HEALTH AND WELFARE

DEPARTMENT OF SOCIAL SERVICES
SUMMARY

The Department of Social Services (DSS) is the single state agency responsible for supervising the delivery of cash grants and social services to needy persons in California. Monthly grant payments are made to eligible recipients through two programs — Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income/State Supplementary Program (SSI/SSP). In addition, welfare recipients, low-income individuals, and persons in need of protection may receive a number of social services such as information and referral, domestic and personal care assistance, and child and adult protective services. The budget proposes total expenditures of $11.5 billion for programs administered by the department in 1991-92. This is an increase of $77 million, or 0.7 percent, above estimated current-year expenditures. Table 1 identifies total expenditures from all funds for programs administered by the DSS for the past, current, and budget years.

Table 1
Department of Social Services
Budget Summary
Expenditures and Revenues, by Program
All Funds
1989-90 through 1991-92
(dollars in thousands)

Program	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Change from 1990-91 Amount*	*Change from 1990-91 Percent*
Departmental support	$261,534	$280,722	$279,487	−$1,235	−0.4%
AFDC [a]	5,414,122	6,031,650	5,833,141	−198,509	−3.3
SSI/SSP [b]	2,215,736	2,320,711	2,321,587	876	— [c]
Special adult	3,001	3,030	3,040	10	0.3
Refugee	34,130	26,862	29,411	2,549	9.5
County welfare department administration [a]	894,128	1,153,652	1,311,157	157,505	13.7
Social services [a,d]	1,412,593	1,549,944	1,665,953	116,009	7.5
Community care licensing	14,823	11,866	11,288	−578	−4.9
Totals	$10,250,067	$11,378,437	$11,455,064	$76,627	0.7%
Funding Sources					
General Fund [d]	*$5,906,526*	*$6,411,782*	*$6,474,883*	*$63,101*	*1.0%*
Federal funds [b]	*3,789,614*	*4,281,288*	*4,286,769*	*5,481*	*0.1*
County funds	*530,209*	*644,275*	*637,840*	*−6,435*	*−1.0*
Reimbursements	*11,046*	*13,988*	*13,881*	*−107*	*−0.8*
State Children's Trust Fund	*806*	*1,089*	*1,378*	*289*	*26.5*
Foster Family Home and Small Home Insurance Fund	*134*	*−68*	*—*	*68*	*100.0*
Continuing Care Provider Fee Fund	*30*	*219*	*236*	*17*	*7.8*
State Legalization Impact Assistance Grant	*11,670*	*25,819*	*40,065*	*14,246*	*55.2*
Residential Care Facility for the Elderly Administrative Certification Fund	*32*	*23*	*—*	*−23*	*−100.0*
Special Deposit Fund	*—*	*22*	*12*	*−10*	*−45.5*

[a] Includes county funds.
[b] Excludes SSI federal grant funds.
[c] Not a meaningful number.
[d] Excludes General Fund expenditures for GAIN from Control Section 22 and other funds for GAIN appropriated in other items in the Budget Bill. Table 5 in our analysis of the GAIN Program in Item 5180-151-001 displays all the funds appropriated in the Budget Bill for GAIN.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by the DSS. The budget requests a total of $6.5 billion from the General Fund for these programs in 1991-92. This is an increase of $63 million, or 1 percent, over estimated current-year expenditures. The increase is due largely to increases in the caseload and hours of service per case of the In-Home Supportive Services Program and to growth in the caseload of the Child Welfare Services Program.

Table 2
Department of Social Services
General Fund Expenditures
1989-90 through 1991-92
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Departmental support	$107,139	$111,212	$111,487	$275	0.2%
Aid to Families with Dependent Children	2,649,267	3,002,205	2,949,128	−53,077	−1.8
Supplemental Security Income/State Supplementary Program	2,203,946	2,298,805	2,286,200	−12,605	−0.5
Special adult	3,000	2,955	2,965	10	0.3
County welfare department administration	173,068	199,521	225,822	26,301	13.2
Social services [a]	760,284	788,039	890,836	102,797	13.0
Community care licensing	9,822	9,045	8,445	−600	−6.6
Totals	$5,906,526	$6,411,782	$6,474,883	$63,101	1.0%

[a] Excludes General Fund expenditures for GAIN from Control Section 22 and other funds for GAIN appropriated in other items in the Budget Bill. Table 5 in our analysis of the GAIN Program in Item 5180-151-001 displays all the funds appropriated in the Budget Bill for GAIN.

DEPARTMENT OF SOCIAL SERVICES

Departmental Support

Item 5180-001 from all funds Budget p. HW 166

Requested 1991-92	$279,487,000
Estimated 1990-91	280,722,000
Actual 1989-90	261,534,000
Requested decrease $1,235,000 (−0.4 percent)	
Total recommended reduction	None

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Support	General	$110,920,000
5180-001-131—Support	Foster Family Home and Small Family Home Insurance	740,000
Less General Fund transfer	—	−504,000
Less Federal Trust Fund transfer	—	−236,000
Subtotal, 5180-001-131		(—)
5180-001-890—Support	Federal	$156,087,000

5180-011-001—Support	General	504,000
5180-011-890—Support	Federal	236,000
Reimbursements	—	10,646,000
Welfare and Institutions Code Section 18969—Appropriation	State Children's Trust	92,000
Health and Safety Code Section 1778—Appropriation	Continuing Care Provider Fee	236,000
Health and Safety Code Section 1569.69—Appropriation	General	63,000
Control Section 23.50—Support	State Legalization Impact Assistance Grant	691,000
Government Code Section 16370	Special Deposit	12,000
Total		$279,487,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. Social Services Advisory Board. The budget proposes legislation to eliminate the Social Services Advisory Board for a savings of $154,000 ($60,000 General Fund, $88,000 federal funds, $6,000 reimbursements). 748
2. Community Care Licensing (CCL). Recommend that the department evaluate the alternatives for improving the CCL Program's efficiency and controlling its costs, and submit a plan to the Legislature for dealing with the CCL Division's long-term staffing problem. 749
3. Independent Adoptions Fees. Recommend enactment of legislation to (a) authorize the state's district adoption offices to charge a fee, based on income, for all independent adoptions cases in which a petition is filed, (b) increase the independent adoptions fee from $500 to $2,400, and (c) adjust the fee on a periodic basis. 751
4. Independent Adoptions, Nonprofit Agencies. Recommend enactment of legislation to allow private, nonprofit agencies to provide independent adoptions services. 752

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers income maintenance, food stamps, and social services programs. It is also responsible for (1) licensing and evaluating nonmedical community care facilities and (2) determining the medical/vocational eligibility of persons applying for benefits under the Disability Insurance Program, Supplemental Security Income/State Supplementary Program (SSI/SSP), and Medi-Cal/Medically Needy Program.

The department has 3,804 personnel-years in the current year to administer these programs.

Departmental Support—Continued

MAJOR ISSUES

- ☑ The budget proposes legislation to institute a new revised licensing fee schedule for the Community Care Licensing Program. The budget anticipates that this revision would increase General Fund revenues from $1.3 million to $6.9 million in 1991-92.

- ☑ The budget proposes legislation to increase the fee from $500 to $1,896 that the state's district adoption offices may charge prospective adoptive parents under the Independent Adoptions Program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $279 million from all funds, including reimbursements, for support of the department in 1991-92. This is $1.2 million, or 0.4 percent, less than estimated current-year expenditures. Of the total amount requested, $122 million is from state funds ($111 million General Fund) and $157 million is from federal funds. Table 1 identifies the department's expenditures by program and funding source for the past, current, and budget years.

Table 1
Department of Social Services
Expenditures for Departmental Support
1989-90 through 1991-92
(in thousands)

				Change from 1990-91	
Program	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Amount*	*Percent*
AFDC-family group and unemployed parent	$16,248	$16,218	$16,917	$699	4.3%
AFDC-foster care	4,069	4,556	4,651	95	2.1
Child support enforcement	11,307	13,200	12,878	−322	−2.4
Transitional child care	8	250	257	7	2.8
Supplemental security income/state supplementary	508	597	612	15	2.5
Special adult	312	371	379	8	2.2
Food stamps	19,864	21,321	22,155	834	3.9
Refugee programs	5,335	6,114	6,146	32	0.5
Child welfare services	6,673	8,960	10,490	1,530	17.1
County services block grant	1,215	1,101	1,127	26	2.4
In-home supportive services	1,601	2,739	2,537	−202	−7.4
Specialized adult services	717	305	322	17	5.6

Employment programs	6,941	7,710	7,579	−131	−1.7
Adoptions	9,810	11,146	10,855	−291	−2.6
Child abuse prevention	1,416	1,638	1,660	22	1.3
Community care licensing	39,940	51,624	58,612	6,988	13.5
Disability evaluation	109,051	120,738	117,019	−3,719	−3.1
Administration	6,353	7,421	7,691	270	3.6
Disaster relief	20,166	4,713	—	−4,713	−100.0
Unallocated reduction	—	—	−2,400	−2,400	—
Totals	$261,534	$280,722	$279,487	−$1,235	−0.4%
Funding Sources					
General Fund	*$107,139*	*$111,212*	*$111,487*	*$275*	*0.2%*
Federal funds	*145,273*	*157,846*	*156,323*	*−1,523*	*−1.0*
Reimbursements	*8,311*	*10,753*	*10,646*	*−107*	*−1.0*
State Children's Trust Fund	*57*	*79*	*92*	*13*	*16.5*
State Legalization Impact Assistance Grant	*558*	*636*	*691*	*55*	*8.6*
Foster Family Home and Small Family Home Insurance Fund	*134*	*−68*	—	*68*	*100.0*
Continuing Care Provider Fee Fund	*30*	*219*	*236*	*17*	*7.8*
Residential Care Facility for the Elderly Administrative Certification Fund	*32*	*23*	—	*−23*	*−100.0*
Special Deposit Fund	—	*22*	*12*	*−10*	*−45.5*

Proposed General Fund Changes

Table 2 shows the changes in the department's support expenditures that are proposed for 1991-92. Several of the individual changes are discussed later in this analysis.

Table 2
Department of Social Services
Departmental Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*Other Funds*[a]	*Total* Funds
1990-91 expenditures (revised)	$111,212	$169,510	$280,722
Baseline adjustments			
Position changes:			
Caseload increase, community care licensing	$5,230	−$379	$4,851
Full-year cost of 1990-91 employee COLA	1,814	2,326	4,140
Expiration of federal grant for community care licensing	—	−2,045	−2,045
Transfer of Los Angeles, Modoc, San Diego, and San Joaquin counties' community care licensing to the state	1,852	116	1,968
Full-year funding of positions	632	342	974
Expiration of limited-term positions, Greater Avenues for Independence (GAIN) Program and other programs	−640	−211	−851
Establishment of permanent positions, Independent Adoptions Program	530	—	530
Establishment of permanent positions, GAIN Program	134	133	267

Departmental Support—Continued

Table 2—Continued
Department of Social Services
Departmental Support
Proposed 1991-92 Budget Changes
(dollars in thousands)

	General Fund	*Other Funds* [a]	*Total* Funds
Other baseline adjustments:			
Elimination of one-time costs for disaster relief	−4,713	—	−4,713
Operating expense and equipment price increases	1,192	3,160	4,352
Program audit exception, Disability Evaluation Division	−2,518	—	−2,518
Merit salary adjustments	1,030	1,361	2,391
Elimination of one-time operating expense and equipment costs	−743	−671	−1,414
Implementation of child welfare services case management system, pursuant to Ch 1294/89 (SB 370, Presley):			
Training costs	682	—	682
System design and pilot implementation contract	656	—	656
Other	−181	−1,027	−1,208
Subtotals, baseline adjustments	($4,957)	($3,105)	($8,062)
Policy proposals			
Unallocated reduction	−$2,400	—	−$2,400
Additional unallocated reduction	−2,222	−4,521	−6,743
Elimination of Social Services Advisory Board	−60	−94	−154
Subtotals, policy proposals	(−$4,682)	(−$4,615)	(−$9,297)
1991-92 expenditures (proposed)	$111,487	$168,000	$279,487
Change from 1990-91:			
Amount	$275	−$1,510	−$1,235
Percent	0.2%	−0.9%	−0.4%

[a] Includes federal funds, special funds, and reimbursements.

Proposed Position Changes

The budget requests authorization of 4,204 positions in 1991-92. This is a net increase of 179 positions, or 4.4 percent. The net increase consists of 240 additional positions, offset by a reduction of 61 positions. The major increases in positions include (1) the establishment of 134 positions in the Community Care Licensing (CCL) Program because of the state's assumption of responsibility for the program in Los Angeles, San Diego, and San Joaquin counties and (2) the addition of 72 positions in CCL due to caseload growth. The major decreases in positions include (1) the elimination of 12 positions in the Disability Evaluation Division (DED) and (2) the elimination of 19 positions in CCL as a result of the 3 percent unallocated reduction taken in the current year pursuant to Section 3.80 of the 1990-91 Budget Act.

Table 3
Department of Social Services
Proposed Position Changes
1991-92

Program	*Existing Positions*	*Reductions*	*Additions*	*Total Proposed Positions*	*Net Changes Amount*	*Net Changes Percent*
AFDC-family group and unemployed parent	306.0	−7.1	0.6	299.5	−6.5	−2.1%
AFDC-foster care	73.8	−0.4	2.1	75.5	1.7	2.3
Child support	105.9	−0.5	0.2	105.6	−0.3	−0.3
Supplemental security income/state supplementary	8.0	—	—	8.0	—	—
Special adult	6.2	—	—	6.2	—	—
Food stamps	248.3	−6.1	0.5	242.7	−5.6	−2.3
Refugee programs	71.1	−0.4	2.1	72.8	1.7	2.4
Immigration Reform and Control Act	15.6	−2.0	—	13.6	−2.0	−12.8
Child welfare services	106.1	−0.4	20.8	126.5	20.4	19.2
County services block grant	19.9	−1.1	0.1	18.9	−1.0	−5.0
In-home supportive services	33.3	—	—	33.3	—	—
Specialized adult services	8.2	−0.1	—	8.1	−0.1	−1.2
Employment programs	74.8	−1.4	4.9	78.3	3.5	4.7
Adoptions	153.3	−3.6	17.4	167.1	13.8	9.0
Child abuse prevention	25.9	−2.1	0.1	23.9	−2.0	−7.7
Community care licensing	912.6	−20.0	190.8	1,083.4	170.8	18.7
Disability evaluation	1,761.3	−13.9	—	1,747.4	−13.9	−0.8
Administration	95.0	−1.7	0.3	93.6	−1.4	−1.5
Totals	4,025.3	−60.8	239.9	4,204.4	179.1	4.4%

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following major changes that are not discussed elsewhere in this analysis:

- An increase of $4.1 million ($1.8 million General Fund) for the full-year costs of the 1990-91 employee cost-of-living adjustment (COLA).
- A decrease of $2.0 million due to the expiration of federal Family Support Act grant funds received for 1990-91 by the CCL Division for various program improvement activities.
- An increase of $2.0 million ($1.9 million General Fund) due to the full-year costs of the assumption of state responsibility for the CCL programs of Los Angeles, Modoc, San Diego, and San Joaquin Counties.
- An increase of $974,000 ($632,000 General Fund) for full-year funding of positions established in the current year in the CCL Program.
- A reduction of $851,000 ($640,000 General Fund) for the expiration of limited-term positions in the Greater Avenues for Independence (GAIN) Program and other programs.
- An increase of $530,000 from the General Fund to permanently establish 11.0 limited-term positions in the Independent Adoptions Program.
- A $267,000 increase ($134,000 General Fund) to convert existing limited-term positions to permanent positions in the GAIN and Food

Departmental Support—Continued

Stamp Employment Training programs due to ongoing workload required by court cases, federal reporting criteria and Ch 1568/90 (AB 312, Eastin).

- A General Fund decrease of $4.7 million due to the elimination of one-time disaster relief costs associated with the Loma Prieta earthquake of 1989 and the wildland fires of 1990.
- An increase of $4.4 million ($1.2 million General Fund) to pay for operating expense and equipment price increases and an increase of $2.4 million for merit salary adjustments ($1 million General Fund). As noted below, the budget proposes an unallocated reduction in an amount equivalent to these increases.
- A General Fund reduction of $2.5 million to reflect one-time, current-year payment of a federal audit disallowance by the DED.
- A reduction of $1.4 million ($743,000 General Fund) due to the elimination of one-time equipment expenditures.
- An increase of $1.3 million General Fund to continue the implementation of the statewide Child Welfare Services Case Management System, pursuant to Ch 1294/89 (SB 370, Presley). This increase consists of (1) a $682,000 General Fund increase for 9.5 positions to provide training to social workers and support staff in the four counties that will pilot the system and (2) a $656,000 increase for the initial payment to the contractor who will design and implement the system. The department plans to award the contract for the system in March 1991.

Budget Proposes Two Unallocated Reductions

The budget includes an unallocated trigger-related reduction of $2.4 million for departmental support. This reduction is proposed in lieu of the reduction that otherwise would be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

The budget also proposes a second unallocated reduction of $6.7 million ($2.2 million General Fund) for the department. This reduction corresponds to the amounts of the operating expense and equipment price increases and merit salary adjustments that are shown in Table 2.

Budget Proposes to Eliminate the Social Services Advisory Board

The budget proposes legislation to eliminate the Social Services Advisory Board for a savings of $154,000 ($60,000 General Fund, $88,000 federal funds, $6,000 reimbursements).

The Social Services Advisory Board consists of 28 members whose responsibility it is to advise the Department of Social Services, the Health and Welfare Agency, and the Governor on how to resolve statewide problems relating to the delivery of social services. In addition, under current law, the board is required to (1) attend hearings called by the director of the department to determine whether a county welfare department is out of compliance with the provisions of current law and (2) advise the director as to what action should be taken to secure county compliance.

The budget proposes legislation to eliminate the Social Services Advisory Board in 1991-92 for a savings of $154,000 ($60,000 General Fund, $88,000 federal funds, $6,000 reimbursements). At the time this analysis was prepared, however, the department had not developed a specific proposal for legislation to eliminate the board. We believe that the proposed legislation should include provisions for establishing an alternative procedure for securing county compliance with social services laws, in order to ensure that the department continues to have adequate oversight of the provision of social services to clients statewide. We presume that the department will have more details about the specific proposal to eliminate the board and the alternative procedures that will be necessary to continue statewide oversight of county welfare departments at the time of budget hearings.

COMMUNITY CARE LICENSING DIVISION

The Community Care Licensing (CCL) Division develops and enforces health and safety regulations for community day care and 24-hour residential care facilities for the mentally ill; the developmentally disabled; the elderly; the chronically, terminally ill; and socially dependent children, as well as child day care.

Budget Proposes a Caseload-Related Increase

We recommend approval.

The budget proposes an increase of $4.9 million ($5.2 million General Fund) and 52.8 personnel-years to cover caseload growth in the CCL Program. The increased caseload is due to an expected 10 percent increase in the number of licensed community care facilities for 1991-92. In addition, this proposal includes funds to lease two new district offices, relocate three district offices, and expand one district office to absorb the proposed additional staff. The department's proposal appears reasonable. We therefore recommend approval.

Staffing May Be Inadequate to Meet Statutory Licensing Requirements

We recommend that the department evaluate alternatives for improving the CCL Program's efficiency and controlling its costs, and submit a plan to the fiscal committees during budget hearings for dealing with the division's long-term staffing problem.

In November 1990 the department advised the Legislature that due to unfunded costs (the 3 percent funding reduction in Control Section 3.80 and the 1 percent funding reduction required by Executive Order #D90-90), its staffing level was inadequate to meet all statutorily mandated licensing requirements. At that time, the department provided its staff with a list of activities that would no longer be required. These activities fell into two categories: (1) changes in department licensing procedures that did not require legislation and (2) changes in department licensing procedures that placed the department out of compliance with state law. The statutorily mandated activities that it discontinued included various inspections of, and visits to, community care facilities.

The 3 percent and 1 percent reductions taken in 1990-91 are *not* restored in the budget proposal for 1991-92. In addition, as discussed

Departmental Support—Continued

above, the budget proposes two unallocated reductions for 1991-92. As a result, at the funding levels proposed in the budget, it is likely that the CCL Program would be understaffed in 1991-92. While authorizing staff to forego certain statutorily mandated activities may have been the department's only recourse for dealing with its staffing problem in the current year, we do not believe that this represents a prudent approach for dealing with the long-run staffing problem faced by the department. Therefore, we recommend that the department evaluate alternatives for improving the CCL Program's efficiency and controlling its costs, and submit a plan to the fiscal committees during budget hearings for dealing with the long-term staffing problem. The plan should include (1) an assessment of the adverse effects of the department's workload cutbacks in 1990-91, (2) an assessment of state laws and policies that reduce the CCL Program's cost-effectiveness, (3) an assessment of the effect of limiting licensing reviews to key licensing indicators, (4) an assessment of the accuracy of the CCL Program's workload standards in light of the changing nature of community care and advancements in information technology, and (5) recommendations for decreasing the costs and increasing the productivity of the CCL Program through statutory, regulatory, and/or administrative changes.

The Budget Proposes Legislation to Increase Community Care Licensing Fees

We recommend approval.

The budget proposes legislation to institute a revised licensing fee schedule for the CCL Program, and it anticipates that this revised schedule would increase General Fund revenues from $1.3 million to $6.9 million in 1991-92.

Specifically, this proposal would institute (1) an annual $50 fee for family day care homes, (2) an annual fee of $100 to $300, depending on size, for child day care centers, and (3) an annual $1,000 fee for foster family agencies. In addition, this proposal would triple existing fees for residential care facilities (the annual fee for the smallest facilities would be increased from $100 to $300, while the fee for the largest facilities would be increased from $250 to $750).

Our analysis indicates that operators of community care facilities receive a benefit from being licensed by the DSS — a certification which assures the public that an "approved" standard of care is provided and attracts the public to the facility. For this reason, we believe that it is appropriate for licensees to pay at least a portion of the state's cost of licensing community care facilities.

In addition, our review indicates that the fees proposed in the budget are reasonable. For example, the $50 fee proposed for family day care homes would amount to less than three-tenths of 1 percent of the average home's business revenue and the $1,000 fee proposed for foster family agencies would amount to less than two-tenths of 1 percent of these agencies' revenues. For these reasons, we recommend approval of the proposed legislation to increase CCL fees.

ADOPTIONS

The Proposed Independent Adoptions Fee Increase Does Not Reflect All of the Program's Costs

We recommend enactment of legislation to (1) authorize the state's district adoptions offices to charge a fee, based on income, for all independent adoptions cases in which a petition is filed, (2) increase the independent adoptions fee from $500 to $2,400, and (3) adjust the fee on a periodic basis.

The budget proposes legislation to raise from $500 to $1,896 the maximum fee that the state's district adoptions offices may charge prospective adoptive parents under the Independent Adoptions Program. The budget anticipates that the raised fees would increase General Fund revenues from $0.8 million to $3.0 million in 1991-92. The budget indicates that the fee increase is intended to make the program fully fee supported.

Background. Under the Independent Adoptions Program, the natural parents, instead of an adoption agency, place the child directly with the adopting parents of their choice. Most of these adoptions involve healthy newborn infants who are generally regarded as the easiest children to place. For 1991-92, the Department of Social Services (DSS) estimates that its district adoptions offices will provide independent adoptions services to about 1,990 families.

The role of the state adoptions offices and county adoptions agencies in an independent adoption is limited to visiting the home of the adoptive parents and preparing a report — referred to as a home study. The court uses the home study in combination with other information to determine whether the adoption is in the best interest of the child, the natural parents, and the adoptive parents.

Independent Adoptions Fees. Under current law, a fee is only charged to the prospective adoptive parents in independent adoptions cases prior to the time the state adoptions office or county adoptions agency files a *favorable* report in superior court. The fee may be waived or reduced when in the judgment of the state or county agency the payment would cause economic hardship to the adoptive parents and would be detrimental to the welfare of the adoptive child. Revenues generated by the fees collected by state adoptions offices must be used to fund the state costs associated with the Independent Adoptions Program.

Increasing the Fee Has Merit. Our analysis indicates that increasing the independent adoptions fee makes sense for two primary reasons:

1. Those parties who primarily benefit from the independent adoption — the prospective adoptive parents — would pay a fee that more fully reflects the cost of the independent adoption services they actually receive. The current $500 fee covers only about 20 percent of the cost of providing these services.

2. Many prospective adoptive parents have sufficient incomes to absorb a significant fee increase. In 1989-90, the median gross annual household income of adoptive parents in this program was $56,860 and about 30 percent had incomes of at least $80,000. Moreover, in those cases where

Departmental Support—Continued

the prospective parents do not have sufficient income to pay the increased fee, the fee can be reduced or entirely waived if warranted.

A Larger Fee Increase Than Proposed in the Budget is Justified. The DSS advises that the total General Fund costs of the Independent Adoptions Program in 1991-92 will be $4.8 million. This reflects both the direct costs of adoptions caseworker salaries and the departmental overhead costs associated with the program. The proposed $1,896 fee, however, reflects only the department's estimate of its *direct* costs, and is *not* therefore adequate to cover all of the program's associated overhead costs. We believe that it is reasonable to consider overhead costs in setting the fee because these costs are allocated to the program and constitute a cost to the program under the department's cost allocation system.

Additionally, the fee is based on the department's estimate of the number of *favorable* reports that will be filed in superior court during 1991-92. We believe that it would be more reasonable to charge a fee, based on income, for *all* cases on which a petition is filed and a significant amount of service is provided. This is because even those cases that receive an unfavorable report create workload for the program. We therefore recommend enactment of legislation that authorizes the state's district adoption offices to charge a fee, based on income, for all independent adoption cases in which a petition is filed.

We estimate that a fee of $2,400 for 1991-92 would reflect the average cost per case for the Independent Adoptions Program. This estimate includes all associated overhead costs and is based on the *total* number of reports, favorable and unfavorable, that the department anticipates filing in superior court. We therefore recommend enactment of legislation to increase the Independent Adoptions fee to $2,400. In order to ensure that the fee continues to fully reflect the actual costs of the Independent Adoptions Program over time, we further recommend that the legislation require the department to update the fee each year.

It is important to note that not all prospective adoptive parents are required to pay the maximum independent adoptions fee. Thus, even the $2,400 fee that we recommend would not generate enough revenue to fully cover the costs of the program. Specifically, we estimate that a fee of $2,400 would generate additional General Fund revenues of $4.2 million. This is $1.2 million more than the revenues that would result from the fee proposed in the budget, but $600,000 less than the full cost of the program.

Private, Nonprofit Agencies Are a Reasonable Additional Source of Independent Adoptions Services

We recommend enactment of legislation to allow private, nonprofit agencies to provide independent adoptions services.

Under current law, private, nonprofit agencies are not authorized to provide independent adoptions services. However, we believe that these agencies could be a reasonable additional source of these services for prospective adoptive parents, because:

1. Nonprofit agencies would likely be able to provide these services at less cost than the state can provide the same services, since private agencies generally have lower overhead costs than the state.

2. Nonprofit agencies successfully perform this function in several other states.

3. Since all independent adoptions are supervised by the court, the work of the agencies would be reviewed by the court.

We therefore recommend enactment of legislation to authorize private, nonprofit agencies to provide services as an alternative to prospective adoptive parents who prefer not to purchase these services from the state.

DEPARTMENT OF SOCIAL SERVICES

Aid to Families with Dependent Children

Item 5180-101 from the General Fund and the Federal Trust Fund — Budget p. HW 167

Requested 1991-92	$5,604,876,000
Estimated 1990-91	5,784,729,000
Actual 1989-90	5,220,409,000
Requested decrease $179,853,000 (−3.1 percent)	
Total recommended reduction	None
Recommendation pending	5,604,876,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for children	General	$2,949,128,000
5180-101-890—Payments for children	Federal	2,653,778,000
Control Section 23.50—local assistance	State Legalization Impact Assistance Grant	1,970,000
Total		$5,604,876,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS	*Analysis page*
1. Aid to Families with Dependent Children (AFDC) Estimate. Withhold recommendation on $5.6 billion ($2.9 billion General Fund) pending review of revised estimates in May.	761
2. AFDC-Family Group (AFDC-FG) and Unemployed Parent (AFDC-U) Caseload. We find that the department has substantially underestimated caseloads.	762
3. AFDC-FG and U Statutory Cost-of-Living Adjustment (COLA). The budget proposes legislation to suspend the statutory COLA for AFDC-FG and U recipients. The department estimates this proposal would result in savings of	763

Aid to Families with Dependent Children—Continued

$317 million ($143 million General Fund). We find that the department has underestimated the savings that would result from the proposal.

4. AFDC-FG and U Grant Legislation. The budget proposes to reduce the maximum aid payment to AFDC recipients by an average of 8.8 percent for a savings of $505 million ($225 million General Fund). We find that the department has overestimated the savings from this proposal. 765
5. AFDC Homeless Assistance (AFDC-HA) Program Legislation. The budget proposes a savings of $78 million ($35 million General Fund) from elimination of the AFDC-HA Program. 767
6. State-Only AFDC-U Program Legislation. The budget proposes a savings of $7 million to the General Fund from elimination of the State-Only AFDC-U Program. We find that this proposal would transfer responsibility for these recipients to the counties. 770
7. Federal Disqualification Requirements Legislation. The budget proposes a savings of $6.2 million ($2.8 million General Fund) from disqualification of AFDC recipients found guilty of intentional program violations. 770
8. AFDC-Foster Care (AFDC-FC) — Rate Freeze. The budget proposes legislation to suspend the statutory rate increases for foster care group homes for a savings of $50 million ($33 million General Fund). We find that the Department of Social Services (DSS) has underestimated the fiscal effect of the savings that would result from this proposal. 772
9. AFDC-FC — Specialized Foster Care Programs. The budget does not fund the specialized foster care programs anticipated by Ch 1294/89 (SB 370, Presley). 773
10. AFDC-FC — Proposal to Increase Federal Funds for Wards of the Court in Foster Care. Recommend that the DSS report to the Legislature during budget hearings on (a) its specific plans for implementing the proposal and (b) its revised fiscal estimate of the proposal. 773
11. AFDC-FC — Emotionally Disturbed Children in Foster Care. Recommend that the department report to the Legislature at the time of budget hearings on its estimate of the number of emotionally disturbed children who will remain in foster care after the sunset of Ch 913/89 (SB 551, Presley) and the amount of funding that will be necessary to support the foster care costs for these children in 1991-92. 776
12. Child Support Incentive Payments. We recommend that legislation be enacted to provide that (a) in determining the incentive payments allocated to counties for child support collections (effective January 1, 1992), the percentage applied to non-AFDC collections be reduced by 18 percent in 779

order to account for the estimated differential between AFDC and non-AFDC collections per case, and (b) any savings resulting from this provision be reallocated to (1) incentives based on medical support orders or (2) an administrative workload supplement based on the proportion of the county's population represented by AFDC recipients.

13. Adoption Assistance Program (AAP). The *Supplemental Report of the 1990 Budget Act* requires the DSS to report to the Legislature by March 1, 1991 on (a) options for establishing standards for adoption workers to follow in setting AAP grant levels and (b) the feasibility of placing time limits on state-only AAP benefits. This report should provide the Legislature with options for reducing costs in the AAP. 783
14. Transitional Child Care (TCC). We find that the department has overestimated TCC Program costs. 785

GENERAL PROGRAM STATEMENT

The Aid to Families with Dependent Children (AFDC) Program provides cash grants to certain families and children whose incomes are not adequate to provide for their basic needs. Specifically, the program provides grants to needy families and children who meet the following criteria.

AFDC-Family Group (AFDC-FG). Families are eligible for grants under the AFDC-FG Program if they have a child who is financially needy due to the *death, incapacity, or continued absence* of one or both parents. In the current year, an average of 599,700 families will receive grants each month through this program.

AFDC-Unemployed Parent (AFDC-U). Families are eligible for grants under the AFDC-U Program if they have a child who is financially needy due to the *unemployment* of one or both parents. In the current year, an average of 83,900 families will receive grants each month through this program.

AFDC-Foster Care (AFDC-FC). Children are eligible for grants under the AFDC-FC Program if they are living with a licensed or certified foster care provider under a court order or a voluntary agreement between the child's parent(s) and a county welfare or probation department. In the current year, an average of 64,900 children will receive grants each month through this program.

In addition:

- The Adoption Assistance Program provides cash grants to parents who adopt children who have special needs. In the current year, an average of 10,700 children will receive assistance each month through this program.
- The Transitional Child Care Program provides cash payments to certain individuals who lose AFDC eligibility due to employment. In the current year an average of 8,900 families will receive assistance each month through this program.

Aid to Families with Dependent Children—Continued

MAJOR ISSUES

☑ The department's AFDC-FG and U caseload estimates are substantially understated.

The budget proposes enactment of legislation to accomplish the following:

☑ Suspend the statutory COLA for AFDC-FG and U recipients in 1991-92, for a General Fund savings of $154 million.

☑ Reduce maximum aid payments to AFDC recipients, for a General Fund savings of $205 million.

☑ Eliminate the AFDC Homeless Assistance Program, for a General Fund savings of $35 million.

☑ Eliminate the state-only AFDC-U Program, for a General Fund savings of $7 million.

☑ Disqualify AFDC recipients found guilty of intentional program violations, for a General Fund savings of $2.8 million.

☑ Freeze foster care group home rates, for an estimated General Fund savings of $33 million.

☑ Increase federal fund support for wards of the court who are placed in foster care, for a General Fund savings of $25 million.

OVERVIEW OF THE BUDGET REQUEST

The budget anticipates expenditures of $5.8 billion ($2.9 billion from the General Fund, $2.7 billion in federal funds, and $228 million in county funds) for AFDC cash grants in 1991-92, including $2 million proposed in Control Section 23.50 for assistance to newly legalized persons under the federal Immigration Reform and Control Act (IRCA). Table 1 shows expenditures for AFDC grants by category of recipient for 1989-90 through 1991-92. As the table shows, the AFDC-FG Program accounts for

Table 1
Department of Social Services
Expenditures for AFDC Grants by Category of Recipient
1989-90 through 1991-92
(in thousands)

	Actual 1989-90				*Estimated 1990-91*				*Proposed 1991-92*			
	State	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
Recipient Category												
Family group	$1,899,001	$2,100,758	$208,564	$4,208,323	$2,004,087	$2,205,175	$241,888	$4,451,150	$1,897,784	$2,083,739	$228,982	$4,210,505
Unemployed parent	339,523	373,697	38,277	751,497	381,800	401,930	46,114	829,844	334,810	362,894	40,426	738,130
Foster care	451,779	153,082	21,724	626,585	639,870	212,812	33,693	886,375	743,777	245,001	38,463	1,027,241
Child support collections	−92,322	−102,767	−11,197	-206,286	−106,067	−111,923	−12,643	−230,633	−122,167	−124,560	−14,252	−260,979
Child support incentive payments to counties	20,631	33,508	−63,655	−9,516	23,395	38,736	−62,131	—	22,508	42,846	−65,354	—
Adoption Assistance Program	28,851	11,061	—	39,912	38,661	15,336	—	53,997	49,224	19,619	—	68,843
Transitional child care	1,804	1,803	—	3,607	20,459	20,458	—	40,917	26,209	26,209	—	52,418
Unallocated reduction	—	—	—	—	—	—	—	—	−3,017	—	—	−3,017
Subtotals	($2,649,267)	($2,571,142)[a]	($193,713)	($5,414,122)[a]	($3,002,205)	($2,782,524)[a]	($246,921)	($6,031,650)[a]	($2,949,128)	($2,655,748)[a]	($228,265)	($5,833,141)[a]
AFDC cash grants to refugees:												
Time-expired	($234,913)	($256,764)	($28,443)	($520,120)	($310,004)	($339,763)	($37,421)	($687,188)	($304,079)	($333,269)	($36,706)	($674,054)
Time-eligible	(—)	(99,209)	(—)	(99,209)	(—)	(8,692)	(—)	(8,692)	(—)	(9,142)	(—)	(9,142)
Totals	$2,649,267	$2,571,142	$193,713	$5,414,122	$3,002,205	$2,782,524	$246,921	$6,031,650	$2,949,128	$2,655,748	$228,265	$5,833,141

[a] Includes State Legalization Impact Assistance Grant (SLIAG).

Aid to Families with Dependent Children—Continued

$4.2 billion (all funds), or 71 percent, of total estimated grant costs under the three major AFDC programs (excluding child support collections). The Foster Care Program accounts for 17 percent and the Unemployed Parent Program accounts for 12 percent of the total.

Increases in Current-Year AFDC Grant Costs. The department estimates that AFDC expenditures in the current year will *exceed* the amount appropriated in the 1990 Budget Act by $81 million ($40 million General Fund). Table 2 shows that the factors resulting in this net increase include:

- A $38 million ($11 million General Fund) increase due to higher-than-anticipated AFDC-FG and U caseloads.
- An $18 million ($8.3 million General Fund) decrease due to delayed implementation of Ch 1285/89 (SB 991, Watson). This legislation, which establishes an earlier beginning date of aid, became operative upon the settlement of the *Welfare Recipients League (WRL) v. McMahon* lawsuit. The implementation of the legislation was delayed because the lawsuit was settled later than anticipated.

Table 2
Department of Social Services
Proposed AFDC Budget Changes
1990-91 and 1991-92
(dollars in thousands)

	General Fund	*All Funds*
1990 Budget Act (Item 5180-101 and Control Section 23.5)	$2,962,664	$5,950,785
Adjustments to appropriations		
AFDC-Family Group and Unemployed Parent (AFDC-FG & U)		
Increase in caseload estimate	$11,201	$38,229
Delay in implementing beginning date of aid changes enacted by Ch 1285/89 (SB 991, Watson)	−8,266	−17,970
Reestimate of homeless assistance costs	7,107	16,273
Reestimate of Greater Avenues for Independence (GAIN) savings	5,021	11,258
Court cases	5,161	11,435
Other changes	−1,937	−1,181
Subtotals, AFDC-FG & U	($18,287)	($58,044)
AFDC-Foster Care (AFDC-FC)		
Sequestration of federal Title IV-E funds	$7,885	$8,300
Other changes	6,758	860
Subtotals, AFDC-FC	($14,643)	($9,160)
Child support enforcement		
Decrease in collections	$5,159	$10,588
Decrease in incentive payments	−278	—
Subtotals, child support enforcement	($4,881)	($10,588)
Adoption Assistance Program (AAP) reestimate	$388	$389
Transitional Child Care (TCC) Program reestimate	1,342	2,684
Total changes	$39,541	$80,865
1990-91 expenditures (revised)	$3,002,205	$6,031,650

1991-92 adjustments		
AFDC-FG & U:		
Baseline adjustments		
Caseload increase	$126,175	$280,538
1991-92 cost-of-living adjustment (COLA)	142,876	316,724
Reduction in homeless assistance fraud pursuant to the Budget Act of 1990	−6,349	−14,069
Savings due to expansion of existing fraud detection programs	−7,018	−15,727
Court cases	−2,349	−5,780
Full-year effect of Chapter 1285	10,428	23,105
Effect of past-year federal disallowances	−2,944	—
Other changes	39	−613
Policy changes		
Elimination of 1991-92 COLA	−142,876	−316,724
Reduction in maximum grants	−225,415	−505,415
Elimination of homeless assistance	−35,306	−78,229
Termination of state-only AFDC-U	−6,685	−7,494
Compliance with federal disqualification requirements	−2,769	−6,209
Impact of family planning funding increase	−1,100	−2,466
Subtotals, AFDC-FG & U	(−$153,293)	(−$332,359)
AFDC-FC:		
Baseline adjustments		
Caseload and average grant increases	$98,657	$138,666
Implementation of Ch 1294/89 (SB 370, Presley):		
Group-home rate restructuring	32,600	40,100
Full-year costs of 1990-91 foster family home rate increase	17,173	19,705
Foster family home special needs program	12,700	12,700
Changes in federal eligibility requirements	17,442	—
Other	−4,365	−7,305
Policy changes		
Increased federal funds support for wards in foster care	−25,000	—
Group-home rate freeze	−32,600	−50,300
Elimination of foster family home special needs program	−12,700	−12,700
Subtotals, AFDC-FC	($103,907)	($140,866)
Child support enforcement:		
Baseline adjustments		
Increase in collections	−$16,100	−$30,346
Decrease in incentive payments	−887	—
Subtotals, child support enforcement	(−$16,987)	(−$30,346)
AAP, caseload and grant increases	$10,563	$14,846
TCC, caseload increase	5,750	11,501
Unallocated reduction in lieu of Ch 458/90 (AB 2348, Willie Brown)	−3,017	−3,017
Total adjustments	−$53,077	−$198,509
1991-92 expenditures (proposed)	$2,949,128	$5,833,141
Change from 1990-91 estimated expenditures		
Amount	−$53,077	−$198,509
Percent	−1.8%	−3.3%

- A $16 million ($7.1 million General Fund) increase due to higher-than-anticipated costs to provide housing assistance to homeless AFDC families.
- An $11 million ($5.0 million General Fund) increase in AFDC expenditures due to lower-than-estimated grant savings from the

Aid to Families with Dependent Children—Continued

Greater Avenues for Independence (GAIN) Program. This reflects a reduction in the department's estimate of the number of AFDC clients who will receive training and education services through the GAIN Program in the current year. The reduction in GAIN participation is due to unanticipated increases in the average cost per case in the GAIN Program.

- An $11 million ($5.2 million General Fund) increase due to settlement of two lawsuits: (1) *WRL v. Woods,* which changes income/ liquid assets requirements of applicants for immediate need payments, and (2) *Sallis v. McMahon,* which makes recipients receiving state disability insurance eligible for earned income disregards.
- An $8.3 million ($7.9 million General Fund) increase due to the federal government sequestration of federal funds for foster family home cost-of-living adjustments (COLAs) in federal fiscal year 1990.
- An $11 million ($5.2 million General Fund) increase due to lower-than-anticipated savings from child support collections.

Budget Proposes a Net Reduction in AFDC Expenditures in 1991-92

The budget proposes expenditures for AFDC grants in 1991-92 of $5.8 billion. This is $199 million, or 3.3 percent, below the total of $6 billion estimated for the current year. The total General Fund request of $2.9 billion is $53 million, or 1.8 percent, below the estimated $3 billion for the current year. These net expenditure decreases represent both expenditure increases due to baseline adjustments and offsetting expenditure decreases proposed in the Governor's Budget for changes in existing law and welfare policy.

Baseline Adjustments. The baseline adjustments proposed for 1991-92 represent a $781 million ($431 million General Fund), or 12 percent, increase from the department's revised estimate of expenditures in the current year.

Table 2 shows the factors resulting in the baseline expenditure increases for the AFDC Program in 1991-92. The major baseline changes *not* discussed elsewhere in this analysis are as follows:

- A $14 million ($6.3 million General Fund) decrease due to reduced Homeless Assistance Program fraud. The department is implementing new regulations designed to reduce fraud in this program pursuant to 1990 Budget Act language. As we note below, the budget proposes legislation to eliminate this program.
- A $16 million ($7 million General Fund) savings from increased fraud detection primarily due to the expansion of the Fraud Early Detection (FRED) Program to all 58 counties as required by Ch 465/90 (SB 2454, Royce). Previously, 25 counties operated the FRED Program.
- A $5.8 million ($2.3 million General Fund) net decrease due to settlement of two court cases in the current year (*WRL v. Woods and Sallis v. McMahon*).

- A $23 million ($10 million General Fund) increase due to the full-year effect of Ch 1285/89 (SB 991, Watson), which enacted an earlier date for granting aid to AFDC applicants.
- A $2.9 million General Fund increase in the AFDC Program due to settlement of federal audit findings related to AFDC-U cases in 1982. The findings related to claims affected by the reduction of the state-only AFDC-U Program from 12 to 3 months.
- A $139 million ($99 million General Fund) increase in the AFDC-FC Program primarily due to anticipated caseload growth of 13 percent.
- A $40 million ($33 million General Fund) increase in the AFDC-FC Program due to the restructuring of foster care group home rates pursuant to Ch 1294/89 (SB 370, Presley). Under prior law, group home providers received a rate that was based on their actual costs. Under Chapter 1294, however, group homes receive a rate that is based on the service they provide. As discussed below, the budget proposes legislation to suspend Chapter 1294.
- A $20 million ($17 million General Fund) increase in the AFDC-FC Program due to the full-year fiscal effect of the foster family home COLAs granted in 1989-90 and 1990-91, pursuant to Chapter 1294.
- A $17 million General Fund increase due to clarification from the federal Department of Health and Human Services (DHHS) regarding the eligibility requirements for the federal AFDC-FC Program. Specifically, the DHHS has advised the department that in order for a child to be eligible for the federal AFDC-FC Program, the child's family must have been receiving, or eligible to receive, an AFDC-FG grant in the month the child was removed from the home. The state had been claiming federal eligibility for any child whose family was receiving, or eligible to receive, an AFDC-FG grant in any of the *six months* prior to the child's removal from the home.
- A net $30 million ($17 million General Fund) savings in the Child Support Enforcement Program, due primarily to a projected increase in collections for AFDC families.

Proposed Policy Changes More Than Offset Baseline Increases. As noted above, the estimated reductions associated with the policy changes proposed in the budget would more than offset the baseline adjustments. The budget proposes policy changes that would result in reductions totaling $980 million ($484 million General Fund). As a result, the total funding proposed for the AFDC Program in 1991-92 represents a $199 million, or 3.3 percent decrease from the department's revised estimate of expenditures in the current year. These proposals are summarized in Table 2 and are discussed in detail below.

ANALYSIS AND RECOMMENDATIONS

AFDC Estimates are Expected to Change in May

We withhold recommendation on $5.6 billion ($2.9 billion General Fund, $2.7 billion federal funds) requested for AFDC grant payments, pending receipt of revised estimates of costs to be submitted in May.

The proposed expenditures for AFDC grants in 1991-92 are based on actual caseloads and costs through June 1990, updated to reflect the

Aid to Families with Dependent Children—Continued

department's caseload and cost projections through 1991-92. In May, the department will present revised estimates of AFDC costs based on actual caseload and grant costs through December 1990. Because the revised estimate of AFDC costs will be based on more recent and accurate information, we believe it will provide the Legislature with a more reliable basis for budgeting 1991-92 expenditures. Therefore, we withhold recommendation on the amount requested for AFDC grant costs pending review of the May estimate.

Caseload Likely to Exceed Budget Projections

We find that the department has substantially underestimated AFDC program cost because its caseload projections appear to be too low.

Background. The department's estimate of 1990-91 and 1991-92 AFDC-FG and U caseloads consists of two separate estimates for each caseload. One estimate is for Los Angeles County and the other is for the remaining 57 counties. This methodology was adopted in order to account for a divergence in caseload growth trends in Los Angeles County as compared to trends in other counties. Specifically, Los Angeles County experienced a decrease in caseload during the period January 1987 to July 1988. This decrease in caseload appears to be related to undocumented persons who were eligible for amnesty under the federal Immigration Reform and Control Act (IRCA) of 1986. Apparently, a number of these individuals acted on incorrect information and voluntarily removed their citizen children from aid to avoid jeopardizing their own chances of obtaining permanent residency status under IRCA. Los Angeles County noticed a significant increase in applications from aliens with U. S. citizen children beginning in January 1989, after word spread within the community that being on assistance would not affect eligibility for amnesty.

In order to isolate this "IRCA-related" trend in Los Angeles from the general statewide caseload trend, the department forecast Los Angeles' caseload using a base period of July 1984 through July 1986. The department then added a factor to the trend caseload estimate to account for caseload growth associated with undocumented aliens with citizen children. Our analysis indicates that this methodology may no longer be appropriate because: (1) it is likely that those recipients who left aid due to the incorrect information have already returned to aid and (2) the use of a 1984 through 1986 base period for forecasts extending to the end of the 1991-92 budget year, does not adequately account for recent caseload trends.

AFDC-FG Caseload. The department projects the average monthly AFDC-FG caseload for the budget year at 635,600, which is 6 percent above the current-year average monthly caseload estimate of 599,600. This year-to-year increase is significantly below the year-over-year percentage increase in *actual* caseload during the last 11 months. In fact, the year-over-year growth in caseload has exceeded 8 percent for each of the six months, from June through November 1990. Projecting the average monthly caseload using the most recent data available and not splitting out Los Angeles County suggests that the AFDC-FG caseload could be as much as 3.2 percent higher in both the current and budget year than the department estimates.

AFDC-U Caseload. The department projects the average monthly caseload in the budget year at 84,000, which is only 0.1 percent above the current-year average monthly caseload estimate of 83,900. This increase is attributed entirely to the IRCA-related effect on Los Angeles County's caseload. The department's caseload estimate assumes that the AFDC-U caseload is unaffected by the current economic slowdown. The AFDC-U caseload, however, has been very sensitive to economic slowdowns in the past. In the first five months of the current year, the AFDC-U Program has shown a monthly average year-over-year caseload growth of more than 22 percent. About 10 percent of this growth was due to a change in federal refugee program eligibility. Thus, the remaining 12 percent growth is attributable to the economic slowdown. Even a cautious estimate of the effect of the current economic downturn on AFDC-U caseload growth suggests that average monthly caseloads could be over 30 percent higher in the budget year than the department estimates.

Conclusion. Based on our higher caseload projections, we estimate that AFDC-FG and U costs could be as much as $389 million ($175 million General Fund), or 7.1 percent higher in the budget year than the department's estimate. The department is reviewing its estimates and we anticipate that it will provide revised projections for the current and budget year at the time of the May revision.

Budget Proposes Two Changes That Would Reduce AFDC Grants

The budget contains two separate proposals that would have the effect of reducing AFDC grants below the levels specified in current law — a proposal to suspend the statutory AFDC COLA and a proposal to reduce the maximum aid payment (MAP) below its current levels. We discuss these proposals in detail below. Both proposals represent major policy issues that the Legislature will have to decide based on its overall policy and fiscal priorities. In order to help the Legislature in evaluating these proposals, we present an analysis of options for controlling AFDC costs and reducing welfare dependency in the companion document to this analysis, *The 1991-92 Budget: Perspectives and Issues.*

Proposal to Suspend AFDC COLA

The budget proposes legislation to suspend the 5.49 percent statutory COLA for AFDC for a savings estimated by the department to be $317 million ($143 million General Fund). We find that the department has underestimated the savings that would result from this proposal given our more likely caseload estimates.

The budget proposes to suspend the 5.49 percent statutory COLA, which under current law would be applied to the MAP and the Minimum Basic Standard of Adequate Care, commonly referred to as the need standard. We discuss the MAP and the need standard in detail below. In general, the effect of the proposal not to provide the COLA in 1991-92 would be to keep AFDC grants at their current levels.

Aid to Families with Dependent Children—Continued

Current state law requires that the MAP and need standard be adjusted, effective July 1, 1991, based on the change in the California Necessities Index (CNI) during calendar year 1990. The Commission on State Finance is required to calculate the CNI, which is based on December-to-December changes in inflation indexes reported for Los Angeles and San Francisco. The commission has determined that the actual change in the CNI for calendar year 1990 is 5.49 percent.

Table 3 displays the effect of the 5.49 percent COLA on the MAP and the need standard for families with up to five members. The table shows that both the MAP and the need standard for a family of three, for example, would be increased from $694 per month in 1990-91 to $732 per month in 1991-92 as a result of the COLA required under current law.

Table 3
Department of Social Services
AFDC MAP and Need Standard
Budget Proposal Compared to Current Law
1990-91 and 1991-92

	Current Law MAP and Need Standard [a]		*Budget Proposal 1991-92*	
Family Size	*1990-91*	*1991-92* [b]	*MAP*	*Need Standard*
1	$341	$360	$311	$341
2	560	591	511	560
3	694	732	633	694
4	824	869	753	824
5	940	992	859	940

[a] Under current law, the MAP and the need standard are the same for all family sizes except for a slight difference for families of nine or more persons.
[b] Assumes a 5.49 percent COLA, effective July 1, 1991, based on the change in the CNI.

The department estimates that the proposal to suspend the AFDC COLA in 1991-92 would result in savings of $317 million ($143 million General Fund, $157 million federal funds, and $17 million county funds) in 1991-92. The budget indicates that the proposed elimination of the COLA would be in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). Under Chapter 458, the statutory COLA would be reduced by up to four *percentage points* if the Commission on State Finance certifies that General Fund revenues are more than 0.5 percent less than would be needed for a workload budget. The measure defines a workload budget as the amount needed to fund the current level of service as adjusted for caseload increases, statutory COLAs, and other baseline adjustments.

As indicated above, the department's caseload estimate may substantially understate the actual caseload for the budget year. To the extent caseloads are higher, and thus more costly, than the budget assumes, the projected savings from suspending the COLA would also be higher. We estimate that the savings from suspending the COLA would be about $340 million ($154 million General Fund), or about 7.1 percent more than the savings estimate reflected in the budget.

Proposal to Reduce AFDC MAP

The budget proposes legislation to reduce the MAP to AFDC recipients by an average of 8.8 percent for a savings of $505 million ($225 million General Fund). We find that the department has overestimated the savings that would result from this proposal.

In addition to the proposal to suspend the 1991-92 COLA, the budget proposes legislation to (1) reduce the AFDC MAP by an average of 8.8 percent below the current MAP and (2) use the need standard rather than the MAP as the basis for determining actual AFDC grants for those recipients with income.

Background. The MAP is the largest grant a family can receive. It varies according to the number of family members in the AFDC household. Table 3 shows, for example, that the current MAP for a family of three is $694 per month. As indicated above, and illustrated on Table 3, this amount will increase by 5.49 percent under existing law, effective July 1, 1991. The budget proposes to reduce this amount to $633 in 1991-92.

The need standard is an estimate of the costs of basic necessities, such as housing, transportation, and food. Federal law requires all states to have statutes that estimate these costs. The need standard also varies by family size. Federal law allows (1) the need standard to be established at a level above the MAP and (2) the need standard to be used as a basis for determining grants when a recipient has income. Since 1981, California's need standard has been the same as its MAP with the exception of a slight difference for families of nine or more persons.

Under current law, the actual grant paid to recipients with earned or unearned income is equal to their *MAP* less their countable income. Countable income is the income used to determine the actual grant received by families with income. Federal law requires that all *unearned* income (income from sources other than employment, such as social security, child support, and unemployment insurance payments) received by recipients, except for the first $50 of child support, be used to offset (count against) their AFDC grant. Some of a recipient's *earned* income (income from employment), however, is disregarded. A family of three for whom the MAP is currently $694, receives an AFDC grant of $352 if they have countable income of $342 ($694 - $342 = $352).

The Budget Proposal Would Not Reduce the Total Income Available to Most Families With Outside (Non-AFDC) Income. Most recipients who have income would not be affected by the proposed reduction in the MAP. This is because their grants would be determined by subtracting their countable income from the need standard appropriate to their family size, rather than by subtracting their income from the MAP (as is done under current law). The effect of this is to allow the family to keep any income up to the difference between the need standard and the MAP *before* the grant is reduced. Table 4 provides an example of how the proposal would affect the AFDC grant and the income available to a family of three. The table shows that a family would be able to keep the first $61 of countable income, thus offsetting the $61 reduction in its

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grant. The result is that this family would have the same amount of total income (countable income plus the AFDC grant) as it has currently. We estimate that about 95,000, or 12 percent, of AFDC families have enough income to fully offset the grant reduction and about 11,000, or 1.4 percent, of AFDC families currently have only enough income to partially offset their grant reductions.

Table 4
Department of Social Services
Budget Proposal to Reduce AFDC Grants
Effect on Family of Three
Without and With Outside (Non-AFDC) Income

	Families Without Outside Income		*Families With Outside Income*	
	Current[a] Statute	*Budget Proposal*	*Current[a] Statute*	*Budget Proposal*
MAP	$694	$633	$694	$633
Need standard	694	694	694	694
Countable income	—	—	61	61
AFDC grant	694	633	633[b]	633[c]
Total income available to family	694	633	694	694

[a] Figures reflect the 1990-91 MAP and need standards.
[b] Under current law, the grant is computed by subtracting countable income from the MAP.
[c] Under the budget proposal, the grant is computed by subtracting countable income from the need standard.

The Budget Proposal Would Reduce the Total Income Available to Families With No Outside Income. Table 4 illustrates this point. Specifically, it shows that a family of three with no outside income would experience a grant reduction of $61 under the budget proposal. For a family that relies exclusively on its AFDC grant, this would mean a $61 reduction in the total income available to support the family. We estimate that about 658,000, or 86 percent, of AFDC families would initially experience a reduction of 8.8 percent in their total available income under the Governor's proposal. It is important to note, however, that these families could avoid a decrease in their total available income to the extent that they become employed and earn at least enough to offset the grant reduction.

Food Stamps Increase Would Potentially Offset a Portion of Proposed AFDC Grant Reductions. While most AFDC families (the 86 percent with no outside income) would experience an initial 8.8 percent reduction in their AFDC grants, these families would also be eligible for additional food stamps. This is because the amount of the food stamps allotment is determined, in part, by the families' total income (countable income plus AFDC income). For example, a family of three would have its grant reduced by $61 and also be eligible for $19 in additional food stamps for a net benefit reduction of $42, or 4.9 percent.

The Proposal Would Increase the Financial Incentive to Work. The proposal would increase the financial incentive for nonworking AFDC recipients to work by allowing recipients to keep enough income to offset the grant reduction. As we indicated above, under the proposal an AFDC family of three would keep the first $61 of their countable income. Depending on the cost of child care, most recipients would have to work between 23 and 41 hours per month at the minimum wage in order to make up their grant reductions (over 90 percent of current working AFDC families do not report having any child care expenses).

This increase in the work incentive could result in savings to the AFDC Program in two ways. First, recipients who respond to the increased work incentive by taking jobs may earn more than enough to offset their grant reductions. To the extent this occurs, it would result in additional AFDC savings. It is not possible to estimate the magnitude of these savings because it is impossible to predict how many recipients would take jobs to offset the grant reductions proposed in the budget.

The second work incentive-related savings would occur over a longer time period. Specifically, to the extent that the proposal encourages current recipients to work, it could ultimately help them to earn enough to go off welfare. This is because recipients who work are more likely to leave welfare as a result of an increase in their earnings than are those who do not work while they are on welfare. These long-range savings also cannot be estimated.

Department's Estimate of Savings is Technically Flawed. The department estimates that the grant reductions proposed in the budget would result in savings of $505 million ($225 million General Fund). This estimate is flawed because it assumes that every AFDC family would have its grant reduced. As we discuss above, most of those recipients with income would not have their grants reduced as a result of this proposal. In addition, as indicated above, the budget's caseload estimate understates the actual caseload for the budget year. To the extent caseloads are higher than the budget assumes, both program costs and the savings projected for this proposal would be higher.

We estimate, after taking into account these two factors, that the net savings would be about $460 million ($205 million General Fund) or about 8.9 percent less than the department's estimate. The department currently is reviewing its estimate and we anticipate an adjustment will be made at the time of the May revision. In addition, as indicated above, the proposal would result in savings that cannot be estimated (employment-related savings). Thus, neither our estimate nor the department's takes these additional savings into account.

It is important to note that this proposal requires enactment of legislation and that the timing of the legislation could affect the budget-year savings. Specifically, since the proposal would result in grant reductions, all affected recipients must be notified of the action and given an opportunity to appeal. This notification and appeal process could take up to four months, therefore, to obtain a full year of savings, it would be necessary to make the required statutory change by March 1, 1991.

Budget Proposes to Eliminate the AFDC Homeless Assistance Program

The budget proposes legislation to eliminate the AFDC Homeless Assistance (AFDC-HA) Program for a savings of $78 million ($35 million General Fund).

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Chapter 1353, Statutes of 1987 (AB 1733, Isenberg), established a special payment for AFDC-eligible homeless families. The measure provides for (1) *temporary shelter* payments to cover temporary housing needs of $30 to $60 per day, depending on family size, for a maximum of 28 days, and (2) *permanent housing payments*, which are generally limited to 80 percent of a family's maximum grant ($694 for a family of three) for a security and utility hook-up deposits, plus *an additional* 80 percent of the family's grant for the last month's rent. In order to qualify for these payments, the applicant must demonstrate that she is *apparently* — appears to meet all categorical requirements for assistance — eligible for AFDC.

The *Supplemental Report of the 1988 Budget Act* required the department to report on the costs and effectiveness of the AFDC-HA Program. As part of its response to the reporting requirement, the department compiled characteristics data on AFDC-HA recipients in a May 1989 survey (Los Angeles County used April data due to a computer problem) — with a follow-up survey of those same cases in November 1989. Of the 11,650 approved applications for May 1989 (1) 9,113, or 78 percent, of recipients received temporary shelter benefits averaging $490, (2) 5,109, or 44 percent, of recipients received permanent housing benefits averaging $587, and (3) 2,575, or 22 percent, received both temporary shelter and permanent housing benefits.

Table 5
Department of Social Services
AFDC Homeless Assistance Program
Living Arrangement at Time of Assistance
1989

Reasons for leaving last permanent residence		
Evicted by landlord	4,783	41.1%
Evicted by housemate	4,077	35.0
Voluntarily moved	1,087	9.3
Domestic violence	453	3.9
Residence uninhabitable	163	1.4
Released from institution	91	0.8
Natural disaster	72	0.6
Unknown	924	7.9
Living arrangement at the time of application		
Home of friend or relative	2,888	50.5
Motel or hotel	2,378	20.4
Public or private shelter	997	8.6
Motor vehicle	1,033	8.9
Outdoors	1,033	8.9
Not applicable [a]	163	1.4
Unknown	163	1.4

[a] These are families who applied for assistance as soon as they became homeless; therefore had not established a living arrangement.

Table 5 provides information on (1) the reason given by recipients for leaving their last permanent residence and (2) the living arrangement of recipients at the time of application. The most common reasons for leaving their last permanent residence were eviction by either a landlord (41 percent) or a housemate (35 percent). Over 70 percent of the applicants were either living with a friend or relative (50 percent) or living in a motel or hotel (20 percent) at the time they applied for homeless assistance.

Auditor General's Report. The Auditor General released a report in April 1990 entitled *Improvements are Needed in the State's Program to Provide Assistance to Homeless Families.* The report identified a number of problems with the AFDC-HA Program, presented findings and made recommendations in three areas. First, the report found that the department and the counties need to increase their efforts to limit fraud and abuse in the AFDC-HA Program. For example, the report found that in 9 of the 83 cases reviewed, the family either was not actually homeless or provided false or misleading information in order to receive assistance. Also, in 8 of the cases reviewed, the family receiving a homeless payment reported the same address they had before they applied for homeless assistance.

Second, the Auditor General found that, because the program is designed to respond immediately to an applicant's need, county eligibility workers have limited opportunity to verify the applicant's actual needs prior to granting aid. Further, the report found that existing regulations do not require sufficient verification (1) of the actual homelessness of the applicant or (2) that the assistance funds are actually used for shelter. Finally, the report found that the department and the counties need improved quality control, statistical reporting, and case-tracking procedures. For example, the report indicates that counties have been slow to implement the Homeless Assistance Payment Indicator System (a computerized fraud detection system) and to enter accurate payment data when the system is used.

Legislative Intent to Improve Program Integrity. The department has revised its regulations once since its initial regulations were developed for this program. Pursuant to legislative intent language in the 1990 Budget Act, the department will implement a second set of revisions on April 1, 1991 to reduce fraud, and increase both county accountability and recipient verification of eligibility and use of benefits. These rule changes include requirements that recipients (1) provide receipts for all expenditures, (2) repay their permanent housing payment if they return to their former address (with specific exceptions), and (3) repay any permanent housing benefit if they are found ineligible.

The department estimates that these changes would save the AFDC-HA Program about $20 million ($9 million General Fund) in the budget year. This estimate is based on the findings in the Auditor General's report and assumes that all counties will be equally effective in the way they implement the new regulations. Given the relatively small sample size in the Auditor General's report, however, this estimate is subject to significant error.

Conclusion. The AFDC-HA Program has been subject to abuse. At the same time, it has helped many truly homeless families. The department

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is making changes that it believes will improve the performance of the program. We are unable to estimate the number of truly homeless AFDC-eligible families that might benefit from this program. To the extent the AFDC-HA Program is effective, however, the Governor's proposal to eliminate the program clearly would adversely affect homeless families.

Proposed Elimination of State-Only AFDC-U Would Transfer Responsibility to the Counties

The budget proposes legislation to eliminate the state-only AFDC-U Program for a savings of $7 million to the General Fund. We find that this proposal would result in a transfer of responsibility for those recipients to the counties.

The budget proposes legislation to terminate the state-only AFDC-U Program for a savings of $7 million to the General Fund. Currently the state operates a limited-term AFDC-U Program (3 months of aid out of each 12-month period) for families that do not meet the requirements of the federal AFDC-U Program. The department estimates that about 760 families per month would qualify for assistance under this program during 1991-92. If this program is eliminated, as proposed in the budget, a substantial number of these families likely would apply for general assistance in the counties where they reside. Thus, elimination of this program would, in effect, result in a transfer of responsibility for these families to the counties.

Budget Proposes Compliance with Federal Disqualification Requirements in the AFDC Program

The budget proposes legislation to disqualify AFDC recipients who commit intentional program violations for a savings of $6.2 million ($2.8 million General Fund).

The budget proposes legislation to comply with federal disqualification requirements for intentional program violations (IPVs) in the AFDC-FG and U Program. If this legislation is enacted, the department estimates savings of $6.2 million ($2.8 million General Fund) in 1991-92.

Currently the state receives $2 million annually in enhanced federal funding (75 percent share of cost as compared to the normal 50 percent federal share for most administrative activities) for fraud investigators. The enhanced funding for fraud control was established as part of the Omnibus Budget Reconciliation Act of 1987 (OBRA-87). In addition, under OBRA-87, counties receive both federal and state funds for county prosecutor costs (75 percent federal plus 12.5 percent state compared to the normal 100 percent county funds). The OBRA-87 allows states to disqualify recipients found to have committed IPVs — such as providing false or misleading information, or concealing or withholding facts — for 6 months for the first violation, 12 months for the second violation, and permanently for the third violation. According to the DSS, the federal government is expected to publish final regulations early in 1991 requiring states to adopt these disqualification provisions as a condition of continued receipt of enhanced fraud funding. The department estimates that if legislation to disqualify IPVs is enacted, about 560 recipients per month would be disqualified for an average of six months each.

Budget Includes Savings Anticipated to Result From the Family Planning Initiative

The budget anticipates savings of $2.5 million ($1.1 million General Fund) to the AFDC-FG and U Program resulting from its proposal to increase funding for the Family Planning Program. Family planning expenditures have been shown to result in reduced expenditures for welfare. The exact magnitude of the savings that would be achieved in the budget year, however, are unknown. Thus, the department's estimate of these savings is subject to some error. We discuss the Family Planning initiative in detail elsewhere in this analysis (please see Item 4260, Office of Family Planning).

AID TO FAMILIES WITH DEPENDENT CHILDREN-FOSTER CARE

Overview. The Aid to Families with Dependent Children-Foster Care (AFDC-FC) Program pays for the care provided to children by guardians, foster parents, and foster care group homes. Children are placed in foster care in one of four ways:

- *Court Action.* A juvenile court may place a child in foster care if the child has been abused, abandoned, or neglected and cannot be safely returned home. The court may also place a minor who has committed a criminal or status offense in foster care. In addition, until January 1992, a court may place a child in foster care if the child is beyond the control of his or her parent(s) or guardian(s). Effective January 1, 1992, however, Ch 913/89 (SB 551, Presley) deletes this provision of law. Finally, probate courts place children in guardianship arrangements for a variety of reasons.
- *Voluntary Agreement.* County welfare or probation departments may place a child in foster care pursuant to a voluntary agreement between the department and the child's parent(s) or guardian(s).
- *Relinquishment.* A child who has been relinquished for adoption may be placed in foster care by an adoption agency, prior to his or her adoption.
- *Individualized Education Program.* Since July 1986, an individualized education program (IEP) team may place a child in foster care if it determines that the child (1) needs special education services, (2) is seriously emotionally disturbed (SED), and (3) needs 24-hour out-of-home care in order to meet his or her educational needs.

Children in the foster care system for any of these reasons can be placed in either a foster family home or a foster care group home. Both types of foster care facilities provide 24-hour residential care. Foster family homes must be located in the residence of the foster parent(s), provide service to no more than six children, and be either licensed by the DSS or certified by a Foster Family Agency. Foster care group homes

Aid to Families with Dependent Children—Continued

are licensed by the DSS to provide services to seven or more children. In order to qualify for a license, a group home must offer planned activities for children in its care and employ staff at least part-time to deliver services.

Budget Proposal. The 1991-92 budget proposes total expenditures of $1 billion ($744 million from the General Fund, $245 million in federal funds, and $38 million in county funds). The total General Fund request for AFDC-FC represents an increase of $104 million, or 16 percent, above estimated 1990-91 expenditures.

Proposal to Freeze Foster Care Rates is a Major Policy Issue

The budget proposes legislation to suspend the statutory rate increases for foster care group homes for a savings of $50 million ($33 million General Fund). We find that the DSS has underestimated the fiscal effect of the savings that would result from this proposal.

Budget Proposal. The budget proposes legislation to freeze foster care group home rates in lieu of the trigger reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The department estimates that this proposal will result in savings of $50 million ($33 million General Fund) in 1991-92.

The current system for reimbursing foster care group homes was established by Ch 1294/89 (SB 370, Presley). Specifically, Chapter 1294 established a standardized schedule of rates for reimbursing group home providers. The statute specifies 14 rate classification categories that are based on the level of service provided.

Prior to the enactment of Chapter 1294, group homes that provided the same level of care were reimbursed at substantially different rates. Chapter 1294 established a three-year phase-in schedule to equalize the rates of group homes at each level of care. With respect to group homes whose rates are below the statutory rate classification level, Chapter 1294 requires the department to raise rates to a specified amount that is increased each year of the three-year phase-in period. In 1990-91, this amount is 85 percent of the statutory rate for each classification level. Chapter 1294 requires that the rate minimum be raised to 92.5 percent in 1991-92. In addition, Chapter 1294 increases the statutory rates for each classification level in 1991-92 by 5.49 percent, which is the percentage change in the California Necessities Index during the 1990 calendar year.

The proposal to freeze group home rates in 1991-92 represents a major policy decision that the Legislature will have to decide based on its overall fiscal and policy priorities for this and other state programs. One potential drawback of the proposal is that it may restrict the supply of foster care group home beds in 1991-92. We have requested, and the department has agreed, to provide the Legislature with an estimate of (1) the number of group home beds currently available in the state, (2) the number of children who will need group home care in 1991-92, and (3) the extent to which the proposed freeze on rates will affect the supply of group homes in 1991-92. We will provide the Legislature with our analysis of this information at the time of budget hearings.

Department's Estimate of the Fiscal Effect of the Rate Freeze Proposal is Flawed. We have identified two errors in the department's estimate of the fiscal effect of the rate freeze proposal. First, our analysis indicates that the department has underestimated the savings that would result from the implementation of the proposal. This occurred because the department assumed that, despite the rate freeze, group home rates in 1991-92 would increase by an average of 5.2 percent, which was the average annual rate of increase for group home rates prior to the implementation of Chapter 1294. Since the proposal would freeze each individual provider's rate at the 1990-91 level, there is no basis for assuming that there would be *any* increase in group home rates as a result of the proposal. In addition, our analysis indicates that the department miscalculated the federal and county shares of the savings associated with the proposal.

After correcting for these errors, we estimate that the actual savings that would result from the rate freeze in 1991-92 would be $64 million ($49 million General Fund, $12 million federal funds, $2.6 million county funds), which is $14 million ($16 million General Fund) more than the budget proposes. We anticipate that the department will correct these errors in the May revision.

Budget Does Not Provide Funding for Specialized Foster Care Programs

The budget does not fund the specialized foster care programs anticipated by Chapter 1294.

Chapter 1294 expresses legislative intent to increase General Fund support for foster family homes by 5 percent in 1991-92, in order to fund programs to encourage the placement of more foster care children in foster family homes, rather than in group homes. Specifically, Chapter 1294 expresses legislative intent that these funds be used to (1) increase foster family home grants to foster parents who care for children with special needs, (2) recruit and train foster parents to care for these children, and (3) develop county programs to encourage the placement of these children in foster family homes. The department estimates that it would cost $12.7 million from the General Fund to support these activities in 1991-92. To the extent that these activities are effective at increasing the number of children placed in foster family homes, rather than in more expensive group homes, these activities could have resulted in net savings to the foster care program in 1991-92. However, the budget does not include funding for these programs.

Budget Proposes to Claim Increased Federal Funds for Wards of the Court Who are Placed in Foster Care

We find that the department's proposal to increase federal support for wards of the court lacks detailed information that would allow the Legislature to fully evaluate its fiscal effect and feasibility. Therefore, we recommend that the DSS report to the Legislature during budget hearings on (1) its specific plans for implementing the proposal and (2) its revised fiscal estimate of the proposal.

Aid to Families with Dependent Children—Continued

Background. The DSS estimates that there are currently 5,600 wards of the court residing in foster family homes or foster care group homes in California. Under federal law, California is permitted to claim federal foster care funds for two types of costs related to the care of these wards:

- ***Foster Care Grant Costs.*** The federal government will pay for 50 percent of the foster care grant costs of wards if (1) the ward's family was receiving, or was eligible to receive, an AFDC grant in the month in which the minor was placed in foster care and (2) the ward is placed in a foster family home or a *nonprofit* group home. The foster care costs for wards of the court who do not meet these eligibility criteria are supported by the state-only foster care program, for which the state pays 95 percent and the counties pay 5 percent of the costs.
- ***Case Management Costs.*** The federal government pays 50 percent of certain case management and administrative costs for federally eligible wards in foster care. Currently, the DSS claims federal foster care funds for case management and administrative costs of county *welfare* departments, which serve abused and neglected children in foster care. To date, however, the department has never claimed federal foster care funds on behalf of county *probation* departments for any of the services they provide to wards in foster care.

Budget Proposal. The budget proposes a $25 million federal funds increase in foster care grant costs and a corresponding reduction in General Fund support. This assumes that the state would be able to claim federal eligibility for 50 percent of the wards in foster care. Currently, the department estimates that approximately 32 percent of the wards in foster care participate in the federal foster care program.

In addition, the budget proposes an increase of $24 million in federal funds support in Item 5180-151-890. This assumes that the state would be able to claim federal foster care funds for the case management and administrative activities performed by county probation departments on behalf of federally eligible wards in foster care.

We have three concerns with the budget proposal:

1. It is unclear how many wards who currently receive state-only funded foster care are actually eligible for the federal Foster Care Program. The department's assumption that the state could receive federal funding for 50 percent of the wards in foster care is based on a report prepared under contract with the DSS by a private consulting firm. However, in preparing the report, the contractor did *not* review any individual cases to determine whether they were, in fact, federally eligible. Moreover, the DSS has not proposed any plan that counties could follow to accomplish such a substantial increase in the number of wards claimed to the federal program.

2. The department's estimate overstates the amount of the shift that would occur between the General Fund and federal funds in the Foster Care Program as a result of this proposal. This is because the department used estimates prepared by the contractor, which overestimated the total number of wards in foster care statewide and the General Fund savings that would result from shifting each ward to the federally funded program. Based on foster care placement and cost data provided by the department, we estimate that increasing the percentage of federally eligible wards from 32 percent to 50 percent, as assumed in the department's proposal, would result in General Fund savings of $17 million, as compared to the $25 million estimated by the department.

3. There are several implementation issues that need to be resolved before the DSS can begin claiming federal foster care funds for the case management and administrative activities performed by county probation departments. There are two major issues that the department needs to resolve in order to claim the additional federal foster care funds proposed for probation departments' case management and administrative activities. Specifically, the following issues had not been resolved at the time this analysis was prepared:

- ***How Will the DSS Monitor the Performance of County Probation Departments?*** As a condition of receiving federal funds, federal law requires the department to "monitor and conduct periodic evaluations of activities" carried out by the agencies providing services to federally eligible children in foster care. However, the DSS has not yet developed a plan for supervising the activities of county probation departments. Thus, it is unclear how the department intends to meet this federal requirement.
- ***Will Administrative Procedures to Claim Federal Funds for Case Management and Administrative Activities Be In Place by July 1, 1991?*** In order for the DSS to claim federal foster care funds for administration and case management activities provided on behalf of wards in foster care, county probation departments will need to establish (1) methods to track the time spent by probation officers on federally eligible activities and (2) procedures to submit the necessary information to county welfare departments. In some cases, this may require county probation departments to reorganize their staff in order to track staff costs associated with federally eligible wards in foster care. In addition, it will require county probation departments, county welfare departments, and the DSS to establish interagency agreements that detail how cost and caseload information will be collected, transmitted, and audited. It will take concerted efforts to resolve these issues by the beginning of the budget year, as contemplated by the department's estimate.

Recommendation. At the time this analysis was prepared, the DSS had just begun meeting with county welfare departments and county probation departments to discuss this proposal. According to the department, it intends to begin implementing the proposal in four counties — Contra Costa, Riverside, Los Angeles, and Orange — during February of the current year. We expect that the department will have more detailed information regarding the implementation issues discussed above after these counties begin implementing the proposal. In addition, we believe that it would be possible for the department to develop a more accurate

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estimate of the fiscal effects of the proposal by conducting a survey of the eligibility characteristics of wards in these or other selected counties. This information would allow the department to more accurately estimate the extent to which the federal eligibility of wards in foster care could be improved. Our analysis indicates that this kind of fiscal and programmatic information will be necessary in order for the Legislature to fully evaluate the feasibility and potential fiscal effect of the proposal. For this reason, we recommend that the DSS report to the Legislature at the time of the May revision on (1) its plans for implementing the proposal and (2) its revised fiscal estimate.

Budget Includes Funding for Children Who Will Not Be Eligible For Foster Care Under Current Law

We recommend that the department report to the Legislature at the time of budget hearings on its estimate of the number of emotionally disturbed children who will remain in foster care after the sunset of Ch 913/89 (SB 551, Presley) and the amount of funding that will be necessary to support the foster care costs for these children in 1991-92.

We estimate that the budget includes expenditures of $17 million ($13 million General Fund, $3.5 million federal funds, $700,000 county funds) for foster care grants to approximately 500 children who were placed in foster care because the courts determined that they were beyond the control of their parents or guardians. Typically, these children have emotional or behavioral problems that make it difficult for their parents to keep them at home. Most of these children have been in foster care for several years.

Effective January 1, 1992, Chapter 913 will delete the provision of law that allowed the courts to place children in foster care because they are beyond the control of their parents. Thus, these children will *not* be eligible to continue to receive AFDC payments under this provision of law after January 1, 1992. Moreover, the department will not have the statutory authority to spend the funds included in the budget for their foster care costs in the last half of 1991-92.

It is unclear what the placement options for these children will be after January 1, 1992. However, the county welfare department and mental health department administrators we contacted indicated that the following options exist for these children:

- ***Remaining in Foster Care Under Different Statutory Authority, as Dependents or Wards of the Court.*** After the provisions of Chapter 913 sunset, it may be possible for the juvenile courts to continue the authority for the placement of some of these children under different statutory authority. However, this would require the court to find that either (1) the child's parent(s) had abused or neglected the child or (2) the child had committed a status or criminal offense. It is unclear how many of these children would be maintained in foster care for these reasons.
- ***Remaining in Foster Care Under the Seriously Emotionally Disturbed (SED) Program.*** According to one county administrator we

contacted, some of the children in foster care under the authority of Chapter 913 may also be eligible for the SED Program. The SED Program provides foster care, specialized education programs, and mental health services to seriously emotionally disturbed children. In order to be eligible for the SED Program, a child must be identified by his or her local public school as needing foster care for educational reasons. It is possible that in some counties, children who are in foster care as a result of the provisions of Chapter 913 would be able to continue in foster care, if they are diagnosed as SED. However, it is unclear how many of these children would be diagnosed as being SED during 1991-92, since their schools have previously not identified them as SED eligible.

- ***Entering Other Publicly Funded Residential Placement Facilities.*** It is also possible that some of these children would be placed in other publicly funded residential facilities that provide psychiatric care, such as state hospitals.
- ***Entering Private Residential Facilities.*** The parents of some of these children may have the resources to pay for the costs of a private residential facility that would meet the treatment needs of the child. However, one county administrator we contacted advised us that the reason many of these children are currently in foster care is because their parents have exhausted their own resources for the support of the children in private facilities.
- ***Returning to Live at Home With Their Parents.*** Some of these children may be able to return to live at home with their parents. According the county administrators we contacted, however, it is unlikely that a substantial number of children could be maintained successfully in their homes unless the county could provide additional mental health and support services to the child and the family. It is unclear whether county mental health departments can provide the level of service that would be necessary to maintain these children in their homes.

At the time this analysis was prepared, the DSS had not estimated the number of these children who will continue to reside in foster care after the sunset of Chapter 913. We believe the department could develop such an estimate by surveying county welfare departments. This estimate would assist the Legislature in identifying (1) the correct amount of funding to leave in this item for foster care grants to the emotionally disturbed children who would remain in foster care after the sunset of Chapter 913 and (2) the amount of excess funds currently proposed in this item that could be used either to support other services for these children — such as mental health treatment services for children who return to live at home with their parents — or for other legislative priorities. Therefore, we recommend that the department report to the Legislature at the time of budget hearings on its estimate of the number of children who will remain in foster care after Chapter 913 sunsets and the amount of funding that will be necessary to support their continued foster care costs.

Aid to Families with Dependent Children—Continued

CHILD SUPPORT ENFORCEMENT

Background. The child support enforcement program is administered by district attorneys' offices throughout California. Its objective is to locate absent parents, establish paternity, obtain court-ordered child support awards, and collect payments pursuant to the awards. These services are available to both welfare and nonwelfare families. Child support payments that are collected on behalf of welfare recipients under the AFDC Program are used to offset the state, county, and federal costs of the program. Collections made on behalf of nonwelfare clients are distributed directly to the clients.

The child support enforcement program has three primary fiscal components: (1) administrative costs, (2) welfare recoupments, and (3) incentive payments. The *administrative costs* of the child support enforcement program are paid by the federal government (66 percent) and county governments (34 percent). *Welfare recoupments* are shared by the federal, state, and county governments, according to how the cost of AFDC grant payments are distributed among them (generally 50 percent federal, 44.6 percent state, and 5.4 percent county).

Counties also receive *"incentive payments"* from the state and the federal government designed to encourage them to maximize collections. The incentive payments are based on each county's child support collections. In federal fiscal year 1991 (FFY 91), the federal government pays counties an amount equal to 6 percent of AFDC and non-AFDC collections, while the state pays an amount to each county equal to 7.5 percent of its AFDC collections. In addition, the state pays counties $90 for each paternity that they establish.

New Criteria for Incentive Payments

Pursuant to Ch 1647/90 (AB 1033, Wright), the distribution of incentive payments to counties will be revised, effective January 1, 1992. Counties will receive up to 11 percent of *total* collections (AFDC and non-AFDC) in the last 6 months of 1991-92 and in all of 1992-93, increasing annually by 1 percent through 1995-96. The actual amount that counties receive will consist of a minimum "base" rate and an additional percentage depending on their performance with respect to (1) compliance with federal and state regulations and audit criteria and (2) three specific components of the administrative process: location of absent parents, establishment of paternities, and establishment of support orders. The minimum base rate in 1991-92 is established at 10 percent, decreasing by 1 percent annually through 1995-96. Counties can earn an additional 1 percent in 1991-92 for compliance with state and federal regulations, increasing annually by 1 percent through 1995-96. Finally, counties that qualify for the compliance incentive rates can earn an additional 1 percent in 1993-94 for their performance on the three components of the administrative process, increasing by 1 percent annually through 1995-96.

Table 6 summarizes the new system for distributing incentive payments.

Table 6
Department of Social Services
Child Support Program Incentive Payments
1991-92 through 1995-96

	Base Rate[a]	*Compliance Rate*[a]	*Performance Rate*[a]	*Total*[a]
1991-92[b]	10%	1%		11%
1992-93	9	2		11
1993-94	8	3	1%	12
1994-95	7	4	2	13
1995-96	6	5	3	14

[a] Applied to total child support collections (AFDC and non-AFDC).
[b] Effective January 1, 1992.

New Incentive Payment System Favors Non-AFDC Collections

We recommend that legislation be enacted to provide that (1) in determining the incentive payments allocated to counties for child support collections (effective January 1, 1992), the percentage applied to non-AFDC collections be reduced by 18 percent in order to account for the estimated differential between AFDC and non-AFDC collections per case, and (2) any savings resulting from this provision be reallocated to (a) incentives based on medical support orders or (b) an administrative workload supplement based on the proportion of the county's population represented by AFDC recipients.

As explained above, the new incentive payment system that will be implemented on January 1, 1992, pursuant to Chapter 1647, provides that state and federal incentive payments will be distributed to counties based on a specified percentage (10 percent or 11 percent in 1991-92, depending on compliance with state and federal regulations) of total collections for AFDC and non-AFDC families. This represents a shift in incentives toward non-AFDC collections (for which the state receives no direct savings through recoupment of AFDC grants) because prior law provided that the state portion of incentive payments be allocated only on the basis of AFDC collections.

In developing the new incentive payment system and sponsoring Chapter 1647, the DSS defended this change by contending that giving priority to AFDC collections would not be consistent with federal law. (Specifically, federal legislation requires only that child support services be made available to anyone requesting these services.) We note, however, that the dollar value of child support collections made on behalf of non-AFDC families is higher, on a per case basis, than those collected for AFDC families, due to the differences in family income levels. Thus, allocating incentive payments by applying the *same* percentage to AFDC and non-AFDC collections will, in effect, give counties *more* incentive to pursue non-AFDC cases.

In order to equalize the "real" incentive to process AFDC and non-AFDC cases, the percentage applied to non-AFDC cases would have to be set at a level below the percentage applied to AFDC cases, compensating for the difference in collections per case between the two

Aid to Families with Dependent Children—Continued

categories. Based on the most recent annual data, we estimate non-AFDC collections per case are, on average, 18 percent higher than AFDC collections per case. Thus, the incentive to pursue collections on each type of case could effectively be equalized by one of the following alternatives: reducing the percentage applied to non-AFDC cases by 18 percent (in 1991-92, for example, reducing the maximum incentive rate from 11 percent to 9 percent); increasing the percentage applied to AFDC cases by 18 percent; or some combination of the preceding two actions.

Given the fiscal problems facing the state, augmenting the budget to increase the AFDC incentive does not appear to be a realistic option. Reducing the non-AFDC incentive, on the other hand, would generate an estimated savings of $3.2 million in 1991-92 and $6.7 million in 1992-93, increasing moderately annually thereafter through 1995-96. From a fiscal standpoint, this is an attractive alternative. We believe, however, that these funds would be used cost-effectively by reallocating them within the child support enforcement program, provided that the funds are expended on those components of the program that result in the greatest savings to the state. We identify two alternatives to achieve this objective:

1. Provide an incentive for establishment of medical support orders. Federal regulations require child support enforcement agencies to seek medical support (noncustodial parents' health insurance coverage) in conjunction with child support orders, including the modification of existing orders. County child support agencies, however, do not receive any savings or incentive payments for medical support orders. Thus, they have less fiscal incentive to pursue this activity than to engage in other administrative tasks that result in collections. The state and federal governments, on the other hand, could realize significant savings because the health insurance coverage would reduce Medi-Cal costs for those families in the Medi-Cal Program. To the extent that incentive payments are effective, therefore, it seems reasonable to establish an incentive for medical support enforcement.

2. Provide an administrative workload supplement based on each county's population of AFDC recipients as a percentage of its total population. As we discussed in last year's *Analysis*, there is a strong correlation between a county's administrative effort — measured by its administrative expenditures as a percentage of its AFDC grant expenditures — and the county's child support collections performance, as measured by its AFDC recoupment rate. In other words, we would expect that, on average, a county with a relatively large welfare population would have to allocate correspondingly more resources to its child support program than would a county with a small welfare population, in order to achieve the same level of performance. A county's resources, however, would be related more closely to its total population than to the size of its welfare population. Thus, counties with high welfare populations in proportion to their total population may find it more difficult to devote the level of resources needed for its child support program.

An administrative supplement, based on each county's population of AFDC recipients as a percentage of its total population, would help to address this problem. Such an allowance could be accompanied by a maintenance of effort provision in order to ensure that it does not result in supplanting of county funds.

Conclusion. While we do not agree with the DSS's contention that federal law appears to require that state as well as federal incentive payments be distributed so as to treat AFDC and non-AFDC cases on an equal basis, our recommendation to reduce the percentage that will be applied to non-AFDC collections is consistent with the department's underlying premise in developing the new incentive system. With respect to the possible reallocation of the savings generated by this change, we believe that both of the alternatives that we identified have merit. Consequently, we recommend that legislation be enacted to revise the distribution of incentive payments, and we suggest that the department consider the alternatives for reallocating the incentive payments and be prepared to comment on them during any hearings that might be held concerning our proposal.

Fiscal Impact of Program

As Table 7 shows, the child support enforcement program is estimated to result in *net savings* of $94 million to the state's General Fund in 1991-92. The federal government is estimated to spend $106 million more in 1991-92 than it will receive in the form of grant savings. California counties are expected to incur a net cost to administer the program in the amount of $5 million in 1991-92.

Table 7
Department of Social Services
Child Support Enforcement Program
1991-92
(in thousands)

Program costs	*General Fund*	*Federal Funds*	*County Funds*	*Total*
County administration	$1,769	$179,477	$84,543	$265,789
State administration	4,153	8,725	—	12,878
Incentive payments	22,508	42,846	−65,354	—
Savings				
Welfare collections	−122,167	−124,560	−14,252	−260,979
Net fiscal impact	−$93,737	$106,488	$4,937	$17,688

Table 7 does *not* show one of the major fiscal effects of the child support enforcement program: its impact on AFDC caseloads. To the extent that child support collections on behalf of non-AFDC families keep these families from going on aid, they result in AFDC grant avoidance savings. While AFDC grant avoidance is one of the major goals of the child support enforcement program, it is not shown in the table because, unlike the other fiscal effects of the program, there is no way to directly measure the savings that result from grant avoidance.

Aid to Families with Dependent Children—Continued

Collections and Recoupments

The major objective of the child support enforcement program is to assure the collection of support obligations. Therefore, one measure of the performance of the program is its total collections. Table 8 shows the change in statewide collections of child support from 1982-83 through 1989-90. As the table shows, statewide collections increased at an average annual rate of 10 percent during this period.

Table 8
Department of Social Services
Statewide Child Support Collections [a]
1982-83 through 1989-90
(dollars in thousands)

	AFDC	*Non-AFDC*	*Total Collections*	*Annual Percent Increase*
1982-83	$151.5	$112.5	$264.0	—
1983-84	158.2	125.8	284.0	7.6%
1984-85	174.8	142.9	317.7	11.9
1985-86	187.3	160.0	347.2	9.3
1986-87	198.1	189.3	387.4	11.6
1987-88	213.5	215.8	429.3	10.8
1988-89	235.1	241.5	476.6	11.8
1989-90	246.4	267.1	513.5	7.7
Average annual increase				10.0%

[a] Data provided by Child Support Management Information System, Department of Social Services. Figures for 1989-90 do not tie to Governor's Budget because of differences in the accounting and reporting of the data.

Although total collections are an important indicator of program performance, collection data alone do not measure the extent to which the program reduces the amount of public funds spent on welfare. A commonly used measure of program success in this regard is the percentage of AFDC grant expenditures actually recouped through the child support enforcement program (the "recoupment rate"). Table 9 shows the recoupment rate from 1982-83 through 1989-90. During this period, the state recouped an average of 6.2 percent of state, federal, and county expenditures through the child support enforcement program.

Table 9
Department of Social Services
Child Support Enforcement "Recoupment Rates" [a]
All Counties
1982-83 through 1989-90

1982-83	6.3%
1983-84	6.2
1984-85	5.8
1985-86	6.3
1986-87	6.1
1987-88	6.6
1988-89	6.6
1989-90	5.9
Average rate	6.2%

[a] AFDC collections as percent of grant expenditures.

State Passes Follow-Up Audit

As we noted in last year's *Analysis*, the U.S. Department of Health and Human Services (DHHS) recently completed an audit of California's child support enforcement program to determine whether the state is in compliance with requirements of Title IV-D of the Social Security Act, which is the federal statute that governs the program. The audit, which reviewed the program during FFY 86, concluded that California had not complied substantially with the federal requirements.

Because the state was found to be out of compliance with federal requirements, the DHHS notified the state that it must develop and implement a corrective action plan or face a 1 percent to 2 percent penalty against the total amount of Title IV-A (AFDC) funds paid to the state, beginning with payments for the November 1988 quarter. The DSS submitted a corrective action plan in January 1989 and it was approved by the DHHS. The plan has been implemented, and the federal follow-up audit found that the state is in compliance with federal regulations.

UNALLOCATED REDUCTION

The Governor's Budget includes an unallocated trigger-related reduction of $3 million from the General Fund in this item. This reduction is included in the proposed budget for this item in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The department advises that the unallocated reduction in this item would be applied only to the Adoption Assistance Program (AAP) and the Transitional Child Care (TCC) Program. The department also indicates, however, that the budget inadvertently omits the trigger-related reduction to child support incentive payments, in the amount of $900,000. We anticipate that this will be included in the May revision.

Our analysis indicates that reductions in the AAP and TCC programs would require legislation. This is because the eligibility requirements and benefits received by recipients in both programs are established in statute, and cannot be altered through action on the budget. However, at the time this analysis was prepared the department had not proposed a plan for how this reduction would be implemented. We discuss options for reducing costs in the AAP below. We also note that the amount proposed for the TCC Program may substantially overstate the true costs of the program in the budget year.

The Governor's Budget also proposes trigger-related reductions in this item for the AFDC-FG and U and AFDC-FC programs, but in these cases the proposed reductions have been allocated to these programs. Specifically, the budget states that a portion of the savings that would result from (1) suspending the statutory AFDC COLA and (2) the proposed foster care rate freeze (both of which are discussed above) are proposed in lieu of the Chapter 458 trigger reduction.

Department's Report on Developing Standards and Time Limits for AAP Grants May Provide Options for Reducing AAP Costs

The Supplemental Report of the 1990 Budget Act requires the DSS to report to the Legislature by March 1, 1991 on (1) options for establish-

Aid to Families with Dependent Children—Continued

ing standards for adoption workers to follow in setting AAP grant levels and (2) the feasibility of placing time limits on state-only AAP benefits. This report should provide the Legislature with options for reducing costs in the AAP.

Background. The AAP provides grants to parents who adopt "difficult to place" children. State law defines "difficult to place" children as those who, without assistance, would likely be unadoptable because of their age, racial or ethnic background, or handicap, or because they are a member of a sibling group that should remain intact. Adoptive parents receive AAP grants until their child is 18 years of age, or until age 21 if the child has a chronic condition or disability that requires extended assistance.

Under current law, adoption assistance grants are limited to the amount of the foster care rate that the child would have received if she or he had remained in foster care. In most cases, this means that the grant cannot exceed the foster family home monthly rate. The family home rate ranges from $346 to $485 per month, depending on the age of the child. However, adoption workers can set adoption assistance grants as high as the foster care group home rate — an average of $2,770 per month in 1990-91.

For federally eligible children, the federal government pays for 50 percent of any AAP grant that is less than the foster family home rate. For grants above the family home rate, the federal share is limited to 50 percent of the family home rate. The General Fund pays for all grant costs not covered by the federal government.

Budget Proposal. The budget proposes $69 million ($49 million General Fund, $20 million federal funds) for the AAP. However, this does not take into account the unallocated trigger-related reduction proposed in this item. While the budget does not specify how much of the trigger-related reduction would apply to the AAP, the amount of the trigger was calculated by taking 4 percent of the total scheduled for the AAP and TCC programs. A 4 percent reduction in the General Fund amount proposed for AAP would be $2 million.

The General Fund request (not including the effect of the trigger) represents an increase of $11 million, or 27 percent, over 1990-91 expenditures.

AAP Costs Have Grown Dramatically. Adoption assistance costs have increased dramatically since the program was established in 1983-84. This increase is primarily attributable to two factors: caseload growth and the average amounts granted to each adoptive family.

- ***Caseload Growth.*** The average monthly adoption assistance caseload has grown from 2,300 in 1983-84 to an estimated 12,500 in 1991-92. This constitutes a 443 percent increase over the period, or an average annual increase of 24 percent.
- ***Grant Increases.*** Between 1983-84 and 1991-92, the average adoption assistance grant per case grew by 115 percent, from $208 per month to $447 per month. This represents an annual increase of 10 percent,

almost two and one-half times the rate of growth in the California Consumer Price Index.

Department's Report to the Legislature Should Provide Options for Controlling Costs in the AAP. In our *Analysis of the 1990-91 Budget Bill*, we examined the reasons for the rapid growth in AAP grant costs. We found that the primary reason for the rapid growth in AAP grant costs is the lack of state controls on the amount of grants adoptive parents are eligible to receive. Specifically, we found that the AAP is unique among the major grant programs operated by the DSS in that it allows individual county adoption workers broad discretion in determining both the amount and the beginning date of the grants. In addition, we found that the lack of statewide standards for adoption workers to use in setting the amount and the beginning date of any grants awarded results in large variations in adoption assistance grants across counties. (Please see our *Analysis of the 1990-91 Budget Bill*, page 715 for further discussion of this issue.) It is important to note in this respect that in a recently issued policy memo to the states, the federal DHHS advised states that they must have a state policy that describes the procedures used to set AAP grant levels. To date, however, the department has not developed procedures for adoption workers to use in setting AAP grant levels.

Recognizing that there was a need for better controls on the AAP, the Legislature adopted language in the *Supplemental Report of the 1990 Budget Act* that stated the Legislature's intent to establish standards for the AAP and required the department to report to the Legislature by March 1, 1991 on (1) options for establishing standards for adoption workers to follow in setting AAP grant levels and (2) the feasibility of placing time limits on state-only AAP benefits. We anticipate that this report will identify options for controlling cost growth in the AAP.

Transitional Child Care

We find that the department substantially overestimated the Transitional Child Care (TCC) Program costs because its projections are based on survey rather than actual program data.

Chapter 36, Statutes of 1990 (AB 1706, Bates) created the TCC Program, which started April 1, 1990. The TCC Program provides child care to certain families leaving AFDC due to increased earnings, increased hours of work, or loss of an earned income disregard. To qualify for a TCC grant families (1) must have been on AFDC for at least three of the last six months and (2) need child care in order to continue employment. Recipients receive 12 months of child care under the program and pay a share of the costs based on their income.

The budget proposes $52 million ($26 million General Fund) in the budget year for the TCC Program. However, this does not take into account the unallocated trigger-related reduction proposed in this item. While the budget does not specify how much of the trigger-related reduction would apply to this program, the amount of the trigger was calculated by taking 4 percent of the total scheduled for the AAP and the TCC programs. A 4 percent reduction in the General Fund amount proposed for TCC would be about $1 million.

Aid to Families with Dependent Children—Continued

Department's Estimate Overstates TCC Costs. Since the TCC Program is a relatively new program, the department's estimates are based on survey data rather than actual caseloads and costs. Our review of the most recent five months of actual caseload and cost data for the TCC Program suggests that the department's estimate substantially overstates the likely costs of the program in both the current and the budget years. For example, the department estimates that the average monthly caseload would be about 11,000 cases and that the average cost per case would be $390 in 1991-92.

Based on actual program data, we estimate the costs of the TCC Program will be $12 million ($6 million General Fund) in the budget year, which is $40 million ($20 million General Fund) less than the amount proposed in the budget. We anticipate that the department will provide an updated estimate of the TCC costs in the May revision.

DEPARTMENT OF SOCIAL SERVICES

State Supplementary Program for the Aged, Blind, and Disabled

Item 5180-111 from the General Fund and Federal Trust Fund — Budget p. HW 170

Requested 1991-92	$2,321,587,000
Estimated 1990-91	2,320,711,000
Actual 1989-90	2,215,736,000
Requested increase $876,000 (+0.04 percent)	
Total recommended reduction	None
Recommendation pending	2,321,587,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$2,286,200,000
Control Section 23.50—Payments to aged, blind, and disabled	State Legalization Impact Assistance Grant—Federal	35,387,000
Total		$2,321,587,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS — *Analysis page*

1. The Legislature's options for cost control in this program are (a) suspending the state cost-of-living adjustment, as proposed in the budget, and (b) otherwise reducing State Supplementary Program grant levels. 792
2. Withhold recommendation on $2.3 billion from the General Fund pending review of revised estimates in May. 794

GENERAL PROGRAM STATEMENT

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. Persons may be eligible for the SSI/SSP Program if:

- They are age 65 or older, blind, or too disabled to work.
- Their income is less than the SSI/SSP payment standards.
- Their resources do not exceed $2,000 for individuals or $3,000 for couples (this cap does not apply to the value of such significant assets as a home or automobile).

The maximum grant received by an SSI/SSP recipient varies according to the recipient's eligibility category (aged, blind, disabled), other income, and living situation.

In California, the federal government administers the SSI/SSP Program through local Social Security Administration (SSA) offices. The federal government pays the cost of the SSI grant and all costs of program administration. California has chosen to supplement the federal payment by providing an SSP grant. The SSP grant is funded entirely from the state's General Fund. However, the federal government pays for the SSP grants for newly legalized persons through the State Legalization Impact Assistance Grant (SLIAG).

The federal government annually provides a cost-of-living adjustment (COLA) to SSI/SSP recipients, increasing the amount of the SSI payment by the percentage increase in the Consumer Price Index (CPI). Under existing law, the state must annually fund another COLA, increasing the total SSI/SSP grant by the percentage increase in the California Necessities Index (CNI). The Commission on State Finance has determined that the actual change in the CNI for calendar year 1990 is 5.49 percent, while the estimated change in the CPI for calendar year 1990 is 4.8 percent. The state COLA may be reduced by up to four percentage points if budget reductions occur pursuant to Ch 458/90 (AB 2348, Willie Brown).

MAJOR ISSUES

☑ **The budget proposes legislation to suspend the statutory requirement for a state COLA (5.49 percent) for SSI/SSP grants in 1991-92 for a General Fund savings of $168 million.**

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $2.3 billion from the General Fund for the state's share of the SSI/SSP Program in 1991-92. The budget also includes $35.4 million from the federal SLIAG for grants to newly legalized persons under the federal Immigration Reform and Control

State Supplementary Program for the Aged, Blind, and Disabled—Continued

Act. The total proposed appropriations are an increase of $876,000, or less than one-tenth of 1 percent, above estimated current-year expenditures.

The budget also assumes that federal expenditures for SSI grant costs will be $2.4 billion. This is an increase of approximately 15 percent over estimated federal expenditures in the current year. The combined state and federal expenditures anticipated by the budget for the SSI/SSP Program is $4.8 billion, an increase of $326 million, or 7.3 percent above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures by category of recipient and by funding source, for the years 1989-90 through 1991-92.

Table 1
Department of Social Services
SSI/SSP Expenditures
1989-90 through 1991-92
(dollars in thousands)

Category of Recipient	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Percent Change From 1990-91*
Aged	$1,242,550	$1,356,259	$1,439,076	6.1%
Blind	119,170	126,303	129,331	2.4
Disabled	2,658,186	2,956,360	3,196,086	8.1
Totals	$4,019,906	$4,438,922	$4,764,493	7.3%
Funding Sources				
Included in Budget Bill:				
General Fund	*$2,203,946*	*$2,298,805*	*$2,286,200*	*−0.5%*
Federal funds (reimbursement for refugees)	*3,667*	—	—	—
State Legalization Impact Assistance Grants	*8,123*	*21,906*	*35,387*	*61.5*
Subtotals, Budget Bill	($2,215,736)	($2,320,711)	($2,321,587)	(—)[a]
Not included in Budget Bill:				
SSI grants	$1,804,170	$2,118,211	$2,442,906	15.3%

[a] Less than one-tenth of 1 percent.

Table 2 shows the factors resulting in the 1991-92 net increase of $326 million in SSI/SSP expenditures. Several significant changes and adjustments contribute to this increase:

- A $359 million ($174 million General Fund) increase to fund an anticipated 7.3 percent caseload growth.
- A $158 million General Fund reduction resulting from federal SSI COLAs in 1991 and 1992.
- A $58 million ($42 million General Fund) reduction resulting from federal social security COLAs in 1991 and 1992 (federal social security COLAs are counted as increased beneficiary income, and thus reduce SSI/SSP grant levels to persons who receive both SSI/SSP and social security payments).

Table 2 also shows that the budget proposes not to provide a 5.49 percent state COLA in 1991-92, for a net savings of $149 million ($168 million General Fund).

Table 2
Department of Social Services
SSI/SSP Budget Changes
1991-92
(dollars in thousands)

	General Fund	*All Funds* [a]
1990 Budget Act	$2,274.8	$4,304.4
1990-91 adjustments to appropriations:		
Higher-than-anticipated caseload growth	$34.4	$129.6
One-time federal payment — eligibility determination errors	−13.6	—
Other	3.2	4.9
Subtotals, expenditure adjustments	($24.0)	($134.5)
1990-91 expenditures, revised	$2,298.8	$4,438.9
1991-92 adjustments:		
Baseline adjustments		
Caseload increase	$174.2	$359.5
Full-year savings of 1991 federal COLA	−83.3	−0.3
Income offset related to 1991 social security COLA (full year)	−26.9	−39.5
1991 federal COLA (4.8 percent)	−74.5	−0.9
Income offset related to 1992 social security COLA	−15.3	−18.6
1992 state COLA (5.49 percent)	167.6	148.6
Other	13.2	25.4
Program change		
Proposed suspension of 5.49 percent COLA for 1992	−167.6	−148.6
1991-92 expenditures (proposed)	$2,286.2	$4,764.5
Change from 1990-91 (revised):		
Amount	−$12.6	$325.6
Percent	−0.5%	7.3%

[a] Includes federal SSI payments not appropriated in the state budget as well as General Fund amount.

ANALYSIS AND RECOMMENDATIONS

General Fund Deficiency of $24 Million in 1990-91

The budget anticipates that General Fund expenditures for SSI/SSP during 1990-91 will exceed the amount appropriated by $24 million, or 1.1 percent. As Table 2 shows, the deficiency results primarily from unexpectedly rapid caseload growth.

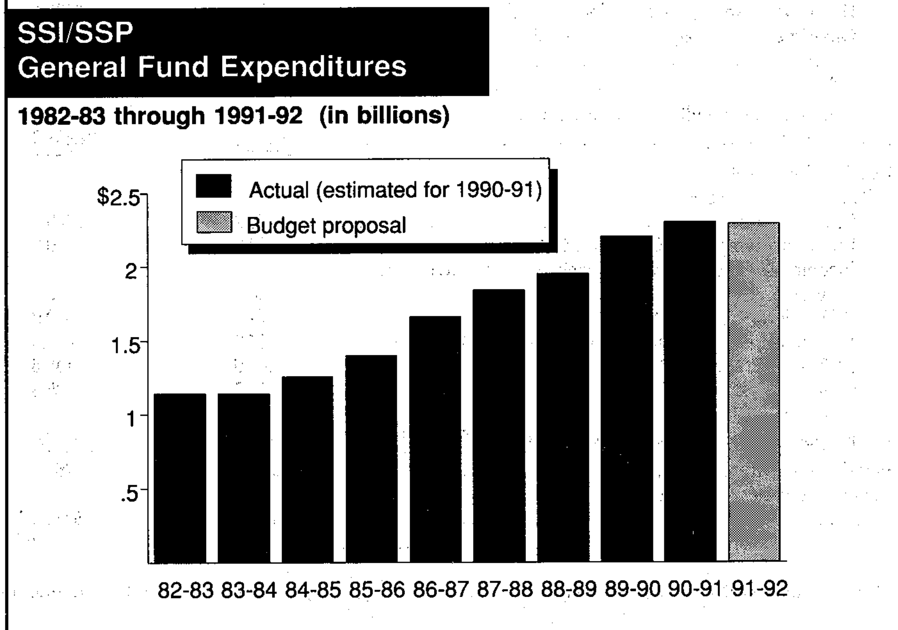
Perspectives on SSI/SSP Costs

Chart 1 displays General Fund expenditures for the SSI/SSP Program for a 10-year period from 1982-83 through 1991-92. The figure shows that expenditures have grown at an average annual rate of about 8.0 percent since 1983-84. In 1984-85 through 1989-90, when caseload growth and statutory COLAs combined to drive up expenditures, General Fund costs increased at a rate of nearly 12 percent annually. The relatively slow expenditure growth (4.1 percent) between 1989-90 and the current year results from suspension of the January 1, 1991 state COLA for SSI/SSP grants. The projected decline in expenditures between 1990-91 and 1991-92 reflects (1) the full-year effect of suspending the January 1, 1991 state COLA, (2) the Governor's proposal to suspend the January 1, 1992 state COLA, and (3) the increase in the federal SSI grant due to the

State Supplementary Program for the Aged, Blind, and Disabled—Continued

federal COLAs for 1991 and 1992, which have the effect of reducing the state's share of total SSI/SSP costs.

Chart 1



Two factors account for the growth in SSI/SSP expenditures: caseload growth and increases in grants. We estimate that each factor accounts for about half of the expenditure growth between 1982-83 and 1991-92. Policymakers at the state level have no direct influence on SSI/SSP caseload growth, because SSI/SSP eligibility criteria are set at the federal level. State policymakers can, however, influence the SSI/SSP grant level by modifying statutory COLAs or by actually reducing grants. We also note that the ability to control grant levels gives state policymakers *indirect* control over caseload growth. This is because the maximum allowable amount of nongrant income for SSI/SSP recipients increases or decreases as the SSI/SSP grant level increases or decreases. In other words, all else being equal, an increase in grant levels makes more people eligible for SSI/SSP because people with higher levels of income become eligible. On the other hand, reductions in grant levels make fewer people eligible because people with income exceeding the new, lower income limit become ineligible.

Caseload Growth Accelerates. Since 1982-83, SSI/SSP caseload growth has accelerated. Between 1982-83 and 1983-84, the SSI/SSP caseload increased by 1.9 percent to a monthly average of 655,800 recipients.

Between 1988-89 and 1989-90, however, the SSI/SSP caseload increased by 5.2 percent. The Department of Social Services (DSS) estimates that caseload will increase by 7.3 percent to a monthly average caseload of 934,600 recipients between the current and budget years.

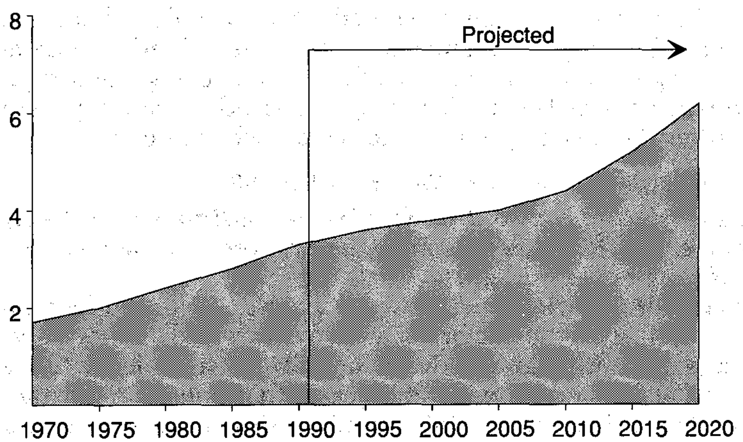
Both major components of the SSI/SSP caseload — the aged and the disabled — reflect the overall pattern of accelerating growth. The disabled caseload, however, has grown faster (5.1 percent per year since 1982-83) than the aged caseload (2.6 percent per year since 1982-83). Several factors account for these trends:

- *Aged Caseload.* The eligible population — individuals aged 65 or older — increased faster than any other age category in California during the 1980s (an annual average rate of 3 percent since 1982-83). Chart 2 shows that the rate of increase in this population will slow to about 1.5 percent annually during the 1990s, but increase to 3.5 percent annually for the period 2010 to 2020.

Chart 2

California Population Age 65 or Older

1970 through 2020 (in millions)



- *Disabled Caseload.* The disabled caseload has grown at a substantially greater rate than the number of individuals in the eligible age group (primarily ages 18-64). This is consistent with the increased incidence of disability among all age groups noted by some experts in the early 1980s. The DSS advises that the increasing incidence of AIDS-related disabilities is one significant factor that contributed to the increased incidence of disability.

State Supplementary Program for the Aged, Blind, and Disabled—Continued

Changes in federal policy have also played a part. In response to a 1986 lawsuit, the SSA liberalized the criteria for establishing a disability on the basis of a mental or emotional impairment. The recently settled *Zebley* suit has made it easier for children with developmental disabilities to qualify for SSI/SSP. As a result of these and other changes, the percentage of California SSI/SSP disability applications approved after initial review increased from 31 percent in federal fiscal year 1986 (FFY 86) to 46 percent in FFY 90.

- ***Decline in Case Termination Rate.*** The DSS advises that there has been a decline in the rate at which SSI/SSP recipients are leaving the caseload. The DSS indicates that people are entering the program at an earlier age and remaining in the caseload longer, due to increased life expectancy. For example, the DSS reports that the percentage of recipients aged 65 through 69 increased from 16 percent in January 1986 to 21 percent in November 1988.
- ***Federal and State Outreach Programs.*** The SSA has been conducting an outreach campaign since the spring of 1990 to make homeless and mentally impaired individuals aware of their potential eligibility for SSI. The DSS attributes much of the expected current-year increase in SSI/SSP caseload to this campaign. The DSS also indicates that additional individuals are becoming aware of their SSI/SSP eligibility through the Qualified Medicare Beneficiary Program. Under this program, mandated by the federal Medicare Catastrophic Coverage Act, the federal Health Care Financing Authority, and the Department of Health Services, among other things, provide information about state programs to people who are eligible for SSI/SSP.

Legislature's Options for Cost Control in SSI/SSP

The Legislature can control SSI/SSP expenditures by (1) suspending the state cost-of-living adjustment, as proposed in the budget, and (2) otherwise reducing SSP grant levels.

Legislature Can Reduce SSP Grant Levels. While the Legislature has little control over the factors that drive caseload, it has considerable flexibility in setting grant levels for SSI/SSP recipients. Federal law requires California to provide SSP grants that equal at least the level of SSP grants provided by the state on July 1, 1983. Current SSP grant levels substantially exceed this required level. Table 3 shows the difference between current SSP grant levels and 1983 levels for the categories of recipients that make up the substantial majority of the SSI/SSP caseload. As the table shows, the Legislature could reduce the maximum monthly SSP grant levels to these recipients by amounts ranging from $66 to $218, or 29 percent to 30 percent, depending on the category of recipient.

Table 3
Department of Social Services
Maximum Monthly SSP Grant Levels
General Fund
July 1, 1983 and January 1, 1991

Category of recipient	*July 1, 1983*	*January 1, 1991*	*Difference*	*Percent Difference*
Aged or disabled individual	$156.70	$223	$66.30	29.7%
Aged or disabled couple	396.60	557	160.40	28.6
Blind individual	211.70	297	85.30	28.7
Blind couple	543.60	762	218.40	28.7

COLA Suspension Reduces SSP Grant Levels. One option for reducing SSP grant levels is to suspend the state SSI/SSP COLA. The Legislature, for example, suspended the January 1, 1991 state SSI/SSP COLA. As a result, *total* SSI/SSP grants remained the same. The SSI (federal) share of the grants *increased* by $21 per month for individuals and $31 per month for couples because a 5.4 percent federal COLA was applied to the SSI amount. However, the SSP share of the grants *decreased* by $21 per month for individuals and $31 per month for couples.

Under current assumptions about growth of the CPI, suspension of the state COLA as an annual cost-control strategy would reduce SSP grants for most *individuals* to the minimum required by federal law — $156.70 — as of January 1, 1995. SSP grants for most *couples* would reach the federal minimum — $396.60 — on January 1, 1998.

Budget Proposes to Suspend Statutory COLA

The budget proposes legislation to suspend the 5.49 percent state COLA for SSI/SSP grants in 1991-92. The Department of Social Services estimates that this will result in budget-year General Fund savings of $168 million. As noted in the foregoing discussion, suspension of the state COLA is one way that the Legislature can reduce SSP grant levels in order to control SSI/SSP costs. The budget indicates that the proposed elimination of the state COLA is in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown).

Table 4 displays SSI/SSP maximum monthly grants for 1991, for 1992 with no state COLA (the budget proposal), and for 1992 with a state COLA of 5.49 percent. As the table shows, if legislation is enacted to waive the state COLA, total SSI/SSP grants would remain the same. The federal SSI COLA that will take effect on January 1, 1992 would be offset by SSP grant reductions. If, however, legislation is not enacted to waive the state COLA, grants to SSI/SSP recipients would be $34 to $39 higher in 1992 than in 1991 (unless the COLA is reduced pursuant to Chapter 458).

DEPARTMENT OF SOCIAL SERVICES

Refugee Cash Assistance Programs

Item 5180-131 from the Federal Trust Fund — Budget p. HW 171

Requested 1991-92	$29,288,000
Estimated 1990-91	26,739,000
Actual 1989-90	32,847,000
Requested increase $2,549,000 (+9.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item appropriates federal funds for cash grants to needy refugees who (1) have been in this country for less than one year and (2) do *not* qualify for assistance under the Aid to Families with Dependent Children (AFDC) Program or Supplemental Security Income/State Supplementary Program (SSI/SSP). The funds for assistance to refugees who receive AFDC or SSI/SSP grants are appropriated under Items 5180-101-890 and 5180-111-890, respectively.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of $29.3 million in federal funds in 1991-92 for cash assistance to time-eligible refugees through the Refugee Cash Assistance (RCA) Program. This is an increase of $2.5 million, or 9.5 percent, above estimated current-year expenditures. The $2.5 million increase is the result of (1) $1.7 million proposed for a cost-of-living adjustment (COLA) for RCA grants and (2) $800,000 proposed for anticipated caseload growth.

RCA recipient grant levels are the same as AFDC grants levels. As we discuss in our analysis of Item 5180-101-001, the budget proposes to reduce AFDC Maximum Aid Payments by 8.8 percent and to suspend the statutory COLA for AFDC. The amounts proposed in this item do not reflect either the 8.8 percent reduction or the suspension of the COLA. We anticipate that the department will correct these inconsistencies in the May revision.

DEPARTMENT OF SOCIAL SERVICES

County Administration of Welfare Programs

Item 5180-141 from the General Fund and the Federal Trust Fund — Budget p. HW 171

Requested 1991-92	$998,975,000
Estimated 1990-91	864,608,000
Actual 1989-90	666,071,000
Requested increase $134,367,000 (+15.5 percent)	
Total recommended reduction	None
Recommendation pending	998,975,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County administration	General	$224,236,000
5180-141-890—County administration	Federal	771,259,000
Chapter 465, Statutes of 1990	General	1,586,000
Control Section 23.50—Local assistance	State Legalization Impact Assistance Grant	1,894,000
Total		$998,975,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

Analysis page

1. County Administration Budget. Withhold recommendation on $999 million ($226 million General Fund, $773 million federal funds) pending review of revised estimates in May. 800

GENERAL PROGRAM STATEMENT

This item contains funds to cover the state and federal share of the costs incurred by counties in administering (1) the Aid to Families with Dependent Children (AFDC) Program — including the Transitional Child Care Program, (2) the Food Stamp Program, (3) the Child Support Enforcement Program, (4) special benefits for aged, blind, and disabled adults, (5) the Refugee Cash Assistance Program, and (6) the Adoption Assistance Program. In addition, this item supports the cost of training county eligibility staff.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of $226 million from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1991-92. This is an increase of $26 million, or 13.2 percent, over estimated current-year General Fund expenditures for this purpose. The $226 million includes $5.3 million to fund increased General Fund costs resulting from the state's share of the ongoing costs of the estimated 5.7 percent cost-of-living adjustment (COLA) granted by the counties to their employees during *1990-91.*

Table 1
Department of Social Services
County Welfare Department Administration
1989-90 through 1991-92
(in thousands)

Program	*Actual 1989-90*				*Estimated 1990-91*				*Proposed 1991-92*			
	State	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
AFDC administration	$128,004	$209,168	$125,949	$563,121	$144,741	$235,586	$157,930	$538,257	$170,945	$271,752	$168,751	$611,448
Nonassistance food stamps	38,844	141,841	41,091	221,777	45,824	192,853	50,839	289,516	52,810	211,719	54,841	319,370
San Diego food stamp cash out [a]	—	6,952	—	6,952	—	66,920	—	66,920	—	93,523	—	93,523
Child support enforcement	—	118,226	57,729	175,955	700	154,136	76,361	231,197	1,769	179,477	84,543	265,789
Special adult programs	2,843	—	—	2,843	2,301	—	74	2,375	2,382	—	—	2,382
Refugee cash assistance	—	7,163	—	7,163	—	5,384	—	5,384	—	5,557	—	5,557
Adoption assistance	488	269	—	757	422	610	12	1,044	796	349	21	1,166
Staff development	2,830	9,326	3,288	15,444	3,618	7,628	3,828	15,074	4,026	8,274	4,026	16,326
Transitional child care	59	58	—	117	1,915	1,970	—	3,885	2,503	2,502	—	5,005
Unallocated reduction	—	—	—	—	—	—	—	—	−9,409	—	—	−9,409
Totals	$173,068	$493,003 [b]	$228,057	$894,129 [b]	$199,521	$665,087 [b]	$289,044	$1,153,652 [b]	$225,822	$773,153 [b]	$312,182	$1,311,157 [b]

[a] Amounts shown are to provide cash grants in lieu of food stamps coupons to eligible individuals, and thus are not "administrative" costs as typically defined.
[b] Includes State Legalization Impact Assistance funds. These funds are budgeted under Control Section 23.5.

Similarly, counties will pay for any COLAs granted to county employees in 1991-92 using county and federal funds. The state will fund its share of the ongoing costs resulting from COLAs granted in 1991-92 starting in *1992-93.*

The budget proposes an unallocated reduction of $9.4 million. This reduction is included in the proposed budget for this item in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The $9.4 million corresponds to 4 percent of the General Fund expenditures proposed for county administration of welfare programs in 1991-92.

The budget proposes total expenditures of $1.3 billion for county administration of welfare programs during 1991-92, as shown in Table 1. This is an increase of $158 million, or 13.7 percent, over estimated current-year expenditures.

Table 2 shows the budget adjustments that account for the net $158 million (all funds) increase in county administration expenditures proposed for 1990-91. The baseline adjustments proposed in the budget are as follows:

- An $87 million ($28 million General Fund) increase due to (1) projected caseload growth in the various welfare programs administered by the counties and (2) increased costs per worker, resulting primarily from the COLAs that counties provided their employees in 1989-90 and 1990-91.
- A $27 million increase in federal funds (no General Fund or county funds) due to an expansion of the San Diego Food Stamp Cash-Out Demonstration Project. Under this demonstration project, San Diego County provides cash rather than food stamps to eligible individuals. Thus, these costs are not "administrative" costs as typically defined.
- A $21 million ($305,000 General Fund) increase for a variety of administrative initiatives in the Child Support Enforcement Program, which are required by existing federal and/or state law. The largest single initiative is the implementation of time standards required by the Federal Support Act of 1988 ($8.7 million federal and county funds, no General Fund).
- A $7 million ($1.8 million General Fund) increase due to (1) the expansion of the existing early fraud detection program to all counties as required by Ch 465/90 (AB 2454, Royce) and (2) the expansion of an existing asset match program to include additional categories of assets as required by Ch 139/90 (SB 1174, Royce).
- A $5 million ($1.2 million General Fund) savings due to the settlement of several court cases in the current year.
- A $1.3 million ($918,000 General Fund *savings*) increase in expenditures to implement the Statewide Automated Welfare System to additional counties.

In addition to these baseline adjustments, the budget includes several policy proposals. We discuss two of these proposals below. The other three proposals — (1) a $16 million ($3.9 million General Fund) reduction due to the proposal to eliminate the AFDC-Homeless Assist-

County Administration of Welfare Programs—Continued

ance Program, (2) a $953,000 ($119,000 General Fund) increase in county staff costs due to administrative hearings anticipated to result from proposed legislation to disqualify AFDC recipients who commit intentional program violations, and (3) a $503,000 ($252,000 General Fund) savings due to the proposed elimination of the state-only AFDC-U Program — are discussed in our analysis of the AFDC budget (please see Item 5180-101).

Table 2
Department of Social Services
County Administration of Welfare Programs
Proposed 1991-92 Budget Changes
All Funds
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (revised)	$199,521	$1,153,652
Adjustments to ongoing costs or savings:		
Baseline adjustments		
Increased basic program costs	$28,352	$86,974
San Diego County food stamp cash out	—	26,603
Child support administrative initiatives	305	20,609
Expansion of fraud detection programs	1,821	7,010
Court cases	−1,200	−4,988
Statewide Automated Welfare System	−918	1,279
Other	393	1,024
Subtotals, baseline adjustments	($28,753)	($138,511)
Policy proposals		
Restoration of 1990 Budget Act reduction	$11,000	$43,964
Elimination of the AFDC Homeless Assistance Program	−3,910	−16,011
Unallocated reduction	−9,409	−9,409
Implementation of AFDC disqualification policy	119	953
Elimination of the state-only AFDC-Unemployed Parent Program	−252	−503
Subtotals, policy proposals	(−$2,452)	($18,994)
1991-92 expenditures (proposed)	$225,822	$1,311,157
Change from 1990-91 estimated expenditures:		
Amount	$26,301	$157,505
Percent	13.2%	13.7%

ANALYSIS AND RECOMMENDATIONS

Estimates Will be Updated in May

We withhold recommendation on $999 million ($226 million General Fund and $773 million federal funds) requested for county administration of welfare programs pending receipt of revised estimates of county costs to be submitted in May.

The proposed expenditures for county administration of welfare programs in 1991-92 are based on 1990-91 budgeted costs updated to reflect the department's caseload estimates for 1991-92. In May, the department will present revised estimates of county costs based on *actual* county costs in 1990-91. For example, the May estimates will reflect the actual amount of COLAs counties provided to their employees during the current year, whereas the proposed expenditures are based on estimated county

COLAs. In addition, the May estimate will incorporate changes reflected in approved county cost control plans for 1991-92.

Moreover, as we indicate in our analysis of the AFDC budget (please see Item 5180-101), we believe that the department has substantially underestimated the AFDC caseload. Based on our higher AFDC caseload projection, we estimate that County Administration of Welfare Program costs could be as much as $11 million higher in the budget year than the department's estimate.

The budget proposes to restore to the base budget for county administration $11 million from the General Fund that the Legislature eliminated from the 1990 Budget Bill. The Legislature made this reduction in recognition of a long-term pattern of underexpenditure by the counties. We believe that this underexpenditure occurred because some counties have had difficulty providing their 25 percent match for state and federal funds due to their own fiscal problems. The department has provided no justification for the restoration. Specifically, the department has provided no information that would suggest that counties will be able to match all of the state and federal funds proposed in the budget. Thus, it is unknown why the reduction in the base budget should be restored.

Because the revised estimate of county costs will be based on more recent and accurate information, the estimate will provide the Legislature with a more reliable basis for budgeting 1991-92 expenditures. Therefore, we withhold recommendation on the amount requested for county administration of welfare programs pending review of the May estimate.

DEPARTMENT OF SOCIAL SERVICES

Social Services Programs

Item 5180-151 from the General Fund and the Federal Trust Fund — Budget p. HW 172

Requested 1991-92	$1,568,560,000
Estimated 1990-91	1,441,634,000
Actual 1989-90	1,304,154,000
Requested increase $126,926,000 (+8.8 percent)	
Recommended reversion to the General Fund	947,000
Recommended increase (from the State Children's Trust Fund)	3,341,000
Recommendation pending	727,553,000

Social Services Programs—Continued

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social services programs—local assistance	General	$890,836,000
5180-151-890—Social services programs—local assistance	Federal	673,203,000
Reimbursements	—	3,235,000
Welfare and Institutions Code Section 18969—Appropriation	Children's Trust	1,286,000
Total		$1,568,560,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

	Analysis page
1. Child Welfare Services — Funding Shortfall. Recommend that the Department of Social Services (DSS) evaluate various options for reducing service levels in the Child Welfare Services Program and their potential effect on clients and report its findings to the Legislature by April 1, 1991.	808
2. Child Welfare Services — Funding Augmentation for Los Angeles County. Recommend the deletion of proposed Budget Bill language that would require that $3.5 million appropriated in this item be used to augment Los Angeles County's child welfare services allocation, because the proposal would result in funding inequities between Los Angeles County and the rest of the state. (Delete Provision 8 of Item 5180-151-001.)	812
3. Child Welfare Services — Legislative Oversight. Recommend adoption of supplemental report language in order to ensure continued oversight of corrective actions in Los Angeles County.	814
4. Child Welfare Services — Proposal to Increase Federal Fund Support for Wards of the Court Who are Placed in Foster Care. Recommend that the DSS report to the Legislature during budget hearings on (a) its specific plans for implementing the proposal and (b) its revised fiscal estimate of the proposal.	817
5. In-Home Supportive Services (IHSS). Withhold recommendation on $727 million for support of the IHSS Program pending receipt of the May revision. Further recommend that the May revision of the IHSS budget reflect the fiscal effects of (a) potential overestimation of caseload, (b) potential delay in *Miller v. Woods* payments, and (c) the statutory adjustment of IHSS maximum service awards.	819
6. IHSS. Proposed legislation would restore Legislature's flexibility to limit IHSS expenditures in light of other program and fiscal priorities.	821
7. ***Greater Avenues for Independence (GAIN) — Reversion. Revert $947,000 from Item 5180-155-001 of the 1989 Budget***	825

Act. Recommend that the Legislature add an item to the Budget Bill to revert, as of June 30, 1991, $947,000 remaining from Item 5180-155-001 of the 1989 Budget Act.

8. Independent Adoptions. Recommend enactment of legislation to require counties to establish independent adoptions fees that reflect their actual costs, adjust these fees on a periodic basis, and report on costs and revenues. 826
9. ***Office of Child Abuse Prevention — State Children's Trust Fund. Recommend appropriation of the unexpended balance of $3.3 million in the State Children's Trust Fund in order to increase the availability of treatment services for abused and neglected children and their families.*** We further recommend the adoption of Budget Bill language that would require that these funds be used to purchase services from nonprofit organizations or public institutions of higher education, consistent with the provisions of current law that govern the expenditure of State Children's Trust Fund monies. 827

MAJOR ISSUES

☑ Funding for the Child Welfare Services Program in 1991-92 will fall short of the amount necessary to fund the program's mandates by $54 million ($38 million General Fund).

☑ The budget proposes a $24 million increase in federal funds to support case management and administrative services provided by county probation departments to wards in foster care.

☑ The budget proposes $160 million *less* for the GAIN Program than the amount needed to serve total anticipated caseloads in all counties.

☑ The budget proposes legislation to increase the fee that county adoption agencies may charge prospective adoptive parents under the Independent Adoptions Program.

☑ The budget proposes an unallocated General Fund reduction of $21 million that could be distributed across all social services programs except IHSS.

Social Services Programs—Continued

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers various programs that provide services, rather than cash, to eligible persons who need governmental assistance. The seven major programs providing these services are (1) Child Welfare Services, (2) County Services Block Grant (CSBG), (3) In-Home Supportive Services (IHSS), (4) Greater Avenues for Independence (GAIN), (5) Adoptions, (6) Refugee programs, and (7) Child Abuse Prevention.

Federal funding for social services is provided pursuant to Titles IV-A, IV-B, IV-C, IV-E, IV-F, and XX of the Social Security Act and the Federal Refugee Act of 1980. In addition, 10 percent of the funds available under the federal Low-Income Home Energy Assistance (LIHEA) block grant are transferred to Title XX social services each year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $1.6 billion in expenditures from state funds ($891 million General Fund and $1.3 million State Children's Trust Fund), federal funds ($673 million), and reimbursements ($3.2 million), to support social services programs in 1991-92. In addition, the budget anticipates that counties will spend $97 million from county funds for these programs. Thus, the budget anticipates that spending for social services programs in 1991-92 will total $1.7 billion. Table 1 displays program expenditures and funding sources for these programs in the past, current, and budget years.

Table 1
Department of Social Services
Social Services Programs
Expenditures from All Funds
1989-90 through 1991-92 [a]
(dollars in thousands)

Program	Actual 1989-90	Est. 1990-91	Prop. 1991-92	Change from 1990-91 Amount	Change from 1990-91 Percent
Child welfare services	$457,505	$472,357	$552,582	$80,225	17.0%
County services block grant	84,086	86,907	92,690	5,783	6.7
In-home supportive services	609,298	676,306	746,810	70,504	10.4
Maternity home care	1,870	1,904	2,614	710	37.3
Access assistance for deaf	3,442	3,442	3,442	—	—
Employment services [b]	182,853	227,200	209,100	−18,100	−8.0
Adoptions	30,021	30,229	30,279	50	0.2
Refugee assistance	20,296	39,769	37,500	−2,269	−5.7
Child abuse prevention	23,222	11,830	11,536	−294	−2.5
Unallocated reduction	—	—	−20,600	−20,600	— [c]
Totals	$1,412,593	$1,549,944	$1,665,953	$116,009	7.5%

Funding Sources					
General Fund	*$760,284*	*$788,039*	*$890,836*	*$102,797*	*13.0%*
Federal Trust Fund	*540,386*	*649,350*	*673,203*	*23,853*	*3.7*
County funds	*108,439*	*108,310*	*97,393*	*−10,917*	*−10.1*
State Children's Trust Fund	*749*	*1,010*	*1,286*	*276*	*27.3*
Reimbursements	*2,735*	*3,235*	*3,235*	—	—

[a] Includes actual 1989-90 and anticipated 1990-91 and 1991-92 county expenditures.
[b] Excludes General Fund expenditures for GAIN from Control Section 22 and funds for GAIN appropriated in other Budget Bill items. Table 5 in our analysis of the GAIN Program in this item displays all the funds appropriated in the Budget Bill for the GAIN Program.
[c] Not a meaningful number.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services programs in 1991-92 represents an increase of $116 million, or 7.5 percent, above estimated current-year expenditures. This proposed increase consists of (1) a General Fund increase of $103 million, or 13 percent, (2) a federal fund increase of $24 million, or 3.7 percent, (3) a decrease in county funds of $11 million, or 10 percent, and (4) a State Children's Trust Fund increase of $276,000, or 27 percent. Table 2 also shows the major changes proposed for social services programs. These major changes are addressed in the program-by-program analysis that follows.

Unallocated General Fund Reduction

The Governor's Budget includes an unallocated trigger-related reduction of $21 million for social services programs. This reduction is included in the proposed budget for this item in lieu of the reduction that would otherwise be made pursuant to Ch 458/90 (AB 2348, Willie Brown). The $21 million corresponds to 4 percent of the non-IHSS General Fund expenditures proposed for social services programs in 1991-92. At the time we prepared this analysis, the department had not indicated how it plans to allocate the reduction among the various social services programs in this item.

The extent of this reduction and how it is to be allocated among programs in this item are issues that the Legislature must consider in light of its policy and fiscal priorities. Under existing law, however, it is clear that the Legislature must fully fund the IHSS Program for all increases in caseload and hours of service. IHSS expenditures, therefore, cannot be reduced. The budget proposes legislation to cap IHSS expenditures at the level of the annual Budget Act appropriation. Enactment of this legislation would allow the Legislature to allocate a share of the $21 million reduction to IHSS, or impose an IHSS reduction in addition to the $21 million.

Some or all of the other social services programs with a General Fund component — including Child Welfare Services, Greater Avenues for Independence (GAIN), the County Services Block Grant, Community

Social Services Programs—Continued

Care Licensing, Adoptions Assistance, Licensed Maternity Home Care, and Child Abuse Prevention — could share in any funding reduction for this item. As we note below, the proposed funding for GAIN and the Child Welfare Services Program, disregarding the potential effects of the unallocated reduction, falls short of the amount necessary to fully support these programs.

Table 2
Department of Social Services
Proposed 1991-92 Budget Changes
Social Services Programs
(dollars in thousands)

	General Fund	*All Funds*
1990-91 expenditures (revised)	$788,039	$1,549,944
1991-92 adjustments		
Child Welfare Services (CWS):		
Baseline adjustments		
Caseload growth reflected in the budget	$31,387	$41,353
Additional caseload and cost growth, not reflected in the budget	38,156	54,077
Independent Living Program increase	—	4,750
Prior-year COLA	18,321	6,691
Other	−669	−52
Program adjustments		
Proposed service level reduction	−38,156	−54,077
Increased federal funds support for services provided to wards in foster care	—	24,000
Augmentation for Los Angeles County	3,483	3,483
Subtotals, CWS	($52,522)	($80,225)
County services block grant	$5,783	$5,783
In-home supportive services (IHSS):		
Increased caseload and average hours of service	$62,763	$68,369
Settlement of *WRO v. McMahon* court case	2,135	2,135
Subtotals, IHSS	($64,898)	($70,504)
Maternity care	$710	$710
Greater Avenues for Independence Program [a]	−550	−18,100
Adoptions	34	50
Refugee programs	—	−2,269
Child abuse prevention	—	−294
Unallocated General Fund reduction	−20,600	−20,600
1991-92 expenditures (proposed)	$890,836	$1,665,953
Change from 1990-91:		
Amount	$102,797	$116,009
Percent	13.0%	7.5%

[a] Excludes General Fund expenditures for GAIN from Control Section 22 and other items of the Budget Bill.

ANALYSIS AND RECOMMENDATIONS

CHILD WELFARE SERVICES

The Child Welfare Services Program provides services to abused and neglected children and children in foster care and their families. The program has four separate elements:

- *The Emergency Response Program* requires counties to provide immediate social worker response to allegations of child abuse and neglect.
- *The Family Maintenance Program* requires counties to provide ongoing services to children (and their families) who have been identified through the ER Program as victims, or potential victims, of abuse or neglect.
- *The Family Reunification Program* requires counties to provide services to children in foster care who have been temporarily removed from their families because of abuse or neglect.
- *The Permanent Placement Program* requires counties to provide case management and placement services to children in foster care who cannot be safely returned to their families.

Proposed Expenditures

The budget proposes expenditures of $553 million ($313 million General Fund, $176 million federal funds, and $64 million county funds) for the Child Welfare Services Program in 1991-92. This amount does *not* include the effect of the unallocated trigger-related reduction included in this item. We discuss the potential effects of the trigger separately, above. The total General Fund request shown here represents an increase of $80 million, or 17 percent, above estimated 1990-91 expenditures. As Table 2 shows, the significant changes that account for the increase are as follows:

- A $31 million General Fund ($41 million total funds) increase to fund an estimated 8.2 percent increase in the basic child welfare services caseload.
- A $38 million General Fund ($54 million total funds) increase that is not reflected in the budget, which would be necessary to fully fund the Child Welfare Services Program's mandates based on the department's current budgeting methodology. The department proposes not to fund these costs because it advises that recent regulatory changes will reduce caseloads and service requirements, thereby allowing counties to operate the program at less cost. However, as we discuss below, the department has not provided an estimate of the extent to which the new regulations will reduce the program's requirements sufficiently to offset the effects of the funding shortfall.
- A $4.7 million increase ($2.1 million federal funds, $2.7 million county funds) due to an anticipated increase in the amount of federal Independent Living Program funds that will be available to California in 1991-92. The DSS advises that the increased federal funds require a match, which the budget anticipates will be provided by the counties participating in the Independent Living Program.
- An $18 million General Fund increase ($6.7 million net total funds) to fund the state's share of the cost-of-living adjustments (COLAs) that counties granted their workers in 1990-91.
- A $24 million increase in federal funds to support case management and administrative services provided by county probation departments to wards in foster care.

Social Services Programs—Continued

- A $3.5 million General Fund augmentation to support enhanced child welfare services in Los Angeles County.

Proposed Funding for the Child Welfare Services Program in 1991-92 Will Be Insufficient to Support the Program's Mandates

We recommend that the Department of Social Services evaluate various options for reducing the mandates in the Child Welfare Services Program and their potential effect on clients and report its findings to the Legislature by April 1, 1991.

Background. Beginning in 1985, the Legislature adopted a caseload-driven approach to budgeting the costs of the Child Welfare Services Program. As a result, the state budget for the program in the last several years has been based on the following factors:

- *Caseload Estimate.* The DSS estimates the number of children and families statewide that will need child welfare services in the coming year, usually based on two- or three-year trends in the program's actual caseloads.
- *Cases-per-Worker Standards.* The DSS uses cases-per-worker standards for the purposes of budgeting for each of the four components of the Child Welfare Services Program. These standards, which were developed in 1984 in conjunction with the County Welfare Directors Association, are intended to reflect the number of cases that the average social worker should be able to handle, given the full range of social worker activities mandated by state and federal law. The department applies the standards to its caseload estimate to develop its estimate of the number of social workers that the counties will need each year.
- *Staff and Overhead Costs.* Once the department has estimated the number of social workers that will be needed to handle the anticipated caseload in the coming year, it uses the statewide average cost of a social worker (which, in 1990-91 is estimated to be $81,000, consisting of $46,000 for the worker's salary and benefits and $35,000 for administrative overhead) to develop its estimate of staff and overhead costs.
- *Direct Costs.* Finally the budget includes funds intended to be used to cover "direct costs." These costs include social worker standby overtime pay and the costs of services such as emergency shelter care, in-home caretakers, and homemaker demonstrators.

The approach outlined above was used to budget for the Child Welfare Services Program through 1989-90. In fact, the Legislature used this approach in developing the 1990 Budget Bill. However, Governor Deukmejian, citing the state's fiscal crisis, vetoed $55 million, or 10 percent from the $529 million appropriated by the Legislature in the 1990 Budget Bill, as follows:

- A $38 million ($27 million General Fund) reduction that corresponded to the amount that would have been necessary to fund caseload growth in the family maintenance, family reunification and permanent placement components of the program under the department's budgeting methodology.

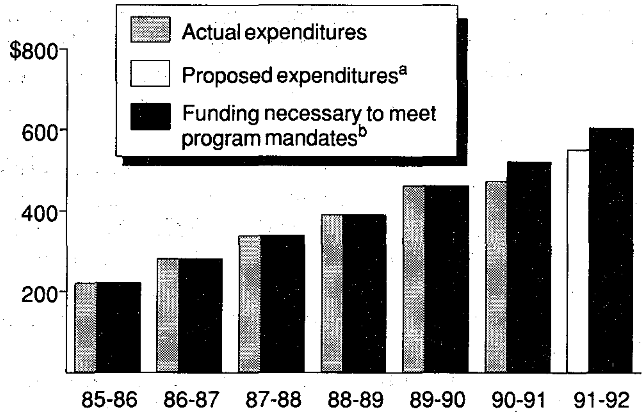
- A $17 million General Fund reduction, which corresponded to the DSS' estimate of the state's share of the portion of county staff costs that was attributable to the COLAs that counties granted in 1989-90.

Funding Reduction Taken in 1990-91 Will Create an Ongoing Shortfall for Counties. Chart 1 compares expenditures for the Child Welfare Services Program in the previous five years to the amount that would be required to fully fund the program's requirements, based on the

Chart 1

Child Welfare Services Program Funding Level Necessary To Meet Program Mandates Compared To Actual And Proposed Expenditures

1985-86 through 1991-92 (in millions)



[a] Does not include the unallocated trigger-related reduction.

[b] Estimate based on cases-per- worker budgeting standards and DSS caseload estimates.

department's cases-per-worker budgeting standards and caseload estimates. As the chart shows, funding for the program was sufficient to support program requirements from 1985-86 — the first year the department used the budgeting standards — to 1989-90.

The chart also compares estimated expenditures to the amounts that would be necessary to fund the program using the department's budgeting methodology in the current and the budget years. The chart shows that as a result of the current-year funding reduction, funding for the program in 1990-91 is less than the amount that would be required to meet the program's requirements. Specifically, we estimate that funding for the program in 1990-91 will fall short of the amount necessary to meet the program's requirements by $50 million, or 9.6 percent. (This amount

Social Services Programs—Continued

differs from the amount vetoed from the 1990 Budget Act by $5 million, because the department has reestimated the costs of the COLAs counties granted in 1989-90, based on more recent cost data.)

As the chart shows, the gap between proposed expenditures and the amount that would be necessary to meet program requirements will continue in 1991-92. Specifically, we estimate that the funding for the Child Welfare Services Program in 1991-92 will be $54 million, or 8.9 percent less than what would be necessary to operate the program based on the service levels that counties are mandated to provide. It is important to note that this gap will, in fact, be larger than the amount shown in the chart, if the Child Welfare Services Program is affected by the unallocated trigger-related reduction proposed in this item. Specifically, support for the Child Welfare Services Program could be reduced by as much as $21 million in 1991-92, depending on how the unallocated reduction is distributed across social services programs in this item. If this occurred, counties would face a $75 million, or 12 percent shortfall in 1991-92.

Deciding What Level of Service Will Be Provided to Abused and Neglected Children Is a Major Policy Decision. In our view, the major issue facing the Legislature with respect to the Child Welfare Services Program is deciding what level of service to provide to abused and neglected children in 1991-92 and in future years. Specifically, the Legislature has two options:

1. Permanently reducing the level of services provided to children.
2. Providing the same level of service that has been available to children since the program was restructured in 1982. This would require a return to the funding approach that the Legislature used in the 1990 Budget Bill and throughout most of the 1980s. This approach is to fund the program based on the DSS' current caseload estimates and social worker budgeting standards.

As we discuss in our report, *Child Abuse and Neglect in California: A Review of the Child Welfare Services Program* (LAO Report No. 91-1), there are also some ways to increase the efficiency of the program and thus mitigate the effects of the funding shortfall. However, our analysis indicates that it will not be possible for counties to absorb the effects of the funding shortfall solely, or even primarily, through efficiency measures. Thus, the two options presented above involve difficult trade-offs. On the one hand, the state's limited fiscal resources may make it difficult to return to the level of service that was available throughout most of the 1980s by restoring $38 million in General Fund support to the program in 1991-92. On the other hand, reducing the level of service to clients in the program is likely to reduce the program's effectiveness. Clearly, the Legislature will have to base its decision on the service level for the Child Welfare Services Program on its overall fiscal and policy priorities for this and other state programs.

Implementing a Reduction in Service Levels Will Require State-Level Changes in Program Mandates. If the state does not provide the funding that would be required by the cases-per-worker budgeting standards in 1991-92 or in future years, counties will face an ongoing shortfall. This would mean that counties would not have enough staff to perform all of the program's statutory and regulatory mandates. As we discuss in our report, counties have two options for accommodating a shortfall in this program:

- Hire additional social workers with county-only funds, which in turn, would be reimbursable through the state mandate reimbursement process.
- Reduce services below mandated levels.

In our view, neither of these approaches is desirable in the long term since each would lead to disparities in service levels among counties and undercut the Legislature's ability to implement its own fiscal and policy priorities. Thus, if a reduction in service levels in this program is the chosen option in 1991-92, we believe that statutory and/or regulatory changes should be implemented at the state level, rather than leaving these decisions to individual counties. For this approach to be effective, it would be necessary to ensure that the program reductions are adequate to allow the counties to perform the remaining mandates within the staffing levels funded in the budget.

The Department's Emergency Regulations Do Not Constitute an Acceptable Plan for Ongoing Service Reductions. In October 1990, the DSS promulgated emergency regulations that reduced services to clients in the Child Welfare Services Program in order to (1) assist counties in dealing with the immediate effects of the funding reduction and (2) eliminate the gap between available funds and program requirements in 1990-91 and in future years. The department's regulations require counties to screen out more abuse reports on the basis of a telephone assessment (the effect of which is to reduce the number of investigations of alleged abuse and neglect) and to reduce the frequency with which county social workers are required to visit their clients. We have two concerns with the department's emergency regulations:

1. ***At the Time This Analysis was Prepared, the Department Had Not Demonstrated That the Emergency Regulations Would Reduce Service Levels Enough to Eliminate the Gap Between the Funding in the Budget and the Amount That Would Be Necessary to Support the Program's Requirements. Specifically, the department had not:***

- Demonstrated that the two major changes incorporated in the regulations would reduce county workloads by enough to cover the effects of the funding reduction in 1990-91 or 1991-92.
- Made any change to its cases-per-social worker budgeting standards or its caseload estimates to reflect the new regulations.

2. ***The Regulatory Changes Constitute a Significant Reduction in Service That Should Be Reviewed by the Legislature Before it Becomes Permanent.*** We do not believe that the department's regulations constitute the only, or even the most desirable way to implement service reductions in the program. In our view, the Legislature has four major

Social Services Programs—Continued

options, including the two options incorporated in the department's emergency regulations, for reducing the mandates of the Child Welfare Services Program:

- Increasing the use of telephone screening of child abuse referrals.
- Reducing face-to-face contact between social workers and clients.
- Eliminating voluntary family maintenance services.
- Shortening the length of time that families are permitted to receive services.

We discuss these options in more detail in our report. In our opinion, the Legislature would need to implement some combination of the above options in order to effect an ongoing reduction in services. However, each of these options represents a fundamental change in the operation of the program that would potentially reduce its effectiveness. In order to evaluate these options, the Legislature will need further information about the effect of each option on the delivery of services, the fiscal effect of each option, how each option would affect the department's cases-per-worker budgeting standards and its caseload estimates, and what statutory and/or regulatory changes would be necessary to implement each option. Therefore, we recommend that the DSS report to the Legislature by April 1, 1991 on its evaluation of options for effecting ongoing reductions in service levels in the Child Welfare Services Program, and that, at a minimum, the report include (1) the effect of each option on the delivery of services, (2) a detailed estimate of the fiscal effects of each option, (3) an estimate of how each option would affect the department's cases-per-worker budgeting standards and caseload estimates, and (4) the department's proposal for the statutory and regulatory changes that would be necessary to implement each option.

Budget Proposes a $3.5 Million General Fund Augmentation to Enhance Child Welfare Services in Los Angeles County

We recommend the deletion of proposed Budget Bill language that would require that $3.5 million appropriated in this item be used to augment Los Angeles County's child welfare services allocation, because the proposal would result in funding inequities between Los Angeles County and the rest of the state. (Delete Provision 8 of Item 5180-151-001.)

Background. In October 1989, the DSS undertook a study to verify the child welfare services caseloads that Los Angeles County reports to the department, as a result of growing concern about the accuracy of these reports. Specifically, the department undertook the study as a result of significant fluctuations in the family reunification and permanent placement caseloads that Los Angeles County reported to the DSS and discrepancies between the caseloads reported to the DSS and the caseloads the county maintained on its own automated information system.

The department's study consisted of a case file review of 4,040, or approximately 10 percent, of the cases Los Angeles County had reported to the department in June 1989 in order to determine the proportion of these cases that would be countable under current law as child welfare services cases. The department assigned 20 staff to review cases in the county. Each case file was read by two different state case reviewers. In addition, the DSS requested that an auditor from the county's Department of Children's Services (DCS) read each file and the state's findings with respect to the case in order to give the county the opportunity to rebut the DSS' findings.

The results of the DSS' case-count study reveal that Los Angeles County has overreported 17 percent of its child welfare services cases to the DSS. The state determined that these cases should not have been reported to the DSS, for at least one of the following reasons:

- County staff could not locate the case file.
- The case was a duplicate of another open case.
- The child was ineligible for services because, for example, the child was over 18 years of age.
- The case had been open for longer than current law permits.
- The case had been closed prior to the month of the case file review and no services were being provided to the child.

Recognizing that the DSS' case-count study might reveal that Los Angeles had overreported cases to the DSS, the Legislature adopted language in the 1990 Budget Act that required the DSS to reduce the county's allocation based on the findings of the department's case-count study. As a result of this language, in November 1990 the DSS advised the county that its allocation would be reduced by $6.5 million in 1990-91. This reduction consisted of (1) a $12.7 million General Fund *decrease*, primarily due to the elimination of funding for overreported cases, and (2) a $6.1 million federal funds *increase*, primarily as a result of the study findings that indicated that more cases were eligible for federal funding than had previously been counted. However, the department now advises that it intends to return an additional $3.5 million to Los Angeles County in the current year, in order to provide the county with additional support while it develops a corrective action plan for its Child Welfare Services Program. We discuss this corrective action plan in more detail below.

Budget Proposes to Augment Los Angeles County's Allocation Beyond What the County's Caseload Would Justify. The budget proposes to continue to augment Los Angeles County's allocation by $3.5 million from the General Fund in 1991-92. This augmentation would partially offset the reduction in the county's allocation that would result from updating the caseload data to reflect the results of the department's case-county study findings. The budget also proposes language, to be developed jointly by the administration and the Legislature, that would link the $3.5 million General Fund enhancement to specific performance criteria.

We have two concerns with this proposal. First, we do not believe that the county will need additional funds for the development of its corrective action plan in the budget year since the plan is due to the state

Social Services Programs—Continued

on July 1, 1991. Second, the proposal to augment Los Angeles County's allocation would create funding disparities between the county and the rest of the state, regardless of the overall level of funding ultimately provided to the Child Welfare Services Program in 1991-92. As we discuss above, at the funding level proposed in the budget, *all* counties in California will face a significant funding shortfall in the Child Welfare Services Program in 1991-92. For this reason, we recommend deletion of the proposed Budget Bill language requiring the department to separately allocate $3.5 million of the amount proposed in this item to Los Angeles County. The effect of this recommendation will be to allocate the $3.5 million to *all* counties, including Los Angeles County, thereby helping to offset the effect of the statewide funding shortfall.

Legislative Oversight: Implementation of Corrective Actions in Los Angeles County

We recommend the adoption of supplemental report language in order to ensure continued oversight of corrective actions in Los Angeles County.

Background. The Legislature adopted language in the 1990 Budget Act that was intended to improve the performance of Los Angeles County's Child Welfare Services Program. The Legislature adopted this language as a result of concerns regarding the county's ability to comply with the provisions of law that govern the operation of the Child Welfare Services Program. This language required that:

- The DSS by August 1, 1990 determine whether the county was substantially out of compliance with the provisions of law that govern the operation of the Child Welfare Services Program.
- The county submit a corrective action plan to the department no later than October 1, 1990 if the department determined that the county was not in compliance with current law.
- If the county had not submitted a plan by October 1, 1990 and/or if it had not made substantial progress in correcting the problems identified by the department, the department begin proceedings to take the county's Child Welfare Services Program into temporary receivership until the county had improved its performance.

The Department Determined That the County Was Out of Compliance With the Laws Governing the Operation of the Child Welfare Services Program. Pursuant to the provisions of the Budget Act, the department notified the county on August 1, 1990 that it was substantially out of compliance with the laws and regulations governing the operation of the Child Welfare Services Program. Specifically, the department found that the county was out of compliance with 26 areas of current law. These areas of noncompliance fall into five general categories:

- Not responding to reports of child abuse and neglect within mandated time frames.
- Not according parents of abused or neglected children their legal rights.

- Not offering services to the child and the family.
- Not assessing the service needs of children and families in the program.
- Not maintaining up-to-date case records of program clients.

The department's findings were based on its case-count study. In its notice of noncompliance, the department stated that in a substantial number of cases that were reviewed during the course of the case-count study there was no documentation that the above requirements had been met.

The County's Corrective Action Plan Did Not Meet the Requirements Set Forth in the 1990 Budget Act. The county submitted its corrective action plan to the DSS on October 1, 1990. This corrective action plan dealt with only 10 of the 26 areas of noncompliance identified by the department. According to both the county and the department, this was because both parties felt that the county did not have enough time to develop a corrective action plan for all of the deficiencies identified by the department in the two-month period between the date the county received the notice of noncompliance and the date that the county's corrective action plan was due to the state. Thus, the department agreed to receive an initial corrective action plan on 10 of the noncompliance issues, pending the receipt of a more detailed corrective action plan that dealt with the remaining 16 issues.

After reviewing the county's corrective action plan, the department notified the county that it would grant only temporary, conditional approval of the plan. Specifically, the department notified the county that its corrective action plan did not meet the requirements set forth in the 1990 Budget Act because it did not identify what remedial actions the county would need to take in order to improve its performance.

As a result of these findings, the department established the following process for bringing the county into compliance:

- Staggered delivery dates for receiving and reviewing information on each of the compliance issues. Specifically, the DSS established an extended set of time frames for the county to submit information on how it intended to achieve compliance in each of the 26 areas of noncompliance, culminating with the delivery of a final corrective action plan by July 1, 1991. The department intends to review information on each area at the time it is submitted, in order to ensure that the county is making adequate progress in developing the corrective action plan.
- Periodic compliance reviews of the county between October 1990 and July 1991. Specifically, the department advises that it intends to conduct three compliance reviews of the county in order to monitor the extent to which the county's performance improves over the next year. The department conducted its first compliance review in November 1990 with the second to occur in the spring and the final review to occur in July 1991. The department is using the same methodology to conduct the reviews in Los Angeles County as it uses in compliance reviews of other counties.

Social Services Programs—Continued

- Based on a review of the final corrective action plan and the findings from the periodic compliance reviews over the course of the current year, the department will issue its final determination on the county's performance by September 1, 1991. Under current law, the department can either grant approval of the county's corrective action plan, request further revisions to the plan, or, if the department determines that the county continues to be substantially out of compliance, it can begin proceedings to assume direct administration of the county's Child Welfare Services Program until the county's performance improves.

The Department's Assessment of the County's Corrective Action Plan and the Additional Steps Necessary to Meet the Requirements Set Forth in the 1990 Budget Act Seem Reasonable. Our review of the county's preliminary corrective action plan and the department's proposal for improving the county's performance indicate that the department's actions are reasonable. We agree with the department's assessment that the corrective action plan submitted by the county in October 1990 is a preliminary document, which acknowledges the problems identified by the department in its notice of noncompliance and some of the barriers to compliance that the county has experienced, but which does not specify how the county will correct its problems.

Based on our conversations with both county and state staff we believe that the county is making an effort to resolve its compliance problems in all 26 areas and improve its performance. The changes that would be necessary to bring the county into compliance with current law, however, will take more time to implement than the original time frames set forth in the 1990 Budget Act. For these reasons, we believe it was reasonable for the department to establish an extended time period to monitor county compliance and to allow the county additional time to adequately address the program's problems.

In order to ensure continued legislative oversight of this issue in 1991-92, we recommend that the Legislature adopt the following supplemental report language:

> The County of Los Angeles shall submit a corrective action plan regarding the operation of its Child Welfare Services Program to the Department of Social Services by July 1, 1991. The county's corrective action plan shall detail how the county intends to address each of the 26 problem areas that the department identified in its notice of noncompliance that was submitted to the county on August 1, 1990. Based on (1) the information submitted in the county's corrective action plan and (2) the results of the department's compliance monitoring, the department shall determine by September 1, 1991 whether the county has made substantial progress in correcting the areas of noncompliance that were identified by the department and report its findings to the Legislature.

The Budget Anticipates that Counties Will Match Federal Independent Living Program Funds

The Independent Living Program provides training for adolescents in foster care over the age of 15 that is designed to teach these children the skills they will need to become self sufficient once they are emancipated from foster care at the age of 18.

The budget includes $9.7 million in federal funds to support the county-operated independent living programs in 1991-92, which is $2.1 million, or 27 percent, above the level of support in 1990-91. The department advises that recent changes in federal law require that any additional federal funds that California receives above the amount of Independent Living Program funds received by the state in 1989-90 must be matched with 50 percent state or local funds. According to the department, California received $7 million in Independent Living Program funds in 1989-90. Therefore, a total of $2.7 million in federal Independent Living Program funds would require a 50 percent match in the budget year. The budget anticipates that counties will provide $2.7 million to meet the matching requirement.

At the time this analysis was prepared, the department had not finalized plans for how these additional federal Independent Living Program funds would be allocated to counties, nor had the department identified the extent to which counties might be able to provide the matching funds proposed in the budget. We expect that the department will have more detailed information about how this proposal will be implemented at the time of the May revision.

Budget Proposes to Claim Increased Federal Funds Support for Wards of the Court Who are Placed in Foster Care

We find that the department's proposal to increase federal support for wards of the court lacks detailed information that would allow the Legislature to fully evaluate its fiscal effect and feasibility. Therefore, we recommend that the DSS report to the Legislature during budget hearings on (1) its specific plans for implementing the proposal and (2) its revised fiscal estimate of the proposal.

The budget proposes a $24 million increase in federal foster care funds for the case management and administrative activities performed by county probation departments on behalf of federally eligible wards in foster care. In addition, the budget proposes a $25 million federal funds increase in foster care grant costs and a corresponding reduction in General Fund support. This proposal assumes that the state will be able to claim federal eligibility for 50 percent of the wards in foster care. Currently, the department estimates that approximately 32 percent of the wards in foster care participate in the federal foster care program. We find that the department's proposal lacks detailed information that would allow the Legislature to fully evaluate its fiscal effect and feasibility. Therefore, we recommend that the DSS report to the Legislature during budget hearings on (1) its specific plans for implementing the proposal and (2) its revised fiscal estimate of the proposal. We discuss the proposal in further detail in our analysis of the AFDC budget (please see Item 5180-101-001).

Social Services Programs—Continued

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) Program provides assistance to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without assistance. While this implies that the program *prevents* institutionalization, eligibility for the program is *not* based on the individual's risk of institutionalization. Instead, an individual is eligible for IHSS if he or she lives in his or her own home — or is capable of safely doing so if IHSS is provided — and meets specific criteria related to eligibility for the State Supplementary Program for the Aged, Blind, and Disabled (SSI/SSP).

An eligible individual will receive IHSS services if the county determines that (1) these services are not available through alternative resources and (2) the individual is unable to remain safely at home without the services.

The primary services available through the IHSS Program are domestic and related services; nonmedical personal services, such as bathing and dressing; essential transportation; protective supervision, such as observing the recipient's behavior to safeguard against injury; and paramedical services, which are performed under the direction of a licensed health care professional and are necessary to maintain the recipient's health.

The IHSS Program is administered by county welfare departments under broad guidelines that are established by the state. Each county may choose to deliver services in one or a combination of ways: (1) by individual providers (IPs) hired by the recipients, (2) by private agencies under contract with the counties, or (3) by county welfare staff.

Budget Proposal

The budget proposes expenditures of $747 million for the IHSS Program in 1991-92. This is an increase of $71 million, or 10 percent, above estimated current-year expenditures. Two significant changes account for this increase:

- A $68 million increase to fund an estimated 6.8 percent increase in caseload and a 2.8 percent increase in average hours of service per case.
- A $2.1 million increase to make payments to claimants in the *WRO v. Woods* case.

Table 3 displays IHSS Program expenditures, by funding source for the past, current, and budget years. The table shows that most of the proposed expenditure increase will be supported by the General Fund. General Fund support for IHSS is projected to increase by $65 million, or 20 percent. This is because it is estimated that little additional federal funds will be available to support the program in 1991-92. The table shows that federal Title XX funds will increase by $5.6 million, or 1.7 percent. County expenditures will be unchanged as a result of Ch 1438/87 (SB 412, Bill Greene), which freezes the county share of costs for the IHSS Program at the 1987-88 level.

Table 3
Department of Social Services
In-Home Supportive Services
Expenditures and Funding Sources
1989-90 through 1991-92
(dollars in thousands)

Program	*Actual 1989-90*	*Est. 1990-91*	*Prop. 1991-92*	*Change from 1990-91 Amount*	*Change from 1990-91 Percent*
Funding Sources					
General Fund	$273,032	$331,528	$396,426	$64,898	19.6%
Federal funds	317,045	325,521	331,127	5,606	1.7
County funds	19,221	19,257	19,257	—	—
Totals	$609,298	$676,306	$746,810	$70,504	10.4%

General Fund Deficiency of $14 Million in 1990-91

The budget anticipates that General Fund expenditures for IHSS during 1990-91 will exceed the amount appropriated by $14 million, or 4.3 percent. The projected deficiency primarily results from the department's November 1990 estimate that the IHSS caseload will grow much more rapidly than expected in the current year. Under existing law, the state must fund IHSS deficiencies. As we discuss below, our analysis indicates that the department has overestimated caseload growth in the IP mode for the current year. As a result, the department may have overestimated the 1990-91 deficiency by up to $5.5 million. Moreover, further complications in the *Miller v. Woods* case may delay until 1991-92 payments of up to $6.7 million budgeted in the current year.

Estimates Will Be Updated in May

We withhold recommendation on $727 million ($396 million General Fund and $331 million federal funds) for support of the IHSS Program, pending receipt of the May revision. We further recommend that the department address the fiscal effects of the following issues in the May revision: (1) potential overestimation of caseload, (2) further delays in settling Miller v. Woods, and (3) the statutory adjustment of IHSS maximum service awards.

The proposed expenditures for IHSS are based on program trends through June 1990. The department will present revised estimates in May, which will be based on program costs through February 1991. When updating its estimate based on additional data, we believe that the department should also address the issues we discuss below. We therefore withhold recommendation on $727 million proposed for support of the IHSS Program, pending receipt of the department's revised estimates in May.

1. ***Caseload May Be Overbudgeted.*** Table 4 displays the average monthly IHSS caseload by service delivery type for the past, current, and budget years, as estimated by the DSS. The budget anticipates an average annual increase in the IP caseload of 8.7 percent between 1989-90 and 1991-92. On average, however, the actual number of recipients in the IP mode increased by 8.3 percent between the first six months of 1989-90 and the same period in 1990-91. If this reduced growth rate of 8.3 percent

Social Services Programs—Continued

holds constant through the budget year, the 1991-92 General Fund cost of IHSS would be about $6 million less than proposed.

Table 4
Department of Social Services
In-Home Supportive Services
Average Monthly Caseload
by Provider Type
1989-90 through 1991-92
(dollars in thousands)

	Actual 1989-90	*Est.[a] 1990-91*	*Prop.[a] 1991-92*	*Percent Change 1989-90 to 1990-91*	*Percent Change 1990-91 to 1991-92*
Service provider types					
Individual providers	128,700	140,800	152,000	9.4%	8.0%
Contract agencies	13,900	13,000	12,300	−6.5	−5.4
County welfare staff	1,000	1,000	1,000	—	—
Totals	143,600	154,800	165,300	7.8%	6.8%

[a] Caseload estimated by Department of Social Services in November 1990 for the 1991-92 Governor's Budget.

2. ***Miller v. Woods Payments May Be Underbudgeted.*** As a result of the *Miller v. Woods* court case, the department is required to retroactively pay all spouses and housemates who provided protective supervision to IHSS recipients during specified periods. The budget assumes that the department will make half of the remaining *Miller v. Woods* payments in the current year. The department, however, has not reached an agreement with the plaintiffs' attorneys concerning the mailing and processing of notices to more than 113,000 additional potential claimants. Consequently, a substantial portion of the $6.7 million in claims that the budget assumes will be paid in the current year may actually be paid in 1991-92.

3. ***Increase in Statutory Maximum Grant Not Funded.*** Existing law limits the *number of hours* of service that counties may award to recipients. Effective July 1, 1991, however, the law will limit IHSS service awards to a maximum *dollar amount* of services, instead. This amount will be adjusted annually for the percentage increase in the California Necessities Index, with the first adjustment scheduled to take place on July 1, 1991 (simultaneous with the change in the basis of the limit). The effect of this change will be to increase the maximum monthly IHSS grant in 1991-92. This increase, in turn, will increase the maximum number of hours that a social worker can award IHSS recipients, because the average cost per hour of service for most recipients is not expected to change. Consequently, recipients who are currently at or near the maximum number of hours but have unmet need for additional hours will receive more hours of service in 1991-92 than they would have received without the statutory adjustment. The department estimates that this will result in increased General Fund costs of $4.7 million in 1991-92. The budget, however, does not propose funds to cover this cost.

Proposed Legislation Would Increase Legislature's Fiscal Flexibility

We find that the administration's proposed legislation would restore Legislature's flexibility to limit IHSS expenditures in light of other program and fiscal priorities.

The Governor's Budget Summary indicates that the administration will propose legislation to cap IHSS expenditures at the annual Budget Act appropriation for the program. Under existing law — Chapter 1438 — the Legislature annually must fund any deficiency that may occur in the IHSS Program.

The proposed legislation is not yet available for review. According to the budget summary, however, it would permit counties to reduce services to recipients on a priority basis, if expenditures are anticipated to exceed the annual appropriation. In this respect, the legislation apparently would be similar in effect to Ch 69/81 (SB 633, Garamendi), which was successful in reducing IHSS expenditure growth in the early 1980s. Chapter 69 capped IHSS expenditures at the Budget Act appropriation and permitted counties to make the following program reductions, in the following priority order, to stay within their annual IHSS budget allocations:

- Reduce the frequency of nonessential services.
- Eliminate nonessential services.
- Terminate or deny eligibility to individuals requiring only domestic services.
- Terminate or deny eligibility to persons who would not require institutionalization in the absence of services.
- Reduce, on a per capita basis, the cost of services authorized.

To the extent that the proposed legislation is similar to Chapter 69, it would restore the Legislature's flexibility to limit the level of IHSS funding to the amount included in the annual Budget Act. The Legislature already has this flexibility in regard to the other major social services programs in this item, Child Welfare Services and GAIN.

Reappropriation (Item 5180-490)

We recommend approval.

The budget proposes to reappropriate up to $115,000 of the General Fund amount appropriated in the 1990 Budget Act for the Social Services Programs, for the purpose of implementing court-ordered judgments in the In-Home Supportive Services Program in 1991–92. A similar provision was included in the 1990 Budget Act.

GREATER AVENUES FOR INDEPENDENCE

The Greater Avenues for Independence (GAIN) Program provides education and training services to recipients of AFDC in order to help them find jobs and become financially independent. The budget proposes $224 million ($101 million General Fund, $120 million federal funds, and

Social Services Programs—Continued

$2.7 million reimbursements) for the GAIN Program in 1991-92. These amounts do not include funds proposed for support of the GAIN Program in Items 6110-156-001, basic education, and 6110-166-001, vocational education, of the 1991 Budget Bill.

Overview of the GAIN Budget Request

Table 5 displays expenditures from all funding sources proposed for GAIN in the current and budget years. The table also displays expenditures for each of the components of the GAIN Program. As the table shows, the budget proposes to fund the program from two major sources: (1) funds appropriated specifically for GAIN and (2) funds redirected from other programs.

Expenditures. Table 5 shows that the budget proposes $329 million in expenditures for the GAIN Program in 1991-92, which represents a decrease of $33 million, or 9.2 percent, below estimated current-year expenditures for the program.

Funds Appropriated for GAIN. Table 5 shows that $224 million, or 68 percent, of the $329 million proposed for the program represents funds that would be specifically appropriated for the GAIN Program. The proposed $101 million General Fund appropriation accounts for 45 percent of this total. The proposed General Fund appropriation is $3.9 million, or 3.7 percent less than estimated current-year expenditures.

Redirected Funds. As shown in the table, the budget assumes that $105 million in funds proposed for existing programs will be available to provide services to GAIN participants. The $105 million that is expected to be redirected for GAIN participants is $12 million, or 10 percent, less than the amount the department estimates will be spent from these sources in the current year. Most of this decrease is due to reductions in spending for (1) adult education ($6.4 million) and (2) Job Training Partnership Act (JTPA) training activities ($3.5 million).

Type of Service Provided

While Table 5 breaks out GAIN expenditures by program component, Table 6 shows how the $329 million proposed for GAIN would be distributed among expenditure categories. Table 6 shows that over one-half of the funds (59 percent) are proposed for *program costs* — the costs incurred by county and contract staff to provide direct services, such as job search, education, and training to GAIN participants. An additional $48 million, or 14 percent of total costs, is for *supportive services,* including child care, transportation, and ancillary costs (such as books and work-related clothing) provided to participants. Finally, $76 million, or 23 percent of total costs, is for *administrative costs,* which consist primarily of county costs to administer the GAIN Program.

Table 5
Department of Social Services
GAIN Program
Proposed Expenditures and Funding Sources
1990-91 and 1991-92
(dollars in thousands)

	1990-91 Estimated	*1991-92 Proposed*	*Change from 1990-91 Amount*	*Change from 1990-91 Percent*
Expenditures by Component				
Registration, orientation, and appraisal	$28,324	$25,052	−$3,272	−11.6%
Education	161,246	135,462	−25,784	−16.0
Job search	29,921	26,880	−3,042	−10.2
Assessment	12,866	11,279	−1,587	−12.3
Training (including job development and placement)	94,536	84,700	−9,835	−10.4
Long-term PREP	1,394	1,555	161	11.5
JOBS legislation — Ch 1568/90	16,656	29,097	12,441	74.7
Child care licensing and administration [a]	11,679	10,082	−1,597	−13.7
Evaluation	153	153	—	—
County administration and Employment Development Department Support	935	935	—	—
Court cases	5,000	4,200	−800	−16.0
Totals	$362,711	$329,396	−$33,315	−9.2%
Funding Sources				
Funds appropriated for GAIN:				
General Fund				
Department of Social Services [b]	$86,709	$86,158	−$551	−0.6%
State Department of Education	7,200	7,200	—	—
Department of Finance (Control Section 22)	10,900	7,600	−3,300	−30.3
Subtotals, General Fund	($104,809)	($100,958)	(−$3,851)	(−3.7%)
Federal funds [b]	$137,818	$120,272	−$17,546	−12.7%
Reimbursements	2,735	2,735	—	—
Totals, funds appropriated for GAIN	$245,362	$223,965	−$21,397	−8.7%
Funds redirected for GAIN:				
General Fund				
Average daily attendance-based funds	$40,500	$33,500	−$7,000	−17.3%
Adult education	(23,300)	(16,900)	(−6,400)	(−27.5)
Regional occupation centers and programs	(1,000)	(1,000)	(—)	(—)
Community Colleges	(16,200)	(15,600)	(−600)	(−3.7)
Cooperative agencies resources for education	400	500	100	25.0
Job agent/service center	400	400	—	—
Subtotals, General Fund	($41,300)	($34,400)	(−$6,900)	(−16.7%)
Employment Training Fund	$600	$600	—	—
Federal funds				
Job Training Partnership Act	$45,100	$41,600	−$3,500	−7.8%
Training	(34,900)	(31,400)	(−3,500)	(−10.0)
Education	(10,200)	(10,200)	(—)	(—)
Job service	4,500	4,500	—	—
Community services block grant	1,600	1,600	—	—
Vocational education block grant	8,000	8,000	—	—
Refugee social services	15,300	13,700	−1,600	−10.5
PELL Grants	1,000	1,000	—	—
Subtotals, federal funds	($75,500)	($70,400)	(−$5,100)	(−6.8%)
Total funds redirected for GAIN	$117,400	$105,400	−$12,000	−10.2%
Grand totals, all funding sources [c]	$362,762	$329,365	−$33,397	−9.2%

[a] Includes funds for child care administration that were distributed among the components in previous years.

[b] Includes funds appropriated for GAIN in Items 5180-141 (County Administration of Welfare Programs) and 5180-161 (Community Care Licensing) in both years; and Item 5180-158 (Los Angeles County GAIN Program) in 1990-91.

[c] Figures do not add to expenditure totals due to rounding.

Social Services Programs—Continued

Table 6
Department of Social Services
GAIN Expenditures by Category
1991-92
(dollars in millions)

	Proposed 1991-92	*Percent of Total*
Program Costs		
Orientation, testing, and appraisal	$29.8	9.0%
Education	77.4	23.5
Job club/search	16.8	5.1
Assessment	1.7	0.5
Training and vocational education	52.0	15.8
Teen parent	13.8	4.2
Self-initiated program extensions	2.6	0.8
Long-term PREP [a]	—	—
Subtotals, program costs	($194.1)	(58.9%)
Supportive Services		
Child care	$33.6	10.2%
Transportation	11.7	3.6
Ancillary expenses [b]	2.3	0.7
Subtotals, supportive services	($47.6)	(14.4%)
Administration	$76.2	23.2%
Other	11.5	3.5
Total expenditures	$329.4	100.0%

[a] Supportive services and administrative costs for long-term PREP total $1.6 million. There are no "program" costs for this component, although participants continue to receive AFDC grant payments while in their PREP assignments.
[b] Includes workers' compensation costs for participants in certain training components.

Proposed GAIN Funding Level Is Below Full Funding for Anticipated Caseloads

The department estimates that the $329 million proposed for the GAIN Program in 1991-92 is $159 million, or 33 percent, *less* than the amount that would be needed ($488 million) to pay for services for the entire anticipated caseloads in all counties. Table 7 compares the budget proposal with estimated GAIN expenditures, funding sources, and yearly participants at full funding. As the table shows, the level of funding proposed would reduce the number of yearly participants by almost 47 percent *relative to the full funding estimate.*

The amount that will actually be provided for GAIN in 1991-92 is a policy decision for the Legislature. This is because the GAIN statute provides a mechanism for counties to contain costs within the amount appropriated in the annual Budget Act.

Table 7
Department of Social Services
GAIN Program in 1991-92
Proposed Expenditures and Funding Sources
Full Funding Versus Budget Proposal
(dollars in millions)

	1991-92 Full Funding	*1991-92 Proposed*	*Change From Full Funding*	
			Amount	*Percent*
Expenditures by Component				
Registration, orientation, and appraisal	$48	$25	–$23	–47.9%
Education	206	135	–71	–34.5
Job search	50	27	–23	–45.9
Assessment	17	11	–6	–35.3
Training (including job development and placement)	116	85	–31	–26.8
Long-term PREP	2	2	—	—
JOBS legislation — Ch 1568/90	29	29	—	—
Child care licensing and administration	15	10	–5	–33.1
Court cases	4	4	—	—
All other	1	—	—	—
Totals	$488	$329	–$159	–32.6%
Funding Sources				
Funds appropriated for GAIN:				
General Fund	$188	$101	–$87	–46.3%
Federal funds	179	120	–59	–33.0
Reimbursements	3	3	—	—
Totals, funds appropriated for GAIN	$370	$224	–$146	–39.5%
Funds redirected for GAIN:				
General Fund	$43	$34	$9	20.9%
Employment Training Fund	1	1	—	—
Federal funds	75	70	5	6.7
Totals, funds redirected for GAIN	$119	$105	$14	13.3%
Grand totals, all funding sources [a]	$489	$329	–$160	–32.7%
Yearly Participants	*397,173*	*211,793*	*–185,380*	*–46.7%*

[a] Figures do not add to expenditures due to rounding.

Current-Year Federal Funds Available to GAIN Overstated

The department uses a computer model to project the flow of GAIN participants through the GAIN Program and to determine the number of participants that can be served by available funds. In developing its mid-year estimate of expenditures for the GAIN Program in 1990-91, the department inadvertently overestimated the amount of federal funds that would be available by about $20 million. Similarly, the department indicates that its estimate of the federal funds available for GAIN in 1991-92 overstates the funds actually available by about $2 million. We anticipate that the department will correct this error at the time of its May estimate.

Excess Funds Appropriated by the Budget Act of 1989 Should Revert

We recommend that the Legislature add an item to the Budget Bill to revert, as of June 30, 1991, $947,000 appropriated by the Budget Act of 1989.

Social Services Programs—Continued

The Budget Act of 1989 appropriated $7.9 million ($4.9 million General Fund) in Item 5180-155-001 for the Los Angeles County GAIN Program. This item was established in the Budget Bill prior to notification from the federal government that the state would receive 50 percent federal funding for the Job Opportunities and Basic Skills (JOBS) Program.

Federal notification of 50 percent federal funding for JOBS came late in the budget deliberations. The Legislature adjusted the main GAIN appropriation to reflect these increased federal funds. Inadvertently, the Los Angeles County GAIN funding item (Item 5180-155-001) was not adjusted. Under authority of Section 28.00, Budget Act of 1989, the department in a letter dated January 8, 1991, proposes to increase federal fund expenditures in Item 5180-155-890 of the Budget Act of 1989 by $947,000. This increase in federal funding allows the state to reduce General Fund support by the same amount.

This means that $947,000 from the General Fund was unexpended at the end of 1989-90. Therefore, we recommend that the Legislature add an item to the Budget Bill to revert these funds to the General Fund for use in 1991-92. This would make $947,000 in General Fund monies available for the Legislature's use in achieving its priorities.

The following Budget Bill language is consistent with this recommendation:

> 5180-490—Reversion, Department of Social Services. Notwithstanding any other provision of law, as of June 30, 1991, the unexpended balance of the appropriation made for the GAIN Program in Item 5180-155-001 by the Budget Act of 1989, shall revert to the General Fund on the effective date of this act.

ADOPTIONS

The Proposed Increase of the Independent Adoptions Fee Has Merit

We recommend enactment of legislation to require counties to increase their independent adoptions fees to reflect actual costs and adjust the fees on a periodic basis. We further recommend that the legislation require counties to report annually on their independent adoptions costs and fee revenues.

Background. The budget proposes legislation to raise from $500 to $1,896 the fee that the state's district adoptions offices may charge prospective adoptive parents under the Independent Adoptions Program and to authorize *county* adoptions agencies to increase their fees. (Please see Item 5180-001-001 for a discussion of the state fee issue.) Independent adoptions services are provided by the state's district adoptions offices and county adoptions agencies. Currently, five counties provide independent adoptions services — Alameda, Los Angeles, San Bernardino, San Diego, and Shasta. The state provides adoptions services in the remaining 53 counties. For 1991-92, the DSS estimates that county agencies will provide these services for about 1,470 children.

Counties receive General Fund support for independent adoptions through the local assistance budget. For 1991-92, the DSS anticipates that counties will receive about $1.2 million in local assistance funding for this program.

Under current law, counties are authorized to charge a $500 fee to prospective adoptive parents. Counties retain all of the revenues generated by these fees and must apply them toward their existing Independent Adoptions Programs.

Proposed Fee Increase Has Merit. Our analysis indicates that the proposal to increase the independent adoptions fee has merit since the adoptive parents who pay the fee are the primary beneficiaries of independent adoptions services. However, as we indicate in our analysis of the fee issue in the department's support budget, the proposed fee amount substantially understates the department's costs for providing independent adoptions services. Consequently, it probably is also not reflective of the counties' actual costs for providing independent adoptions services. To ensure that each county charges a fee reflective of its actual costs, each county would need to develop its own fee. The fee would also have to be periodically updated to reflect changes in county costs. Therefore, we recommend enactment of legislation requiring county adoptions agencies that provide independent adoptions services to charge a fee based on their actual costs of providing the service and to update the fee periodically. It is important to note that, as with the state fee, prospective adoptive parents using county agencies would have the fee waived or reduced if it presented a financial barrier to the adoption.

Increased County Fees Would Reduce Need for General Fund Support. To the extent that county Independent Adoptions Programs increase their fees, their need for General Fund support in the future would be reduced. In order to ensure that the Legislature can accurately reflect the availability of fee revenues in the future, we recommend that the fee legislation require counties to report their independent adoptions costs and fee revenues to the DSS annually.

OFFICE OF CHILD ABUSE PREVENTION

The Office of Child Abuse Prevention (OCAP) administers various child abuse prevention and intervention programs throughout the state. Most of these programs were established and funded initially by specific legislation. In subsequent years, funding has been provided by the various Budget Acts and through the continuous appropriation of funds from the State Children's Trust Fund.

Unexpended Balance in the State Children's Trust Fund Could Be Used to Increase Treatment Services for Child Welfare Services Clients

We recommend that the Legislature appropriate the unexpended balance in the State Children's Trust Fund in order to increase the availability of treatment services for abused and neglected children and their families. We further recommend the adoption of Budget Bill language that would require that these funds be used to purchase services from nonprofit organizations or public institutions of higher education, consistent with the provisions of current law that govern the expenditure of State Children's Trust Fund monies.

Background. The State Children's Trust Fund (SCTF) was established by Ch 1399/82 (AB 2994, Imbrecht) in order to fund research on child

Social Services Programs—Continued

abuse and neglect, innovative child abuse prevention and treatment programs that are operated by nonprofit organizations or public institutions of higher education, and programs to increase public awareness of child abuse. The SCTF is supported by a surcharge on birth certificates, donations from private sources, and taxpayer donations through a checkoff on California State Income Tax forms. The OCAP selects projects to fund with the SCTF by issuing requests for proposals. In 1991-92, the department estimates that SCTF expenditures for research, innovative treatment programs, and public awareness campaigns will total $1.3 million.

Excess Balance in the SCTF Could Be Used to Increase Treatment Services for Abused and Neglected Children and Their Families in 1991-92. The budget shows that the SCTF will have a year-end balance in 1990-91 of over $3.3 million. This balance is expected to grow slightly, to $3.4 million, by the end of 1991-92. The department currently has not developed proposals for how to spend these funds.

In our report, *Child Abuse and Neglect in California: A Review of the Child Welfare Services Program* (LAO Report No. 91-1), we found that there is a significant shortage of treatment services for abused and neglected children and their families. Specifically, we found that counties spend less than 4 percent of their child welfare services funds to purchase treatment and support services for clients and that publicly funded community treatment resources, such as drug treatment and mental health services, are frequently in short supply. As a result, the county's child welfare services social workers are the *only* providers of treatment and support services to over half of all the families in the program, even though (1) social workers frequently visit clients less than once per month, (2) social workers are not trained to provide some types of treatment services such as drug treatment, and (3) it is typically more expensive to provide the service through a social worker than it would be to purchase these services in the community. The shortage of treatment and support services has likely contributed to the program's performance problems, such as the increasing number of children who are placed in foster care, and the program's increasing recidivism rate, which we discuss in more detail in the report.

We believe that providing more services could improve the effectiveness of the program in two ways: (1) by increasing the likelihood that clients will successfully complete a treatment program and (2) by helping the juvenile courts to make more timely decisions about families who receive child welfare services. For these reasons, we recommend that the Legislature add a Budget Bill item to appropriate the unexpended balance in the SCTF for allocation to counties to purchase innovative treatment services from nonprofit agencies or public institutions of higher education. This approach is consistent with the provisions of current law that govern the use of these funds. The following language, to be included in the new item, is consistent with this recommendation:

Funds appropriated by this item are in lieu of funds that would otherwise be appropriated pursuant to Section 18969 of the Welfare and Institutions Code. The Department of Social Services shall allocate the funds appropriated in this item to counties in order to increase the availability of treatment services to children and families in the Child Welfare Services Program. Funds appropriated in this item shall only be used to purchase treatment services from nonprofit organizations or institutions of higher education.

DEPARTMENT OF SOCIAL SERVICES

Community Care Licensing

Item 5180-161 from the General Fund and the Federal Trust Fund — Budget p. HW 175

Requested 1991-92	$11,288,000
Estimated 1990-91	11,866,000
Actual 1989-90	14,823,000
Requested decrease $578,000 (−4.9 percent)	
Total recommended reduction	700,000

1991–92 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Local assistance	General	$8,445,000
5180-161-890—Local assistance	Federal	2,843,000
Total		$11,288,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS *Analysis page*

1. ***Family Day Care Home Fee. Reduce Item 5180-161-001 by $700,000.*** Recommend enactment of legislation to institute an annual $50 family day care home licensing fee. Further, recommend a reduction of $700,000 from the General Fund to reflect the availability of fee revenues to support a portion of county licensing costs. 830

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriations and federal funds for (1) the state's cost of contracting with the counties to license foster family homes and family day care homes and (2) foster family home recruiting activities by counties. Funds for direct state licensing activities are proposed in Item 5180-001-001 — department support.

Foster family homes are licensed to provide 24-hour residential care to children in foster care. In order to qualify for a license, the home must be the residence of the foster parents and must provide services to no more than six children. Family day care homes are licensed to provide day care services for up to 12 children in the provider's own home.

Community Care Licensing—Continued

MAJOR ISSUES

☑ The budget proposes legislation to establish an annual $50 family day care home licensing fee.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations totaling $11,288,000 ($8,445,000 General Fund and $2,843,000 federal funds) to reimburse counties for licensing activities in 1991-92. This is a decrease of $578,000, or 4.9 percent, as compared with estimated current-year expenditures. The decrease is due primarily to a decrease in foster family home and family day care home caseloads.

The Budget Proposes to Establish an Annual Licensing Fee for Family Day Care Homes

We recommend the enactment of legislation to authorize counties to institute an annual $50 family day care home licensing fee. In addition, we recommend a reduction of $700,000 from the General Fund to reflect the availability of fee revenues to support a portion of county licensing costs.

The budget proposes legislation to establish an annual $50 fee for family day care homes licensed by counties. The budget proposes $2.8 million for support of this licensing activity. (Please see Item 5180-001-001 for a discussion of the budget proposal to establish a $50 fee for homes licensed by state district offices.) The Department of Social Services (DSS) estimates that this fee would generate $700,000 in revenues for counties in 1991-92, although the budget does *not* reduce the amount proposed for local assistance to reflect the availability of this additional revenue.

Family day care homes provide child care in the licensee's home on less than a 24-hour per day basis. They have a licensed capacity of 6 or fewer children, or with an assistant, a maximum of 12 children. Currently 25 county welfare departments are under contract with the DSS to license the family day care home licensing function. For 1991-92, the DSS estimates that counties will license about 13,900 such homes.

Licensing is a requirement of doing business in California and it is therefore reasonable to expect the licensee to pay for at least part of the costs of the licensing program. Moreover, we believe that a $50 annual fee should not cause economic hardship to the licensee. On this basis, we recommend approval of the annual $50 fee for family day care homes. We further recommend a reduction of $700,000 General Fund to reflect the availability of fee revenues to counties to support a portion of their licensing costs.