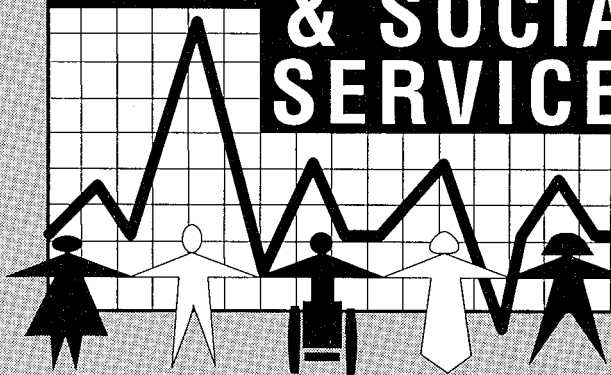


HEALTH & SOCIAL SERVICES



AID TO FAMILIES WITH DEPENDENT CHILDREN (5180)

The Aid to Families with Dependent Children (AFDC) Program provides cash grants to families and children whose incomes are not adequate to provide for their basic needs. Families are eligible for the AFDC-Family Group (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. Families are eligible for grants under the AFDC-Unemployed Parent (AFDC-U) Program if they have a child who is financially needy due to the unemployment of one or both parents. Children are eligible for grants under the AFDC-Foster Care (AFDC-FC) Program if they are living with a foster care provider under a court order or a voluntary agreement between the child's parent and a county welfare or probation department.

The budget proposes expenditures of \$5.9 billion (\$2.4 billion General Fund, \$3 billion federal funds, and \$431 million county funds) for the AFDC Program in 1993-94. This is a decrease of \$655 million, or 10 percent, below estimated total expenditures in the current year.

AFDC Caseload

AFDC Caseload Likely to Be Lower Than Budget Projections

The budget may significantly overestimate AFDC Program costs because the department's caseload projections appear to be too high, based on an analysis of more recent data. The department will present revised estimates in May.

The proposed expenditures for AFDC grants in 1993-94 are based on actual caseloads and costs through September 1992, updated to reflect the department's projections through 1993-94. The budget estimates that the AFDC-FG basic caseload will increase by 4.8 percent in 1993-94 and the AFDC-U basic caseload will increase by 9.7 percent. (This excludes the effects of the welfare reform proposals contained in the budget.)

Based on recent data that were not available when the budget was prepared, we estimate that AFDC-FG and U costs could be as much as \$40 million (\$19 million General Fund) lower in the current year and \$90 million (\$43 million General Fund) lower in the budget year than the department's estimate. In May, the department will present revised estimates of AFDC costs based on actual caseload and grant costs through February 1993. Because the revised estimate of AFDC costs will

be based on more recent information, it will provide the Legislature with a more reliable basis for budgeting 1993-94 expenditures.

Current-Year Statutory Changes in AFDC Grant Policy

- Chapter 722, Statutes of 1992 (SB 485) enacted several significant changes to the AFDC Program:

Reduces Maximum Aid Payments (MAPs) by 5.8 Percent. Chapter 722 reduces the MAPs by a total of 5.8 percent in 1992-93 (4.5 percent effective October 1, 1992 and an additional 1.3 percent effective December 1, 1992). Thus, a family of three with no other income experienced an AFDC grant reduction of \$39 per month, from \$663 to \$624. This family was eligible for an additional food stamps allotment of about \$12. Therefore, the net reduction in monthly benefits, including food stamps, was about \$27.

12-Month Residency Requirement. Chapter 722 also provides that AFDC recipients from another state, during their first 12 months of residence in California, are eligible to receive the lesser of (1) the California grant or (2) the maximum grant in their former state. The department assumes that about 7 percent of AFDC recipients lived in another state within the preceding 12 months. This provision, however, has been ruled unconstitutional by a federal district court. At the time this analysis was prepared, it was not known whether the case would be appealed. (The fiscal impact of this decision is discussed in the following section.)

Changes in Rules for Computing Grants. The department requested federal waivers required in order to implement two "work incentive" provisions of Chapter 97, Statutes of 1991 (SB 724, Maddy): (1) the elimination of the "100-hour," which denies aid to AFDC-U recipients if they work more than 100 hours per month, and (2) the indefinite extension of the "\$30 and one-third earned income disregard." The department obtained federal approval of the 100-hour rule waiver and it was implemented on December 1, 1992. The federal government made approval of the \$30 and one-third disregard contingent on the state funding the initial costs of this policy change. (This change initially results in costs because by disregarding the first \$30 and one-third of earned income, an AFDC recipient will receive a higher grant than he/she would receive otherwise.) However, because the 1992 Budget Act did not include funds for these initial first-year costs, the policy change was not implemented.

Other Provisions. Chapter 722 also requires the department to seek federal approval for two proposals that would affect AFDC recipients:

- **Regional AFDC Grants.** The department was directed to seek a federal waiver to establish regional AFDC MAPs as an alternative to the 5.8 percent across-the-board MAP reductions. Implementation of this proposal was linked to federal approval that would allow the state to establish a specific four-region Supplemental Security Income/State Supplementary Program (SSI/SSP) grant schedule. The Social Security Administration denied approval for the regional SSI/SSP grant proposal contained in Chapter 722 because it called for four regions instead of the maximum three regions required by federal law; therefore, the AFDC regional grant provision has not been implemented.
- **Additional Federal Funds for the Greater Avenues for Independence (GAIN) Program.** The department was directed to seek federal waivers that would allow the state to redirect any federal funds saved as a result of other waivers granted pursuant to Chapter 722. These redirected funds were proposed to be used to augment the GAIN Program. The U.S. Department of Health and Human Services refused to grant a waiver for this provision.

Residency Requirement Found Unconstitutional

The budget includes net grant and administrative savings of \$41 million (\$20 million General Fund) in 1993-94 and \$15 million (\$7.6 million General Fund) in the current year from the residency requirement. A federal district court, however, has ruled that this provision is unconstitutional.

As described above, the residency requirement for AFDC applicants was implemented in December 1992. A federal district court, however, has found it to be unconstitutional. Thus, unless the court ruling is reversed on appeal, the budget overstates savings from this provision by \$15 million (\$7.6 million General Fund) in the current year and \$41 million (\$20 million General Fund) in 1993-94.

Governor's Welfare Proposals

The Governor's Budget proposes several major changes in welfare policy that would significantly affect the AFDC-FG and U programs. The General Fund fiscal impact of the proposed changes is summarized in Figure 25. It shows that the proposal would result in grant savings of \$58 million in 1992-93 and \$526 million in 1993-94. These savings would be partially offset by General Fund administrative and support services costs of \$26 million in 1992-93 and \$59 million in 1993-94. These

provisions (except for the increase in GAIN funding) would require legislation and, in most cases, a waiver of federal regulations.

Figure 25

**Governor's Welfare Proposals
General Fund Budget Summary
1992-93 and 1993-94**

(In Thousands)

Proposals	1992-93		1993-94	
	Grants	Administration/ Services	Grants	Administration/ Services
4.2 percent MAP reduction	-\$40,585	\$304	-\$125,378	—
15 percent additional MAP reduction	—	977	-247,520	\$5,973
Earned income disregard expansion	3,645	—	22,514	—
Exclusion from MAP of children conceived while on aid	—	—	-14,084	591
Reduction in pregnancy-related benefits	-6,513	-434	-20,115	-1,451
Savings due to reduced dependency	-14,731	-57	-141,674	-4,863
Minors required to live with adult relatives	—	17	—	71
Cal Learn administration and services	—	6,386	—	17,076
GAIN reform and funding augmentation	—	15,000	—	40,991 ^a
County data processing changes	—	3,712	—	—
State administration	—	—	—	797
Totals	-\$58,184	\$25,905	-\$526,257	\$59,185

^a An additional \$29 million is proposed to replace a current-year ETP loan. Because this does not represent an increase in state funds, it is not shown in this figure.

Most of the budget's welfare proposals require federal approval in the form of waivers of existing statutes. This is not the case for the proposals to (1) limit pregnancy-related benefits and (2) require that AFDC teen parents under age 18 live at home.

Components of the Governor's Proposal

Budget Proposes to Reduce MAPs By 4.2 Percent

The budget proposes legislation to reduce the MAP to all AFDC recipients by 4.2 percent for a net savings of \$262 million (\$125 million General Fund) in 1993-94 and \$84 million (\$40 million General Fund) in the current year. The grant reduction would be offset partially by an increase in food stamps, thereby resulting in a reduction of about 2.2 percent in the total income available to AFDC recipients with no outside income.

The budget contains three separate proposals that would have the effect of reducing AFDC grants below the levels specified in current law. These are (1) a 4.2 percent reduction in the MAP for all AFDC recipients, (2) an additional 15 percent MAP reduction for AFDC recipients (with some exceptions) who have been on aid for more than six months, and (3) a prohibition on MAP increases due to increased family size when additional children are conceived while the parent is on aid.

The budget proposes legislation to reduce the MAPs by 4.2 percent for all AFDC-FG and U recipients. Currently, the MAP ranges from \$307 for a one-person family to \$1,322 for a family of ten or more persons. Figure 26 displays the effect of the proposed MAP reduction for family sizes between one and five. It shows that the MAP for a family of three, for example, would be reduced from \$624 to \$597 per month.

Proposal to Reduce MAP an Additional 15 Percent After Six Months

The budget proposes legislation to reduce the MAP by an additional 15 percent for AFDC recipients (with some exceptions) after they have been on aid for six months, for a net savings of \$500 million (\$242 million General Fund) in 1993-94. The grant reduction would be offset partially by an increase in food stamps, thereby resulting in a reduction of about 9.8 percent in the total income available to AFDC recipients with no outside income.

The budget proposes legislation to reduce AFDC MAPs by an additional 15 percent after a family (1) has been on assistance for more than 6 months or (2) went off aid after 6 months and returned to the program within 24 months. This reduction would not occur if all parents or caretaker relatives in the home are age 60 or over, disabled

(receiving SSI/SSP or In-Home Supportive Services), pregnant, the caretaker is a nonneedy relative or all parents in the family (assistance unit) are under age 19 and attending high school or other equivalent schooling.

Figure 26

**Department of Social Services
AFDC MAP and Need Standard
Budget Proposal Compared to Current Law
1993-94**

Family Size	Need Standard ^a	Maximum Aid Payment		
		Current Law	Budget Proposal	
			First Six Months	After Six Months
1	\$351	\$307	\$293	\$249
2	576	504	482	410
3	714	624	597	507
4	848	743	709	603
5	967	847	809	688

^a Assumes a CNI for 1992 of 2.26 percent, resulting in a COLA of 1.58 percent in 1993-94. (The authorized COLA is 70 percent of the CNI.)

Proposal to Expand the Earned Income Disregard

The budget proposes \$3.6 million in 1992-93 and \$22.5 million in 1993-94 from the General Fund for the costs of extending indefinitely—beyond the existing four-month limit—the “\$30 and one-third disregard” of employment earnings in computing AFDC grants. Current law directs the department to request a federal waiver to implement this change.

The 1993-94 budget proposes \$7.6 million (\$3.6 million General Fund) in 1992-93 and \$47 million (\$22.5 million General Fund) in 1993-94 to fund the costs of expanding the “30 and one-third disregard.” This would have the effect of reducing the amount of employment earnings used to offset the grants, thereby increasing the incentive to work. As explained previously, current law (Ch 97/91) directs the Department of Social Services (DSS) to request a federal waiver to implement this change.

Proposal to Exclude From the MAP Any Children Conceived While on Aid

The budget proposes legislation to exclude, for purposes of determining a family's MAP, any children who are conceived while the family is on AFDC, for a net savings of \$28 million (\$13 million General Fund) in 1993-94. Savings would increase significantly annually thereafter, amounting to several hundred million dollars in ten years.

The budget proposes legislation that would exclude any children conceived when a family is receiving AFDC for purposes of determining the family's MAP. Such children would continue to be excluded if the family leaves and returns to the program, unless the absence was for at least 24 consecutive months. Children excluded for purposes of determining the MAP would be eligible for both Medi-Cal benefits and food stamps.

Proposal to Limit Pregnancy-Related Benefits

The budget proposes legislation to eliminate pregnancy-related AFDC benefits, except for the federally assisted program that covers the third trimester, for a savings of \$46 million (\$22 million General Fund) in 1993-94 and \$15 million (\$7 million General Fund) in the current year. We find that this proposal could result in a transfer of responsibility to the counties for many of those recipients who would lose these benefits.

The budget proposes legislation to limit AFDC pregnancy-related benefits. Specifically, the budget proposes to terminate the following benefits:

- **State-Only AFDC Program.** Under current law, the state operates a state-only (no federal financial participation) program, whereby grants are provided to pregnant women without other children during the first six months of pregnancy.
- **\$70 Monthly Special Needs Payment.** Current law provides for a \$70 monthly special needs payment to *all* pregnant women who are receiving AFDC.

Under the budget proposal, the state would continue to participate in the federally assisted AFDC Program for pregnant women who are in their last three months of pregnancy (and for the month in which their baby is born).

Limiting the pregnancy benefits to the last three months of pregnancy would cause about 3,000 women to lose all of their AFDC benefits (those with no other children). These women could apply for general assistance in the counties where they reside. Thus, the elimination of these programs would, in effect, transfer responsibility for many pregnant women to the counties. Under existing law, these women would, however, be eligible for pregnancy-related medical benefits under Medi-Cal and for food stamps.

Budget Imposes Requirements on Teen Parents

The budget proposes legislation to (1) require parents under age 18 to reside in the home of their parent or certain other adults in order to receive AFDC and (2) establish the Cal Learn Program, an incentive program for AFDC parents under age 19 to remain in school. To the extent this proposal increases school attendance, it would result in increased job readiness as well as additional school apportionment costs, potentially in the tens of millions of dollars.

Teen Parent's Residence. Under this proposal, parents under age 18 who receive AFDC would be required to live in the home of their parent, legal guardian, adult relative, or in certain other living arrangements in order to receive aid. The proposal includes exceptions under which the teen could maintain a separate residence. This program requirement is optional under the federal Family Support Act of 1988 and would not require any federal approval other than acceptance of an amended state plan.

The budget does not reflect any savings from this proposal; however, to the extent that the teen parents stay with certain adults, such as parents or stepparents, part of the adult's income could be used to offset the teen parent's AFDC grant. This would result in unknown General Fund savings, probably less than \$500,000.

Cal Learn Program. The budget proposes to create the Cal Learn Program for parents under age 19 who receive AFDC and have not completed high school. If these parents remain in school and progress to the next grade level they would receive a \$100 bonus and if they graduate from school they would receive a \$500 bonus. If these parents have more than two unexcused absences per month they would have their AFDC grant *reduced* by \$50. Otherwise their grant would remain unchanged.

The budget proposes administrative and supportive services expenditures for Cal Learn of \$35 million (\$17 million General Fund) in 1993-94 and \$13 million (\$6 million General Fund) in the current year.

Of these costs, \$32 million (\$16 million General Fund) in 1993-94 and \$12 million (\$6 million General Fund) in the current year are for child care, case management, and transportation for Cal Learn participants. The remaining expenditures are for program administration by the counties. The budget assumes that the costs of the bonuses would offset the savings from the penalties, resulting in no net change. We note, however, that to the extent the program increases school attendance, it will result in increased job readiness as well as additional state apportionment costs, potentially in the tens of millions of dollars.

Proposal to Increase Funding for the GAIN Program

The budget proposes to increase funding for the GAIN Program by \$93 million in 1993-94 and \$42 million in the current year (all funds).

We find that (1) the program has shown potential to reduce AFDC grant expenditures and (2) fiscal constraints are likely to cause counties to spend less than the budgeted amount for the program. Consequently, we recommend the enactment of legislation to (1) eliminate the county share of funding for the GAIN Program, resulting in a General Fund cost of \$42 million in 1993-94, and (2) increase the county share of AFDC grants by about two-thirds of 1 percent in order to offset the increased state costs for buying out the county share of the program.

The budget proposes \$330 million (\$99 million General Fund) for the GAIN Program in 1993-94. This is an increase of \$120 million (\$41 million General Fund), or 57 percent, over the 1992 Budget Act appropriation (which includes a \$29 million loan from the Employment Training Fund, the repayment of which the budget proposes to defer). The budget also proposes to increase funding for the GAIN Program by \$42 million (\$15 million General Fund) in the current year. The proposed funding increase for 1993-94 would allow the state to match all available federal funds.

Prior to 1991-92, the state funded all of the nonfederal costs of the GAIN Program. Pursuant to the realignment legislation, counties pay for approximately 15 percent of the total costs of GAIN. Realignment also reduced the counties' share of costs for AFDC grants from approximately 5 percent to 2.5 percent. During 1991-92, the counties expended almost all funds allocated for the GAIN Program. In the current year, however, fiscal pressures have reportedly caused many counties to significantly limit their spending for the program from their own sources.

It is likely that these fiscal pressures will continue or worsen in 1993-94. We are concerned that this will cause counties to reduce their

contributions to the GAIN Program, which in turn will reduce matching state and federal spending below budgeted levels. To the extent the program is successful in reducing AFDC grant expenditures—and the recent interim evaluation reported favorable results in this respect—any reduction in spending below the amounts assumed in the Budget Act could have an adverse fiscal impact on the state, which funds almost half the costs of the grants.

In order to assure that all funds assumed in the Budget Act for GAIN are expended, we recommend that legislation be enacted to eliminate the county share of costs for the program, at a General Fund cost of \$42 million in 1993-94. Further, in order to offset the \$42 million in increased General Fund costs and the corresponding savings to counties, we recommend an increase in the county share of cost (reducing the state share of cost) for AFDC-FG and U grants by about two-thirds of 1 percent.

As discussed in the state/local restructuring analysis in our companion document, *Perspectives and Issues*, we do not view this as a long-term structural change in the funding of the program. Rather, it is intended to be a short-term solution to a temporary problem.

Costs of Proposals to Increase Transitional Assistance Are Not Reflected in Budget

The budget includes various proposals to provide transitional assistance to persons who go off AFDC due to employment. To the extent that these program changes increase the proportion of recipients who work and improve the ability of recipients to remain self-sufficient, the proposed changes could result in long-term savings. While the first-year fiscal impact of the proposals is not clear, we believe that some of the proposals would result in costs not reflected in the budget.

The budget proposes legislation to implement the following initiatives that are intended to increase work incentives for AFDC recipients. Each of these initiatives would require federal approval.

Transitional Child Care (TCC). Under current law, an AFDC recipient who becomes ineligible for aid because of earnings from employment would be eligible for 12 months of TCC. Recipients who work but continue to receive an AFDC grant are eligible for the regular child care allowance, but not the higher allowance provided under the TCC Program. The budget proposes legislation to provide TCC to a working AFDC recipient who is eligible for an AFDC grant but chooses to refuse it.

The budget assumes that the cost of the additional TCC would be offset by savings from AFDC recipients who choose to refuse to accept their grants. While we believe that the proposal is more likely to result in net costs than savings in the first year, it could have significant long-run benefits if it causes more recipients to work.

Transitional Child Support. Under current law, all but \$50 of monthly child support payments for AFDC recipients are used to offset the costs of the AFDC grant. This also applies for the month when a family goes off aid. The budget proposes legislation that would allow the former recipient to keep the last month's child support payment.

The budget does not assume any net cost for this proposal; however, the department estimates that this provision could result in net costs of up to \$2.7 million (\$1.3 million General Fund) in 1993-94.

Transitional Food Stamps. Under current law, a family loses its eligibility for AFDC when its gross income exceeds 185 percent of the AFDC "need standard." (Under the budget proposal, the monthly gross income limit would be \$1,321 for a family of three in 1993-94.) If a family becomes ineligible for AFDC, it would also become ineligible for food stamps. Thus, the gross income limit could act as a disincentive either to work or increase work earnings. The budget proposes to seek approval to use federal savings anticipated from the other welfare reform proposals in order to provide one year of "transitional" food stamps to families that lose AFDC eligibility due to the gross income limit. We note that the state currently has a 12-month transitional Medical Program, as required by federal law; and, as will be discussed later in this analysis, New Jersey has implemented a demonstration project to evaluate an extension of this transitional benefit to 24 months.

The budget assumes no cost for this program because federal funds would be used to pay for the food stamps costs. We note, however, that there would be unknown state and county administrative costs to implement this proposal in 1993-94. This is because food stamp administrative costs are shared by the federal, state, and county governments. To the extent the proposal results in an increase in the number of recipients who go off aid, it could result in long-run grant and administrative savings.

Other Eligibility-Related Proposals. The budget proposes legislation to change three eligibility-related provisions for AFDC recipients (but not applicants). These changes would require federal approval.

- **Asset Limit.** Currently, families are ineligible for AFDC if they have assets that exceed \$1,000 (not counting a house or an automobile). The budget proposes to increase this limit to \$2,000.
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- **Equity in Automobile.** Under current law, families are ineligible for AFDC if they have more than \$1,500 equity in an automobile. The budget proposes to increase the equity limit to \$4,500.
- **Restricted Accounts.** The budget proposes to permit recipients to save up to \$5,000 in a special account. This account would be restricted so it could be used only for specified purposes such as providing for a child's education or starting a business.

Each of these proposals is expected to allow recipients to remain on aid while accumulating additional financial resources, thereby enhancing the ability of these recipients to become self-sufficient.

The budget assumes no costs for these proposals. We would expect, however, some net costs in the short run because recipients who would otherwise become ineligible for aid will instead remain on aid longer. Net savings could result—probably in the long run—depending on the extent that the proposals induce more recipients to become self-sufficient.

Budget Includes Savings Anticipated From "Reduced Dependency"

The budget includes grant and administrative savings of \$310 million (\$147 million General Fund) in 1993-94 and \$31 million (\$15 million General Fund) in the current year from reduced dependency (lower caseloads) because of the financial incentives to work due to the reduced grant levels and other provisions contained in the proposed changes. While the Governor's proposals are likely to result in some reduction in dependency, the budget estimate of savings must be viewed with caution.

The budget anticipates grant and administrative savings in the AFDC Program resulting from "reduced dependency" because work would become a more attractive alternative. Specifically, the budget assumes that there will be 4 percent fewer cases added each month and that discontinuances—those leaving assistance—will increase by 4 percent. The budget also assumes that the proposals would result in an additional 15 percent of AFDC families reporting employment earnings.

While it is true that MAP reductions, excluding children from grants, making the transition to work easier, and increasing funding for GAIN would make employment relatively more attractive or feasible, the DSS was unable to provide any studies to document short-run behavioral responses of the magnitude assumed in the budget estimates.

In summary, while the welfare proposals are likely to result in some reduction in dependency, the estimate of short-run savings must be viewed with caution.

Delayed Implementation Could Reduce Savings Substantially

The budget assumes that legislation will be enacted to implement the proposed welfare changes on March 1, 1993. We estimate that if the proposals are implemented on July 1, General Fund savings will be less than the amount budgeted by \$32 million in the current year and up to \$180 million in 1993-94.

As noted above, implementation of the budget proposals will require legislation and, in most cases, federal approval. Given these requirements and the controversial nature of the proposals, the budget assumption of a March 1 implementation date appears to be unrealistic. Delayed implementation of even a few months would reduce the General Fund savings substantially.

Alternatives to the Governor's Welfare Package

We present several alternatives to the Governor's proposals. These include (1) options that we presented last year, (2) the major provisions of welfare legislation introduced in the current session (SB 34, Thompson), and (3) other alternatives, including proposals from other states.

In presenting his welfare proposals, the Governor offers several reasons why change is needed, including (1) the need to promote personal responsibility, (2) the need to reinforce the premise that AFDC is a temporary program, and (3) the need to make work an attractive alternative to AFDC. These are reasonable premises; but in evaluating the proposals, the Legislature needs to weigh the identified budgetary savings against its policy objectives for the AFDC Program and the potential impact of the proposed changes on needy families.

Reforming AFDC is difficult because the families on assistance are there for different reasons and have different needs. Many of the families will leave the program within a relatively short period of time. On the other hand, many families have been on aid repeatedly or are long-term recipients. It is also important to note that only a small percentage of AFDC parents are working. The Governor's proposal attempts to address this problem by increasing the financial incentives for AFDC recipients—or potential recipients—to work. Further, his proposal significantly increases the funds available for training programs within the GAIN Program.

Below we present several options to the Governor's proposal that, while resulting in a lower level of savings in the short run, reflect the likely employment prospects of AFDC recipients and could result in significant long-term savings.

Options From Last Year

In the *Analysis of the 1992-93 Budget Bill* (please see pages V-194 through V-196), we presented several options that would result in lower short-term savings than the Governor's proposal, but reflect the likely employment prospects of AFDC recipients and could result in significant long-term savings. These include the following:

- ***Exempt Active GAIN Participants From the 15 Percent Additional MAP Reduction.*** We note that the 15 percent additional MAP reduction (effective after 6 months on aid) exempts teen parents who are in school. Along these lines, we suggest that, if adopted, this proposal also exempt for a period of time (such as an additional 6 to 12 months) all "active" GAIN participants. This would give GAIN participants a reasonable time to complete their training prior to the grant reduction and would encourage participants to expedite their training.
 - ***Refine the Work Incentive.*** In order to increase the work incentive without increasing caseloads or reducing the MAP, the Legislature could request a waiver to create a "two-tier need standard" under which recipients who have been on aid for a period of time (six months, for example) would have a higher need standard, which has the effect of allowing them to retain a greater portion of their earned income.
 - ***Time-Limited AFDC Grants.*** While most families leave assistance in less than three years, there are a significant number who are on assistance for much longer spells. To address this problem, several members of the academic community have recently advocated limiting lifetime eligibility for AFDC recipients to some specified period (for example, four years). A family could use the benefits all at once or in increments; however, once the time limit was reached, the family would no longer be eligible for AFDC. One variation of the proposal would be to phase out the grant over a period of time so the recipient would not lose the grant all at once. In another variation, only the adult members of the family would be removed from the assistance unit once the time limit was reached—leaving the children on assistance.
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We believe that any proposal to establish time-limited AFDC grants should consider programmatic efforts to increase access to employment training and other services needed by families to become self-sufficient when grant eligibility runs out. In addition, a time-limited grant proposal should consider provision for jobs in the public sector or with nonprofit organizations for those recipients who are unable to obtain private sector jobs but could instead "earn" their grant in this manner. This option could also include provision for emergency grant assistance for persons who are considered unemployable.

This proposal would result in additional "up front" costs in order to provide employment training and other services to recipients, but long-term savings would be substantial. Under a four-year limit, for example, General Fund savings in reduced grant expenditures could be over \$1 billion annually, beginning four years from the date of implementation. This excludes the costs of any services that would be provided.

Senate Bill 34

Senate Bill 34 contains a number of proposals for changing the AFDC, food stamps, and Medi-Cal programs. Its provisions are drawn primarily from SB 1834 (Thompson) of last year's session.

Welfare Administration. SB 34 proposes a number of changes in both state and county administration of the AFDC, Medi-Cal, and food stamps programs.

- *Consolidated Public Assistance Eligibility Determination Project.* This provision conforms a number of AFDC, Medi-Cal, and food stamps eligibility rules in order to reduce the cost of eligibility determination for these programs. Currently, these programs have eligibility requirements that differ in important respects (such as the manner in which each program calculates the worth of an automobile). Many of these proposed changes would require federal approval. The State of Alabama operates a consolidated eligibility determination demonstration project that includes some of the changes proposed in SB 34.
 - *State Administrative Reforms.* SB 34 also proposes changes in state administration of public assistance programs. Specifically, the bill requires that state allocations to county welfare departments be based on specified productivity standards (for similar size counties), county caseloads for each program, and annual random time studies. Further, under current law, all
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public assistance recipients must file monthly eligibility verification forms. SB 34 requires the department to test a system based on periodic reporting by a random sample of recipients.

Family Planning Accessibility Project. The bill (1) requires counties to provide information about family planning services to AFDC recipients at specified times and (2) encourages counties to improve access to family planning services through means such as establishing facilities in or near public assistance offices and providing transportation vouchers when facilities are located away from public assistance offices.

California Work-Grant Program. The bill creates the California Work-Grant (CWG) Program to replace the GAIN Program. It retains the basic components of GAIN, but also requires AFDC recipients who have been on aid for 22 out of the last 24 months to either obtain employment or participate in a "preemployment preparation" assignment; otherwise the recipients' MAP would be reduced by 75 percent. In addition, the bill directs the department to seek federal approval to increase the number of available preemployment preparation jobs. (Currently, federal law contains restrictions on such jobs for GAIN participants.) The CWG proposal also authorizes expenditure of support funds to provide family planning information and services. Finally, it modifies the GAIN participation requirement by limiting the exemptions for persons with young children to a one-time exemption for a child under two years of age. Currently, the parent of a child under three years of age is exempt.

Cal Learn Program. SB 34 creates a Cal Learn Program for teen parents within the new CWG. The program requires all teen parents under age 19 who have not completed high school to attend school. The program—similar to the budget proposal—would include both bonuses (\$100 per school attendance reporting period) and penalties (\$100 every two months) based on progress in school. Satisfactory progress is defined as maintaining at least a 1.0 (a "D" average) grade point average on a four-point scale.

AFDC MAPs. SB 34 makes two changes in AFDC MAPs:

- ***Maximum Family Grant.*** The bill excludes from the AFDC MAP any child born to a family who has been receiving aid continuously for ten months prior to the birth of the child. This provision is similar to the budget proposal. SB 34, however, exempts children conceived as a result of rape, incest, or failed contraceptive devices. SB 34 also provides that child support payments received by the family for children "excluded" from the MAP will not be used to offset the family's AFDC grant.
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- **Regional AFDC MAPs.** The bill groups the counties into four regions, presumably to serve as the basis for the establishment of regional AFDC grants.

Child Care. Under current law, an AFDC recipient who reports income from work can deduct from these earnings up to \$175 per month (\$200 per month for children under two years of age) for each child, for purposes of determining the family's AFDC grant. SB 34 provides a supplemental child care payment to cover the actual child care costs that exceed the "disregard" in current law (up to a limit based on surveys of local child care costs). The bill also directs the department to develop and distribute information about the state's TCC Program, which is available to AFDC recipients who go off aid due to employment.

Food Stamps Administration. SB 34 requires counties to pay 100 percent of the nonfederal share of costs (50 percent of the total costs) for administering food stamps provided to individuals who are also receiving county general assistance. Under current law, the county share is 15 percent of the total costs and the state share is 35 percent of total costs. Thus, the bill would require the county to assume the state share for costs associated with certain individuals.

What Other States Are Testing

Many states have proposed or implemented changes in the AFDC Program. Some of these proposals include components that are similar to those proposed in the budget (for example, grant reductions and the Maximum Family Grant). In this section, we outline some other proposals from these states.

New Jersey Family Development Program. New Jersey has received federal approval for a package of proposals that focuses on increasing work incentives, providing incentives regarding family formation, and increasing participation in the JOBS Program (the federal nomenclature for California's GAIN Program). The proposals include the following:

- **Benefits For Two-Parent Families Where the Husband Is Not the Father.** This provision would allow AFDC benefits for families in two-parent, low-income families when the husband is not the father of the children. The intent, presumably, is to provide a marriage incentive to single parents on AFDC.
- **State's JOBS Program.** This provision makes changes in New Jersey's JOBS Program to (1) make participation mandatory for a larger number of persons than required under federal

regulations and (2) reduce AFDC grants by specified amounts for failure to participate in JOBS when participation is mandatory.

- **Earned Income Disregard.** The program establishes a 50 percent "earned income disregard" in computing AFDC grants for JOBS participants who are employed as family day care providers. This would provide larger grants to these persons. In addition, JOBS participants under age 25 with earnings from non-Job Training Partnership Act training programs will have all their earned income disregarded.
- **Medicaid.** The program provides 24 months of Transitional Medicaid for families who leave aid due to employment. Federal law currently provides for a 12-month program.

Oregon JOBS Waiver Project. Oregon has received federal approval to make a number of changes to its JOBS Program.

- **Mental Health and Drug and Alcohol Dependency.** Mandatory JOBS participants can be required to participate in mental health or drug and alcohol dependency programs as part of their JOBS contract.
- **Extended Job Search.** JOBS participants who are assessed as "job ready" may be required to engage in job search beyond the current federally required eight-week and four-month JOBS limits.
- **Participation and Eligibility.** The program expands JOBS participation requirements and expands eligibility to include pregnant women not on AFDC, but who are eligible for Oregon's Poverty Level Medical Program.

Wisconsin Parental and Family Responsibility Demonstration Project. Wisconsin has recently received federal approval to establish a demonstration project directed at both custodial and noncustodial teen parents.

- **Earned Income Disregards.** The program expands the earned income disregard to the first \$200 and 50 percent of remaining earnings and, for two-parent families, eliminates the 100-hour rule for AFDC-U recipients. As discussed earlier in this analysis, expanding the disregard and eliminating the 100-hour rule would have the effect of increasing the incentive for recipients to work or to increase their hours of employment.
 - **Maximum Family Grant.** For those families in the demonstration, the first child born after coming on aid would receive one-half of
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the standard MAP increment and there is no increase in the MAP for any additional children born while on aid.

- **Other Provisions.** All participants in the demonstration are assigned a case manager who assists the family in developing a comprehensive education, employment, and services plan. Parents are required to participate in JOBS, including parenting and life skills instruction. Noncustodial parents of families in the demonstration who are not paying child support may be ordered by the court to participate for up to 40 hours per week in a combination of activities that include work, JOBS, and parenting and life skills instruction.

Maryland Primary Prevention Initiative. Maryland has received federal approval to provide bonuses and apply sanctions to families who fail to participate in specified preventive health or education programs.

- **Pregnant Mothers.** Pregnant AFDC recipients will receive a \$14 monthly special needs allowance if they receive regular prenatal care. An additional \$14 monthly allowance will be provided for prenatal care during the last trimester of pregnancy.
- **Annual Health Checkups.** Families with school-age children will receive a \$20 annual allowance per person if they receive an annual health checkup.
- **Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Standards.** Families that do not meet the federal EPSDT Program's minimum standards for child health screening are subject to a \$25 per month sanction for each child. The EPSDT Program provides preventive health screens and assessments to Medi-Cal eligible children.
- **School Attendance.** Families with school-age children who attend school less than 80 percent of the time without good cause are subject to a \$25 per month sanction for each child not meeting the standard.

Michigan Program To Strengthen Families. Michigan has recently received approval for a demonstration that focuses on preservation of two-parent families, increasing work incentives, and increasing employability of noncustodial parents.

- **AFDC-U Eligibility.** Michigan has received approval for waivers of several employment-based AFDC-U rules, including the 100-hour rule.
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- **Earned Income Disregard.** The current earned income disregard will be replaced by a disregard of the first \$200 of earned income plus 20 percent of any remaining earned income.
- **Other Provisions.** All income earned by dependent children of AFDC recipients will be excluded when considering the family's eligibility for AFDC. In addition, noncustodial parents will be eligible for Michigan's JOBS Program.

New York Child Assistance Program. New York has received federal approval to establish a Child Assistance Program (CAP), which is a "child support assurance" demonstration for custodial parents on AFDC. The program offers parents with child support orders an alternative to AFDC. Under this alternative, families are eligible to receive a basic annual maximum grant of \$3,000 for the first child with a support order and \$1,000 for each additional child with an order. This grant is less than what these families would receive if on AFDC. In addition, the \$50 monthly "pass-through" of child support payments to recipients is eliminated, so all child support payments (up to the grant amount) go to the state. Working recipients, however, are permitted to retain a much higher amount of earnings—90 percent of earned income below the federal poverty guideline and 33 percent of earnings above the poverty guideline. Further, the CAP has received other waivers affecting eligibility, including the gross income limit rule and the limit on resources (savings).

Alternatives for the Legislature

In the preceding section, we review a variety of welfare reform proposals being implemented, on a demonstration basis, by other states. While the cost-effectiveness of these projects has not been determined, the Legislature might wish to consider them for further testing on a pilot basis in California. We also develop two additional proposals for legislative consideration:

1. Require that AFDC families obtain certain immunization shots for children under four years of age or be penalized by a specified reduction in the family's grant.

2. Provide transitional Medi-Cal benefits to AFDC recipients who go off aid due to marriage.

While the cost-effectiveness of the other states' proposals has not been determined, they have the potential to reduce health and welfare costs in the long run, and therefore similar programs may warrant further testing on a pilot basis in California. We offer two additional proposals for legislative consideration:

Child Immunization Incentive. The basis for this proposal is Maryland's project which reduces monthly AFDC grants by \$25 for each child who does not receive preventive health screenings provided through the federal EPSDT Program. The goal of the EPSDT Program is to achieve long-term savings in health costs by providing early detection and prevention of disease and disability. Whether the Maryland project proves to be cost-effective will depend on whether the resulting savings in health expenditures, in conjunction with any grant savings from the penalties, exceed the costs (generally in the Medi-Cal Program) resulting from the additional health screens and associated treatments.

The Legislature might also wish to consider a more focused variation of this project, which would be limited to immunizations for children under four years of age. As we discuss in our analysis of the Department of Health Services' direct purchase vaccine program (please see Public Health), the percentage of immunized children in ages three years and under is very low, even though immunizations are provided free of charge to children in low-income families by public clinics throughout the state. The state could realize significant long-term savings by increasing the level of immunization of these children. Compared to Maryland's EPSDT project, this variation would not capture as much long-term savings but probably would have lower costs and would be more accessible due to a broader network of providers.

Transitional Medi-Cal for Recipient Who Gets Married. Federal law requires all states to provide transitional Medicaid, for up to 12 months, to AFDC recipients who lose their eligibility because of an increase in employment earnings. The Legislature might wish to consider a demonstration project to evaluate a transitional Medi-Cal benefit that is structured so as to provide a "marriage incentive" for AFDC recipients. Given the rising costs of health insurance, it stands to reason that the loss of Medi-Cal coverage, in conjunction with the loss of an AFDC grant and food stamps, has dissuaded AFDC recipients from getting married. To address this, a transitional Medi-Cal benefit could be offered to recipients who go off aid because they get married. (As is the case with the existing program, such a benefit would, in effect, be means-tested and would not be provided if alternative health insurance were available.) Like the other transitional assistance proposals in the budget and in other states, this would result in short-term costs, but could prove to be cost-effective in the long run, depending on the extent to which more recipients get married and thereby go off aid.

County Administration of Welfare Programs

Budget May Overestimate Spending

The budget proposes \$1.6 billion (\$380 million General Fund) for county administration of welfare programs in 1993-94. We note, however, that the General Fund proposal may be more than the amount that will be expended because counties may be unable to match all of the state and federal funds assumed in the budget due to fiscal constraints at the local level.

The proposed expenditures for county administration of welfare programs in 1993-94 are based on 1992-93 budgeted costs, updated to reflect the department's caseload estimates for 1993-94. The budget estimate for the current year includes a savings of \$45 million (\$15 million General Fund). These savings reflect (1) the most recent expenditure data from the counties and (2) the results of a departmental survey of county ability to match the funds appropriated for the current year. The budget, however, does not assume these savings in 1993-94.

Due to the continuing fiscal pressure on counties, we anticipate that they will be unable to match all of the funds assumed in the budget. In May, the department will present revised estimates of county administration costs, and should address this issue.

Aid to Families with Dependent Children—Foster Care

Foster Care Rate-Setting System Needs Statewide Assessment Guideline

We find that counties do not use standardized criteria to assess the special needs of foster children, thereby resulting in wide variations in the grant amounts provided to these children. We recommend that the department report, during budget hearings, on the feasibility of developing a standardized assessment guideline to determine foster care grant amounts for children with special needs.

Background. Most of the children placed in foster care (approximately 75 percent of the total caseload) are placed in foster family homes. Individuals caring for these children generally receive a grant equal to the basic foster family home grant, ranging from approximately \$345 to \$484 per month (depending upon the age of the child), for the basic care and supervision of the foster child. Children with special medical and/or behavioral needs are eligible for a specialized care increment over and above the basic foster family home

rate for the cost of supervision to meet their additional daily care needs. According to the Department of Social Services (DSS), approximately 20 percent of the children placed in family homes receive a specialized care increment. The average specialized care rate (the basic rate plus the specialized care increment) is approximately \$642 per month.

California's current Specialized Care Rate-Setting System was developed in 1982. The system authorizes counties to develop, administer, and maintain a specialized care rate-setting system that meets the needs of their foster care population. Since 1984, counties have been required to obtain approval from the DSS prior to adopting or modifying a specialized care rate-setting system. Counties must demonstrate that the adoption or modification does not increase General Fund expenditures for foster care payments.

At the time this analysis was prepared, 48 of the 58 counties had a specialized care rate-setting system approved by the DSS. (Alpine, Calaveras, Colusa, Lake, Lassen, Modoc, Plumas, San Benito, Sierra, and Sutter do not have a system in place.) Figure 27 lists the 48 counties and identifies the minimum and maximum amounts of the specialized care increment, as reported by the counties. (The amounts listed exclude the *basic* foster family home rate.)

There Is a Large Variation Among the Counties In the Specialized Care Increments (SCIs) for Special Needs Children. Figure 27 shows significant differences among the counties for the minimum and maximum monthly SCIs that can be authorized by county social workers for special needs children. For example, *minimum* monthly SCIs range from \$1 dollar (Trinity County) to \$494 (San Francisco). *Maximum* monthly SCIs range from \$62 dollars (Kings County) to *no* maximum limit (Alameda, San Francisco, and Santa Clara Counties). According to our conversations with state officials, these differences in minimum and maximum grants generally reflect county *differences in rate-setting systems* rather than differences in the needs of children among counties; although state officials also indicate that urban areas have higher maximum grants than rural areas to reflect higher costs of living and the resulting difficulties in recruiting and retaining foster parents. Even in high cost areas, however, the variation is significant. The maximum in Santa Barbara, for example, is \$218 whereas in San Mateo it is \$1,419.

All of the 48 counties have specified *minimum* payments and 15 have minimums of \$100 or more. Our review indicates that there is no basis for requiring a minimum SCI because this could arbitrarily require the social worker to provide a payment higher than the amount needed or not to provide *any* SCIs. Similarly, a *maximum* SCI may arbitrarily cap

the payment below the amount needed; but in recognition of fiscal constraints, a maximum funding level may be necessary.

Figure 27

**AFDC-Foster Care Program
Minimum/Maximum Specialized Care Increments^a
October 1992**

	Specialized Care Increments			Specialized Care Increments	
	Minimum	Maximum		Minimum	Maximum
Alameda	\$13	No Maximum	Placer	242	375
Amador	118	\$365	Riverside	11	555
Butte	10	160	Sacramento	36	875
Contra Costa	45	846	San Bernardino	25	805
Del Norte	100	300	San Diego	35	1,470
El Dorado	336	503	San Francisco	494	No Maximum
Fresno	44	574	San Joaquin	84	1,352
Glenn	118	352	San Luis Obispo	56	392
Humboldt	59	82	San Mateo	61	1,419
Imperial	46	157	Santa Barbara	50	218
Inyo	200	400	Santa Clara	29	No Maximum
Kern	20	441	Santa Cruz	300	810
Kings	5	62	Shasta	364	813
Los Angeles	125	831	Siskiyou	240	330
Madera	54	175	Solano	82	331
Marin	429	1,497	Sonoma	20	394
Mariposa	30	30	Stanislaus	71	800
Mendocino	168	529	Tehama	201	600
Merced	60	178	Trinity	1	400
Mono	200	400	Tulare	5	529
Monterey	82	279	Tuolumne	5	122
Napa	31	442	Ventura	41	340
Nevada	28	619	Yolo	25	803
Orange	60	1,221	Yuba	5	100

^a The Specialized Care Increments were compiled based on the most recent county data provided to the California Department of Social Services.

Specialized Care Rate-Setting System Needs Statewide Assessment Tool. Our review of the SCI data indicates that counties do not use statewide standardized criteria to define what constitutes special needs or determine whether a child has such needs. In addition, the counties lack a statewide assessment mechanism to determine the amount of the SCI grant. Instead, each county has developed its own guidelines for determining whether a child has special needs, assessing the special needs, and determining the amount of the SCI. We believe that a

statewide standardized assessment guideline would help to ensure that children with special needs are *identified* and *assessed* according to a standardized definition, and that children with similar special needs are assessed in a uniform manner throughout the state.

In order to determine the appropriate SCI grant amount for each child, the assessment tool could establish a statewide system to assign special needs "points" to each child, to be used to determine an SCI grant. The system could be designed to account for legitimate variation among counties for factors such as regional costs of living. We note that there is literature that could provide guidance in the development of such a system. In addition, we note that the department is currently developing a Level-of-Care Assessment Tool to assess the needs of group home children and to "match" these children with group homes that meet their specific needs.

Accordingly, we recommend that the department report, during budget hearings, on the feasibility of developing a standardized assessment tool to define special needs of children placed in foster family homes, determine whether a child has special needs, and determine the amount of the SCI grant.

Program Effectiveness Has Not Been Determined for Family Preservation

The DSS has not submitted to the Legislature two reports on the Family Preservation Program that were due in December 1991 and June of 1992. We also note that the budget does not assume any net savings for the program in 1992-93 or 1993-94. We recommend that the department report during budget hearings on the status of the reports and the cost-effectiveness of the program.

Background. The Family Preservation Program was created in 1988 by Chapter 105, Statutes of 1988 (AB 558, Hannigan) as a pilot program to provide intensive short-term family maintenance and family reunification services designed to avoid out-of-home placement of children and reduce the length of stay of such placements when they occurred. Services may include (but are not limited to) counseling, substance abuse treatment, respite care, parent training, crisis intervention, and teaching and demonstrating homemaking.

Under the program, counties are authorized to "draw down" up to 25 percent of the state share of the *projected* foster care costs to provide family preservation services. If counties are successful at reducing their actual foster care costs, any resulting General Fund savings are shared by the state (75 percent of savings) and counties (25 percent of savings).

If counties' actual foster care costs (including the amount forwarded to counties for family preservation services) exceed projected foster care costs by over 5 percent, counties are required to fund 100 percent of this overage.

Chapter 91, Statutes of 1991 (AB 948, Bronzan) authorized the expansion of the program on a statewide basis in 1991. Twelve counties currently participate. The budget includes \$25.1 million from the General Fund for the program in 1993-94.

The DSS indicates the pilot program in the three demonstration counties (Alameda, Solano, and Napa) was completed by June 1991. According to Chapter 105, the pilot is determined to be successful if at least 75 percent of the children receiving services remain in their own home for six months after termination of services, and if at least 60 percent remain at home one year after services are terminated. With respect to children selected to receive project services who have already been removed from their home and placed in out-of-home care, the project is successful if the average length of stay in out-of-home care is 50 percent less than the average length of stay for corresponding children who do not receive program services.

The department is required to determine that a county has met the program's criteria for success prior to authorizing continuation of the advance fund-claiming mechanism. Either the department or the county may terminate a county's participation in the program if the project is deemed unsuccessful by either party.

Mandated Reports Have Not Been Submitted. Chapter 105 requires the DSS to submit a report to the Legislature that includes data from each participating county demonstrating to what extent each has met the above criteria. The act requires an interim report to be submitted by the department six months after the conclusion of the three pilot projects (to determine whether the projects met the six month success criteria), followed by a final report to determine whether the projects met the one year success criteria. These reports were required to be submitted by December 1991 and June 1992, respectively. Our review indicates that these reports have not yet been submitted to the Legislature.

Budget Does Not Assume Savings for Family Preservation. Our review indicates that the budget does not assume any *net* savings for the Family Preservation Program for 1992-93 or 1993-94. Rather, the budget assumes that savings are equal to expenditures for this program. The department, however, indicates that estimates of savings will be revised for this program and will be available prior to budget hearings.

Analyst's Recommendation. We recommend that the department report, during the budget hearings, on (1) the status of the family preservation reports and (2) the cost-effectiveness of the program in 1992-93 and 1993-94.

Budget Action Shifts Costs to Schools

We find that budgeted state savings due to increased federal support for nonprofit group homes are overstated, thereby creating a potential deficiency of \$150,000 in the current year and \$300,000 in 1993-94. We also find that the authority to reimburse group home costs for severely emotionally disturbed children within the Foster Care Program has been inadvertently terminated. Accordingly, we recommend enactment of legislation to reimburse group homes providing residential care to severely emotionally disturbed children.

Background. The 1992 Budget Act, as implemented by Ch 722/92 (SB 485) requires all group homes to be organized and operated on a nonprofit basis by January 1, 1993 as a condition of receiving state reimbursement under the AFDC-Foster Care (AFDC-FC) Program. The intent of this act is to maximize federal funds because for-profit homes are not eligible for these funds.

The budget assumes increased federal funds of \$11.3 million in 1992-93 and \$23.4 million in 1993-94 related to this change. The budget also includes corresponding savings of \$4.5 million and \$9.4 million to the General Fund, and \$6.8 million and \$14 million to the counties in 1992-93 and 1993-94, respectively. This is based on an assumption that all children were placed in nonprofit group homes by January 1, 1993, and that all group homes operated on a nonprofit basis are eligible for federal funds.

Chapter 1747, Statutes of 1984 (AB 3632, Willie Brown) established a program to reimburse foster care group homes that provide care for seriously emotionally disturbed (SED) children who have been placed out of home pursuant to an individualized education program (IEP).

Estimated Foster Care Savings Are Overstated. The department's estimate of savings from increased federal funds in the current and budget years assumes that the costs of all for-profit group homes, including those that care for SED children, will be eligible for 50 percent federal funding upon conversion to nonprofit status. Our review, however, indicates that group homes that care for SED children are *ineligible* for federal funding because no court adjudication is involved in their placement (a condition of receiving federal funds). The DSS acknowledges that SED children are ineligible for federal

reimbursement, and that the budgeted General Fund savings are overstated in 1992-93 and 1993-94. We estimate that General Fund savings are overstated by approximately \$150,000 in 1992-93 (\$375,000 total funds) and approximately \$300,000 in 1993-94 (\$750,000 total funds). Because group home care for SED children is an entitlement, these costs must be funded regardless of budgeted levels. The department indicates that it will modify its estimate in the May Revision.

Budget Action Inadvertently Terminates Authority for Reimbursement of Group Home Costs for SED Children. As noted above, Chapter 722 requires providers of out-of-home care to be organized and operated as nonprofit entities in order to receive AFDC-FC reimbursements. According to information provided by the State Department of Education (SDE), as of December 1992 there were eight group homes providing residential care to 76 SED children (74 in out-of-state homes and 2 in-state) that had not converted (or are not in the process of converting) to nonprofit status. Consequently, they are currently *ineligible* for state and county reimbursement under the Foster Care Program. These SED children are still required to receive residential care to meet their special education needs, according to their IEPs. Because the DSS is not authorized to reimburse for-profit homes, the responsibility for reimbursing the residential costs for these 76 SED children will fall upon the SDE and local education agencies (LEAs).

We estimate that the costs of these SED placements would be approximately \$1.5 million in 1992-93 and \$2.8 million in 1993-94. These costs would be funded from Proposition 98 education funds. Because the SDE and the LEAs would be responsible for paying the *total* costs of this group home care (including the county share), we estimate that the costs for these SED placements will *exceed* those that would otherwise be funded by the state under the Foster Care Program by approximately \$900,000 in 1992-93 and \$1.7 million in 1993-94. According to the SDE, these costs would be paid by the state with funds redirected from special education apportionments to school districts and county offices of education in 1992-93 and 1993-94. (Please see our analysis of the State Department of Education for more information on the impact on education programs.)

Analyst's Recommendation. In order to carry out the Legislature's intent in Chapter 1747 to provide funding for residential care of SED children from the Foster Care Program (rather than from education funds), we recommend the enactment of legislation authorizing the DSS to reimburse group homes providing residential care to SED children. In order to mitigate any effects on LEA funding, the provisions could be implemented retroactive to January 1, 1993. Because the funds for

providing these services are already included in the budget, no augmentation would be required.

Closure of County Probation Facilities Could Have Major Impact on Foster Care

We recommend that the Legislature direct the DSS and the Department of Finance to consider the impact of potential closures of county juvenile camps and ranches on the foster care caseload when developing the May Revision.

Background. In general, counties have four major choices for the treatment of youthful offenders whom the juvenile court declares as wards. These choices are: (1) placement at home on probation; (2) commitment to a county juvenile hall, camp, or ranch; (3) placement in AFDC-FC, usually in a group home setting; or (4) commitment to the California Youth Authority.

Placements on probation or in a county facility are supported almost entirely by county funds. Placement in AFDC-FC is supported by state, county, and federal funds. Youth Authority commitments are supported almost entirely by the state (counties pay only \$25 per month for each commitment).

Counties Consider Closure of Camp Programs. Because of fiscal constraints on county governments, two counties have recently closed camps and ranches and many more are considering closure, including Contra Costa, Los Angeles, Riverside, and Santa Clara Counties. Los Angeles County recently announced it tentatively plans to close most or all of its 19 camps at the end of April 1993. These camps house about 2,100 juvenile offenders.

Our analysis indicates that closure of county camps and ranches could result in large increases in foster care caseloads, increasing General Fund costs substantially. In addition, the closure would result in a large increase in the ward population of the Youth Authority, thereby increasing General Fund costs. This will be especially true if Los Angeles County carries forth on its plan to close its camps. (Please see our analysis of the Department of the Youth Authority for more information on this impact.)

Closure of Camps Could Increase Foster Care Caseloads and Costs. Because alternative placement options for wards are limited, any reduction in camp programs is likely to increase placements in foster care group homes and family homes. For example, Los Angeles County estimates closure of the camps will result in 1,000 commitments being

placed in family homes and group homes. Of these 1,000 foster care placements, 100 are expected to be placed in family homes, while 900 are expected to be placed in group homes. Since the state pays for 20 to 40 percent of the costs of foster care (depending upon the percentage of cases eligible for federal funding), such placements could increase state costs by about \$13 million in 1993-94. To the extent that any wards are placed in group homes and family homes in May and June of the current year, state costs could be approximately \$2 million in 1992-93.

Analyst's Recommendation. In our view, the number of counties considering closing camp facilities is only likely to grow in the coming months given the deteriorating local fiscal situation. Given the fiscal and programmatic consequences that these actions could have on the Foster Care Program, we recommend that the Legislature direct the DSS and the Department of Finance to consider the impact of the camp closures on the foster care caseload and cost estimates when developing the May Revision.

Adoptions Assistance Program

Capping Adoptions Assistance Program (AAP) Grants May Have Adverse Impacts

We find that the cap on AAP grants may not comply with federal law. We also find that the cap may reduce AAP adoptions of children with serious medical and/or behavioral problems. We recommend that the Department of Social Services (DSS) collect additional data in order to assess the impact of the reduction in grants.

Background. The AAP provides grants to parents who adopt "difficult to place" children. State law defines these 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. Children adopted under the AAP typically reside in a foster family home prior to adoption. Often, AAP adoptive parents were the foster parents of the child.

Prior to October 1, 1992, generally the amount of adoption assistance grant was equal to the grant amount the child would have received if he or she had remained in foster care. In most cases, this means that the grant did not exceed the basic foster family home rate, ranging from approximately \$345 to \$484 per month, depending on the child's age.

However, adoption workers were able to supplement the basic rate with a specialized care increment (SCI) (at an average monthly grant of approximately \$642) for children who required additional supervision because of health and/or behavior problems. Generally, this was provided if the child had been receiving a SCI in a foster family home. Adoption workers could also set AAP grants as high as the foster care *group home* rate (at an average monthly grant of approximately \$2,780) for children who required residential care (after they had been adopted) as a result of their special needs. In other words, prior to October 1, 1992, a child was eligible to receive up to the *same* amount under the AAP as he/she would under the Foster Care Program.

1992 Budget Act Caps AAP Grant Amount. The 1992 Budget Act, as implemented by Ch 722/92 (SB 485) limits AAP grants to the basic foster family home rate for all new AAP agreements signed on or after October 1, 1992. Thus, an AAP grant would not include a SCI or a group home rate because they exceed the basic family home rate. This change is estimated to result in General Fund savings of \$1.3 million in 1992-93 and \$1.5 million in 1993-94.

Federal Financial Participation. Federal law (Public Law 96-272) authorizes federal financial participation in AAP grants. The act requires the AAP grant to be based upon the *special needs* of the child and the *circumstances* of the family. As a condition of federal financial participation for the AAP, the act prohibits payments from exceeding the foster care payment levels for that child if he or she were in a foster family home. (A SCI would be eligible for federal reimbursement because it is part of the foster family home payment, while the costs for a group home would not.)

AAP Cap May Not Comply With Federal Law. Our review of the federal law, which includes discussions with federal AAP officials, indicates that California's 1992 cap on AAP grants may not comply with the intent of federal law. Specifically, a foster child who is receiving a SCI as a result of a special need (at a rate *above* the basic foster family home rate) would have his or her grant reduced to the basic rate upon adoption under the AAP. Because federal law requires the AAP payment to consider the special needs of the child being adopted, it appears that the changes in state law may not be in compliance with this requirement. According to our conversations with federal officials, if the federal government officially determines that the AAP Program is out of compliance with federal law, penalties of up to \$12 million and \$31 million could be assessed in 1992-93 and 1993-94, respectively.

Cap on AAP Grants May Reduce Adoptions of Children With Serious Medical and/or Behavioral Problems. The budget assumes that

adoptions of special needs children will increase by 23 percent in 1993-94, despite the cap on AAP grants. The effect of the cap is to prohibit adjustment of the AAP grant for the additional supervision required to care for a child with a medical and/or behavioral problem. The cap also prohibits adjustment of the grant to cover group home costs, if residential care becomes necessary. Our conversations with county adoptions officials indicate that foster children with the most serious medical and/or behavioral problems are less likely to be adopted as a result of the cap on the AAP grant, because the basic foster care rate is not sufficient to meet the special needs of the child. According to the California Association of Adoptions Agencies, a pattern is emerging on a statewide basis indicating that fewer children with serious medical and/or behavioral problems are being adopted after implementation of the cap, because the basic foster family home rate does not cover the additional costs of caring for these children. Since most children with serious health and behavioral problems are *already* living in a long-term foster family home and receiving a SCI, these children are expected to remain in foster care.

At the time this analysis was prepared, the DSS indicated that data were not yet available on the number of special needs adoptions after implementation of the AAP cap. We expect that data on the number of these adoptions will become available within a few months. We note, however, that in the month of September 1992 (the month prior to the AAP cap), there were 533 AAP adoptions, compared with an average of 268 AAP adoptions in prior months. This represents an increase of 99 percent. According to county administrators, adoptions workers accelerated the processing of adoptions agreements before implementation of the cap because they anticipated that otherwise the adoptions applications would be withdrawn.

Analyst's Recommendation. At the time this analysis was prepared, it was unclear if the cap on AAP grants had reduced the number of adoptions. However, a survey of adoption agencies could be conducted to determine the extent to which the AAP cap has affected the *total* number of adoptions. In addition, such a survey could determine the extent to which the cap has specifically affected the number of adoptions of children with serious medical and behavioral problems. Our analysis indicates that this information will be necessary in order for the Legislature and Administration to fully evaluate the impact of the AAP cap. For this reason, we recommend that the DSS collect this survey data and, if feasible, present the findings prior to the May Revision. We believe that this information will assist the Legislature in assessing the impact of the cap.

CHILD WELFARE SERVICES

The Child Welfare Services (CWS) 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 Emergency Response 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 management and placement services to children in foster care who cannot be safely returned to their families.

The budget proposes expenditures of \$585 million (\$156 million General Fund, \$311 million federal funds, \$114 million county funds, and \$4 million in reimbursements) for the CWS Program in 1993-94. The proposed General Fund amount represents a decrease of \$69 million, or 30 percent from the current year. This reduction does not reflect a programmatic change, but rather a substitution of available federal funds for General Fund support for this program.

State Guideline May Not Result In Standardized Screening Decisions Among Counties

We find that the new guideline for screening emergency response cases may not standardize the process statewide as intended by the Legislature because it does not preclude substantial variation in screening decisions due to differences in county policies. We recommend that the department report during budget hearings on the effect of the guideline.

Background. In March 1991, the Department of Social Services (DSS) promulgated emergency regulations for the CWS Program that required counties to screen (by use of telephone assessments) reports of child abuse or neglect to determine whether an in-person investigation is necessary. The practical effect of these regulations was to reduce the

number of investigations of alleged abuse and neglect. The regulations listed 34 types of situations that *would not* be considered appropriate for an in-person investigation of alleged abuse and neglect. Counties, however, were permitted to adopt their *own* policies on the types of situations that would not be considered appropriate for investigation. Thus, a report of abuse or neglect could be determined as appropriate for investigation in one county, while another county may consider the same report inappropriate and therefore no investigation would be conducted.

In 1991, an average of 27 percent of Emergency Response cases statewide were screened out. This ranged from zero cases screened out in Modoc County to 66 percent in Humboldt County. According to the department, this wide variation was the result of differences in local policies and in interpretation of the definition of abuse and neglect, rather than differences among counties in the types of reports received.

New Screening Guideline Developed. In order to address concerns that the process focused on screening out appropriate referrals and to ensure that screening is conducted in a uniform manner, Ch 780/91 (AB 60, T. Friedman) required the DSS to contract for the development of a statewide protocol, or guideline, for telephone screening of Emergency Response reports. Regulations to implement the guideline became effective December 1, 1992.

The new guideline is based on an "inclusionary" approach. The focus is placed on gathering sufficient information in order to screen appropriate cases *into* the CWS system, rather than screening *out* inappropriate cases. In other words, cases that meet the definition of abuse or neglect will be referred for investigation. Screening decisions are premised on using broad legal definitions of child abuse and neglect. However, the guideline is not specific—screening decisions are, to a large degree, based upon the screener's professional judgment. In addition, counties are not prohibited from continuing to use their *own* screening policies in the decision-making process.

New Guideline May Not Result in Standardized Screening Decisions Among Counties. Our analysis indicates that the guideline may not result in standardized screening decisions among counties as intended by the Legislature. Some counties, for example, screen out all reports of neglect based on a child being home after school without supervision ("latch key" children) or "screen in" all calls regarding children under age five. Therefore, the guideline may not meet the apparent intent of Chapter 780, in that it does not result in a uniform policy throughout the state.

Evaluation Will Determine Effects of Guideline. The department indicates that a study is underway to determine the effects of the guideline on the screening process, and the extent to which the guideline results in standardized screening decisions among counties. The study will assess data from three counties (Santa Clara, Kings, and Riverside) and one region within Los Angeles County. The study is expected to be completed in June 1993, but preliminary data are expected to be available prior to the budget hearings.

Recommendation. We find that the new guideline for screening Emergency Response cases may not standardize the process statewide. In order to facilitate legislative oversight of this issue, we recommend that the department report during the budget hearings on the effects of the guideline. This report should include a comparison of the percentage of counties' Emergency Response cases that are determined inappropriate for in-person response (screened out) before and after implementation of the guideline. To the extent that the new guideline does not result in a standardized screening process among the counties, the Legislature could direct the department to make the guideline more specific so as to achieve a reasonable level of uniformity among counties in the screening process.

Legislative Oversight: Counties Fail State Compliance Reviews

We recommend that the department report during budget hearings on the status of counties' efforts to comply with statutory and regulatory requirements governing the CWS Program.

Background. The DSS began conducting statewide compliance reviews of county CWS programs in 1986 to determine whether county programs were in compliance with state and federal law. These reviews indicated that 37 counties were out of compliance with program requirements. Each of these counties was required to develop a corrective action plan to bring their CWS Program in to compliance with state and federal law.

In 1986, the DSS began a four-year cycle of compliance reviews of county CWS programs. The 37 criteria selected for these reviews were based on (1) federal Title IV-B funding requirements, (2) state regulatory requirements, and (3) research conducted by the state of Pennsylvania. The review criteria were divided into seven critical elements and 30 essential elements. Counties were expected to achieve a 90 percent "compliance" score on *all* critical elements and on at least 83 percent of the essential elements.

Department Determined That 12 of 14 Counties Were Out of Compliance. Of the 14 counties reviewed (Alameda, Humboldt, Kern, Kings, Lassen, Los Angeles, Sacramento, San Francisco, Santa Barbara, Santa Clara, Santa Cruz, Tulare, Tuolumne, and Yuba), only *two* (Kern and Yuba) were in overall compliance. Our review of the data on the 12 counties not in compliance indicates that, on average, counties were out of compliance in approximately 8 of the 37 review criteria. San Francisco, Kings, and Tulare Counties were not in compliance on the *highest* number of criteria (failing on 10-11 criteria) while Los Angeles was out of compliance on the *lowest* number of criteria (5). We note that Los Angeles County made significant improvement in its efforts towards compliance in 1991-92 and the current year (Los Angeles County was out of compliance in 26 areas in 1990-91).

Our review of the data indicates that the area where counties were the most deficient related to "contacts" or visits. State regulations require that the county social worker have face-to-face contact with the child, parents, and foster parents. The frequency of these visits is dependent upon the type of case (Emergency Response, Family Maintenance, Family Reunification, or Permanent Placement). The regulations also require that county social workers arrange for monthly visits with parents. Our review also indicates that counties were frequently out of compliance in areas relating to hearings, service plans, and adoption reviews.

California Fails Federal Compliance Review. Recently, the DSS recently was informed by the federal Department of Health and Human Services (DHHS) that California has failed a compliance review for federal fiscal year 1990 (FFY 90). Specifically, the review indicated that California was ineligible for Section 427 (Title IV-B) funding for the CWS Program because, based on a sample of cases, the state did not meet the "periodic review requirement." Under this requirement, the status of each child in foster care must be reviewed by a court or by an administrative panel at least every six months, in 90 percent of the cases sampled.

Because California failed to meet this requirement, the DHHS "disallowed" \$11.1 million in Title IV-B funds for FFY 90. California has not been required to repay these funds, however, as a result of a temporary federal moratorium on these fiscal sanctions.

Budget Proposes Funding For County Monitoring Activities. The budget proposes \$563,000 from the General Fund and 7.6 personnel-years to create a Statewide Child Welfare Monitoring Unit to assist counties in the development, implementation, and evaluation of corrective action plans to achieve compliance with CWS statutes and

regulations. The DSS indicates that the monitoring activities will also assist the state in passing federal compliance reviews. We note that the 1992-93 budget included \$559,000 from the General Fund and 7.6 limited-term positions for monitoring CWS Program activities in Los Angeles County. These positions will terminate on June 30, 1993.

Recommendation. At the time this analysis was prepared, some of the counties had only recently begun efforts to resolve compliance problems, and the results of these efforts had not yet been reviewed by the department. The department indicates that additional information should be available over the next several months. In order to facilitate legislative oversight of this issue, we recommend that the department report during budget hearings on the status of counties' efforts to correct statutory and regulatory areas of noncompliance.

Given the problems uncovered in the state and federal compliance reviews, we also recommend approval of the proposed new positions.

SUPPLEMENTAL SECURITY INCOME/ STATE SUPPLEMENTARY PROGRAM

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. The budget proposes an appropriation of \$2.2 billion from the General Fund for the state's share of the SSI/SSP Program in 1993-94. This is a decrease of \$162 million, or 7 percent, from estimated current-year expenditures.

Budget Proposes to Suspend "Pass-Through" of Federal Cost-of-Living Adjustment (COLA)

The budget proposes legislation to suspend the "pass-through" of the federal COLA to SSI/SSP recipients, for a General Fund savings of \$69 million in 1993-94. This proposal would prevent recipients from receiving an increase of about 2 percent in the total grant.

The budget proposes legislation to suspend the "pass-through" of the January 1994 federal COLA, for a savings of \$69 million to the General Fund in 1993-94. The federal government annually provides a COLA to SSI/SSP recipients, increasing the amount of the SSI payment (the federal component of the SSI/SSP grant) by the percentage increase in the Consumer Price Index. Under Ch 97/91 (SB 724, Maddy), the statutory annual COLA provided by the state has been suspended

through calendar year 1996. In addition, Ch 94/91 (AB 385, Epple) requires the "pass-through" (to the recipients) of all *federal* COLAs through calendar year 1996.

The effect of the proposal not to "pass-through" the federal COLA is to keep the total SSI/SSP grant at its current level. Thus, the SSI portion of the grant would increase (to reflect the federal COLA) while the SSP portion of the grant would be reduced by an equivalent amount (thereby resulting in a state savings). This proposal would not require a waiver of federal regulations.

If the budget proposal is *not* adopted, the federal COLA would increase the SSI/SSP monthly grant for an aged or disabled individual from \$610 to \$623.

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) Program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such 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 Supplemental Security Income/State Supplementary Program (SSI/SSP) for the aged, blind, and disabled.

The types of services available through the IHSS Program are domestic and related services, such as meal preparation and cleanup; 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.

The budget proposes \$878 million (\$210 million General Fund, \$160 million federal funds, \$196 million county funds, and \$311 million in reimbursements) for the IHSS Program in 1993-94. This is an increase

of \$115 million, or 15 percent, above estimated current-year expenditures. The General Fund proposal represents an increase of \$82.3 million, or 64 percent, above current-year expenditures. This increase is primarily attributable to costs for caseload increases (\$47 million) and restoration of service reductions (\$30 million).

General Fund Savings From Personal Care Option May Be Overstated

We find that General Fund savings due to implementation of the Personal Care Option may be overstated in 1992-93 and 1993-94, to the extent that federal Medicaid (Title XIX) funds do not fully materialize. We recommend that the department report during budget hearings on the status of implementation of the Personal Care Option.

Background. Chapter 939, Statutes of 1992 (AB 1773, Moore) required the State Department of Health Services (DHS) to submit a State Plan Amendment (SPA) to the federal Department of Health and Human Services to include personal care services as a federally reimbursable service under the Medicaid Program. The federal Medicaid regulations allow 50 percent federal funding to be claimed for direct services and administrative costs for personal care services. The DHS received approval of the SPA on November 2, 1992. As required by Chapter 939, the personal care services would be provided under the IHSS Program.

According to the SPA, personal care services are services needed to provide care to recipients who have an illness that has been diagnosed to be chronic and lasting at least one year (referred to as a "disabling condition") and who are unable to remain safely at home without this assistance. Personal care services may include one or more activities, such as (1) assisting with the administration of medications, (2) providing needed assistance or supervision with basic personal hygiene, (3) assisting with eating, and (4) grooming and toileting. Other incidental services may also be provided.

The SPA also limits eligibility for IHSS personal care services (referred to as the Personal Care Option, or PCO) to categorically eligible Medi-Cal recipients (AFDC and SSI/SSP recipients). To be eligible under the PCO, these recipients must satisfy the disabling condition requirement.

General Fund Savings May Be Overstated in 1992-93 and 1993-94. The budget proposal assumes that implementation of the PCO will result in General Fund savings of \$16 million in 1992-93 and \$180 million in 1993-94. Our review indicates that the budget estimates of savings are based on optimistic assumptions. Specifically, the budget

assumes that (1) the PCO will be implemented on April 1, 1993 and (2) 63 percent of the caseload will be eligible for PCO services. We have the following concerns with these assumptions.

Implementation of the PCO Could Be Delayed. Our conversations with state and county officials indicate that the PCO implementation date of April 1, 1993, may be unrealistic. Implementation of the PCO could be delayed because the following requirements may not be met by that deadline: (1) determination of PCO eligibility (disabling condition) of aged IHSS recipients, (2) completion of PCO regulations and forms, (3) data base changes, and (4) hiring of nurses and obtaining physician certifications.

To the extent that the PCO is delayed, and federal Medicaid funds are reduced, General Fund costs would increase. As a result, General Fund savings of up to \$16 million may not materialize in 1992-93.

The PCO Caseload May Be Overstated. The budget assumes that 63 percent of the caseload, or 71 percent of total IHSS service hours, will be eligible under the PCO. The budget assumes that all of the service hours for these cases will be considered PCO eligible. However, it is possible that for any given case, some of the current hours of IHSS service will qualify for federal funding under the PCO, while other hours will not qualify.

Recommendation. We find that General Fund savings due to implementation of the PCO may be overstated in 1992-93 and 1993-94, to the extent that federal Medicaid funds do not fully materialize. The department may have more information on this issue in a few months. Consequently, we recommend that the department report during the budget hearings on the status of the PCO.

Regulation Change Could Increase Eligibility for PCO Services

We recommend that the Legislature direct the Departments of Social Services (DSS) and Health Services (DHS), during budget hearings, to amend the PCO regulations to include IHSS "income eligibles." This action would result in General Fund savings of approximately \$8 million in 1993-94. (Reduce Item 5180-151-001 by \$8 million.)

Background. In order to be eligible for services under the IHSS Program, a person must be living in his or her own home and either "status eligible" or "income eligible." An individual is considered status eligible if he or she is receiving SSI/SSP. An individual is considered income eligible if he or she:

- Meets all SSI/SSP eligibility requirements but has "nonexempt" income that exceeds the maximum SSI/SSP payment levels. Persons in this category may have to pay for a share of IHSS costs.
- Meets all SSI/SSP eligibility requirements, but chooses not to accept SSI/SSP benefits. These individuals would not be required to pay a share of cost.
- Has been eligible for SSI/SSP based on a disability (and is still disabled) but has lost eligibility due to employment. These individuals may be required to pay a share of IHSS costs.

Federal Funds Could Be Obtained For IHSS Income Eligibles. Our review of the budget indicates that it *excludes* the IHSS income eligibles from the PCO caseload. These cases are currently funded in the IHSS Program at a ratio of 65 percent General Fund and 35 percent county funds. The income eligibles represent approximately 13,000 cases that could be eligible for 50 percent federal funding under the PCO. We estimate that including the income eligibles within the PCO caseload would result in additional federal Medicaid funds of about \$13 million in 1993-94, for a net savings (after accounting for administrative costs) of approximately \$8 million to the General Fund and \$4 million in county funds.

Recommendation. We recommend that the Legislature direct the DSS and the DHS to amend the PCO regulations to include IHSS income eligibles. This action would result in General Fund savings of approximately \$8 million in 1993-94.

LIST OF FINDINGS AND RECOMMENDATIONS

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Crosscutting Issues

Immigration-Related Costs

1. **Assuming Federal Funds for Immigration-Related Costs Entails Risk of Budgetary Shortfall.** Recommend that the Legislature review the Governor's contingency plan for addressing a potential General Fund shortfall of \$1.4 billion and develop an alternative plan, based on legislative priorities. 15

Indigent Health Care

2. **Revenue Shift Could Have a Significant Impact on Indigent Health Services.** The budget proposal to shift over \$2 billion of property tax revenues to fund public education will add pressure on counties to reduce funding for indigent health services. 23

AIDS Prevention

3. **Lack of Coordination Impedes Effective AIDS Prevention Efforts.** Recommend enactment of legislation designating the Office of AIDS as lead agency for HIV education and prevention activities and requiring it to plan and coordinate all related funding decisions. Further recommend adoption of Budget Bill language to revise the formula for allocating federal HIV set-aside funds received by the Department of Alcohol and Drug Programs. 24

State Hospitals/Developmental Centers

4. **No Detail on Whether Administration Plans to Propose Closing State Facility.** Recommend that the Departments of Developmental Services and Mental Health report 28

jointly at budget hearings on whether the Administration will proceed with such a proposal and the anticipated fiscal impact.

Department of Alcohol and Drug Programs

5. **Federal Changes Affect Allocations for the Department of Alcohol and Drug Programs (DADP).** Recommend the department report on estimated costs associated with new federal requirements and its plan for allocating funds in response to these changes. 29
6. **Improvement Needed in Efforts to Maximize Drug/Medi-Cal Reimbursements.** Recommend that the DADP report at budget hearings on (a) its estimates of Drug/Medi-Cal reimbursements and (b) steps being taken to increase the number of programs certified. 32
7. **Funding for Female Offender Pilot Project Should Be Continued.** Recommend adoption of Budget Bill language requiring the department to continue funding for the Female Offender Substance Abuse Program, and to submit the required evaluation of the project by September 30, 1993. 34

California Medical Assistance Program (Medi-Cal)

8. **Department Plans Major Expansion of Managed Care.** Plan would enroll nearly half of all Medi-Cal beneficiaries in a "managed care" arrangement by the end of 1993-94. 47
9. **Implementation of Managed Care Strategic Plan Premature.** Recommend that the department address several key issues before implementing plan. Further recommend that no expansion of managed care occur until the Legislature has had an opportunity to review the department's plan. 52
10. **CIGNA Rate Increase Unjustified. Reduce Item 4260-101-001 by \$6.8 million.** Recommend that the Legislature reject a portion of proposed \$16 million rate increase for CIGNA 55

Health Plan because the proposal has not been justified. Further recommend that a new rate-setting methodology be developed.

11. **Prepaid Health Plans (PHPs) Rate Adjustment Would Save \$23 Million. Reduce Item 4260-101-001 by \$23.1 million.** Recommend that the Legislature reduce expenditures for PHP services because rates have not been adjusted to reflect lower costs. 57
12. **Elimination of Optional Services.** Recommend that the department report, prior to budget hearings, on technical aspects of proposal, and potential magnitude of increased hospitalizations. 59
13. **Diagnosis-Related Reimbursements Could Result in Significant Savings.** Recommend that the Legislature adopt Budget Bill language requiring the department to implement diagnosis-related reimbursements, and report on potential savings for 1993-94. 61
14. **Bulk Purchases For Laboratory And Other Services Would Save Money. Reduce Item 4260-101-001 by \$4 million.** Recommend that the Legislature adopt Budget Bill language requiring implementation of contracting for laboratory services and durable medical equipment. 63
15. **Medi-Cal Subsidy of University of California (UC) Hospitals Not Needed. Reduce Item 4260-101-001 by \$26 million.** Recommend that the Legislature adopt Budget Bill language specifying that UC hospitals receive the minimum federal disproportionate share payment allowed under state law because these hospitals are profitable without such subsidies. 64
16. **Eliminating "Bed-Hold" Payments Would Produce Savings. Reduce Item 4260-101-001 by \$7.5 million.** Recommend enactment of legislation repealing provisions of current law requiring payments to "hold" long-term care beds vacant. 66

17. **Additional Federal Reimbursement Available for Medi-Cal. Reduce Item 4260-101-001 by \$7.9 million.** 67
Recommend that the department begin claiming federal funds for services to pregnant women between 185 and 200 percent of federal poverty level.

Public Health

18. **Direct Purchase Vaccine Program Can Save \$14 Million Yet Plan Is Lacking.** 69
We recommend Budget Bill language to use these savings and federal funds on activities that should increase immunization levels.
19. **Options for Reducing General Fund Costs Without Reducing Program Services.** 74
We present two options for reducing General Fund support of the Child Health and Disability Prevention Program without affecting program services: (a) purchase Hepatitis B vaccine through the direct purchase vaccine program and (b) redirect Maternal and Child Health (MCH) federal funds for the purchase of the vaccine.
20. **Proposition 99 Programs: Declining Revenues Result in Program Reductions.** 76
Because of the methodology for calculating pro rata reductions due to declining C&T Fund revenues, some Proposition 99 programs will be impacted more heavily than others.
21. **Budget Proposes Significant Reductions in the County Medical Services Program (CMSP).** 79
We recommend that the department report during budget hearings on what effect the overall reductions to the CMSP will have on indigent health care services and how the unallocated reductions proposed for the CMSP will be taken.
22. **What Can Be Done To Maintain A Viable County Medical Services Program (CMSP)?** 82
Given declining revenues and increasing program expenditure requirements for the CMSP, the Legislature should consider restructuring the program. We discuss both short-term and long-term options for accomplishing this.
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23. **General Fund Support in CMSP Raises Question of Legislative Intent.** Current law provides that General Fund support for the CMSP shall be \$20.2 million in 1992-93 and annually thereafter; but it is not clear whether the Legislature intended to maintain General Fund support for the program at this specified amount or at the actual 1991-92 level of spending, which was subsequently revised to \$22 million. Consequently, we recommend that the Legislature clarify its intent. 83
24. **Legislature Needs Information on Effectiveness of HIV Education and Prevention Efforts to Determine 1993-94 Funding Levels.** We recommend that (a) the department release the Office of AIDS education and prevention evaluation report prior to budget hearings and (b) the Legislature use MCH federal funds for HIV education and prevention efforts. 84
25. **Consolidation of Administrative Units Would Avoid Duplicative Activities.** Recommend the department consolidate the Primary and Rural Health Care Systems Branch with the Office of Family Planning and recommend deletion of \$1.6 million (\$1.3 million General Fund, \$300,000 C&T Fund) in state operations from the 1993-94 budget to reflect savings achieved from this reorganization. We further recommend that the Legislature redirect the \$300,000 in C&T Fund monies freed up from this consolidation to replace General Fund monies budgeted for health programs that are eligible for C&T Fund support. (Reduce Item 4260-001-001 by \$1.3 million and reduce Item 4260-111-001 by \$300,000.) 89
26. **Ward Valley Low-Level Radioactive Waste (LLRW) Disposal Facility.** Recommend that the department release, prior to budget hearings, its contingency plan on the management of LLRW. 91

State Legalization Impact Assistance Grant

27. **SLIAG Entitlements May Be less Than Budgeted in Current Year.** Recommend that the Health and Welfare 93

Agency report, during budget hearings, on how several federal requirements may affect the amount of SLIAG funds available for state entitlement programs.

28. **Governor's 1993-94 Budget Assumes Full Funding.** 95
Because the President's fiscal year 1994 budget was not available at the time this analysis was prepared, it is not known whether he will propose to provide California with the SLIAG funds assumed in the Governor's Budget for 1993-94.

Major Risk Medical Insurance Board

29. **Access for Infants and Mothers Program Likely to Have Unexpended Balances That Can Be Redirected to Replace General Fund Monies Budgeted for Other Programs.** 97
We recommend that \$15 million in Cigarette and Tobacco Products Surtax Fund monies be redirected.

Department of Developmental Services

30. **Potential Medicaid Waiver Savings Uncertain.** The 100
budget does not reflect an additional \$16.6 million in General Fund savings that would result if the waiver expansion is approved as proposed. However, in the event the waiver expansion is not approved as proposed, the budget may overestimate General Fund savings by up to \$80.5 million. Recommend that the department report at budget hearings on the status of the waiver.
31. **Lawsuit May Result in Major Costs.** Recommend that the 102
department report at budget hearings on the status of *Coffelt v. Department of Developmental Services* and how it proposes to fund any costs resulting from resolution of the suit.
32. **Decision Due on Early Intervention Program.** The budget 102
proposes federal funds but no General Fund expenditures to continue the Early Intervention Program in 1993-94. Recommend the department report at budget hearings on its decision as to whether to continue the program, its

specific implementation plan, and associated General Fund costs in 1993-94.

33. **Workers' Compensation Costs Underbudgeted.** We estimate that workers' compensation costs at the developmental centers are underbudgeted by about \$3 million in the current year and \$4 million to \$5 million in 1993-94. We recommend the department report at budget hearings on a plan for reducing workers' compensation costs or funding the anticipated increase in these costs. 104

Department of Mental Health

34. **School-Based Prevention Program Augmentation Should Be Deleted.** Reduce Item 4440-001-001 by \$428,000 and Item 4440-102-001 by \$10 million. Recommend a reduction of \$10.4 million (\$10 million Proposition 98) to the Department of Mental Health budget in order to free up funds to restore school general purpose funding or reduce the Proposition 98 loan. 105
35. **New Federal Funds Present Opportunity for Legislature.** Recommend that the Legislature determine its own priorities for allocating an additional \$12.2 million in federal funds, and adopt Budget Bill language requiring the department to allocate the funds according to these priorities. 106

Aid to Families with Dependent Children (AFDC)

36. **Caseload Estimate Likely Too High.** The budget may have overestimated Aid to Families with Dependent Children (AFDC) Program costs by as much as \$90 million (\$43 million General Fund) in 1993-94 and \$40 million (\$19 million General Fund) in the current year because the department's caseload projections appear to be too high. 108
37. **Residency Requirement Found Unconstitutional by District Court.** Unless the decision is reversed on appeal, the budget overestimates General Fund savings by \$7.6 million in the current year and \$20 million in 1993-94. 110

38. **Proposal to Reduce Maximum Aid Payment (MAP) By 4.2 Percent.** The budget proposes legislation to reduce the MAP to all AFDC recipients by 4.2 percent. This reduction would be partially offset by an increase in food stamps, thereby resulting in a reduction of about 2.2 percent in total income available to recipients. 112
39. **Proposal to Reduce MAP an Additional 15 Percent After Six Months.** The budget proposes legislation to reduce the MAP by an additional 15 percent for AFDC recipients (with some exceptions) after they have been on aid for six months. This reduction would be partially offset by an increase in food stamps, thereby resulting in an additional reduction of about 9.8 percent in total income available to recipients. 112
40. **Proposal to Expand the Earned Income Disregard.** The budget proposes \$3.6 million in 1992-93 and \$22.5 million in 1993-94 to fund the costs of extending indefinitely—beyond the existing four-month limit—the “\$30 and one-third disregard” of employment earnings in computing AFDC grants. Current law directs the department to request a federal waiver to implement this change. 113
41. **Proposal to Exclude From the MAP Any Children Conceived While on Aid.** The budget proposes legislation to exclude, for purposes of determining a family’s MAP, any children who are conceived while the family is on AFDC. Estimated savings are \$28 million (\$13 million General Fund) in 1993-94 but would increase significantly in subsequent years, reaching several hundred million dollars in ten years. 114
42. **Proposal to Limit Pregnancy-Related Benefits.** The budget proposes legislation to limit pregnancy-related AFDC benefits. We find that this proposal could result in a transfer of responsibility to the counties for many of those recipients who would lose these benefits. 114
43. **Budget Imposes Requirements on Teen Parents.** The budget proposes legislation to establish the Cal Learn Program, an incentive program for AFDC parents under 115

age 19 to remain in school. To the extent this proposal increases school attendance, it would result in increased job readiness as well as additional school apportionment costs, potentially in the tens of millions of dollars.

44. **Budget Proposes to Increase Funding for the Greater Avenues for Independence (GAIN) Program.** 116
The budget proposes to increase funding for the GAIN Program by \$93 million (all funds). We recommend that the Legislature eliminate the county share of funding for this program in order to ensure that budgeted funds will be expended. We further recommend that the Legislature increase the county share of AFDC grant costs by about two-thirds of 1 percent in order to offset the increased General Fund cost of buying out the county share of GAIN.
45. **Costs of Proposals to Increase Transitional Assistance Are Not Reflected in Budget.** 117
The budget proposes changes in a number of rules affecting AFDC eligibility in order to increase the incentive to work. This includes transitional child care, food stamps, and child support for persons leaving AFDC due to employment. While the proposals may result in savings in the long term, they are likely to impose first-year costs not reflected in the budget.
46. **Budget Includes Savings Anticipated From "Reduced Dependency."** 119
The budget includes savings of \$310 million (\$147 million General Fund) in 1993-94 and \$31 million (\$15 million General Fund) in the current year from lower caseloads because of the financial incentives to work due to the reduced grant levels, increased GAIN funds, and other work incentives contained in the proposed changes. While the Governor's proposals are likely to result in some reduction in caseloads, the budget estimate of savings must be viewed with caution.
47. **Delayed Implementation of Welfare Proposals Could Reduce Savings Substantially.** 120
The budget assumes that the Governor's welfare proposals will be implemented on March 1, 1993. If full implementation is delayed until July 1, the estimated General Fund savings would be reduced by \$32 million in the current year and up to \$180 million in the budget year.

48. **Alternatives to the Governor's Welfare Package.** We present several alternatives to the Governor's proposals. These include options that we presented last year and which have not been proposed or implemented, the major provisions of reform legislation introduced in the current session, and other alternatives. 127
49. **Demonstration Projects to Reduce Health and Welfare Costs.** We review welfare reform proposals being implemented in other states, and develop two additional proposals for legislative consideration. 129
50. **Budget May Overestimate Spending for County Administration of Welfare Programs.** Counties may be unable to match all of the state and federal funds assumed in the budget, due to fiscal constraints at the local level. 129

AFDC-FC

51. **Foster Care Specialized Rate-Setting System Needs Statewide Assessment Guideline.** Counties do not use standardized criteria to assess the special needs of foster children, resulting in a large variation in grants. We recommend that the department report, during budget hearings, on the feasibility of developing a standardized assessment guideline to determine foster care grant amounts for children with special needs. 129
52. **Program Effectiveness Has Not Been Determined for Family Preservation.** Recommend that the department report during budget hearings on the status of two reports on the Family Preservation Program that were due in December 1991 and June 1992, respectively. 132
53. **1992 Budget Action Shifts Costs to Schools.** Budgeted state savings due to increased federal support for nonprofit group homes are overstated, thereby creating a potential deficiency of \$150,000 in the current year and \$300,000 in 1993-94. The authority to reimburse group home costs for severely emotionally children has been inadvertently terminated. We recommend legislation to reimburse group homes providing residential care to severely emotionally disturbed children. 134

54. **Closure of County Probation Facilities Could Have Major Impact on Foster Care.** Recommend that the Legislature direct the Department of Social Services and the Department of Finance to consider the impact of potential closures of county juvenile camps and ranches on the foster care caseload when developing the May Revision. 136

Adoptions Assistance Program

55. **1992 Budget Action to Cap Adoptions Assistance Program Grants May Have Adverse Impacts.** The cap on AAP grants (a) may not comply with federal law and (b) may reduce adoptions of children with serious medical and/or behavioral problems. We recommend that the Department of Social Services collect additional data in order to assess the impact of the reduction in grants. 137

Child Welfare Services

56. **State Guideline May Not Result In Standardized Screening Decisions Among Counties.** Recommend that the department report during budget hearings on the effect of a new guideline designed to standardize statewide the process for screening Emergency Response cases. 140
57. **Counties Fail State Compliance Reviews.** Recommend that the department report during budget hearings on the status of counties' efforts to comply with statutory and regulatory requirements governing the Child Welfare Services Program. 142

Supplemental Security Income/State Supplementary Program

58. **Budget Proposes to Suspend "Pass-Through" of Federal Cost-of-Living Adjustment (COLA).** The budget proposes legislation to suspend the "pass-through" of the federal COLA to SSI/SSP recipients, for a General Fund savings of \$69 million in 1993-94. This proposal would 144

prevent recipients from receiving an increase of about 2 percent in the total grant.

In-Home Supportive Services

59. **General Fund Savings From Personal Care Option May Be Overstated.** We find that General Fund savings due to implementation of the Personal Care Option may be overstated in 1992-93 and 1993-94, to the extent that federal Medicaid funds do not fully materialize. We recommend that the department report during budget hearings on the status of implementation of the Personal Care Option. 146
60. **Additional IHSS Recipients Could Be Eligible For the Personal Care Option.** Reduce Item 5180-151-001 by \$8 million. We recommend that the Legislature direct the Departments of Social Services and Health Services to amend the Personal Care Option regulations to include IHSS "income eligibles." This action would result in General Fund savings of approximately \$8 million in 1993-94. 147
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