DEPARTMENT OF SOCIAL SERVICES CALWORKS PROGRAM 1999-2000 (5180)

In response to federal welfare reform legislation, the Legislature created the California Work Opportunity and Responsibility to Kids (CalWORKs) program, enacted by Chapter 270, Statutes of 1997 (AB 1542, Ducheny, Ashburn, Thompson, and Maddy). Like its predecessor, Aid to Families with Dependent Children (AFDC), the new program provides cash grants and welfare-to-work services to families whose incomes are not adequate to meet their basic needs. A family is eligible for the Family Group component of the program if it includes a child who is financially needy due to the death, incapacity, or continued absence of one or both parents. A family is eligible for the Unemployed Parent component if it includes a child who is financially needy due to the unemployment of one or both parents.

The budget proposes an appropriation of $5.5 billion ($1.8 billion General Fund, $64 million county funds, $30 million from the Employment Training Panel Fund, and $3.5 billion federal funds) to the Department of Social Services (DSS) for the CalWORKs program. In total funds, this is a decrease of $681 million, or 11 percent. Similarly, General Fund spending is projected to decline by $216 million (11 percent). The budget total for CalWORKs, however, does not include funds transferred to the Department of Education to pay for Stage 2 child care or the child care reserve. When these funds are taken into account, total spending is projected to decline by $218 million, or 3.6 percent, in 1999-00.

CURRENT-YEAR UPDATE OF THE CALWORKS PROGRAM

Grants. The Legislature rejected the Governor's proposal to make permanent the previously enacted 4.9 percent grant reduction and delete the statutory cost-of-living adjustment (COLA) in 1998-99. On November 1, 1998 the temporary 4.9 percent grant reduction ended and, pursuant to Chapter 329, Statutes of 1998 (AB 2779, Aroner), a 2.84 percent COLA was provided. These grant increases resulted in an eight-month General Fund cost of $226 million in 1998-99.

Future COLAs Tied to Future Tax Reductions. Chapter 329 provides that future COLAs will be suspended in any year where revenues are insufficient to "trigger" an additional vehicle license fee reduction, beginning in 2000-01.

Technical Corrections. Chapter 902, Statutes of 1998 (AB 2772, Aroner) primarily made technical changes to CalWORKs. Significant provisions include (1) clarifying that the 18 to 24 month time limit for employment services prior to community service begins when a client signs a welfare-to-work agreement and (2) modifying the county performance incentives, to permit the method of allocation contained in the *1998-99 Budget Act*. We discuss the issue of county performance incentives later in this section of the *Analysis*.

1999-00 BUDGET ISSUES

Impact of Maintenance-of-Effort Requirement

Because the Governor's budget proposes to expend all available federal funds and the minimum amount of General Fund monies required by federal law for the California Work Opportunity and Responsibility to Kids program, any net augmentation will result in General Fund costs and any net reductions will result in federal savings.

Maintenance-of-Effort (MOE) Requirement. To receive the annual federal Temporary Assistance for Needy Families (TANF) block grant ($3.7 billion for California), states must meet a MOE requirement that state spending on welfare for needy families be at least 80 percent of the federal fiscal year (FFY) 94 level, which is $2.9 billion for California. The MOE requirement drops to 75 percent if a state meets two specified work participation rates, but California is unlikely to meet both rates in the budget year. Although the MOE requirement is primarily met with state and county spending on CalWORKs and other programs administered by DSS, we note that $395 million in state spending in other departments is used to satisfy the requirement.

Proposed Budget Is at the MOE Floor, With Partial Match for Welfare-to-Work Program. For 1999-00, the Governor's budget for CalWORKs is at the MOE floor, with the exception of $25 million above the MOE for the purpose of providing the state match for the federal

Welfare-to-Work block grant funds. Because California is to receive $364 million in Welfare-to-Work block grant funds and the federal match rate is 2 to 1, a total of $182 million in state matching funds must be expended by September 30, 2001. When the proposed $25 million match for 1999-00 is added to the $10 million expended for the match in 1998-99, an obligation to expend $147 million in matching funds would remain.

The Governor's budget also proposes to spend all available federal TANF funds in 1999-00, including the projected carry over funds ($409 million) from 1998-99. We note that without these carry over funds, General Fund spending would be significantly above the MOE floor in 1999-00, under the budget's assumption of fully funding the program.

Technical Adjustments Raise MOE Countable Spending. As discussed below, we believe that the budget needs to be increased by $27.5 million in order to fully fund the cost of providing the statutory COLA as proposed in the Governor's budget. In addition, we believe that $4.8 million in General Fund spending on women offenders and parolees should be counted toward meeting the MOE requirement. (These issues are discussed later in our analysis of the program.) Taken together, these two technical changes would raise spending an additional $32.3 million above the MOE requirement, absent other changes to the budget that would free up federal TANF funds for these expenditure increases.

Budget Underestimates Cost of Providing the Statutory COLA

The General Fund cost of providing the statutory cost-of-living adjustment will be $27.5 million above the amount included in the budget, due to an upward revision in the California Necessities Index. These costs should be reflected in the May Revision of the budget.

Pursuant to current law, the Governor's budget proposes to provide the statutory COLA in 1999-00, at a General Fund/TANF cost of $209.4 million. The COLA is based on the change in the California Necessities Index (CNI) from December 1997 to December 1998. The Governor's budget, which is prepared prior to the release of the December CNI figures, estimates that the CNI will be 2.08 percent, based on partial data. Our review of the actual data, however, indicates that the CNI will be 2.36 percent. Applying the actual CNI of 2.36 percent raises the cost of providing the COLA to $236.9 million, or $27.5 million above the amount proposed in the budget. The administration should address this issue in the May Revision of the budget.

We note that these additional costs could be funded with federal TANF funds if the Legislature frees up these funds by budget reductions (such as those we recommend later in this analysis). Alternatively, the General Fund could be used as a funding source. This would bring the budget above the MOE. In that case, these expenditures could count toward meeting the state's $147 million state match obligation for the federal Welfare-to-Work block grant.

The CalWORKs Grant Levels

Figure 1 shows the maximum CalWORKs grant and food stamps benefits effective July 1999, as displayed in the Governor's budget and adjusted to reflect the actual CNI. As the figure shows, grants in high-cost counties will increase by $15 to a total of $626 and grants in low-cost counties will increase by $14 to a total of $596.

As a point of reference, we note that the federal poverty guideline for *1998* (the latest reported figure) for a family of three is $1,138 per month. When the grant is combined with the maximum food stamps benefit, total resources in high-cost counties will be $874 per month (77 percent of the poverty guideline). Combined grant and food stamps benefits in low-cost counties will be $857 per month (75 percent of the poverty guideline). We note that the poverty guidelines are adjusted for inflation annually.

Figure 1

CalWORKs Maximum Monthly Grant and Food Stamps Governor's Budget and LAO Projection Family of Three

1998-99 and 1999-00

		1999-00		Change from 1998-99	
Recipient Category	**1998-99[a]**	**Governor's Budget**	**LAO Projection[b]**	**Amount**	**Percent**
Region 1: High-cost counties					
CalWORKs grant	$611	$624	$626	$15	2.5%
Food Stamps	254	249	248	-6	-2.4
Totals	**$865**	**$873**	**$874**	**$9**	**1.0%**
Region 2: Low-cost counties					
CalWORKs Grant	$582	$595	$596	$14	2.4%
Food Stamps	267	262	261	-6	-2.3
Totals	**$849**	**$857**	**$857**	**$8**	**0.9%**

[a] Effective November 1998.
[b] Based on California Necessities Index at 2.36 percent (revised pursuant to final data) rather than Governor's budget estimate of 2.08 percent.

Count Spending on Programs for Women Offenders And Parolees Toward MOE Requirement

We recommend that the department count toward the California Work Opportunity and Responsibility to Kids maintenance-of-effort requirement $4.8 million in General Fund expenditures in the Department of Corrections on programs for women offenders and parolees.

Pursuant to the federal welfare reform legislation, California may count all state spending on families eligible for CalWORKs, even if they are not in the CalWORKs program, for purposes of meeting the MOE requirement. To be countable, such spending must be consistent with the broad purposes of federal welfare reform—providing assistance to families so that they can become self sufficient.

The California Department of Corrections (CDC) operates three programs for women offenders and parolees with children. These programs provide services (such as drug treatment, child care, and education) to assist women in reintegrating into society. Because these programs provide services that are consistent with the intent of the federal welfare reform legislation, they can be counted toward meeting the federal MOE requirement.

Total spending for these program in 1999-00 is projected to be about $11 million. We note that about 45 percent of the women in the programs are likely to have had a drug-related felony conviction. Because current state law makes drug felons ineligible for CalWORKs, the spending on program services that go to drug felons would not count toward the federal MOE requirement. After reducing total spending by 45 percent to account for women who are likely to have drug-related felony convictions, and reducing the remaining amount by an additional 20 percent to account for other spending (such as health care) that may not meet the federal requirements, we estimate that at least $4.8 million of spending in the budget year for these programs operated by CDC (and $4.2 million in the current year) would count toward the MOE requirement. The administration, however, has not included these expenditures in its MOE calculations. Consequently, we recommend that the department make this adjustment, which would bring estimated current-year expenditures $4.2 million above the MOE and the budget proposal $4.8 million above the requirement. This action would create options for the Legislature, which we discuss below.

We note that these General Fund expenditures above the MOE could be counted toward the state match for the federal Welfare-to-Work block grant. Alternatively, any federal TANF savings identified by the Legislature could be used to replace General Fund monies to bring the budget down to the MOE level.

Budget Underestimates Savings From Maximum Family Grant Policy

We recommend that proposed spending for California Work Opportunity and Responsibility to Kids grants be reduced by $20.4 million (federal Temporary Assistance for Needy Families funds) to reflect the incremental savings that will occur in 1999-00 due to the continuation of the Maximum Family Grant policy. (Reduce Item 5180-101-0890 by $20,400,000.)

Chapter 196, Statutes of 1994 (AB 473, Brulte) enacted the Maximum Family Grant program. This program prohibits increases in any family's grant due to children conceived while on aid, except in cases of rape, incest, or failure of certain contraceptives, unless there has been a break in aid of at least 24 consecutive months. This policy became effective in December 1996.

In May 1998, DSS estimated that this policy would save $22.4 million in 1997-98 and $68.9 million in 1998-99. Previous multiyear estimates for this policy prepared by DSS indicated the annual baseline savings were likely to grow to nearly $200 million after five years of implementation. We note, however, that for 1999-00, the budget does not reflect any increase in savings from additional children who will not qualify for a grant because of this policy. We estimate these additional savings to be approximately $20.4 million in 1999-00. Accordingly, we recommend that the budget be reduced to reflect these savings.

We note that DSS is in the process of reestimating the actual savings attributable to the Maximum Family Grant policy during 1998. Based on the department's quality control data, a better estimate of actual and projected savings should be available in the May Revision of the budget. If appropriate, we will modify our estimate of the additional savings in 1999-00 based on this information.

Budget for Services and Child Care Should Reflect Impact of Nonparticipation

Although the budget for grants includes a reduction of 13 percent to account for adults who will be sanctioned for failing to comply with program participation requirements, the budget for employment services and child care includes no such reduction. We recommend reducing the budget for employment services and child care to account for nonparticipation, for a savings of $150.8 million (federal Temporary Assistance for Needy Families funds). (Reduce Item 5180-101-0890 by $150,775,000.)

Based on data from the Greater Avenues for Independence (GAIN) program (which provided employment services to AFDC recipients prior to CalWORKs), the budget for CalWORKs *grants* reflects savings of $95 million to account for sanctions on adults who fail to meet various program participation requirements. Specifically, the budget estimates that during 1999-00 an average of almost 53,000 adults per month (13 percent of all cases with adults) will be sanctioned. The budget for welfare-to-work services and child care, however, has not been adjusted to reflect this nonparticipation. Since adults who are sanctioned will not receive welfare-to-work services, we recommend that the budget for services and child care be reduced to reflect the anticipated savings from nonparticipation. Based on an overall 13 percent nonparticipation rate, we estimate these savings to be $150.8 million in the budget year.

Incentive Payments Should Be Related to Improved County Performance

Of the $479 million proposed for county performance incentive payments, $287 million (60 percent) is the result of the baseline level of recipient earnings, rather than savings attributable to improved county performance in California Work Opportunity and Responsibility to Kids (CalWORKs). We recommend enactment of legislation to modify the methodology for calculating the incentive payments so that counties retain 50 percent of savings attributable to earnings (rather than the 100 percent included in the budget) because the rest of the savings would have occurred in the absence of CalWORKs. This change will result in budget savings of $193 million (federal Temporary Assistance for Needy Families funds) in 1999-00 . (Reduce Item 5180-101-0890 by $192,573,000.)

Background. The CalWORKs legislation requires that savings resulting from (1) exits due to employment, (2) increased earnings, and (3) diverting clients from aid with one-time payments, be paid by the state to the counties as performance incentives. Current law also requires that DSS, in consultation with the welfare reform steering committee, determine the method of calculating these savings.

Savings from Exits Due to Employment. For 1998-99, the steering committee recommended that county performance incentive payments attributable to savings from exits due to employment be based on the *increase* in exits compared to the average number of exits during 1994-95, 1995-96, and 1996-97. By estimating the savings from exits due to employment in comparison to a baseline, the incentive payments for exits are directly related to improved county performance.

Savings From Increased Earnings. In contrast to its approach with respect to exits, the steering committee did not incorporate a baseline for savings due to increased earnings. Specifically, the steering committee recommended that *all* savings attributable to earnings—regardless of whether they resulted from CalWORKs interventions or would have occurred absent any change in program implementation—be paid as fiscal incentives. We note that prior to implementation of CalWORKs, 17 percent of the caseload had sufficient earnings to result in reduced grants. For 1999-00, the DSS estimates that of the $385 million in savings resulting from increased earnings, $287 million (about 75 percent) would have occurred without CalWORKs. Thus, the steering committee approach provides counties with $287 million in "performance incentives" that they would "earn" even if CalWORKs recipients show no improvements in earnings from county implementation of the program.

Savings From Diversion. The Governor's budget proposes to provide all net savings that are attributable to diversion as county performance incentives. Specifically, the budget estimates that cases diverted by the counties would have been on aid for an average of six months, and that the average one-time diversion payment would be $1,175. Based on these assumptions, DSS estimates that fiscal incentive payments based on net savings from diversion will be $18.7 million in 1999-00. We note that the diversion payment is a new program component, so any savings should be attributable to CalWORKs.

Summary of Incentive Payments. Figure 2 summarizes the sources of the fiscal incentives. As the figure shows, $287 million, or almost 60 percent of the proposed budget for performance incentives, is based on savings that would have occurred in the absence of CalWORKs, rather than from improved county performance in implementing the new program.

Tying Incentives to Improved County Performance. One approach to bringing incentives in line with performance would be to limit incentive payments based on increased earnings to the $99 million in savings from earnings that are actually attributable to CalWORKs. This approach would reduce fiscal incentives by $287 million, down to a total of $192 million.

We note that even though DSS has estimated that only $99 million in statewide savings from earnings can be attributed to CalWORKs, it is administratively difficult to separate baseline savings from CalWORKs savings at the individual county level. This technical estimating problem is one reason why the steering committee did not limit the fiscal incentive payments in this way.

To address this problem, we recommend providing counties with 50 percent of *all* savings attributable to earnings. Under this approach, fiscal incentives would be reduced by $193 million, to a total of $286 million. Although this approach leaves counties with more in incentives than can be strictly justified on the basis of improved performance, it does not rely on a county-level estimate of the baseline and still provides counties with a significant fiscal incentive to assist recipients in obtaining employment. At the same time, it will result in savings to the state which, in years when CalWORKs spending is above the MOE level, will accrue to the General Fund, and in other years will be in federal TANF funds that can be used according to the Legislature's priorities for the CalWORKs program.

Figure 2

Governor's Budget for County Performance Incentive Payments

1999-00
(In Millions)

Reason for Incentive Payment	Amount	Percent
Incentives based on improved county performance		
Exits due to employment	$75	15.7%
Diversion	19	3.9
Increased earnings attributable to CalWORKs	99	34.4
Subtotal	**$192**	**40.2%**
Incentives unrelated to improved county performance		
Increased earnings attributable to pre-CalWORKs program (baseline)	**$287**	**59.8%**
Total performance incentive payments	**$479**	**100.0%**

Analyst's Recommendation. In summary, we recommend enactment of legislation to limit performance incentive payments that are based on earnings to 50 percent of total savings from earnings. Based on this recommendation, the budget for fiscal incentive payments should be reduced by $192.6 million (federal TANF funds).

Options for Using Identified Savings

Federal savings could be (1) redirected to other priorities in the California Work Opportunity and Responsibility to Kids program, (2) placed into a reserve for future years, and/or (3) transferred to the Social Services Block Grant (Title XX), where the funds could be used to offset General Fund spending in other departments. Among these options, we recommend that the Legislature place at least 50 percent ($166 million) of our identified savings into a reserve for expenditure in future years.

Options for Using Identified Savings. If adopted, the above recommendations would result in savings of $332 million. With the exception of the General Fund proposal of $25 million for the Welfare-to-Work match and the other adjustments noted previously ($27.5 million to fund the cost of the COLA and $4.8 million in Department of Corrections spending that should be counted toward the MOE requirement), the proposed budget is at the MOE floor. Thus, if the Legislature makes any budget reductions (beyond the $32.3 million discussed above), the resulting savings would be in federal funds. Such savings would be retained by the state because they are TANF block grant funds that can be carried over indefinitely.

The Legislature has three options with respect to any such federal savings: (1) redirect the savings into other priorities in the CalWORKs program, (2) place the federal savings in a reserve for expenditure in future years, and/or (3) transfer the federal funds (up to roughly $100 million) into the Social Services Block Grant (SSBG), where the funds could be used to replace General Fund spending in certain other departments. This last option requires some explanation.

In accordance with the federal TANF block grant provisions, as amended by the Balanced Budget Act of 1997, California may transfer up to $370 million of federal TANF funds into the SSBG, also known as Title XX funds. Once transferred, the funds become subject to the rules of the SSBG, including the condition that SSBG spending of transferred TANF funds must be for children or their families with incomes under 200 percent of poverty. For 1999-00, the budget proposes to use $176 million in SSBG funds to offset General Fund costs, mostly in the In-Home Supportive Services (IHSS) program and in the community-based programs of the Department of Developmental Services. We estimate that additional SSBG funds (from a TANF transfer) could be used to supplant approximately $100 million in General Fund spending for low-income children and families in these programs.

Analyst's Recommendation. Of the three options for using identified savings, we recommend that the Legislature place at least 50 percent ($166 million) of such savings into a reserve for future years. There are two advantages to this approach. First, we note that in the event of a recession, the state will be responsible for 100 percent of any increased costs for CalWORKs grants or services that would result from an increase in the caseload. Establishing a TANF reserve would help mitigate the fiscal impact of a recession. Second, creating a TANF reserve increases legislative flexibility. If counties need more funds for CalWORKs services, they could request them during the budget year and the Legislature could authorize additional funding.

Budget Proposes to Use County Carry-Over Balances as a Funding Source

In contrast to 1998-99, the Governor's budget proposes to use $251 million in projected county carry over funds as a source of funding for the estimated need for California Work Opportunity and Responsibility to Kids employment services in 1999-00.

Background. The *1998-99 Budget Act* appropriated funds to the counties in the amount estimated to meet the need for employment services and child care for the CalWORKs program in 1998-99. In addition, $175 million in prior-year unexpended child care funds and $25 million in unexpended county administration funds were reappropriated for use by the counties in 1998-99 even though the estimated need for these services was fully funded. This approach is consistent with the CalWORKs legislation which provides that counties shall retain unexpended county block grant funds through June of 2000.

Budget Proposes to Use Unspent County Funds as Funding Source. For 1999-00, the estimated need for employment services (including county fiscal incentives) is $1,258 million. The Governor's budget, however, proposes to use $251 million in estimated unexpended county block grant funds from 1998-99 as a funding source in 1990-00. Pursuant to this policy change, the Governor's budget proposes $1,007 million in new funding for employment services in the budget year. We believe that this is a reasonable policy change. It would treat the state and federal funds in a manner that is similar to how most programs are budgeted. In other words, unspent General Funds revert back to the General Fund.

Transfer Extra Child Care Funds to Child Care Reserve

In addition to funding the estimated need for child care in 1999-00, the Governor's budget proposes to allow counties to retain $88 million in unexpended child care funds carried over from 1998-99. To ensure that child care funds are available to recipients who need them and used for their designated purpose, we recommend transferring $88 million from the county block grant allocation to the child care reserve.

Inconsistent Approach to Unexpended County Block Grant Funds. As described in the previous issue, the budget proposes to use 1998-99 unexpended county employment service funds as a funding source for 1999-00. Thus, the proposed appropriation for employment services has been reduced by the estimated $251 million in unexpended county block grant funds. The budget also estimates there will be $88 million in unexpended child care funds, but proposes to reappropriate these funds to the counties in *addition* to providing enough new funding to cover the entire estimated need for child care in 1999-00.

Analyst's Recommendation. The Governor's budget leaves counties with $88 million more than the estimated need for child care. We note that there is significant uncertainty in estimating the budget for child care because there is limited data upon which to estimate the child care utilization rate. Accordingly, rather than reducing the proposed budget for child care by $88 million, we recommend transferring $88 million from the county block grant allocation to the child care reserve. In this way, the funds would be restricted to child care, if needed, rather than placed within the county block grant allocation where the funds could be redirected to employment services or administration. Thus, our recommendation will ensure that sufficient funding is available for counties that have unanticipated needs for child care, while also providing assurance that these funds will be used for their designated purpose.

Penalty for Failure to Meet Federal Work Participation Rate

The federal Department of Health and Human Services has indicated that (1) California failed to meet the work participation rate for two-parent families during the final quarter of federal fiscal year 1997 and (2) the state is subject to a penalty of $6,964,000. We review California's status with respect to federal work participation rates, and estimate the cost of potential future penalties.

Background. The federal welfare reform legislation of 1996 penalizes states that fail to have specified percentages of their caseload engaged in work or some other type of work-related education, job training, or job search activity. The required participation rate for the overall CalWORKs caseload is 25 percent in federal fiscal year (FFY) 97, rising to 50 percent by FFY 02. For two-parent CalWORKs families, the participation rate is 75 percent in FFY 97 and FFY 98, increasing to 90 percent in FFY 99. These rates are adjusted downward to reflect the percentage reduction in the caseload since federal welfare reform was enacted in August 1996.

The penalty for failing to meet the specified work participation rates is up to 5 percent of the federal block grant, increasing 2 percent for each year of successive failure, to a maximum of 21 percent. California's block grant is $3.7 billion, so a 1 percent penalty is equal to $37 million. A federal penalty results in a reduction in TANF funds and a corresponding increase in a state's MOE requirement.

Department of Health and Human Services (DHSS) Notification. In December 1998, the DHHS notified California that the state had met the participation rate for all families but had failed to meet the higher rate for two-parent families. Specifically, after accounting for the caseload reduction factor, DHHS determined that California needed to have 19.5 percent of the overall caseload, and 68 percent of the two-parent caseload, engaged in work or some other work-related activity. For the overall caseload, California achieved a 20.6 percent participation rate (therefore exceeding the penalty threshold). For the two-parent caseload, California achieved a 24.5 percent participation—well below the required rate of 68 percent. Based on this finding, California is subject to a penalty of $6,964,321. We note that, according to DHHS, 16 other states and the District of Columbia failed to meet the participation rate for two-parent families.

Determining the Amount of the Penalty. According to federal law, California became subject to the work participation requirement effective July 1, 1997. So, with respect to FFY 1997 (October 1996 through September 1997), California was subject to the requirement for just one quarter of the year. The DHHS calculated the penalty by applying the penalty rate of 5 percent to one quarter of the state's block grant. The DHHS then used its discretionary authority to *reduce* the penalty based on the "degree of noncompliance" by multiplying the gross penalty by 17.7 percent (the proportion of two-parent cases in our caseload).

State Options. The state has four options in responding to DHHS. The state can (1) accept the penalty, (2) appeal the penalty by claiming California had "reasonable cause" for not meeting the participation rate, (3) enter into a corrective compliance plan, or (4) ask for a penalty reduction based on extraordinary circumstances such as a natural disaster. Currently DSS is reviewing these options and, at the time this analysis was prepared, had made no formal response to DHHS.

Impact of Penalty. The potential penalty of approximately $7 million has not been included in the Governor's budget. We note that if California were found to be out of compliance in FFY 1998, the penalty could increase to about $45 million (based on the DHHS methodology) because the maximum penalty increases to 7 percent and the penalty would be based on a full-year of the block grant, rather than just one quarter of FFY 1997. Because any penalties result in a loss in federal TANF funds and a corresponding increase in the state's MOE requirement, a penalty represents a potential state cost.

Withhold Recommendation on Savings Attributable to Diversion

We withhold recommendation on $15 million in projected net savings attributable to counties diverting clients from assistance with one-time diversion payments.

Current law allows counties to offer clients one-time "diversion" payments if the county believes that such payments will enable the client to remain self-sufficient and therefore off welfare. The DSS estimates that this diversion policy will reduce the CalWORKs caseload by approximately 2,700 cases during 1999-00, resulting in net savings of $15 million. In November 1998, we surveyed counties on their diversion programs. Based on the results of our survey, we believe that counties will divert significantly fewer clients than DSS estimates. Because better data reflecting actual experience with diversion will be available by the time of the May Revision of the budget, we withhold recommendation on the $15 million in estimated grant savings attributable to diversion.

Withhold Recommendation on Budget for CalWORKs Community Service

We withhold recommendation on the proposed budget for community service employment pending revised estimates of caseload and costs from the Department of Social Services and the counties.

The Governor's budget for 1999-00 is based on the workfare approach to community service employment, whereby recipients will participate in community service employment in exchange for their grant. The budget proposal for recipients who transition into community service after 24 months on aid is about $20 million (the specific amount is not separately identified in the budget). This estimate assumes that one hour of case management per month, with half of this time dedicated to creating the job slot, is sufficient funding for counties to provide community service positions to all participants. The budget assumes that employers will absorb all supervisory costs.

The DSS is currently revising its caseload estimate for community service to reflect the phase-in of recipients into CalWORKs. We also note that the cost for creating job slots in the New Hope Project (a community service employment program based in Milwaukee, Wisconsin) was significantly higher than the amount assumed in the budget. Given the uncertainty in the budget for community service, we withhold recommendation pending receipt of updated caseload and unit cost information from DSS and the county welfare departments.

Below, we discuss different approaches to budgeting for the incremental costs of the wage-based (the recipient's grant is converted into wages) approach to community service employment.

Options for Budgeting Community Service Employment

The Governor's budget for 1999-00 assumes the workfare approach to community service, with no funding for the incremental cost of the wage-based approach. We present two alternative approaches to budgeting these incremental costs.

Under current law, the state pays for all CalWORKs employment service costs above the 1996-97 level. The Legislature, however, has not established a budgeting approach for community service.

There are two broad approaches to community service: workfare and wage-based. Under workfare, recipients are required to participate in community service as a condition of receiving their grant. Under wage-based community service, the recipient's grant is "diverted" to an employer and paid as wages to the recipient.

The decision to provide either wage-based community service or workfare is made by the counties. As noted above however, the *1999-00 Governor's Budget* assumes the workfare approach to community service employment, with the state/federal block grant funding 100 percent of the associated costs and the counties having no share of costs. On the other hand, the budget provides no state/federal block grant funds to cover the incremental cost of the wage-based approach to community service for counties that choose this option. As a result, incremental costs would be borne exclusively by the counties. Below, we describe three approaches that the Legislature could follow in budgeting the incremental cost of wage-based community service.

- ***Local Funding (Governor's Budget)***. The incremental cost of wage-based community service could be viewed as a program "enhancement," which counties could elect to fund with (1) the CalWORKs performance incentive payments that the counties receive from the state, (2) a redirection of resources from within the CalWORKs county block grant allocation, or (3) other local funds such as Welfare-to-Work grants allocated to private industry councils. We note that the Governor's budget includes about $500 million in performance incentives in both 1998-99 and 1999-00 that the counties must expend within the CalWORKs program.

- ***State Funding: Include the Incremental Cost in County Block Grants***. The incremental cost of wage-based community service could be viewed as a base program cost for CalWORKs employment services and incorporated into the funding model for the program. Under this approach, the incremental costs would be budgeted as part of the single allocation of state/federal block grant funds to counties for employment services. The total amount available would be based on an estimate of the caseload in counties that choose the wage-based option. This would help to ensure that the counties have sufficient funds to pay for wage-based community service, but it would result in General Fund costs of up to $20 million in 1999-00 (if all counties were to choose this approach).

- ***Matching Program***. Another approach would be a middle ground, whereby the incremental costs are viewed as a program enhancement, but one that potentially promises sufficient benefits to warrant 50 percent state participation. Under this approach, the state would match dollar-for-dollar any investment by the counties in wage-based community service. To control costs, total available matching funds could be budgeted as a separate allocation and capped by the budget act appropriation. Individual county match limits, moreover, could be established whereby the total amount of matching funds a county may draw down is limited to a fixed percentage of its community service caseload.

Conclusion. Although all of the approaches to budgeting the incremental costs of wage-based community service discussed above have merit, we prefer option two—state/federal block grant funding of the incremental costs. The wage-based approach is specifically authorized by current law, provides substantial benefits to the recipient in the form of the federal Earned Income Tax Credit (EITC), and may provide a better bridge to nonsubsidized employment and self-sufficiency. Accordingly, we believe it should be considered a base program cost and be fully funded in the budget for any county that elects this option.

For a complete discussion of the fiscal and policy issues pertaining to CalWORKs community service employment, please see our report *CalWORKs Community Service: What Does it Mean For California?*

Rethinking the Budget for CalWORKs Services and Administration

Current law requires the welfare reform steering committee to report to the Legislature on alternative ways of budgeting and allocating funds for California Work Opportunity and Responsibility to Kids services and administration. We review the current budget practices and present different approaches for consideration by the steering committee and the Legislature.

Currently, the budget process for CalWORKs services and administration combines past practices with certain new program features. Key features of the CalWORKs budget process are:

- ***County Block Grant.*** Funds for administration, welfare-to-work services, and child care are provided to counties in the form of a block grant, known as the single allocation. The counties may transfer funds within these program components.
- ***County Share Fixed at 1996-97 Level***. Under prior law, the counties generally paid for 15 percent of the total costs of AFDC and Food Stamps Program administration and services. Under CalWORKs the county share of these costs is fixed at the 1996-97 level. Thus, as the budget for these components increases, the state bears 100 percent of the marginal cost.
- ***Budget for County Administration of Welfare and Food Stamps Based on County Plans.*** As with the former AFDC program, the Department of Social Services reviews individual county plans for program administration and recommends a budget based upon this review.
- ***Budget for Employment and Support Services Based on Statewide Model***. Although counties are required to submit individualized plans stating how they will implement CalWORKs, the budget for CalWORKs employment services and child care is based on a statewide model. The model uses assumptions based primarily on the former GAIN program.
- ***Allocation of Funds Among Counties Based Largely on Historical Budget Allocations Rather Than Caseload***. Counties receive employment service and child care funds based largely on the share of funds that they received under the former GAIN program. Although current law directed that some of the increased funding for employment services and child care (over the 1996-97 GAIN amount) be allocated in a manner that helps to equalize funding

among the counties, funding on a per-case basis remains inequitable. For 1998-99, the total single allocation for employment services, child care, and administration was $1.4 billion, or an average of $2,500 per aided adult. Excluding the 20 smallest counties (all of which had allocations substantially above the state average), the remaining 38 counties had allocations per aided adult ranging from $2,000 to $7,000.

- ***County Carry Over Authority***. The CalWORKs legislation provides that unexpended block grant funds would remain available to each county until July 2000. In 1998-99, counties were provided with new budget authority (that is, excluding the carry over funds) to cover the estimated need for services while retaining an additional $175 million in unexpended funds from the prior year. As discussed previously, the Governor's budget proposes to use $251 million in estimated unexpended funds from 1998-99 as a source for funding the estimated need in 1999-00. We note however, that the budget bill includes a proposed provision to extend county roll-over authority until 2000-01.

Issues for Legislative Consideration. Developing a budget system that addresses the needs of county administrators and CalWORKs recipients, while controlling public costs, is difficult. Below we present alternatives for improving (1) the development of the total budget for employment and services and (2) the method of allocating funds to the counties.

- ***Determining the Total Budget for Employment Services and Child Care***. To estimate the total budget, the state has three broad options: (1) the current practices, whereby the single statewide model for projecting costs is applied to the statewide caseload, (2) basing the budget on individual county budget plans (the current process for budgeting administrative costs), and (3) a hybrid approach, whereby the statewide model is adjusted to reflect updated county cost estimates as well as new program components and changes developed by the counties.

  The current model does not reflect county variation in program implementation. Given that counties have the broad authority to design their own CalWORKs programs, basing the budget on individual county plans has some merit. The problem with this approach is that counties have no share of marginal program costs, so there are no built-in incentives for counties to control costs. Any cost control would have to come from the DSS review of the county plans, which is administratively cumbersome. For these reasons, we prefer the hybrid approach, whereby the budget is based on a statewide model that could incorporate new cost and program assumptions. This could be facilitated by a work group consisting of county representatives and DSS staff that would annually recommend changes to the existing model.

- ***Achieving More Equity in the Allocation of Funds to Counties***. As noted above, the single allocation of employment services, administration, and child care per aided adult varies significantly among the counties. Compared to the statewide average allocation per aided adult ($2,500), 12 counties had allocations at least $200 below the state average, and 14 counties (in addition to the 20 smallest counties) had allocations more than $500 above the average.

  These differences mean that where a recipient resides will affect the level of resources that are available for that recipient for employment services and child care, and presumably their ability to obtain employment. We note that counties have different local economic conditions and face different cost structures. Accordingly, it is not unreasonable that the allocation per aided adult vary to some degree. Nevertheless, we believe that except for the 20 smallest counties (which are unlikely to achieve economies of scale) the allocation per aided adult should not vary by more than what would be warranted by local cost differentials and economic conditions.

  To make county allocations more equitable, the Legislature could follow one of the following basic approaches: it could reduce funding to counties with high allocations and use these savings to increase the allocation to counties with low allocations. This approach is budget neutral, but results in significant reductions for high-allocation counties. Alternatively, the Legislature could increase funding for low-allocation counties and "hold harmless" counties above the average. This approach however, increases state costs and tends to work slowly towards equalization. We suggest consideration of a hybrid strategy—the first approach, with a limit on the annual reduction that any county will incur.

Accordingly, we recommend that the welfare reform steering committee consider these issues and options in developing its report to the Legislature.

FOSTER CARE

Children are eligible for grants under the Aid to Families with Dependent Children-Foster Care (AFDC-FC) program if they are living with a foster care provider under (1) a court order or (2) a voluntary agreement between the child's parent and a county welfare or probation department. Children in the foster care system can be placed in either a foster family home (FFH) or a foster care group home (GH). Both types of foster care provide 24-hour residential care. Foster family homes must be located in the residence of the foster parent(s), provide services to no more than six children, and be either licensed by the Department of Social Services (DSS) or certified by a foster family agency. Foster care group homes are licensed by the DSS to provide services to seven or more children.

Are Foster Family Agencies "Too Successful"?

We recommend the adoption of supplemental report language requiring the department to (1) collect data to estimate the number of foster children placed in foster family agency homes due to a shortage of nonagency foster family homes and the net costs of these placements compared to the costs if nonagency homes were available, and (2) make recommendations, if appropriate, to reduce the incidence of placing foster children in a higher-cost placement than is warranted by the county's assessment.

County welfare departments have the responsibility of placing children in foster care homes. The homes fall into three categories: group homes, foster family agency (FFA) homes, and foster family homes. Foster family agencies are nonprofit organizations that recruit foster parents, certify them for participation in the program, and provide training and support services. There are approximately 225 FFAs in the state. As Figure 1 shows, they are reimbursed at a rate that falls between the grants paid to nonagency foster family homes and the average rate for group homes.

Figure 1

Foster Care Grants and Caseloads

1998-99

Type of Placement	Caseload[a]	Grant Level
Foster family home	79,000	Basic grant: $375 - $528[b] Specialized care increment: $0 - $1,872[c]
Foster family agency	17,800	$1,362 - $1,607[b]
Group home	6,700	$1,254 - $5,314[d]

a Excludes approximately 4,800 foster children supervised by county probation departments (primarily in group homes) and approximately 4,100 foster children placed in county shelters, medical facilities, specially licensed small family homes, and specialized pilot projects.

b Varies with age of child. Amount includes grant to parent and FFA support services.

c Varies within and among the counties.

d Varies with "rate classification levels," which generally reflect levels of service.

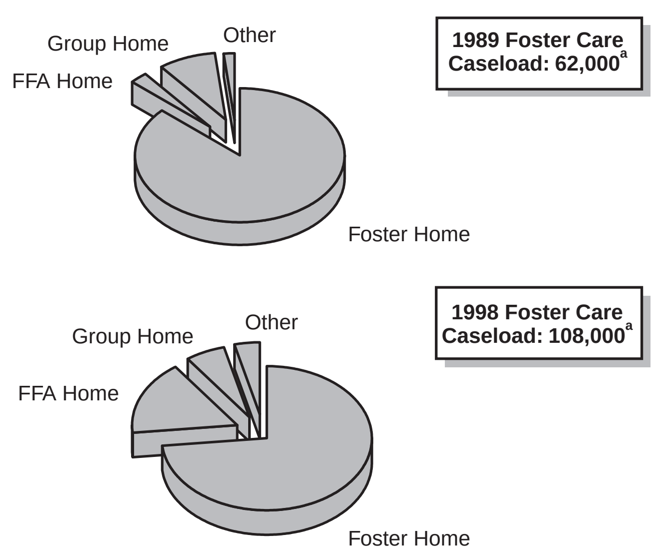
We note that in comparing these rates, it is important to recognize that most counties provide "specialized care increments" that supplement the grants to foster family homes in cases where the child needs special support services. Thus, for such children, the cost difference between an FFA and the nonagency home may be much smaller than the differences in the basic rate. (Currently, the department does not have sufficient data to estimate the average amount provided for specialized care increments.) We also note that funding for administrative support is included in the FFA reimbursement rate but is provided to counties separately from the basic cash grant.

Foster family agencies were established to serve as alternatives to group home placement. In the course of our review of the foster care program, however, several county administrators indicated that frequently they must resort to an FFA placement for children who, according to the county's assessment, should be placed in a nonagency home at a lower cost. This occurs because the FFAs compete with the counties in recruiting foster parents, and in some areas the county has a shortage of parents and the FFA has a surplus. The county administrators indicate that by offering support services and the potential for higher payments, the FFAs have attracted a sufficient number of potential parents to the point that county social workers have little choice but to place a child with the FFA even where a county foster family home would be the more appropriate choice.

Figure 2 (see next page), while not conclusive, provides some evidence that FFAs have been serving as an alternative to nonagency foster family homes as well as group homes. It shows that between 1989 and 1998, the growth of FFAs in the state has been accompanied by a decrease in the proportion of both nonagency homes and group homes. Unfortunately, there are no data that directly document the extent to which the counties are placing foster children in FFA homes at a higher cost than is warranted by the county assessment. We believe that such a determination is feasible, however, through a survey of the county welfare/children's services departments. (We note that such an assessment should take into account the specialized care increments, where applicable.) Consequently, we recommend the adoption of supplemental report language requiring the department to conduct such an analysis.

Figure 2

Use of Foster Family Agency Homes Increasing



[a] Excludes children supervised by county probation departments.

We further recommend that if the analysis documents the problem discussed above, the department make recommendations to address it. In doing so, the department could consider a variety of alternatives. These include increasing the recruitment allowance provided to the counties, establishing FFA rates above and below the existing rates to provide more flexibility in matching services to the assessments, and requiring all potential foster parents to register with the county in order to establish a closer link between the parents and the agency that conducts the assessments.

We also suggest that the department investigate the option, available to counties under current law, whereby the counties themselves can apply to act as licensed FFAs. This is an action recently taken by San Mateo County. The department should attempt to determine the impact of this policy in order to assess to what degree it has affected the county's ability to recruit potential foster parents and to make appropriate placements of foster children.

Our recommendation can be implemented by adoption of the following supplemental report language in Item 5180-001-0001:

> The department shall (1) collect data to estimate the number of foster children placed in foster family agency homes due to a shortage of nonagency foster family homes and the net costs of these placements compared to the costs if nonagency homes were available, and (2) make recommendations, if appropriate, to reduce the incidence of placing foster children in a higher-cost placement than is warranted by the county's assessment. The department shall submit its report to the Department of Finance, the Joint Legislative Budget Committee, and the appropriate fiscal and policy committees of the Legislature by March 1, 2000.

FOOD STAMPS PROGRAM

The Food Stamps Program provides food stamps to low-income persons. With the exception of the recently-enacted state-only program (discussed below), the cost of the food stamp coupons is borne by the federal government ($1.6 billion). Administrative costs are shared between the federal government (41 percent), the state (44 percent), and the counties (15 percent).

California Food Assistance Program

Federal Restrictions on Benefits For Noncitizens. The federal welfare legislation enacted in 1996 made legal noncitizens (with certain exceptions for refugees, veterans, and those who had worked for 40 quarters) ineligible for food stamps. Subsequent federal legislation—the Agricultural Research, Extension, and Education Reform Act of 1998—restored federal benefits to certain noncitizens. Specifically, effective November 1, 1998, the new legislation restored federal eligibility to noncitizens lawfully residing in the U.S. prior to August 22, 1996 who (1) are under the age of 18 or (2) were at least 65 years of age as of August 1996.

Initial State Program for Noncitizens. The Legislature enacted a temporary state-only program to provide food stamp benefits to certain noncitizens, effective September 1997. Specifically, Chapter 287, Statutes of 1997 (AB 1576, Bustamante) created the state-only California Food Assistance Program (CFAP), which provides food stamps to noncitizens under the age of 18 or over the age of 64 who were residing in the United States prior to August 22, 1996. Under CFAP, the state purchases the food stamp coupons from the federal government and distributes them to eligible recipients. This program is to sunset on July 1, 2000.

State Program Expanded in 1998. Partially in response to the 1998 federal legislation that essentially restored federal benefits to nearly all of the noncitizens that were covered by CFAP, Chapter 329, Statutes of 1998 (AB 2779, Aroner) expanded the CFAP to cover (1) noncitizens legally residing in the U.S. prior to August 1996 between the ages of 18 and 64 and (2) certain noncitizens who arrived in the U.S. after August 1996. Adult recipients of this program are subject to a specified work requirement. Like the original program, the expanded CFAP sunsets in July 2000.

1999-00 Budget. For 1999-00, the average monthly caseload for CFAP is estimated to be about 85,000 persons. The budget proposes an appropriation of $73.6 million from the General Fund for the cost of coupon purchases and an additional $5.2 million for program administration. The total is a decrease of $13.5 million from estimated expenditures in 1998-99, mostly attributable to a lower caseload due to the full-year effect of federal restoration of benefits for children and the elderly. We note that $53 million of the proposed expenditure for 1999-00 counts towards meeting the federal maintenance-of-effort requirement for the California Work Opportunity and Responsibility to Kids program.

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 $2.4 billion from the General Fund for the state's share of the SSI/SSP in 1999-00. This is an increase of $183 million, or 8.1 percent, over estimated current-year expenditures. This increase is due primarily to the full-year cost of grant increases provided in the current year, caseload growth, modest state costs for the cost-of-living adjustment (COLA) to be provided in January 2000, and an increase in the federal administrative fee.

In November 1998, there were 324,318 aged, 21,671 blind, and 687,655 disabled SSI/SSP recipients. In addition to these federally eligible recipients, the state-only program for immigrants (described below) is estimated to provide benefits to about 2,000 legal immigrants during November 1998.

Budget Underestimates Cost of Providing Statutory COLA

The General Fund cost of providing the statutory Supplemental Security Income/State Supplementary Program cost-of-living adjustment will be $12.5 million above the budget estimate due to an upward revision in the California Necessities Index. We also estimate an additional General Fund cost of $19.5 million because the budget overestimates the U.S. Consumer Price Index. These issues should be addressed in the May revision of the budget.

Background. Pursuant to current law, the Governor's budget proposes to provide the statutory COLA to the SSI/SSP grant in January 2000. The state COLA is based on the California Necessities Index (CNI) and is applied to the combined SSI/SSP grant. It is funded by both the federal and state governments. The federal portion is the federal COLA (based on the U.S. Consumer Price Index, or the CPI) that is applied annually to the SSI portion of the grant. The remaining amount needed to cover the state COLA is funded with state monies. Based on its assumptions concerning both the CNI and CPI, the budget includes $8.4 million for providing the statutory COLA for six months effective January 2000.

The CNI Has Been Revised. The January 2000 COLA is based on the change in the CNI from December 1997 to December 1998. The Governor's budget, which is prepared prior to the release of the December CNI figures, estimates that the CNI will be 2.08 percent, based on partial data. Our review of the actual data, however, indicates that the CNI will be 2.36 percent.

The CPI is Overestimated. The Governor's budget estimates that the CPI will be 2.6 percent for federal fiscal year (FFY) 1999. Based on our review of the consensus economic forecasts for 1999, we estimate that the CPI will be 2.3 percent. This reduction in the CPI raises the state cost of providing the statutory COLA because it effectively reduces federal financial participation toward the cost of the state COLA, which is applied to the entire grant.

Cost of Providing COLA Underestimated. Taken together, the higher CNI and lower CPI (in relation to the Governor's budget) raise the General Fund cost of providing the statutory COLA from $8.4 million to about $40.4 million in 1999-00—an increase of $32 million ($12.5 million for the CNI revision and $19.5 million from overestimating the CPI). The administration should address these issues in the May revision of the budget.

The SSI/SSP Grant Levels

Figure 1 (see next page) shows SSI/SSP grants on January 1, 2000 for both individuals and couples as displayed in the Governor's budget and our projection based on the actual CNI and our estimate of the CPI. Based on our projection, grants for individuals will increase by $16 to a total of $692 per month and grants for couples will increase by $28 to a total of $1,229. As a point of reference we note that the federal poverty guideline for 1998 is $671 per month for an individual and $904 per month for a couple. Thus, the grant for an individual would be 3 percent above the *1998* poverty guideline and the grant for a couple would be 36 percent above the guideline. (We note that the poverty guidelines are adjusted for inflation annually.)

Figure 1

SSI/SSP Maximum Monthly Grants Governor's Budget and LAO Projection

January 1999 and January 2000

Recipient Category	January 1999	January 2000 Governor's Budget	January 2000 LAO Projection[a]	Change From 1999 Amount	Change From 1999 Percent
Individuals					
SSI	$500	$513	$512	$12	2.4%
SSP	176	177	180	4	2.3
Totals	**$676**	**$690**	**$692**	**$16**	**2.3%**
Couples					
SSI	$751	$770	$768	$17	2.3%
SSP	450	456	461	11	2.4
Totals	**$1,201**	**$1,226**	**$1,229**	**$28**	**2.3%**

[a] Based on actual California Necessities Index increase (2.36 percent) and projected U.S. Consumer Price Index increase (2.3 percent).

Cash Assistance Program for Aged, Blind, and Disabled Legal Immigrants

Federal welfare reform and related legislation made elderly legal noncitizens in the U.S. prior to August 1996, who are not disabled, ineligible for SSI/SSP. This legislation also made noncitizens arriving after August 1996 (with certain exceptions) ineligible for SSI/SSP. Chapter 329, Statutes of 1998 (AB 2779, Aroner) created the Cash Assistance Program for Aged, Blind, and Disabled Legal Immigrants (CAPI). This program provides state-funded benefits at the SSI/SSP grant levels, less $10 for individuals and $20 for couples, to any legal noncitizen who has been denied federal benefits solely on the basis of their immigration status. With respect to legal noncitizens arriving in the United States after August 22, 1996, CAPI benefits are restricted to individuals (1) who are sponsored by a U.S. citizen, and (2) the sponsor has died, is disabled, or is abusive to the noncitizen. The state reimburses the counties for all administrative costs incurred in making the CAPI benefit payments to individuals. The program is to sunset in July 2000.

The *1999-00 Governor's Budget* proposes an appropriation of $21.3 million from the General Fund for benefit payments and

$1.4 million for county administration of the CAPI. The average monthly caseload is projected to be about 2,900 during 1999-00.

Alternatives for the Regional 4.9 Percent Grant Reduction

Chapter 307, Statutes of 1995 (AB 908, Brulte) requires that Supplemental Security Income/State Supplementary Program (SSI/SSP) grants be reduced by 4.9 percent in the "low-cost" counties. This reduction has not been implemented because it would have brought SSP grants below the federal maintenance-of-effort level. We estimate, however, that by January 2002 the annual cost-of-living adjustments pursuant to current law will raise SSP grants to a level that will trigger the implementation of the regional 4.9 percent reduction. We present alternatives for the Legislature to consider regarding the regional grant reduction.

Background. Chapter 307 requires that grants for both California Work Opportunity and Responsibility to Kids (CalWORKs) and SSI/SSP be reduced by 4.9 percent in the "low-cost" counties (specifically, the 41 counties where the lowest quartile rent was below $400 per month in 1990.) This reduction was designed to achieve a regional grant differential between "low-cost" and "high-cost" counties. The grant reduction was implemented for the CalWORKs program in January 1997 but has never been implemented for SSI/SSP because such a reduction would violate the federal maintenance-of-effort (MOE) requirement. Specifically, federal law requires that the state SSP portion of the combined SSI/SSP grant be "maintained" at or above its 1983 level. Failure to comply with the MOE requirement would result in the loss of federal Medicaid funding.

Because of the federal MOE requirement, the monthly SSP grant for individuals must be at least $156.40. (Although there are different grant levels for couples and other persons in specific circumstances, for illustration purposes this discussion is limited to the grant levels for individuals.) Implementation of the regional grant reduction—which under state law is fixed at 4.9 percent of the combined SSI/SSP grant as of June 30, 1995—would reduce the monthly SSP grant for individuals by $30.11. Thus, in order to implement this reduction without violating federal law, SSP grants must first be at least $186.51, or $30.11 above the MOE.

As of January 1999, the total maximum SSI/SSP monthly grant for an individual is $676 ($500 SSI and $176 SSP). Under current state law, a COLA is applied to the SSI/SSP grant each January. The state COLA is based on the CNI and is applied to the combined SSI/SSP grant. It is funded by both the federal and state governments: the federal portion is the federal COLA (based on the CPI) that is applied annually to the SSI portion of the grant. The remaining amount needed to cover the state COLA is funded with state monies and applied to the SSP portion of the grant. Based on current law, and our estimates for the CNI and CPI , we believe that application of the statutory COLA will result in the SSP grant exceeding $186.51 as of January 2002. Thus, at that time, the regional 4.9 percent grant reduction would be "triggered" because the reduction could be implemented without violating the federal MOE requirement.

Figure 2 shows the estimated SSI/SSP grants for individuals from January 1999 through January 2002, based on current law and our forecasts for the CNI and the CPI. As the figure shows, grants will increase in both low-cost and high-cost counties in January 2000 and January 2001, reaching a total of $710 in that year. Then in January 2002, the grant in the low-cost counties will be reduced to $702, which is $30 less than the amount in the high-cost counties. Compared to the preceding year (January 2001), the grant in the low-cost counties goes down by $8 rather than the $22 increase that would occur in the absence of the statutory reduction.

Figure 2

Projected Maximum Monthly SSI/SSP Grants for Individuals Based on Current Law

1999 Through 2002

	January 1999	January 2000	January 2001	January 2002
High-cost counties				
SSI	$500	$512	$527	$543
SSP	176	180	183	189
Totals	**$676**	**$692**	**$710**	**$732**
Low-cost counties				
SSI	$500	$512	$527	$543
SSP	176	180	183	159
Totals	**$676**	**$692**	**$710**	**$702**

To provide some perspective on the impact of this grant reduction in the low-cost counties, we compare grants to our projections for the federal poverty guideline. As of January 2002, the grant for an individual in the low-cost counties would be about 96 percent of the federal poverty guideline, the grant for an individual in the high-cost counties would be just above the poverty guideline, and the grants for couples in both regions would be about 30 percent above the poverty guideline.

Alternatives. Setting the level of the SSI/SSP grant is a policy decision for the Legislature. Given that the decision to impose a 4.9 percent grant reduction in the low-cost counties was made during a period when the state was facing significant fiscal constraints, however, we anticipate that there will be interest in revisiting the issue prior to implementation of the reduction. To facilitate the debate, we present two alternatives for consideration. One alternative is to eliminate the 4.9 percent regional reduction by repealing current law. A second alternative would be to gradually phase-in the 4.9 percent grant reduction by "freezing" the SSP portion of the grant in low-cost counties until the 4.9 percent differential between the high-cost and low-cost counties is achieved. Under this alternative, the federal SSI portion would continue to increase, so grants in low-cost counties would go up each year, but not as fast as in the high-cost counties where both the SSI and SSP portion of the grant would be increasing each year.

Repeal Current Law. Compared to current law, this approach would have no fiscal impact in 1999-00 or 2000-01. In 2001-02, there would be a half-year cost of approximately $55 million. The full-year cost in 2002-03 would be approximately $115 million and would continue at about that level, adjusted each year for caseload changes. Under this approach, grants for individuals in low-cost counties would be identical to grants in high-cost counties and remain just above the federal poverty guideline. Thus, there would be no regional grant differential to compensate for differences in the cost of living.

Phase-in the 4.9 Percent Regional Reduction. Under current law, the entire 4.9 percent reduction would be implemented in January 2002. At that time a recipient's maximum benefit will drop from $710 in 2001 to $702. An alternative would be to raise SSI/SSP benefits more slowly in the low-cost counties than in the high-cost counties until a 4.9 percent differential between the high-cost and low-cost counties is achieved. To do this gradually, for example, the SSP portion of the grant could be "frozen" at its current level ($176) while continuing to "pass through" the increase in the federal SSI portion each year. Figure 3 (see next page) shows the annual SSI/SSP grant under this alternative from 1999 through 2005. As the figure shows, grants would increase each year, thus eliminating the "cliff" effect of current law. We note, however, that this approach results in *lower* combined SSI/SSP grants in low-cost counties in 1999-00 and 2000-01 than would be required by current law. Under this option, SSI/SSP grants for individuals would be at the poverty line in January 2000, and would decline to about 97 percent of poverty in 2005.

Figure 3

Projected Maximum Monthly SSI/SSP Grants For Individuals Under Phase-in of Regional 4.9 Percent Grant Reduction

1999 Through 2005

	January 1999	January 2000	January 2001	January 2002	January 2003	January 2004	January 2005
High-cost counties							
SSI	$500	$512	$527	$543	$560	$577	$595
SSP	176	180	183	189	195	201	207
Totals	**$676**	**$692**	**$710**	**$732**	**$755**	**$778**	**$802**
Low-cost counties							
SSI	$500	$512	$527	$543	$560	$577	$595
SSP	176	176	176	176	176	176	176
Totals	**$676**	**$688**	**$703**	**$719**	**$736**	**$753**	**$771**

Compared to current law, this alternative would result in General Fund savings of about $13 million in 1999-00, and $39 million in 2000-01. During the subsequent four fiscal years, there would be annual General Fund costs that peak at approximately $55 million in 2002-03 and decline to less than $20 million in 2004-05.

Conclusion. With respect to the 4.9 percent regional grant reduction, the Legislature has three broad options. The first option would be to retain current law and implement the reduction which would probably occur in January 2002. The second option would be to repeal current law and eliminate the regional grant differential. The third option would be to gradually phase-in the regional grant differential. We present one such approach to this latter option whereby the SSP grant would be increased more slowly in the low-cost counties as compared to the high-cost counties until the 4.9 percent differential is achieved.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

The budget (Item 5180-141) appropriates funds for the state and federal share of the costs incurred by the counties for administering the following programs: (1) Food Stamps; (2) Child Support Enforcement; (3) Aid to Families with Dependent Children—Foster Care (AFDC-FC); (4) Special Adults, including emergency assistance for aged, blind, and disabled persons; (5) Refugee Cash Assistance; and (6) Adoptions Assistance. The budget also includes funding for the development, implementation, and maintenance of major welfare automation projects.

Pursuant to the reorganization of the budget, Item 5180-141 does not include the county costs for administering the California Work Opportunity and Responsibility to Kids (CalWORKs) program, because these costs are reflected in the CalWORKs program appropriation in Item 5180-101 (see our analysis of CalWORKs).

The budget proposes an appropriation of $323.9 million from the General Fund for county administration of welfare programs (excluding CalWORKs) in 1999-00. This represents a decrease of $9 million, or 2.7 percent, from estimated current-year expenditures.

Automation Projects

The budget proposes an appropriation of $36.8 million in the Department of Social Services for the state's share of the costs of four major welfare automation projects. These projects are the Statewide Automated Welfare System (SAWS), the California Child Support Automation project, the Statewide Fingerprint Identification System, and the Electronic Benefit Transfer program. The Health and Welfare Agency Data Center (HWDC) is responsible for administering these projects.

The SAWS—Los Angeles County Contract Amendment. We note that the budget does *not* reflect a request from Los Angeles County for $55.3 million for a seven-year contract amendment pertaining to the development of the Los Angeles Eligibility Automated Determination Evaluation and Reporting (LEADER) system for automating welfare. (LEADER is one of four SAWS consortia.) This request, which includes $29.2 million for 1998-99 and $9.1 million for 1999-00, was made too late for inclusion in the budget, but is likely to be reflected in the May revision to the budget.

Child Support Automation. The budget proposes General Fund spending of $6.3 million in 1999-00 for the costs associated with child support automation. This is a reduction of $4.6 million (42 percent) from estimated expenditures for 1998-99. We note that development of the Statewide Automated Child Support System (SACSS) was terminated in November 1997. Chapter 329, Statutes of 1998 (AB 2779, Aroner) requires (1) all counties to transition into specified consortia for automation purposes and (2) the development of interim and long-term solutions for child support automation that will meet federal requirements and minimize federal penalties. The reduction in spending for 1999-00 reflects completion of county transitions to non-SACSS systems and reductions in one-time equipment purchases.

For a discussion of the major welfare automation projects, please see our review of the HWDC in the General Government Section of this *Analysis.*

Budget Proposes No State Share Of Federal Penalty on Automation

The budget estimates that federal reimbursements to California will be reduced by $37.1 million in the current year and $52.8 million in the budget year, due to the penalty on the state for not meeting the deadline for implementing a statewide child support enforcement automation system. The budget proposes to pass the full penalty on to the counties, which is not consistent with current law. We recommend adjusting the budget to reflect the state's proportional share, for a General Fund cost of $2.2 million in the current year and $3.2 million in the budget year. (Increase Item 5180-001-0001 by $2,645,000 and increase Item 5180-141-0001 by $537,000.)

Due to the failure of the state to implement a statewide automated child support system, California is subject to federal penalties in the form of a reduction in federal reimbursements for child support enforcement. Federal law allows the Secretary of Health and Human Services to waive the regular penalty and instead impose an alternative penalty if states have made good faith efforts to meet the federal automation requirements. The budget assumes that the alternative penalty will be enforced, resulting in a reduction in federal reimbursements of $37.1 million in the current year and $52.8 million in the budget year.

Current state law provides that federal penalties shall be considered a reduction in federal financial participation in county *and* state administrative costs of the child support program. The budget, however, proposes to pass the full amount of the penalty on to the counties, with the state bearing no share.

The administration has provided no explanation for this variation from the requirements of current law, with respect to allocating the penalty between the state and county governments. Consequently, to be consistent with current law, we recommend that the budget be adjusted to reflect the state's proportional share of the penalty and to backfill for the loss of federal funds. This would result in a General Fund cost of $2.2 million in the current year and $3.2 million in the budget year, and county savings of the corresponding amounts.

We also note that the budget assumes the counties will maintain the level of spending on the program to backfill for the federal reductions. Because the counties are not required to backfill for reductions in federal funds, there is no assurance that the budget assumptions for county spending will be realized. As we have discussed in previous analyses of this program, there is a strong relationship between county administrative effort and child support collections. Thus, if the counties reduce their spending below the amount assumed in the budget, collections could be affected and the associated General Fund savings (in CalWORKs grant expenditures) could be less than budgeted.

We also note, on the other hand, that the estimated amount of federal reimbursements after the penalty, when combined with state and federal incentive payments that are distributed to the counties, exceeds the budget estimates for administrative spending. This suggests that most of the counties probably have the ability to meet the budget expectations for administrative spending in spite of the federal penalty.

Budget Assumes Other Counties Will Absorb Los Angeles County "Share" of Federal Penalty

The federal government has levied penalties (in the form of reduced reimbursements) against California for failure to implement a statewide child support automation system. Current state law prohibits passing the federal penalty onto Los Angeles County because the county has implemented its component of the statewide automation system. The budget proposes to pass Los Angeles County's proportional "share" of the penalty onto the other counties rather than the state.

Los Angeles County, with the approval of the federal administration, has developed and implemented its own child support automation system as part of the required statewide system. Because of this, Chapter 404, Statutes of 1998 (SB 1410, Burton) provides that no portion of the federal penalty for delayed implementation of the statewide system shall be assessed against Los Angeles County (unless the county system fails to interface with the statewide system, which has not been implemented).

The federal government has applied penalties (in the form of reduced reimbursements) to California for failure to implement a statewide child support automation system. The reduced reimbursements mean fewer federal funds for county administration of the child support system. (Although the federal administration certified the Los Angeles County system, this did not reduce the federal penalty on the state.)

Chapter 329, Statutes of 1998 (AB 2779, Aroner) permits the Department of Social Services (DSS) to backfill with state funds “any dollar reduction to county administrative funding,” subject to the availability of funds in the annual budget act. The budget, however, proposes to pass Los Angeles County’s proportional “share” of the penalty (about $8 million in the current year and $11 million in the budget year) onto the other counties.

We do not believe that it is reasonable to expect the other counties (rather than the state) to backfill for the reduction in federal reimbursements attributable to Los Angeles County’s share of those reimbursements. Furthermore, it is not clear whether this was the Legislature’s intent in enacting SB 1410, even though separate legislation governing the allocation of the federal penalty, in general, gives the department this discretion. Consequently, we recommend that the Legislature address this issue in the budget hearings.

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 CWS Program provides:

- Immediate social worker response to allegations of child abuse and neglect.
- Ongoing services to children and their families who have been identified as victims, or potential victims, of abuse and neglect.
- Services to children in foster care who have been temporarily or permanently removed from their families because of abuse or neglect.

Child Welfare Caseload Forecast Should Be Revised

Data collection problems make it difficult to forecast Child Welfare Services caseloads, but we believe the budget forecast overstates current-year caseload and understates the budget year. Additional data should permit a better estimate in the May revision of the budget.

The budget forecasts that CWS caseloads will increase by 7.2 percent in 1998-99, which is somewhat higher than the annual growth rate in recent years. Because of data collection problems associated with the implementation of the new statewide automation system—the Child Welfare Services/Case Management System—the department indicates that only two complete months of current-year data are available, making forecasting more difficult than in the past. As a result, the decision was made to (1) base the current-year estimate on last year's May revision estimate for the current year and (2) assume no caseload growth in the budget year.

The CWS caseload generally has been characterized by annual growth rates of roughly 4 percent since 1992-93. Based on this trend, we believe that it is unrealistic to assume no caseload growth in the budget year. On the other hand, the department indicates that based on a few months of data, caseloads for the current year are running below the budget forecast (a 7.2 percent increase over the prior year).

Because additional monthly data will be available for the May revision of the budget, the department will be able to provide a better forecast at that time. Consequently, we suggest that the budget subcommittees wait until the May revision to consider the appropriation for CWS basic caseloads.

Independent Living Program Is Overbudgeted

We recommend reducing General Fund support for the Independent Living Program by $4.9 million in 1998-99 and $5.7 million in 1999-00 because the budget exceeds the amount needed to fully fund the program. (Reduce Item 5180-151-0001 by $ 5,733,000.)

The Independent Living Program (ILP) provides training designed to prepare youths for emancipation from foster care. Chapter 311, Statutes of 1998 (SB 933, Thompson) extended eligibility for the program from ages 16 through 18 to ages 16 through 21. The *1998-99 Budget Act* augmented funding for the program in order to serve all eligible foster care participants.

The budget proposes $24.9 million ($11.4 million General Fund) to support the ILP in 1998-99 and $28.7 million ($15.2 million General Fund) in the budget year. The proposal is the estimated amount needed to fully fund the program.

We believe that the budget proposal goes beyond the amount needed to fully fund the program for two reasons. First, it is based on an assumption that *all* eligible foster care youths will choose to participate in the program, even though participation is voluntary. In our view, this assumption is unrealistic. We believe that some foster youths will choose not to attend the training program, perhaps on the basis that they have received adequate guidance from their foster parents. Secondly, the budget assumes that all individuals who participate in the program in the current year will choose to participate again in the following year if they have not emancipated from foster care. We believe that this also is an unrealistic assumption, as many of these foster youths are likely to view repeat participation as unnecessary.

Both of these factors will affect the participation rate for the ILP. Unfortunately, it is difficult to estimate the degree of voluntary participation because in past years the program was not fully funded and therefore it is not known to what degree the lack of funding was responsible for nonparticipation. Absent such data, we believe that it would be more reasonable to assume an overall participation rate of 80 percent for the budget year (as applied to the baseline and expansion components of the program) rather than the 100 percent rate assumed in the budget. Accordingly, we recommend adjusting the budget to reflect this assumption, which would result in a General Fund savings of $4.9 million in the current year and $5.7 million in 1999-00.

ADOPTIONS

The department administers a statewide program of services to parents who wish to place children for adoption and to persons who wish to adopt children. Adoptions services are provided through state district offices, 28 county adoptions agencies, and a variety of private agencies. Counties may choose to operate the Adoptions Program or turn the program over to the state for administration.

There are two components of the Adoptions Program: (1) the Relinquishment (or Agency) Adoptions Program, which provides services to facilitate the adoption of children in foster care; and (2) the Independent Adoptions Program, which provides adoption services to birth parents and adoptive parents when both agree on placement.

In addition to the Adoptions Program, the Adoptions Assistance Program (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, handicap, or because they are a member of a sibling group that should remain intact.

State Reporting Problems Could Jeopardize Receipt of Federal Adoptions Incentive Payments

Delays in implementing the statewide child welfare automation system could prevent the department from meeting the August 1999 reporting deadline to qualify for federal adoptions incentive payments. We recommend that the department (1) consult with the federal administration on possible alternative means of submitting the required data, should it become necessary, and (2) provide the budget subcommittees with a status report on this issue during the hearings.

The federal Adoptions and Safe Families Act of 1997 (PL 105-89) authorizes the Secretary of Health and Human Services to make incentive payments to states that increase the number of adoptions of children in foster care. The incentive payment amounts to $4,000 per child, plus an additional $2,000 for each special needs adoption, although the total amount allocated to the states is capped at $20 million annually through federal fiscal year (FFY) 2003. Chapter 1056, Statutes of 1998, (AB 2773, Committee on Human Services) indicated the intent of the Legislature that incentive payments allocated to California be used for post-adoptions services.

In order to qualify for the incentive payments authorized for adoptions in FFY 1998 (October 1997-September 1998), states must report the number of finalized adoptions to the federal administration by August 1, 1999. The federal statute requires that the states report their qualifying adoptions via the federal Adoption and Foster Care Automated Reporting System (AFCARS). In California, the new statewide Child Welfare Services/Case Management System (CWS/CMS) was designed to meet the AFCARS reporting requirements.

The CWS/CMS is operating in all counties, but the department indicates that due to start-up and implementation problems, adoptions data reporting currently are incomplete and may not be accurate. Thus, at the time this analysis was prepared, the department was uncertain whether the state will be able to meet the August 1999 deadline.

We recommend that the department provide the budget subcommittees with a status report on this issue during the hearings. We further recommend that prior to the hearings, the department consult with the federal administration on the possibility of using alternative means of reporting—such as a sample of CWS/CMS counties or the use of a database separate from the new statewide automation system—in the event that the CWS/CMS problems cannot be resolved in time to meet the deadline. This would help to guard against the possibility that technical reporting problems will prevent the state from receiving funds that it otherwise would earn on the basis of its performance.

No Clear Rationale for Proposal to Eliminate New Program

In its proposal to eliminate the Substance Abuse/HIV Child Adoption Program for a General Fund savings of $1 million, the budget incorrectly states that the program is scheduled to sunset at the end of the current year. Because this is a new program established by statute in the current year and the administration has no policy rationale for eliminating it, we recommend continuing the program. We withhold recommendation on the appropriation, pending receipt of information from the department on estimated current-year expenditures for the program.

We further recommend adoption of supplemental report language requiring the department to submit reports on the program's implementation, outcomes, and effectiveness.

Background. In 1989, the Legislature established the Options for Recovery pilot project, which provided funds for the recruitment, training, and respite care for foster parents to care for children who have medical problems related to drug or alcohol exposure or to AIDS. The program was made permanent in 1997 by Chapter 606, Statutes of 1997 (AB 67, Escutia).

From 1995 to 1997, the federal Department of Health and Human Services funded a demonstration project in Los Angeles County to promote the adoption of children who were exposed prenatally to alcohol or drugs. The evaluation was based on clients' ratings—which were favorable—but no other outcome-based study was done.

New Program. In September 1998, the Legislature enacted Chapter 1014 (AB 2198, Washington) and appropriated $1 million from the General Fund to extend the Options for Recovery services to adoptive and preadoptive parents. To be eligible for the funds, counties must submit a plan for approval by the Department of Social Services. The department, however, has not implemented the program, indicating that the delay is due to higher priorities and a lack of staff resources. The department plans to prepare the required all-county letters with the goal of allocating funds by this April.

Budget Proposal. The budget proposes to eliminate the new adoptions program in 1999-00, indicating that it is scheduled to sunset at the end of the current year. In fact, however, there is no statutory sunset date for this program. While acknowledging the error, the Department of Finance indicates that the administration will continue to propose elimination of the new program because it is "discretionary" (that is, subject to annual budget act appropriations) and there was a need to achieve savings.

LAO Recommendations. The administration has provided no policy basis for eliminating the program and no rationale for distinguishing it from other existing programs supported by the General Fund or from the original Options for Recovery program. As a new program which has yet to be implemented, it is obviously too early to determine whether it will accomplish its purpose. Consequently, we recommend that the program be continued so the Legislature will have an opportunity to assess its performance. We withhold recommend on the amount of the appropriation, pending receipt of information from the department on estimated current-year expenditures and the possibility of reappropriating unexpended current-year balances in the budget year.

In order to facilitate the Legislature's oversight of the program, we further recommend adoption of supplemental report language requiring the department to submit a report by March 1, 2000 on the program's implementation, and a subsequent report by December 30, 2000 on the program's outcomes and effectiveness, and the extent to which it has accomplished its purposes. We note that if necessary, the department can use the resources of its Research Branch to help prepare these reports.

We suggest adoption of the following supplemental report language:

> The department shall submit a report to the Legislature, by March 1, 2000, on the implementation of the Substance Abuse/HIV Adoptions program. The department shall submit a subsequent report by December 30, 2000 on the program's outcomes, and an assessment of its effectiveness and the degree to which it has accomplished its goals.

FINDINGS AND RECOMMENDATIONS

Health and Social Services

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Crosscutting Issues

Health and Human Services Agency

California Medical Assistance Program (Medi-Cal)

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(DHS) in issuing criteria and implementation guidelines for Section 1931(b) eligibility. We estimate that the General Fund cost of Medi-Cal coverage for these beneficiaries will total about $90 million through 1998-99, and that most of this cost will be for persons who would not otherwise be enrolled in Medi-Cal.

5. **Lagging Section 1931(b) Redeterminations Could Increase Costs Further.** We recommend that the department (1) provide a progress report at budget hearings on the Section 1931(b) redeterminations and (2) identify any additional resources or county incentives needed to complete the redeterminations expeditiously. C-41

6. **Budget Overestimates CalWORKs-Related Medi-Cal Caseload. Reduce Item 4260-101-0001 by $124,077,000.** Recommend total General Fund reduction of $126.7 million (including $2.7 million in 1998-99) because we project that Medi-Cal caseloads for the CalWORKs-related eligibles will be lower than the budget estimates due to (1) elimination of the "Edwards Hold" cases and (2) ongoing large declines in the CalWORKs welfare caseload. C-42

7. **The DHS Expands Section 1931(b) Eligibility Beyond CalWORKs Income Limits.** The department has adopted income limits for Section 1931(b) Medi-Cal eligibility significantly higher than needed to meet the Legislature's mandate to cover CalWORKs recipients. Furthermore, while the budget includes additional administrative costs for this new eligibility category, it fails to recognize added benefit costs. Recommend that DHS provide an estimate of additional Medi-Cal benefit costs associated with Section 1931(b) eligibility at budget hearings. C-44

8. **Smoking Cessation Drugs Overbudgeted. Reduce Item 4260-101-0001 by $1,550,000.** We recommend a General Fund reduction of $1,550,000 for the cost of smoking cessation drugs for Medi-Cal enrollees because the budget overestimates the number of enrollees who are smokers. C-46

9. **Potential New Rate Setting Approaches.** Recommend that the department report at budget hearings on its progress in developing new methods of setting Medi-Cal rates for Medi-Cal managed care plans, nursing homes, and hospital outpatient services. C-47

10. **Hospital Construction Program—Budget Spending Estimates and Future Projections Needed.** Withhold recommendation on $39.6 million requested from the General Fund (plus $42.4 of fed- C-48

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eral matching funds) for debt-service payments for hospital construction projects pending receipt and analysis of the basis for the request. Recommend that the department report at budget hearing with a projection of future annual program costs for projects that have received a state funding commitment.

11. **Bringing the Medi-Cal Estimate Up to Date.** Recommend enactment of legislation directing the department to revise the Medi-Cal estimate process in order to make it a more useful and timely tool for the Legislature to use in budgeting, monitoring, and evaluating the Medi-Cal Program. C-49

Public Health

12. **Health Programs Hit by Proposition 99 Revenue Reductions.** Due to sharp declines in Proposition 99 revenues resulting primarily from the effects of Proposition 10 and the tobacco lawsuit settlement, the budget proposes to reduce most programs that are supported by this fund source. However, funding for state programs that are caseload-driven would be maintained. C-55

13. **Budget Proposes Elimination of General Fund Support for County Medical Services Program (CMSP)**. The Governor's budget proposes to eliminate the state's General Fund allocation of $20.2 million to the CMSP. We comment on the proposal and present some options for the Legislature. C-57

14. **Budget Underestimates Federal Funds for AIDS Drug Assistance Program (ADAP)**. Federal funds for the ADAP will be $5 million above the amount assumed in the budget. These additional federal funds could be used to reduce General Fund support for the program, but the General Fund savings may need to be redirected to other HIV-related activities in order to meet the federal maintenance-of-effort (MOE) requirement for future federal grants. Recommend that the department develop a projection of state spending that would count toward the MOE requirement in 1999-00 in order to assess the potential for General Fund reductions. C-60

15. **Budget Proposes One-Year Extension for Community Challenge Grant Program.** Recommend adoption of budget bill language to require the department to revise its grant guidelines to award only tested program designs, similar to the model used by the State Department of Education for its teen pregnancy prevention program. C-62

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16.	**Cancer Research Fund Balance Should Be Transferred to General Fund. Increase General Fund Revenues by $1,555,000.** Recommend year-end unexpended balances in the Cancer Research Fund (projected to be $1.6 million) be transferred to the General Fund because (a) these balances will not be needed to fund the program in 1999-00 and (b) the original source of these funds is the General Fund.	C-65
17.	**Budget Does Not Maximize Federal Funds for Drinking Water Program. Increase Item 4260-111-0001 by $285,000 and Increase Item 4260-111-0890 by $1,408,000.** Recommend increasing the General Fund amount budgeted for transfer to the Safe Drinking Water State Revolving Fund by $285,000 in order to obtain all available federal funds from the federal fiscal year 1998 grant (an additional $1.4 million). We also recommend that the department report at budget hearings on the advisability of expediting the receipt of additional federal funds available for federal fiscal year 1999.	C-65

Managed Risk Medical Insurance Board

18.	**New Policies Adopted to Increase Enrollment**. To address lower-than-expected enrollment in the Healthy Families Program, the Managed Risk Medical Insurance Board and the Department of Health Services shortened the application form and prepared fact sheets on immigration status.	C-68
19.	**Monthly Enrollments Falling Behind Budget Projections for Current Year**. Actual enrollments for the Healthy Families Program in October 1998 through December 1998 are about 5 percent lower than the budget estimates. The administration will submit revised estimates for the current and budget years in the May Revision of the budget.	C-69
20.	**Budget Proposes to Apply Income Deductions for Determining Eligibility**. The budget proposes a $2.7 million General Fund set-aside to apply the Medi-Cal income deductions to the Healthy Families Program for purposes of determining eligibility. Funding the proposal is contingent on savings from another budget proposal to secure federal funding of the state-only family planning program.	C-70

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Department of Developmental Services

21. **Self-Determination Pilot Projects Should Address Additional Questions Regarding Consumer Choice.** Recommend enactment of legislation requiring the department, regional centers, and area boards to examine the limits that should be placed on consumer choice, the use of life quality assessments in service planning, the cost-effectiveness of alternative case management, and how performance measures can be used to help consumers make informed choices about the services they receive. C-72

22. **Program Development Fund Surplus Can Offset General Fund. Reduce Item 4300-101-0001 by $2,000,000 and Increase Item 4300-1010-0172 by $2,000,000.** C-78

23. **Budget Does Not Reflect Full Savings From Napa Closure. Reduce Item 4300-003-0001 by $14,000, Item 4260-101-0001 by $102,000, and Item 4260-101-0890 by $109,000.** Recommend technical adjustment, for a General Fund savings of $116,000. C-79

24. **Budget-Year Projections of Federal Waiver Funding May Be Overly Optimistic.** Recommend that the department report at budget hearings on (1) the status of the ban on new admissions to the Home and Community Based Services waiver program, (2) its plan for enrolling new clients in the program, and (3) the projected loss of federal reimbursements in 1999-00 if budget assumptions are not met. C-80

Department of Mental Health (DMH)

25. **Sexually Violent Predator Evaluation Unit Overbudgeted. Reduce Item 4440-001-0001 by $1,236,000.** C-83

26. **Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT) Spending Out of State's Control. Reduce Item 4260-101-0001 by $88,916,515 and Increase Item 4440-101-0001 by $88,916,515.** Recommend that (a) the department report at budget hearings on projected 1999-00 EPSDT expenditures and (b) funds for mental health services be budgeted in DMH rather than Department of Health Services and distributed to the counties as part of their managed care allocations. C-85

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27.	**Mentally Disordered Offender Rate Differential Not Justified. Reduce Item 4440-001-0001 by $137,000 and Item 5440-001-0001 by $100,000.** Recommend a rate of $490 per evaluation in both DMH and the Board of Prison Terms, for a General Fund savings of $237,000 in 1999-00.	C-88
28.	**Mentally Disordered Offender (MDO) Caseload Growth Outpacing Budget Projections.** Recommend that DMH report at budget hearings on its MDO caseload estimates, along with the projected support and capital outlay costs associated with an increasing number of MDO referrals and state hospital commitments in 1999-00 and beyond.	C-89
29.	**State Hospital Budget Methodology Needs Revision.** Recommend adoption of budget bill language requiring the department to develop a marginal cost methodology for funding annual caseload changes at the state hospitals, rather than the current average cost methodology, in order to more accurately reflect the costs of supporting additional patients.	C-91

Employment Development Department

30.	**Workforce Investment Act**. This legislation amends federal law on job training, adult education and literacy, and vocational rehabilitation. We review the major provisions of the act and summarize the Governor's proposal for state implementation.	C-94

California Work Opportunity and Responsibility to Kids (CalWORKs)

31.	**Impact of Maintenance-of-Effort (MOE) Requirement.** Because the Governor's budget proposes to expend all available federal funds and the minimum amount of General Fund monies required by federal law, any net augmentation will result in General Fund costs and any net reductions will result in federal savings.	C-98
32.	**Budget Underestimates Cost of Providing the Statutory Cost-of-Living Adjustment (COLA)**. The General Fund cost of providing the statutory COLA will be $27.5 million above the amount included in the budget, due to an upward revision in the California Necessities Index.	C-99

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33.	**Spending on Programs for Women Offenders and Parolees Toward MOE Requirement.** Recommend that the department count toward the CalWORKs MOE requirement $4.8 million in General Fund expenditures in the Department of Corrections on programs for women offenders and parolees.	C-101
34.	**Budget Underestimates Savings From Maximum Family Grant Policy. Reduce Item 5180-101-0890 by $20,400,000.** Recommend that proposed spending for CalWORKs grants be reduced by $20.4 million (federal Temporary Assistance for Needy Families [TANF] funds) to reflect the incremental savings that will occur in 1999-00 due to the continuation of the Maximum Family Grant policy.	C-102
35.	**Budget for Services and Child Care Should Reflect Impact of Nonparticipation. Reduce Item 5180-101-0890 by $150,775,000.** Recommend reducing the budget for employment services and child care by $150.8 million (federal TANF funds) to account for nonparticipation of recipients.	C-102
36.	**Incentive Payments Should Be Related to Improved County Performance. Reduce Item 5180-101-0890 by $192,573,000**. Recommend enactment of legislation to modify the methodology for calculating incentives so that counties retain 50 percent of savings attributable to earnings (rather than the 100 percent included in the budget). This change would more closely relate fiscal incentive payments to improved county performance and would result in savings of $193 million (federal TANF funds) in 1999-00.	C-103
37.	**Options for Using Identified Savings**. Federal savings could be (a) redirected to other priorities in CalWORKs, (b) placed into a reserve for future years, and/or (c) transferred to the Social Services Block Grant (Title XX), where the funds could be used to offset General Fund spending in other departments. Among these options, recommend that the Legislature place at least 50 percent ($166 million) of our identified savings into a reserve for expenditure in future years.	C-105
38.	**Budget Proposes to Use Carry-Over Balances as a Funding Source.** In contrast to 1998-99, the Governor's budget proposes to use $251 million in county carry over funds as a source of funding for the estimated need for CalWORKs employment services in 1999-00.	C-107

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Foster Care

45.	**Counties Report Placing Children in Foster Family Agencies Who Should Be in Nonagency Foster Homes.** Recommend adoption of supplemental report language requiring the department to (1) collect data to estimate the number of foster children placed in foster family agency homes due to a shortage of nonagency foster family homes and the net costs of these placements compared to the costs if nonagency homes were available, and (2) make recommendations, if appropriate, to reduce the incidence of placing foster children in a higher-cost placement than is warranted by the county's assessment.	C-116

Supplemental Security Income/ State Supplementary Program (SSI/SSP)

46.	**Budget Underestimates Cost of Providing Statutory Cost-of-Living Adjustment (COLA).** The cost of providing the SSI/SSP COLA will be $32 million above the budget estimate because of (1) an upward revision in the California Necessities Index ($12.5 million) and (2) the budget's overestimate of the Consumer Price Index ($19.5 million).	C-122
47.	**Alternatives For the Regional 4.9 Percent Grant Reduction**. Current law requires that SSI/SSP grants be reduced by 4.9 percent in the low-cost counties, but this reduction has not been implemented because it would violate the federal maintenance-of-effort requirement. We project that under current law, the reduction will occur in 2001-02. We present alternatives the Legislature may wish to consider.	C-125

County Administration of Welfare Programs

48.	**Budget Proposes No State Share of Federal Penalty on Automation. Increase Item 5180-001-0001 by $2,645,000 and increase Item 5180-141-0001 by $537,000.** To be consistent with current law, recommend that the state assume its proportional share of the penalty, for a General Fund cost of $2.2 million in the current year and $3.2 million in the budget year (with corresponding county savings).	C-130

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49.	**Budget Assumes Other Counties Will Absorb Los Angeles County "Share" of Federal Penalty**. Current state law prohibits passing the federal penalty onto Los Angeles County because the county has implemented its component of the statewide automation system. The budget proposes to pass Los Angeles County's proportional "share" of the penalty onto the other counties rather than the state.	C-131

Child Welfare Services

50.	**Child Welfare Caseload Forecast Should Be Revised.** Data collection problems make it difficult to forecast Child Welfare Services caseloads, but we believe the budget forecast overstates current-year caseload and understates the budget year. Additional data should permit a better estimate in the May revision of the budget.	C-133
51.	**Independent Living Program Is Overbudgeted. Reduce Item 5180-151-0001 by $5,733,000.** Recommend reducing the General Fund amount proposed by $4.9 million in 1998-99 and $5.7 million in 1999-00.	C-134

Adoptions

52.	**State Reporting Problems Could Jeopardize Receipt of Federal Adoptions Incentive Payments**. Recommend that the department (a) consult with the federal administration on possible alternative means of submitting the required data and (b) provide the budget subcommittees with a status report on this issue during the hearings.	C-136
53.	**No Clear Rationale for Proposal to Eliminate Program Established in Current Year**. Recommend continuing the Substance Abuse/HIV Child Adoptions program. Withhold recommendation on the appropriation pending receipt of information from the department on estimated current-year expenditures. Further recommend adoption of supplemental report language requiring the department to submit reports on the program's implementation, outcomes, and effectiveness.	C-137