects on children may depend upon the quality of the parents job, however. If the job is deeming or overly stressful, this could impair the care they provide to their children.

Working Parents Versus Non-working Parents. One final question is whether children will be better-off solely because their parents have entered the workforce, even if the family remains poor? This question is illuminated by Zill's research. His findings indicate that in almost all aspects of development children of poor working parents are as damaged by living in poverty as children whose parents rely on AFDC. These findings indicate that the risks from poor childcare are not balanced by any advantages that might come from having a "working poor" parent.

Although living in a "working poor" family may not help children in the short-run, perhaps this will redound to their long-term benefit. A primary concern of the Initiative's proponents is the fact that some children who grow up in families that receive AFDC become recipients themselves as adults (or as teen mothers). The Initiative specifically mentions the problem of "intergenerational dependency."

Clearly, it would be desirable to protect children from factors that increase the likelihood that they will need to rely on AFDC as adults. Research indicates that approximately one-third of all children who live families that receive AFDC become recipients themselves, although two-thirds do not.¹¹¹ This research also finds that the length of time parents receive AFDC support does not affect the likelihood that their children will ever require support, although it is related to the length of time they may need support.

The fact that in some families several generations receive support does not mean, however, that the parent's reliance on AFDC caused the child's later AFDC use. Other factors, most notably the fact that families receiving AFDC are poor, may account for the child's future use of AFDC. Before "blaming" AFDC use, it is necessary to know whether children from poor families that receive AFDC are more likely to require AFDC as adults than children from poor families that do not receive AFDC.

This question has been studied by a number of researchers.¹¹² To simplify a complicated matter, the studies indicate that children who live in poor families are far more likely to receive AFDC as adults than children who never experience poverty. Among those children who do experience poverty, however, welfare receipt itself does not substantially increase the chances that a child will end up requiring support. Poverty, not AFDC receipt, largely accounts for "intergenerational dependency." These findings indicate that policies to help all families avoid poverty,

and programs that enable poor parents to earn more than poverty wages, will reduce the proportion of children needing support in the future. In contrast, just moving parents into the working poor will have, at most, only a very small effect on their children's future welfare use.

Children of Teen Mothers

Although the proposals affecting teenage mothers are designed primarily to discourage births to teens, and to minimize the chances that teens who do have children will become dependent on welfare for long periods of time, both the co-residency and schooling provisions could affect the children of teenage mothers.

It is not possible to estimate the overall impact of the co-residence requirement. Although many researchers have documented the disadvantages faced by children born to teen mothers, few have examined whether the teen mother's place of residence has an impact on her children. Those who have reached different conclusions.¹¹³ A 1982 study of 60 teen mothers found that those who lived with their parents were likely to be less restrictive and punitive in their parenting than teen mothers who established their own households and a mid-1970s study of first-grade children found that those living in mother-alone households were at greater risk for social maladaptation than those who lived in mother-grandmother families. In contrast, one recent study found that co-residence was related to lower-quality mothering and grandmothering and a second recent study of single mothers, many of them adolescents, found that mothers living alone exhibited more emotional and verbal responsiveness and greater involvement with their infants than mothers who remained in the parental home. At this point, it appears that the co-residence requirement will have both positive and negative implications for children that may cancel each other out.

Many more teen mothers will be affected by the Cal-Learn provisions than by the co-residency requirement. Unfortunately, no studies have been found that compare the parenting skills and home environments of teen mothers who have dropped out of school with those who remain in school. Nor have there been studies comparing the development of children of these two groups. From other research not involving teen parents that examines the relationship between parental education and children's development, one would expect that additional parental education would lead to better parenting. Some schools also provide special classes for pregnant students and for teen-age mothers. These classes may lead mothers to get better care during the pregnancy, thus improving chances that children will be born healthy; they may also help students become better parents. To the extent the

Initiative facilitates attendance in such classes, both the mothers and their children are likely to benefit.

There is another side to the picture, however. For a young mother, school is one more task to cope with. Especially if she is not a good student, the added pressure may impinge on her psychological readiness to focus on her child's needs.¹¹⁴ It may be very hard for these mothers to attend school every day; yet, if they do not, they will lose critical income. And if the mother does not have adequate childcare, the requirement of school attendance may result in an extremely bad environment for the child.

In light of the fact that the majority of teen mothers already attend school, it is uncertain whether the potential benefits to children outweigh the potential harms that could result from forcing teen mothers into bad living situations, unwelcome school environments or greater poverty. As noted earlier, other approaches probably would be far more effective, albeit more expensive in the short-run.

Children in Families from Other States

As we have shown, even if the Initiative passes many families still will move to California and wind-up having no job and income. These families will face three choices. They can move elsewhere in hopes of finding a job; they can move in with family or friends, if any are available, and depend on them for support; or they can apply for AFDC, receiving the amount they would have received in their previous state of residence. Whatever the choice, the well-being of many children will suffer.

If parents remain in California and need AFDC support, the families will be extremely poor. Many will be forced to live in cars or vans or the worst quality housing. Some families will become homeless, some children may be placed into foster care, voluntarily or involuntarily. Others will move in with family or friends under highly crowded conditions. There is no way to determine how many children will experience these various outcomes; as many as 50,000 children are potentially affected. Their situation must be included in any calculations.

Summary

The approach taken in the Initiative will harm children in three ways. First, many children will live deeper in poverty, since it is certain that a substantial proportion of the families will not be able to replace the lost income. This will impair children's physical health, academic performance, and emotional well-being. The loss of family income will affect children directly by depriving them of access to needed services. Even more importantly, the quality of parental care will decline, due to the added stress on parents.

Second, because the Initiative fails to assure that adequate childcare will be made available to working parents, many children will be left in inadequate homes or daycare centers. As the National Academy of Sciences has pointed out, low quality childcare poses a major threat to the health and development of the nation's children. Finally, applying the cuts to mothers of children under a year of age creates especially great risks for these children. If these mothers are forced to work parent-child bonding may be impaired; in any case most of these children will receive inadequate childcare. This picture may sound overly bleak, but the data detailing the developmental deficits among poor children allow for little optimism.

In assessing the overall consequences of the proposals, it must be considered that these children already face numerous obstacles to normal development. First, the children currently live in poverty, with its attendant consequences; negative events have their greatest impact on those already vulnerable. Second, almost half of the children are five and under, 200,00 are under 1; young children are the most vulnerable to inadequate care by their parents or by other caregivers. Third, the vast majority of these children live with a single parent, who often is quite young as well; without the back-up of another parent or adult, many single parents have a difficult time meeting all of their children's needs, especially when the parent is under stress. Fourth, many of the families enter the welfare system following a divorce or separation, an event which itself jeopardizes children's well-being, at least for a period of time. Finally, many of the families live in neighborhoods that lack the kinds of services — such as high quality childcare and medical services — that can enable parents to help their children cope with all these other problems. Research on child development has shown that, in general, it is the cumulative impact of several factors, not the existence of any particular problem, that causes developmental delays and harmful behaviors among children. And when multiple adverse conditions are present, the harms children experience increase exponentially.

These are not inevitable consequences of all welfare reforms. In fact, if older children were provided with good childcare and teen parents were assured places in high quality school programs designed to meet their special needs, a policy that encouraged and helped parents find jobs and brought teen mothers back to school would benefit both children and parents. The ends of the Initiative are good for children, it is the means that are deficient.

In numerous speeches and in the ballot arguments, Governor Wilson has expressed the view that the money now spent on AFDC would be better spent on other children's services, such as education. One interpretation of this statement is that the proponents of the Initiative believe that the money now being spent on AFDC cash grants would be better spent on other services for poor children, such as Head Start. This raises two empirical issues: (1) Do poor children benefit more from direct services than from income support? and (2) Can the impact of the grant reductions be neutralized by providing poor children with other services, including better access to medical care, preschool, and special educational programs? The answer to both these questions is no.

We note, to begin with, that poor children clearly need and benefit from the types of services the Governor supports. As a supplement to an adequate income program they are invaluable. They accomplish things that income alone cannot guarantee. However, while these programs are a critical supplement to income support, they are not a substitute. Programs like Head

Start, Healthy Start, and school reform work best when parents are heavily involved in the program. For many children, none of these programs are effective if their parents are functioning badly. This has been well-documented in studies of Head Start and school reform efforts.¹¹⁵

Since placing parents under enormous financial strains generates inadequate parenting and prevents parental involvement in activities with their children, the cuts will undermine the effectiveness of other programs. It therefore would be a mistake to treat this as an either or choice. It makes little sense to spend more money on services to poor children while at the same time undercutting the effectiveness of these services. As the National Commission on Children stated: "If our society is committed to supporting families as the basic institution for rearing children, and if all children are to have an opportunity to develop to their full potential, then it is necessary for families to be more economically secure."¹¹⁶

The analysis in this report focuses on the likely impacts of the specific provisions in the Initiative. Our review indicates that these provisions will accomplish little welfare "reform", yet they will result in substantial harm to children. As noted throughout the report, however, the goals of the Initiative' proponents command widespread support, among recipients as well as within the general public and those who have studied the welfare system. While the approach adopted in the Initiative will harm children, this does not mean that welfare reform is impossible.

There are many alternatives approaches to welfare reform, proposed by groups and individuals whose views span the entire political spectrum. Some envision changes much more extensive than those found in the Initiative; the California Legislative Analyst also has suggested less extensive legislative changes that could increase work incentives without reducing benefits.¹¹⁷ All of these proposals recognize that whatever approach is taken avoiding harm to children must be a central goal. While a full description of these proposals is beyond the scope of this report, the core of virtually all other suggested programs is a system that combines job training, high quality childcare, and some means of ensuring that parents who work earn enough from that work to support their families at an adequate level. The proposals also focus on the need to hold fathers responsible for child support.

In fact, California already has a program that incorporates many of these features, the GAIN program. As noted earlier, California was the first state to establish a mandatory work-job training program for AFDC recipients. In order to help recipients become truly self-sufficient the GAIN legislation requires state and local welfare agencies to provide a wide array of employment and support services for all AFDC

applicants and recipients. In addition to education and/or job training GAIN recipients may be eligible for the provision of money for transportation, books, tuition, uniforms and other costs associated with training and education programs. Although the GAIN activities have never been fully funded, preliminary findings from research on the program indicate that it has increased the hours of work and the income of recipients.¹¹⁸

In order to protect the needs of children, GAIN provides a childcare entitlement. In addition, the statute authorizes three months of transitional childcare and four to nine months of Medi-Cal to participants who become employed through GAIN and lose their AFDC benefits. Finally, single mothers with children under 3 are exempted from the mandatory requirements.

We cannot examine here the merits of GAIN versus other possible approaches to welfare reform. And our criticism of the Initiative is not necessarily meant to be an endorsement of GAIN; a great deal will be learned from the evaluations. We do, however, endorse its goal of trying to protect the needs of children at the same time as trying to help recipients obtain jobs. As stated at the outset, we believe that Californians should, and do, want to make children's well-being a top priority. It was this premise that motivated our efforts to determine how the Initiative would affect children.

It seems clear that the Initiative does not meet this test. Children will be hurt and the welfare system will continue to function much as it has in the past. The negative effects will be greatest for the youngest children and parents with the least job readiness. These will be the real, if unintended, consequences of this proposal.

Data Sources

The data used in this paper were drawn from the following five primary sources.

1. *Data and Materials Related to Welfare Programs for Families with Children, Prepared by the Staff for the Use of the Committee on Finance, United States Senate*: Also known as "The Green Book," this source compiles information on characteristics of AFDC recipients across all fifty states and U.S. territories. The information on the states is used to construct estimates of averages and medians for the entire U.S. population. The Green Book also provides information about program benefits for AFDC, Food Stamps and the Earned Income Tax Credit at the federal level.

These data are compiled from the National Integrated Quality Control System (QC). The QC provides data on roughly 75,000 AFDC cases. This represents a sample drawn from all fifty states and U.S. territories. Information for each household member includes age, race, sex, employment status, income (if any) and relationship to the household head. For each AFDC unit, the date on which the unit last began to receive AFDC benefits is given — providing information on the length of incomplete welfare spells. Program eligibility and benefit levels can be calculated on the basis of income, assets, and work-related and child care expenses.

These data are probably the best source of information about the characteristics of current AFDC families nationally, both because the sample is large and because information relating to program rules is reported. At the same time, because only households getting AFDC are included, the QC cannot be used to compare recipients with non-recipients.

2. *Characteristics and Financial Circumstances of AFDC Recipients*: An annual publication of the U.S. Department of Health and Human Services, this manual compiles information about AFDC recipients across the fifty states and U.S. territories. The source of the data is the QC, described above. While some of the information overlaps with the Green Book, this publication provides detailed information about individual recipients of AFDC and therefore permits comparison of the children, male recipients, and female recipients of AFDC across the fifty states.
3. *California Statistical Abstract, 1991*: A publication of the California Department of Finance, Financial and Economic Research Unit, this volume is a cooperative effort of various government agencies.

The authors relied on this source for information about unemployment and population at the county level in California. The primary source of the population data is the U.S. Census Bureau. The primary source of the employment data is the California Employment Development Department, Labor Market Information Division. Other sources included the United States Bureau of Labor Statistics and the California Department of Industrial Relations.

4. *Public Welfare in California and AFDC Characteristics Surveys*: A monthly publication of the Data Processing and Statistical Services Bureau, Department of Social Services, Public Welfare is an up-to-date report of the size of the AFDC-FG and AFDC-U rolls by county. This publication also provides information on benefit levels and size of food stamp and AFDC grants. The authors relied on this source for county level information on participation in the AFDC program.

The AFDC Characteristics Survey report findings from special surveys taken bi-annually of a sample of AFDC recipients. These surveys obtain data not regularly reported in Public Welfare in California. The most recent surveys were in January 1991 and April 1990. Because these are relatively small random samples, they may not precisely reflect the entire population. In general, the reported percentages might be four percentage points higher or lower than the actual percentage.

These surveys are designed to examine questions of special interest regarding welfare recipients. The data in them are not always organized in a form that enables one to use them directly in analyzing the various provisions of the Initiative; the surveys were not designed for this purpose. However, upon request the State Department of Social Services does special runs for people with research interests regarding the AFDC system.

5. In addition to these sources, we have relied heavily on the findings of various research studies that are based on data from the National Longitudinal Study of Youth. That study gathered data on a large random sample of young women, all of whom were ages 14-21 in 1978. The respondents were re-interviewed regularly for 8 years. Detailed information was collected regarding schooling, income, AFDC receipt, marital status and childbearing. This sample therefore allows researchers to do careful analyses of the work and school participation of young women. It cannot, however, tell us about AFDC participation by parents who enter the system after they are 24.

Appendix B

State-by-State Comparison of AFDC, Food Stamps & Housing Subsidies

	Monthly Combined AFDC & Food Stamps (1992)	Fair Market Rents for 2-bedr. apartment (1991)	Combined benefits less FMR	Rank of State re: Combined benefits less FMR
Alabama	\$441	\$390	51	38
Alaska	184	550	634	1
Arizona	620	570	50	39
Arkansas	496	10	86	32
California	850	750	100	30
Colorado	636	480	156	22
Connecticut	862	680	82	19
Delaware	673	730	-57	51
DC	623	590	33	44
Florida	595	520	75	33
Georgia	572	500	72	34
Hawaii	1077	700	377	2
Idaho	607	540	67	35
Illinois	649	610	39	42
Indiana	580	450	130	24
Iowa	685	470	215	13
Kansas	697	460	237	7
Kentucky	520	410	110	27
Louisiana	482	470	12	46
Maine	703	590	113	26
Maryland	668	610	58	37
Massachusetts	764	780	-16	49
Michigan	708	490	218	11
Minnesota	759	530	229	9
Mississippi	412	430	-18	50
Missouri	584	450	134	23
Montana	659	480	179	20
Nebraska	564	440	124	25
Nevada	667	680	-13	48
New Hampshire	748	660	88	1
New Jersey	691	650	41	41
New Mexico	613	510	103	28
New York	806	610	196	16
North Carolina	641	420	221	10
North Dakota	647	440	207	14
Ohio	334	440	184	8
Oklahoma	625	440	185	17
Oregon	744	510	234	8
Pennsylvania	681	510	71	21
Rhode Island	812	610	202	15
South Carolina	502	400	102	29
South Dakota	670	430	240	6
Tennessee	477	430	7	40
Texas	476	460	6	45
Utah	668	410	258	5
Vermont	857	640	217	12
Virginia	634	570	64	36
Washington	541	530	11	47
West Virginia	784	450	334	3
Wisconsin	748	470	278	4
Wyoming	638	600	38	43
Average	666	528	138	26

The Author

Michael S. Wald, Jackson Eli Reynolds Professor of Law, has taught at Stanford since 1967. From 1984 to 1987 he served as Director of the Stanford Center for the Study of Families, Children and Youth. His research focuses on public policies towards children and families. Among his numerous publications are *The Conditions of California's Children* (1989), for which he was the general editor, and *Protecting Abused and Neglected Children* (with Merrill Carlsmith and P.H. Leiderman) (1988).

Professor Wald has been a major participant in the drafting of legislation affecting children, including the laws establishing California's child abuse and neglect system, and the federal *Adoption Assistance and Child Welfare Act of 1980*. He currently is a member of the Carnegie Corporation's *Task Force on Meeting the Needs of Children 0 to 3*, chaired by former South Carolina Governor Richard Riley, and is serving on a 40-person commission, appointed by California's Chief Justice Malcolm Lucas, that is looking at the future of the California court system. He has been a member of the National Academy of Sciences *Panel on Child Development Research and Public Policy* and is a former chairman of the California State Advisory Committee on Child Abuse and Neglect.

1. The statute has been amended many times. The program is extremely complex. Not only does it vary from state to state, there are even variations within states. We have described the basic contours of the program that are affected by the Initiative. The actual impact of the proposals will vary among families, depending upon family size, grounds for eligibility, income from other sources and numerous other factors.

Most of the details and statistics which we report regarding program operation, participation rates, etc. come from three sources which are described in more detail in Appendix A. The State of California publishes a monthly overview of AFDC expenditures, *Public Welfare in California* (referred to as Public Welfare). It also publishes bi-annual reports providing more in-depth analysis of the AFDC program and caseloads. These are entitled *Aid to Families with Dependent Children, Characteristics Survey* (Characteristics Survey). Each year the Ways and Means Committee of the U.S. House of Representatives publishes a volume, *Overview of Entitlement Programs* (the Green Book), describing all social welfare programs funded under the Social Security Act. It contains program descriptions, analyses, and interstate comparisons.
2. Welfare and Institutions Code 11450.
3. The formula for calculating the cash grant to which a family is entitled when the family has earned income is quite complex. In addition to the childcare, work expense and the 30 and a third disregards, an additional proportion of earnings may be disregarded, based on the gap between the maximum grant available to the family and an amount called the "need" standard. Due to space limitations, we will not elaborate on the formula. However, if the Initiative is passed and the maximum grant reduced, this will have the effect of increasing the amount disregarded due to the gap between the maximum grant and the need standard. As a result, recipients with earnings will be able to retain an even greater proportion of their earnings than would be the case from the extension of the 30 and a third rule alone. This fact is relevant in assessing the probable impact of the Initiative on both participation rates and work by recipients. For a full discussion of these points see M. Wiseman, "The New State Welfare Initiatives" (forthcoming).
4. For a full description of the GAIN program, see J. Wallace and D. Long, *GAIN: Planning and Early Evaluation*, Manpower Demonstration Research Corporation, 1987 (cited as MDRC).
5. Green Book, 1991, pp. 568, 597.
6. Public Welfare, Feb. 1992. While virtually all AFDC recipients are eligible for food stamps, not all recipients apply for them. One reason is that some recipients consider use of the stamps to be stigmatizing.
7. Green Book, 1992, pp. 682-83.
8. Some commentators argue that the extent of poverty in the United States is overstated, claiming that the real economic status of families should be calculated by looking at all of the income and income substitutes a family receives. See R. Rector and M. McLaughlin, "A Conservative's Guide to State Level Welfare Reform," The Heritage Foundation, Washington, D.C. 1991. This position has been reviewed and rejected by the great majority of people who study the effects of income on family well-being. See "Measuring the Effects of Benefits and Taxes on Income and Poverty: 1990," U.S. Bureau of the Census, Current Population Reports, Aug. 1991; P. Ruggles, *Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy*, Urban Institute Press, 1990.
9. Public Welfare, Feb. 1992.
10. There is, of course, no way of knowing for certain what percentage of current children may ultimately receive AFDC. The best that can be done is to make estimates based on studies of participation rates of earlier samples of children. There are several studies that analyze of longitudinal data gathered on cohorts of children born in the late 1960's and early 1970's. These studies all have methodological problems. More importantly, as economic conditions and other factors change, — especially the percentage of divorces and children born to never-married mothers — so will poverty rates, since they are heavily influenced by these factors. We base our estimates on a review of the various studies, especially G. Duncan and W. Rodgers, "Longitudinal Aspects of Childhood Poverty," *J. of Marriage and the Family*, Vol. 50, Nov. 1988.
11. In addition to changes in the 30 and a third rule, the state has received federal permission to change other rules pertaining to disregards or eligibility. The most important is allowing AFDC-U recipients to remain eligible for benefits even if they work more than 100 hours a month. Economic

- modeling of the likely effects of these changes on caseloads is complex and estimates will vary. There is little doubt, however, that these changes will alter work effort by some recipients and will make some current non-recipients eligible for benefits.
12. Most of these documents are undated, or otherwise lack a specific reference. They can be obtained from United California Taxpayers, 1121 "L" Street, Sacramento, CA 95814.
 13. The entire program is being evaluated by the Manpower Demonstration Research Corporation, which already has issued five reports examining various aspects of the program. The most recent is J. Riccio and D. Friedlander, *GAIN: Program Strategies, Participation Patterns, and First-Year Impacts in Six Counties*, MDRC, May 1992.
 14. The amount of total benefits a family will receive will vary, depending upon whether they have any earnings or other sources of income, whether they apply for food stamps, and whether they have certain needs. Because food stamps are tied to family income, most families will be eligible for more food stamps as a result of the cuts in the cash grants. The amount of food stamps will vary somewhat depending upon a number of assumptions regarding earnings, childcare expenses and other factors. A general estimate of the total impact of the cuts is provided by the California Legislative Analyst Office (LAO) in its analysis of budget proposals. See LAO, *The Analysis of the 1992-93 Budget*, Item 5180, Table 6.
 15. Ruggles, note 8, discusses the history of the "poverty line."
 16. Ruggles provides an excellent discussion of various measures of poverty. As Ruggles shows the current poverty line understates considerably the amount needed for a "minimally decent income," which is the generally accepted conceptual definition of poverty.
 17. Representatives E. Shaw, N. Johnson, F. Grundy, "Moving Ahead: How America Can Reduce Poverty Through Work," U.S. House of Representatives, Committee on Ways and Means, 1992.
 18. U.S. Census Bureau and U.S. Department of Housing and Urban Development, *American Housing Survey*, 1987. For a fuller description of the quality of housing available to low-income families, see "Jacuzzis Among the Poor: An Analysis of the Heritage Foundation Paper on Poverty," Center on Budget and Policy Priorities, Washington, D.C., 1991.
 19. These figures are taken from E. Lazere, "The Costs of Decent Housing for Low Income Families in California," Center on Budget and Policy Priorities, 1992.
 20. See "Jacuzzis," note 18.
 21. See Ruggles, note 8.
 22. *Sold Short: The Actual Cost of a Minimum Adequate Living Standard Compared to AFDC Levels in California*, Consumers Union of the United States, Western Office, June, 1992.
 23. This figure was obtained in four successive Gallup Polls from July to October 1989. See *The Washington Post*, p. A21, July 19, 1990.
 24. Various opinions are discussed in Ruggles, note 8.
 25. Green Book, 1991, p. 588.
 26. Green Book, 1992, pp. 638-39.
 27. Green Book, 1992, p. 682.
 28. *Beyond Rhetoric: A New American Agenda for Children and Families*, National Commission on Children, 1991, p. 91.
 29. *Beyond Rhetoric*, p. 91.
 30. See V. Fuchs, *Women's Quest for Economic Equality*, Harvard University Press, 1988.
 31. The numbers are derived from the Green Book, 1992, p. 669 and AFDC Characteristics, January 1991. While we talk in terms of mothers, about 2% of the single parents are fathers. All of these figures are approximations, based on the figures published in AFDC Characteristics and data provided to the author by the Statistical Services Bureau, State Department of Health and Welfare. The manner in which the data are collected sometimes precludes establishing exact percentages.
 32. See B. Klein and P. Rones, "A Profile of the Working Poor," *Monthly Labor Review*, Vol. 112, No. 10, Oct. 1989.
 33. S. Bianchi and E. McArthur, *Family Disruption and Economic Hardship*, U.S. Bureau of the Census, Current Population Reports, January 1991. The report presents its statistics in terms of numbers of children. We have estimated the number of mothers from these.
 34. See E.M. Hetherington, M. Cox and R. Cox, "Effects of Divorce on Parents and Children," in *Nontraditional Families*, Lawrence Erlbaum Press, 1982.
 35. A recent study of divorcing families in San Mateo and Santa Clara Counties found that in 32% of the families the youngest child was 0-2 and in 31% the youngest child was 3-5. E. Maccoby and R. Mnookin, *Dividing the Child*, Harvard University Press, 1992.
 36. AFDC Characteristics, January 1991.
 37. These figures are taken from N. Rudd, P. McKenty and M. Nah, "Welfare Receipt Among Black and

- White Adolescent Mothers: A Longitudinal Perspective," *J. of Family Issues*, Vol. 11, No. 3, Sept. 1990.
38. These data were provided to the author by Child Trends, Inc., Washington D.C. They will be discussed in a forthcoming paper by Child Trends. There are significant ethnic and racial differences, due in part to the fact that white teen mothers are far more likely to marry than black teen mothers.
 39. These figures come from both Rudd, note 37, and Child Trends, note 38.
 40. One of the few studies is a recent Stanford Ph.D. dissertation by H. Hoynes entitled, "Welfare Transfers In Two-Parent Families," Stanford, May 1992.
 41. The information in this section comes from Public Welfare, AFDC Characteristics, and special analyses available from the State Department of Social Services.
 42. LAO, Budget Analysis, note 14 at p. V-177.
 43. We rely primarily on Rudd, note 37; Child Trends, note 38; figures available from the MDRC, which they derived from their studies of GAIN; and data from the Green Book, 1992.
 44. Data provided to author by MDRC.
 45. These problems are described in T. MaCurdy, "Measures of Welfare Dependency: An Evaluation," Working Paper Series, Hoover Institution, Stanford Univ., March 1989.
 46. In particular, older studies tend to overstate the length of time recipients receive support, especially the length of individual "spells," that is periods of support. See MaCurdy, note 45.
 47. Green Book, 1992, p. 686.
 48. D. Maxwell-Jolly and P. Warren, *California's Welfare Dynamic*, California State Senate Appropriations Committee and Joint Oversight Committee on GAIN Implementation, 1989.
 49. R.M. Gritz and T. MaCurdy, "Patterns of Welfare Utilization and Multiple Program Participation Among Young Women," Working Papers in Economics, Hoover Institution, Stanford Univ., Jan. 1992. We also rely on studies described in the Green Book, 1992, pp. 685-88, and MaCurdy, note 45.
 50. M.J. Bane and D. Ellwood, *The Dynamics of Dependence: The Routes to Self-Sufficiency*, Urban Systems and Research Engineering, Inc., Cambridge, Mass., June 1983.
 51. R. Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *J. of Economic Literature*, Vol. 30, No. 1, March 1992.
 52. Data provided to the author by Child Trends.
 53. R. Blank, "Analyzing The Length of Welfare Spells," *J. of Public Economics*, Vol. 39, p. 245, 1989.
 54. Data provided to the author by MDRC.
 55. Public Welfare, 1992; LAO, "California's AFDC Program, Current Trends, Issues and Options," Issue Paper, Feb. 13, 1991.
 56. Moffitt, note 51.
 57. Congressional Budget Office, "A Preliminary Analysis of Growing Caseloads in AFDC," CBO Staff Memorandum, Dec. 1991.
 58. LAO, note 55.
 59. Congressional Budget Office, note 57.
 60. California State Department of Finance, *California Statistical Abstract*, 1991.
 61. J. DeParle, "Fueled by Social Trends, Welfare Cases Are Rising," *New York Times*, p. A1, Jan. 10, 1992.
 62. C. Brindis and R. Jeremy, *Adolescent Pregnancy and Parenting in California*, Institute for Health Policy Studies, Univ. of California, San Francisco, 1988.
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