HEALTH & SOCIAL SERVICES

LAO

65 YEARS OF SERVICE

2007-08 Analysis

Major Issues

Health and Social Services

☑ **CalWORKs Sanction and Time Limit Proposals Not Necessary to Avoid Federal Penalties**

- In order to increase work participation to avoid federal penalties, the Governor proposes new time limits and sanctions on children whose parents cannot or will not comply with CalWORKs work participation requirements. However, under the budget's own assumptions, California will meet federal participation requirements by FFY 2008. Thus, these policy changes are not needed to avoid federal penalties, and we recommend their rejection. We offer an alternative to the Governor's full-family sanction proposal (see pages C-124 and C-132).

☑ **Enhancing In-Home Supportive Services (IHSS) Program Integrity**

- IHSS recipients are assigned hours of service by their social worker. Because there is no explicit prohibition on reallocating hours across tasks or weeks, recipients may believe that the hours they receive are flexible and treat them as a block grant. We make several recommendations that clarify IHSS program expectations and increase the likelihood that IHSS recipients will receive the care they need to avoid nursing home placement (see page C-142).

☑ **Redirect SSI/SSP COLA Funds to CalWORKs**

- For 2007-08, the budget proposes to provide COLAs for SSI/SSP recipients whose grants are currently above the federal poverty guideline, while it suspends COLAs for CalWORKs families whose grants are currently below the guideline. To more effectively utilize General Fund resources to reduce poverty, we recommend redirecting $124 million of the funds proposed for the SSI/SSP COLA to provide the CalWORKs COLA (see page C-19).

☑ **Governor's Health Care Reform Proposal Has Both Merit and Risks**

- The Governor has announced a comprehensive health care reform proposal aimed at ensuring that all Californians have health care coverage. While not reflected in the budget plan, the proposal is an important starting point for discussions on health care expansion in California, although it contains a number of fiscal risks and uncertainties. (See "Part V" of *The 2007-08 Budget: Perspectives and Issues.*)

☑ **Short Term Savings in Proposition 36 Could Result in Long Term Costs**

- We review the administration's proposal for a net reduction of $25 million for Proposition 36 programs, discuss why this reduction might eventually result in increased prison costs, and recommend redirecting funds in order to support Proposition 36 programs at their current level (see page C-29).

☑ **Department of Public Health Reorganization: Cost Neutrality Uncertain**

- The budget plan implements Chapter 241, Statutes of 2006 (SB 162, Ortiz) that creates a new Department of Public Health (DPH) and Department of Health Care Services (DHCS) from the existing Department of Health Services. We recommend the Legislature require the administration provide additional information to ensure cost neutrality as required under Chapter 241 (see page C-63).

☑ **Data Match Increases Veterans' Access to Benefits and Reduces State Costs**

- We estimate a shift of veterans from Medi-Cal to the federal Veterans Administration (V.A.) health system could save the state up to $250 million annually, while providing those veterans with quality health care services. We recommend that California join 42 other states participating in a federal data matching process that would facilitate achieving these goals (see page C-42).

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Health and Social Services

OVERVIEW

Health and Social Services

Compared to the prior year, proposed General Fund spending for health and social services programs in 2007-08 remains essentially unchanged at approximately $29.9 billion (an increase of 0.2 percent). This tiny increase in spending is due primarily to a variety of caseload and cost increases that are offset by reductions in the California Work Opportunity and Responsibility to Kids (CalWORKs) grant payments for children, a shift of Proposition 98 funds for CalWORKs child care, and federal penalty relief in child support automation. The Governor's proposed health care reform is not reflected in the budget plan.

EXPENDITURE PROPOSAL AND TRENDS

Budget Year. The budget proposes General Fund expenditures of $29.9 billion for health and social services programs in 2007-08, which is 29 percent of total proposed General Fund expenditures. Figure 1 (see next page) shows health and social services spending from 2000-01 through 2007-08. The proposed General Fund budget for 2007-08 is $55 million (0.2 percent) above estimated spending for 2006-07. Special funds spending for health and social services is proposed to increase by $1.4 billion (21 percent) to about $8.1 billion. Most of this special funds growth is due to an increase in revenues dedicated by Proposition 63 for mental health services.

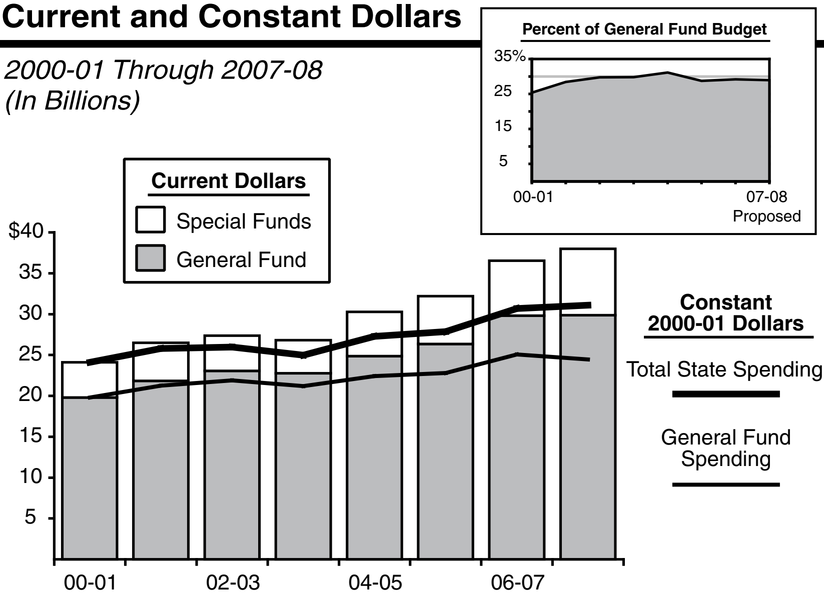
Historical Trends. Figure 1 shows that General Fund expenditures (current dollars) for health and social services programs are projected to increase by $10.1 billion, or 51 percent, from 2000-01 through 2007-08. This represents an average annual increase of 6 percent. Similarly, combined General Fund and special funds expenditures are projected to increase by about $13.9 billion (58 percent) from 2000-01 through 2007-08, an average annual growth rate of 6.7 percent.

Adjusting for Inflation. Figure 1 also displays the spending for these programs adjusted for inflation (constant dollars). On this basis, General Fund expenditures are estimated to increase by 23 percent from 2000-01

Figure 1

Health and Social Services Expenditures Current and Constant Dollars

2000-01 Through 2007-08 (In Billions)



through 2007-08, an average annual rate of 3 percent. Compared to the prior year, General Fund spending for 2007-08 is proposed to decline by 2.4 percent in constant dollars. Combined General Fund and special funds expenditures are estimated to increase by 29 percent during this same period, an average annual increase of 3.7 percent.

Caseload Trends

Caseload trends are one important factor driving health and social services expenditures. Figures 2 and 3 illustrate the budget's projected caseload trends for the largest health and social services programs. Figure 2 shows Medi-Cal caseload trends over the last decade, divided into four groups: (1) families and children, (2) refugees and undocumented persons, (3) disabled beneficiaries, and (4) aged persons (who are primarily recipients of Supplemental Security Income/State Supplementary Program [SSI/SSP]). Figure 3 shows the caseloads for CalWORKs and SSI/SSP.

Medi-Cal Caseload. The Governor's budget plan assumes that the current year caseload for Medi-Cal will fall short by almost 71,000 individuals, or 1 percent of the number assumed in the *2006-07 Budget Act*.

Figure 2

Budget Forecasts Continued Growth in Medi-Cal Caseloads

1997-98 Through 2007-08
(In Millions)

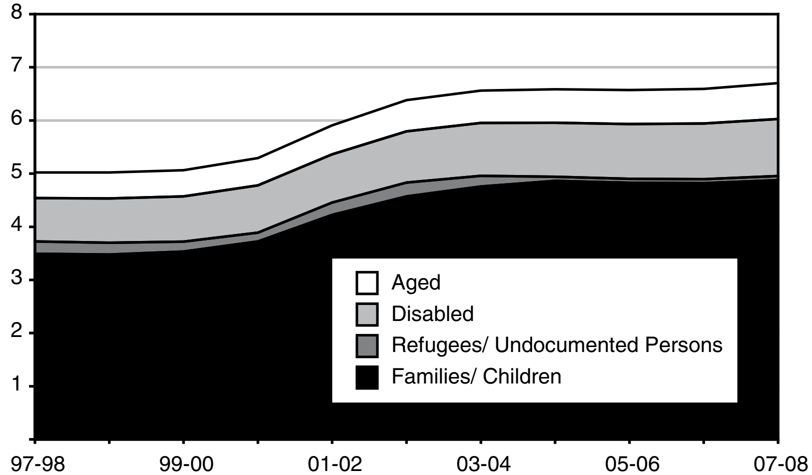
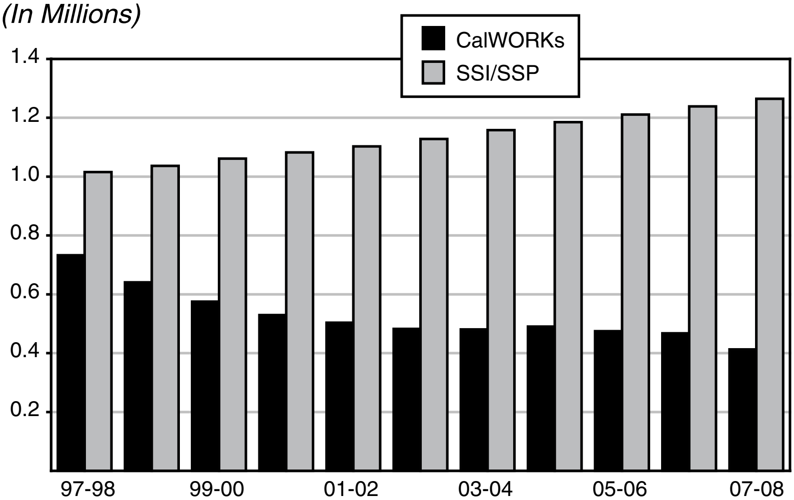


Figure 3

CalWORKs Caseload to Decline SSI/SSP Caseloads Increasing Slightly

1997-98 Through 2007-08
(In Millions)



As shown in Figure 2, the Governor's budget plan assumes that a modest increase in caseload will occur during the budget year in the Medi-Cal Program. Specifically, the overall caseload is expected to increase by about 107,000 average monthly eligibles (1.6 percent) to a total of about 6.7 million in 2007-08. This would be a higher pace of growth than the minimal growth projected for 2006-07. The caseload projections for 2007-08 take into account Medi-Cal enrollment procedure changes mandated by Chapter 328, Statutes of 2006 (SB 437, Escutia), to implement a two-county pilot program allowing for self-certification of income and assets. This change is expected to result in a caseload increase of almost 16,500 individuals in 2007-08. The Medi-Cal budget proposal also reflects growth in several eligibility categories, primarily medically needy beneficiaries and welfare families.

Healthy Families Program (HFP) Caseload. The Governor's budget plan assumes that the current-year enrollment for HFP will fall short by about 17,000 children compared to the number assumed in the *2006-07 Budget Act*. However, the spending plan further assumes that the program caseload will increase by about 74,000 children, or almost 9 percent, during the budget year. Of this increase, about 13,000 children are forecast to be due to the implementation of SB 437 which will allow the self-certification of income at annual eligibility review beginning January 1, 2008. The budget proposal estimates that a total of almost 916,000 children will be enrolled in HFP as of June 2008.

The CalWORKs and SSI/SSP Caseloads. Figure 3 shows the caseload trend for CalWORKs and SSI/SSP. The SSI/SSP cases are reported as individual persons, while CalWORKs cases are primarily families. For 2007-08, the budget assumes that CalWORKs will serve just over 1 million individuals.

As Figure 3 shows, the CalWORKs caseload declined steadily from 1997-98, essentially bottoming out in 2003-04. This period of substantial CalWORKs caseload decline was due to various factors, including the improving economy, lower birth rates for young women, a decline in legal immigration to California, and, since 1999-00, the impact of CalWORKs program interventions (including additional employment services). In 2004-05 the caseload experienced its first year-over-year increase (about 2 percent) in almost a decade. In 2005-06 the caseload resumed its decline, about 3 percent. For 2006-07 the budget projects a modest decline of 1.5 percent. In 2007-08, the caseload is projected to drop by about 12 percent mostly due to policy proposals which (1) increase sanctions on families where the parents do not meet program participation requirements and (2) impose new time limits on children.

The SSI/SSP caseload can be divided into two major components—the aged and the disabled. The aged caseload generally increases in proportion to increases in the eligible population—age 65 or older (increasing at about 1.5 percent per year). This component accounts for about 30 percent of the total caseload. The larger component—the disabled caseload—typically increases by just under 3 percent per year. Since 1998, the overall caseload has been growing moderately, between 2 percent and 2.5 percent each year. For 2006-07 and 2007-08, the budget forecasts caseload growth of 2.3 percent and 2.1 percent respectively.

Spending by Major Program

Figure 4 (see next page) shows expenditures for the major health and social services programs in 2005-06 and 2006-07, and as proposed for 2007-08. As shown in the figure, three major benefit payment programs—Medi-Cal, CalWORKs, and SSI/SSP—account for a large share (about 66 percent) of total spending in the health and social services area.

As Figure 4 shows, General Fund spending is proposed to increase in all major health programs except for community mental health services. The decrease in community mental health services spending between 2006-07 and 2007-08 is due primarily to a prior-year deficiency of $243 million General Fund in the Early and Periodic Screening Diagnosis and Treatment program that significantly increases the current-year funding request.

In regard to major social services programs, General Fund support will increase for SSI/SSP (9.9 percent) and In-Home Supportive Services (1.9 percent). Conversely, the budget proposes to reduce General Fund support for Child Welfare Services/Foster Care (-6 percent), Child Support Services (-48 percent), and CalWORKs (-34 percent). Overall, the budget proposes to decrease General Fund spending on social services by about $560 million (5.8 percent) compared to 2006-07. Most of this year-over-year savings is in CalWORKs and child support, as discussed below.

In contrast, most health programs would be funded in a way that is consistent with existing eligibility, benefits, and other requirements, and recent legislation expanding Medi-Cal and HFP caseloads.

Figure 4

Major Health and Social Services Program Budget Summary[a]

(Dollars in Millions)

	Actual 2005-06	Estimated 2006-07	Proposed 2007-08	Change From 2006-07	
				Amount	Percent
Medi-Cal					
General Fund	$12,362.9	$13,648.9	$14,656.7	$979.8	7.2%
All funds	31,463.6	35,415.5	37,341.1	1,914.2	5.4
CalWORKs					
General Fund	$1,962.8	$2,014.2	$1,323.6	-$690.6	-34.3%
All funds	N/A	5,118.4	5,006.7	-111.7	-2.2
Foster Care/Child Welfare Services					
General Fund	N/A	$1,245.6	$1,171.2	-$74.4	-6.0%
All funds	N/A	4,052.0	4,076.3	24.3	0.6
SSI/SSP					
General Fund	$3,427.3	$3,542.8	$3,892.9	$350.1	9.9%
All funds	8,429.5	8,729.5	9,395.2	665.7	7.6
In-Home Supportive Services					
General Fund	$1,355.4	$1,443.7	$1,471.4	$27.7	1.9%
All funds	3,937.7	4,274.0	4,373.5	99.5	2.3
Regional Centers/Community Services					
General Fund	$1,831.3	$2,142.1	$2,188.6	$46.5	2.2%
All funds	2,884.3	3,314.7	3,566.0	251.3	7.6
Community Mental Health Services					
General Fund	$313.6	$1,026.7	$762.9	-$263.8	-25.7%
All funds	1,817.8	2,863.9	3,425.9	562.0	19.6
Mental Hospitals/Long-Term Care Services					
General Fund	$802.1	$1,030.0	$1,132.3	$102.3	9.9%
All funds	892.6	1,105.0	1,233.8	128.8	11.7
Healthy Families Program					
General Fund	$316.7	$359.7	$392.2	$32.5	9.0%
All funds	875.2	1,014.5	1,090.2	75.7	7.5
Child Support Services					
General Fund	$459.1	$521.9	$274.0	-$247.9	-47.5%
All funds	972.2	1,138.3	744.6	-393.7	-34.6

[a] Excludes administrative headquarters support.

N/A=not available.

MAJOR BUDGET CHANGES

Figures 5 and 6 (see next page) illustrate the major budget changes proposed for health and social services programs in 2006-07. (We include the federal Temporary Assistance for Needy Families [TANF] funds for CalWORKs because, as a block grant, they are essentially interchangeable with state funds within the program.) Most of the major changes can be grouped into five categories: (1) funding caseload changes, (2) suspending certain welfare cost-of-living adjustments (COLAs), (3) funding shifts, (4) federal penalty relief, and (5) other policy changes.

Caseload Changes. The budget funds caseload changes in the major health and social services programs. For example, the Medi-Cal budget reduces spending for lower-than-anticipated caseload in the current year but adds resources for the cost of caseload increases expected in the budget year. Also, the Medi-Cal budget would be adjusted upward by $465 million for significant growth in the baseline costs and utilization of services by various groups of eligibles, but especially the aged and disabled. General Fund support for regional centers (RCs) that serve the developmentally disabled would continue to grow due mainly to caseload growth and utilization increases in these services. Funding would be adjusted downward in the current year for HFP to reflect lower than anticipated caseload in 2006-07, but increased in the budget year for anticipated strong caseload growth.

Cash Grant COLAs. Pursuant to current law, the budget provides $217 million to fund the six-month cost of January 2008 state COLA for the SSI/SSP. The budget proposes to suspend the CalWORKs July 2007 COLA, resulting in a cost avoidance of $140 million. The budget does not provide the discretionary Foster Care COLA.

Funding and Program Shifts. The budget proposes to spend $269 million in Proposition 98 funds on CalWORKs child care. This proposal frees up TANF child care funds which are then redirected to CalWORKs grants, creating an identical General Fund savings in the CalWORKs program, with no impact on service levels. The budget achieves additional savings ($56 million) by using TANF funds to replace General Fund expenditures in child welfare services. Increases in General Fund support for RCs would be partly offset by a one-time shift of Public Transportation Account funds ($144 million) to pay the transportation costs of RC clients that previously were paid for with General Fund.

Elimination of Federal Child Support Penalty. In 2006-07, the state budgeted $220 million to pay the federal penalty for the state's failure to have a single statewide child support automation system. The Department of Child Support Services requested federal certification for an interim automation system in August 2006, and during the certification process, all penalties are held in abeyance. Accordingly, the budget reflects a savings of $220 million related to this penalty relief.

Figure 5

Health Services Programs
Proposed Major Changes for 2007-08
General Fund

Medi-Cal (local assistance)	**Requested:**	**$14.7 billion**	
	Increase:	**$1 billion**	**(+7.2%)**

+ $465 million from increases in caseload, costs and utilization of services, mainly for aged and disabled beneficiaries
+ $97 million from rate increases for certain skilled nursing facilities
+ $87 million from increased costs for premiums paid by Medi-Cal on behalf of beneficiaries who are also enrolled in the federal Medicare Program
+ $81 million from growth in the number of enrollees in Medi-Cal managed care

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– $44 million from lower drug costs achieved through implementation of the federal Deficit Reduction Act of 2005
– $23 million from the state paying lower Medicare Part D “clawback” payments to the federal government

Department of Developmental Services (local assistance)	**Requested:**	**$2.2 billion**	
	Increase:	**$46.5 million**	**(+2.2%)**

+ $46.5 million primarily for increases in regional center caseloads, and costs and utilization

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– $144 million from using Public Transportation Account funds in lieu of General Fund for regional center transportation costs
– $44 million from drawing down a federal funds match for Intermediate Care Facilities services previously paid for with 100 percent General Fund

Figure 6

Social Services Programs Proposed Major Changes for 2007-08 General Fund

CalWORKs	**Requested:**	**$1.4 billion**	
	Decrease:	**$691 million**	**(-34%)**

+ $28 million for child care and services for families who comply with work requirements in response to the full-family sanction

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– $17 million in grant savings for families who remain out of compliance and experience a full-family sanction

– $42 million for caseload decrease

– $269 million by using Temporary Assistance for Needy Families funds (freed up by a Proposition 98 shift to CalWORKs child care) to offset General Fund costs for grants

– $336 million from grant savings due to imposing a five-year time limit for children whose parents cannot or will not comply with work participation requirements

SSI/SSP	**Requested:**	**$3.9 billion**	
	Increase:	**$350 million**	**(+9.9%)**

+ $217 million for providing the January 2008 state cost-of-living adjustment

+ $75 million for caseload increase

In-Home Supportive Services	**Requested:**	**$1.5 billion**	
	Increase:	**$28 million**	**(+1.9%)**

+ $79 million for caseload increase

– $45 million from full-year implementation of quality assurance initiative

Other Policy Changes

Increasing CalWORKs Sanctions. Currently, when an able-bodied adult does not comply with CalWORKs participation requirements, the family's grant is reduced by the adult portion, resulting in a "child-only" grant. The budget proposes a "full family sanction" whereby the reduced grant for the children is eliminated if an adult is out of compliance with program participation requirements for three months. In response to this increased sanction, the budget estimates that many families will enter employment, resulting in child care and employment services costs of $28 million. In cases where families do not comply, the budget estimates grant and administrative savings of $17 million, so the net cost of this proposal is about $11 million.

Time Limits for Aided Children. Currently, after five years of assistance, a family's grant is reduced by the adult portion, and the children continue to receive a child-only grant in the safety net program. The budget proposes to eliminate the safety net grant for children whose parents fail to comply with the federal work participation requirements (20 hours per week for families with a child under age 6 or 30 hours per week for families where all children are at least age 6). The budget also proposes to limit assistance to five years for most other child-only cases (such as those with parents who are undocumented or ineligible due to a previous felony drug conviction). These time limit policies are estimated to result in savings of about $336 million in 2007-08.

Limit State Participation in IHSS Provider Wages. Under current law, the state participates in IHSS provider wages up to $11.10 per hour during 2006-07, rising to $12.10 per hour in 2007-08. The budget proposes to freeze state participation in wages to the level provided in each county as of January 10, 2007. However, the administration indicates that it will continue to participate in post January 10, 2007 wage increases, until its urgency legislation proposal prospectively limiting state participation is enacted by the Legislature. The budget scores savings of $14.1 million in 2007-08.

Department of Public Health (DPH). Effective July 1, 2007, the budget plan implements Chapter 241, Statutes of 2006 (SB 162, Ortiz), that creates a new DPH and Department of Health Care Services (DHCS) from the existing Department of Health Services. The DPH will administer a broad range of public and environmental health programs while DHCS will administer the Medi-Cal Program. This change is intended to result in increased accountability and improvements in the effectiveness of public health programs and the Medi-Cal Program by allowing each department to administer a narrower range of programs. The legislation creating the two new departments requires that the change be cost neutral to the state.

Proposition 36 Programs. The budget proposes a net reduction of $25 million General Fund for Proposition 36 drug rehabilitation programs. This would be achieved by reducing funding by $60 million for the Substance Abuse and Treatment Trust Fund (SATTF), established by Proposition 36. Funding for the Substance Abuse Offender Treatment Program—established to improve the outcomes of Proposition 36 Programs—would increase by $35 million. The increased funding would be used for drug treatment activities that are not permitted under Proposition 36 and cannot be funded through SATTF.

Eliminate Integrated Services for Homeless Adults With Serious Mental Illnesses. The Governor's budget plan proposes the elimination of the Integrated Services for Homeless Adults with Serious Mental Illnesses program in order to reduce state costs by almost $55 million from the General Fund. This program provides funding to local mental health agencies that coordinate the service needs of individuals who have a serious illness and are homeless, or are at risk of homelessness.

Governor's Proposal for Health Care Reform Independent From the Budget. On January 8, 2007, the Governor announced a health care reform proposal aimed at ensuring that all Californians have health care coverage. This proposal did not provide a timeline for implementation and is not reflected in the budget plan. However, we note that the Governor's proposal would have a significant impact on future funding for state health programs if it were enacted as proposed.

CROSSCUTTING ISSUES

Health and Social Services

EVALUATING COLAs FOR CASH ASSISTANCE PROGRAMS

For 2007-08, the Governor proposes to provide the statutory January 2008 cost-of-living adjustment (COLA) for Supplemental Security Income/State Supplementary Program (SSI/SSP) recipients and suspend the July 2007 California Work Opportunity and Responsibility to Kids (CalWORKs) COLA for low-income families with children. Under the Governor's proposal, grants for SSI/SSP recipients would move further above the federal poverty guideline while the grants for CalWORKs families would move further below the poverty guideline. In order to more effectively utilize General Fund resources to reduce poverty, we recommend redirecting $124.4 million of the funds proposed for the SSI/SSP COLA to provide the CalWORKs COLA.

How Are COLAs Calculated?

California Necessities Index (CNI). Current law requires that CalWORKs and SSI/SSP grants be increased each year by the percentage increase in CNI. The CNI is based on the change from December to December of five components of the federal consumer price index (CPI). By statute, the five components are food, rent, fuel/utilities, apparel, and transportation. From December 2005 to December 2006, the weighted average of the costs for these components increased by 3.7 percent, based on actual data available in January 2007. (The Governor's budget, prepared prior to the release of this price data, estimated that the December to December increase in CNI would be 4.2 percent).

Timing of COLAs. The statutory COLA for CalWORKs goes into effect each July, the start of the fiscal year. The statutory COLA for SSI/SSP is provided each January, along with the federal statutory COLA, resulting in a six-month cost for the COLA. The full-year cost of the SSI/SSP COLA is double the first year cost.

Calculation of CalWORKs COLAs. The CalWORKs COLA is calculated by multiplying the CalWORKs maximum grant by the change in CNI. The CalWORKs has a system of regionalized grants. In lower-cost counties (generally inland counties with lower comparative rental costs), the grant is 4.9 percent less than in higher-cost counties. The SSI/SSP COLA calculation is more complicated, as discussed below.

Calculation of the SSI/SSP COLA. The SSI/SSP grant is comprised of two components, a federal portion known as SSI (currently $623 per month for an individual) and a state portion known as SSP (currently $233 per month for an individual). There are separate grant levels for couples and for other living situations (for example, individuals residing in nonmedical boarding homes). The COLAs are funded by both the federal and state governments. The state COLA is based on the CNI and is applied to the *combined* SSI/SSP grant. The federal COLA (based on CPI for Urban Wage Earners and Clerical Workers) is applied annually to the SSI portion of the grant. The remaining amount needed to cover the state COLA on the entire grant is funded with state monies.

Governor's Proposal

The Governor proposes to provide the SSI/SSP COLA and to suspend the state CalWORKs COLA. Based on preliminary estimates of CNI (4.2 percent), the Governor's budget reflects a cost of $216.7 million to provide the SSI/SSP COLA and a cost avoidance of $140.3 million from suspending the CalWORKs COLA. Based on the actual CNI (3.7 percent), the cost for providing the SSI/SSP COLA is now estimated to be $171.6 million, a savings of $45.1 million compared to the Governor's budget. Similarly, the cost avoidance from suspending the CalWORKs COLA would be $124.4 million, rather than the $140.3 million estimated in the Governor's budget.

Figure 1 shows the maximum monthly SSI/SSP and CalWORKs grants in 2006-07 and as proposed by the Governor for 2007-08. The grants shown reflect the actual CNI of 3.7 percent and an estimated CPI (the basis for the federal SSI COLA) of 1.4 percent. Pursuant to the Governor's proposal to suspend the CalWORKs COLA, maximum monthly grants remain unchanged for CalWORKs families, however food stamps benefits increase due to federal inflationary adjustments. (The SSI/SSP recipients are categorically ineligible for food stamps. The CalWORKs families are entitled to food stamps, and their estimated maximum allotments are included in Figure 1.)

Figure 1

Maximum Monthly CalWORKs and SSI/SSP Grants Governor's Proposal 2006-07 and 2007-08

			Change	
Program/Recipient Type	**2006-07**	**2007-08**	**Amount**	**Percent**
SSI/SSP Individual				
SSI	$623	$632	$9	1.4%
SSP	233	256	23	9.9
Totals	**$856**	**$888**	**$32**	**3.7%**
SSI/SSP Couple				
SSI	$934	$947	$13	1.4%
SSP	568	611	43	7.6
Totals	**$1,502**	**$1,558**	**$56**	**3.7%**
CalWORKs Family of 3[a]				
CalWORKs grant	$723	$723	—	—
Food Stamps	319	342	$23	7.2%
Totals	**$1,042**	**$1,065**	**$23**	**2.2%**
CalWORKs Family of 3[b]				
CalWORKs grant	$689	$689	—	—
Food stamps	334	358	$24	7.2%
Totals	**$1,023**	**$1,047**	**$24**	**2.3%**

[a] High-cost county.

[b] Low-cost county.

The CalWORKs grants shown in Figure 1 assume that the state will successfully appeal the *Guillen* law suit. For a more detailed discussion of the potential impact of the *Guillen* case on CalWORKs grants, please refer to the "California Work Opportunity and Responsibility to Kids" section in this chapter.

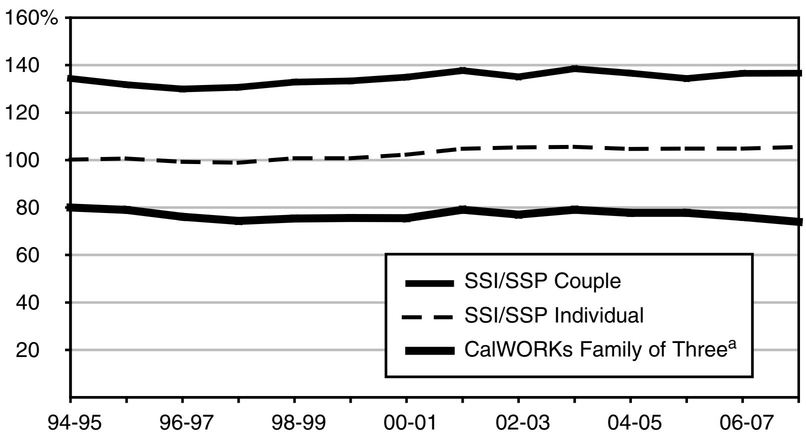
Comparing Grant Levels

One of the objectives of the CalWORKs and SSI/SSP programs is to provide recipients with a minimum standard of living. One way of assessing whether this objective is being achieved is to compare the maximum monthly grants with the federal poverty guideline. In order to make the comparison on an equal basis, maximum food stamps allotment must be added to the CalWORKs grant. Figure 2 compares CalWORKs and SSI/SSP grants to the poverty guideline from 1994-95 through 2007-08. Figure 2 shows that each recipient category has maintained a steady relationship with respect to the federal poverty guideline. By this measure, SSI/SSP couples have faired best, as their maximum grant has been typically between 130 percent and 140 percent of the federal poverty guideline. (In other words, the purchasing power of their grant was 30 percent to 40 percent above the federal poverty level.) The SSI/SSP individuals faired second best, with their maximum grant typically between 99 percent and 107 percent of the federal guideline. The CalWORKs families were the furthest below the poverty level, with combined maximum monthly grant and food stamps benefits typically in the range of 75 percent to 80 percent of the federal poverty guideline. Figure 3 summarizes in table format, the relationship of each grant to poverty as proposed for 2007-08.

Figure 2

Maximum Monthly Cash Assistance Payments As Percent of the Federal Poverty Guideline

1994-95 Through 2007-08



[a] Includes food stamps.

Targeting Anti-Poverty Funds

COLA Funding. As discussed above, the Governor's budget suspends the CalWORKs COLA and includes $217 million for the SSI/SSP COLA, based on an estimated CNI of 4.2 percent. Given the actual CNI of 3.7 percent, however, the cost of the SSI/SSP COLA has been reduced to $171.6 million. Funding of cash assistance COLAs is a policy decision for the Legislature. We discuss an approach to targeting these funds in tough budget times below.

Figure 3

Maximum Monthly CalWORKs and SSI/SSP Grants Compared to Estimated Federal Poverty Guideline 2007-08

Program/Recipient Type	Maximum Monthly Benefit	Estimated Poverty Guideline[a]	Percent of Estimated Poverty Guideline
SSI/SSP individual	$888	$851	104%
SSI/SSP couple	1,557	1,141	137
CalWORKs family of 3, high-cost county[b]	1,065	1,430	74
CalWORKs family of 3, low-cost county[b]	1,047	1,430	73

a 2007 federal poverty guideline.

b The CalWORKs benefit includes maximum food stamps allotment.

Legislative Analyst's Office (LAO) Approach. Given the state's fiscal condition, our approach to allocating assistance payment COLAs would be to target the funds to reduce poverty. Specifically, additional resources would be provided first to CalWORKs families (who are well below poverty), second to SSI/SSP individuals (who are just above the poverty guideline), and third to SSI/SSP couples (who are significantly above the poverty guideline). Using the $171.6 million as a budget guideline, greater poverty alleviation could be achieved by redirecting $124.4 million to provide a 3.7 percent CalWORKs COLA, and using the remaining $47.2 million to provide a 1.9 percent COLA for SSI/SSP individuals. The SSI/SSP couples would receive the pass through of the federal COLA, but no separate state COLA.

Comparing the LAO Approach to the Governor's Proposal. Figure 4 (see next page) compares the costs and benefits of the LAO approach, described above to the Governor's proposal. As the top portion of Figure 4 shows, under the LAO approach, benefits are higher for CalWORKs families and lower for SSI/SSP recipients than under the Governor's approach. The bottom portion of the figure compares the fiscal impact. Both approaches have identical General Fund costs of $171.6 million in 2007-08. However, in 2008-09, the LAO approach costs less than the Governor's. This is because the SSI/SSP COLA is provided in January of 2008, resulting in six months of costs. The costs for 2008-09 for the SSI/SSP COLA double to account for a full-year of paying higher benefits. Because the CalWORKs COLA is provided in July 2007 for an entire fiscal year, there is no corresponding increase in 2008-09.

Figure 4

Comparison of Governor's Budget and LAO Approach to Providing Cash Assistance COLAs

	Governor's Proposal	LAO Approach	Difference	
			Amount	Percent
Benefit Levels				
CalWORKs Benefit[a]	$1,065	$1,080	$15	1.4%
Compared to poverty	*74%*	*75%*		
SSI/SSP Individuals	888	872	-16	-1.8
Compared to poverty	*104%*	*102%*		
SSI/SSP Couples	1,558	1,515	-43	-2.8
Compared to poverty	*137%*	*133%*		
Fiscal Impacts (Dollars in Millions)				
General Fund cost 2007-08				
CalWORKs	—	$124.4	$124.4	—
SSI/SSP	$171.6	47.2	-124.4	-72.5%
Totals	**$171.6**	**$171.6**	**—**	**—**
General Fund cost 2008-09				
CalWORKs	—	$124.4	$124.4	—
SSI/SSP	$343.2	94.4	-248.8	-72.5%
Totals	**$343.2**	**$218.8**	**-$124.4**	**-36.2%**

a The CalWORKs family of 3, high-cost county.

Analyst's Recommendation

In order to more effectively utilize General Fund resources to reduce poverty, we recommend redirecting $124.4 million of the funds proposed for the SSI/SSP COLA to provide the CalWORKs COLA. With the remaining $47.2 million, we recommend providing a partial COLA to SSI/SSP individuals, while passing through the federal COLA for both individuals and couples. This approach is budget neutral in 2007-08 and results in out-year savings of about $124 million compared to the Governor.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (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 one-parent 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 two-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 $4.9 billion ($1.4 billion General Fund, $136 million county funds, $35 million from the Employment Training Fund, and $3.4 billion federal funds) to the Department of Social Services (DSS) for the CalWORKs program in 2007-08. In total funds, this is a decrease of $207 million, or 4.4 percent, compared to estimated spending of $5.1 billion in 2006-07. This decrease is primarily attributable to estimated savings from the Governor's proposed policy changes to establish time limits for children whose parents cannot or will not comply with participation requirements.

General Fund spending for 2007-08 is proposed to be $690 million, 34 percent, less than estimated spending for 2006-07. This substantial reduction is due to (1) the savings from the proposed time-limit policy noted above and (2) shifting $269 million in Proposition 98 funds to CalWORKs child care. For a discussion of this fund shift, please see the "Proposition 98 Priorities" write-up within the "Crosscutting Issues" section of the "Education" chapter of this *Analysis*.

BUDGET SUSPENDS STATUTORY COLA

By suspending the statutory cost-of-living adjustment (COLA), the budget achieves a cost avoidance of $124.4 million.

Current law requires that the CalWORKs grant be adjusted each July based on the change in the California Necessities Index (CNI). From December 2005 to December 2006, the CNI increased by 3.7 percent. For a typical family of three receiving CalWORKs assistance, this COLA would increase the maximum monthly grant by about $27. Suspending the COLA eliminates this grant increase and results in cost avoidance of $124.4 million. (The Governor's budget, prepared prior to the release of the final CNI data, estimated the CNI to be 4.2 percent, and scored a cost avoidance of $140.3 million.)

Guillen *Lawsuit.* A superior court has ruled in the *Guillen* court case that the October 2003 COLA (which was tied in statute to reductions in the vehicle license fee) is required by current law. In December 2006, an appellate court heard the state's appeal and a decision is anticipated in early 2007. Unless the appellate court overturns the lower court decision, the state faces one-time CalWORKs grant costs of $434 million, plus ongoing costs of $114 million, neither of which are included in the Governor's budget. The one-time costs refer to 45 months of grant payments (October 2003 through June 2007) owed to recipients on aid during this time period. The ongoing costs of $114 million represent the cost of providing the grant increase during 2007-08. The one-time costs are typically subject to a settlement agreement and which cannot be modified by the Legislature. With respect to the ongoing costs, the Legislature could prospectively reduce grants by the amount of the October COLA, thereby avoiding the ongoing costs of $114 million.

Governor's Proposed Grant Levels Compared to Current Law. At the time this *Analysis* was prepared, the outcome of the *Guillen* lawsuit was unknown. Figure 1 compares combined cash grant and food stamps benefits under the Governor's proposal to the grant levels required by current law. The top portion of the figure shows the grants if the state prevails in its appeal of the *Guillen* case. The bottom portion shows grants if the *Guillen* case is upheld by the appellate court. Combined cash grant and Food Stamps benefits are about $15 less per month under the Governor's proposal than under current law.

Figure 1

CalWORKs Maximum Monthly Grant and Food Stamps Current Law and Governor's Proposal Family of Three

2007-08

	Current Law	Governor's Budget	Change From Current Law: Amount	Change From Current Law: Percent
Scenario 1: *Guillen* Decision Is Reversed on Appeal (Governor's Budget)				
High-Cost Counties				
Grant	$750	$723	-$27	-3.6%
Food stamps	330	342	12	3.6
Totals	**$1,080**	**$1,065**	**-$15**	**-1.4%**
Percent of poverty	*75%*	*74%*		
Low-Cost Counties				
Grant	$714	$689	-$25	-3.5%
Food stamps	347	358	11	3.2
Totals	**$1,061**	**$1,047**	**-$14**	**-1.3%**
Percent of poverty	*74%*	*73%*		
Scenario 2: *Guillen* Decision Is Upheld on Appeal				
High-Cost Counties				
Grant	$776	$748	-$28	-3.6%
Food stamps	319	331	12	3.8
Totals	**$1,095**	**$1,079**	**-$16**	**-1.4%**
Percent of poverty	*77%*	*75%*		
Low-Cost Counties				
Grant	$739	$713	-$26	-3.6%
Food stamps	336	347	11	3.3
Totals	**$1,075**	**$1,060**	**-$15**	**-1.4%**
Percent of poverty	*75%*	*74%*		

Figure 1 also compares the combined grant and food stamp benefits to the federal poverty guideline for 2007. Under the Governor's proposal, the combined cash grant and food stamps benefit would be 74 percent of the federal poverty guideline for a family of three in a high-cost county and 73 percent of the guideline for a family of three in a low-cost county (assuming the *Guillen* case is overtuned). Under current law, combined benefits would be about 1 percent closer to the federal poverty guideline than the Governor's proposal.

Redirecting SSI/SSP COLA Funding to CalWORKs

In order to more effectively utilize General Fund resources for poverty reduction, we recommend redirecting $124.4 million of the funds proposed for the Supplemental Security Income/State Supplementary Program (SSI/SSP) COLA to provide the CalWORKs COLA. Please see the "Crosscutting Issues" section of this chapter for the rationale for this recommendation.

LEADER Computer System Replacement

Rather than joining one of the other two recently completed automation consortia, the budget proposes $2 million for planning activities for replacing the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) computer system with an entirely new system. We recommend that the Department of Social Services and the Health and Human Services Agency's Office of System Integration report at budget hearings on why joining an existing system is not feasible and the costs and benefits of an entirely new system. We further recommend that the Legislature withhold funding for planning activities until a cost-benefit analysis for a new system is provided.

Background. The Statewide Automated Welfare System (SAWS) is divided into four consortia: (1) ISAWS (Interim SAWS), comprised of 35 small and medium size counties, (2) CalWIN (CalWORKs Information Network) which covers 18 middle-sized counties that are part of the Welfare Client Data System, (3) C-IV (Consortium IV), which is comprised of San Bernardino, Riverside, Merced, and Stanislaus counties, and (4) LEADER, which is the system for Los Angeles County. These automated welfare systems support the delivery of social services programs including CalWORKs, Food Stamps, and Medi-Cal. Each system cost several hundred million dollars to develop. The ISAWS counties are in the process of migrating to C-IV. When this migration to C-IV is complete, there will be three consortia.

LEADER Replacement. The budget proposes a total of $2 million for planning activities for replacing LEADER. The stated goal is to award a contract for the new system in June 2008. Los Angles County has viewed demonstrations of the other consortia systems and has concluded these systems are inappropriate solutions for replacing LEADER. The DSS concurs with this finding, but has not provided an explanation as to why the other two consortia cannot be modified to become a LEADER replacement solution.

Analyst's Recommendation. Given the substantial costs (probably over $200 million total funds) associated with developing a new system, we recommend that DSS and the Office of System Integration (which oversees the development of human services automation systems and is part of the Health and Human Services Agency) report at budget hearings on why Los Angeles County cannot join one of the existing systems (potentially with some modifications) and the costs and benefits associated with the development of a new system. We further recommend withholding funding for additional LEADER planning activities until a cost-benefit analysis is provided to the Legislature.

TANF Transfer to CWS Contrary to Legislative Approach

By using federal Temporary Assistance for Needy Families (TANF) block grant funds to replace General Fund support for certain Child Welfare Services (CWS) emergency assistance costs, the Governor's budget achieves General Fund savings of $56 million in 2007-08. The Legislature should assess whether this proposed fund shift meets its priorities for limited TANF block grant funds.

TANF Expenditures May Offset General Fund Costs in Other Programs. Each year California receives $3.7 billion in federal TANF block grant funds. The majority of these funds are used for the CalWORKs program. However, federal law permits the expenditure of TANF funds on a variety of programs and activities. Specifically, the TANF block grant funds may be expended on any program designed to (1) provide assistance to needy families and children; (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce the incidence of out-of-wedlock pregnancies; and (4) encourage the formation and maintenance of two-parent families. Moreover, TANF funds can be spent for any purpose permitted under the AFDC program or under AFDC-Emergency Assistance (EA). (For example, AFDC-EA could be used for juvenile probation.) Finally, up to 10 percent of TANF funds may be transferred to the Title XX Social Services Block Grant and then expended in accordance with the federal rules pertaining to Title XX. Unexpended TANF funds can be carried over indefinitely into future years.

Legislative Action in 2006-07. For 2006-07, the Legislature shifted $100 million in TANF funds proposed for CWS back to the CalWORKs program. This funding shift required a backfill of $100 million from the General Fund to CWS. The purpose of the shift was to ensure scarce TANF block grant funds were used in the CalWORKs program.

Governor's Proposal and Legislative Oversight. For 2007-08, the budget proposes to replace General Fund monies for CWS emergency assistance activities with $56 million in TANF federal funds. This results in General Fund savings of $56 million, but is contrary to legislative action in the current year, which used General Fund support in lieu of TANF funds for CWS.

The Governor's proposal to save $56 million General Fund by using TANF funds for emergency assistance costs in child welfare services is permissible under federal law. Whether to make this fund shift is a policy issue for the Legislature. Because TANF can be used for both CalWORKs and non-CalWORKs purposes, the Legislature should review this proposal to determine if it is consistent with its priorities for TANF and the General Fund. If the Legislature rejects the Governor's fund shift proposal, it would need to adopt some offsetting budget solution to avoid increasing the state's structural deficit.

MAINTENANCE-OF-EFFORT AND CASELOAD REDUCTION CREDIT

The budget proposes to spend above the federally required maintenance-of-effort (MOE) level, thereby achieving a caseload reduction credit (CRC) which reduces California's work participation requirement in the California Work Opportunity and Responsibility to Kids (CalWORKs) program. We review the MOE requirement, the impact of the Deficit Reduction Act (DRA) of 2005 on countable MOE spending, and the Governor's proposal to obtain a CRC.

TANF MOE Requirement. To receive the federal TANF block grant, states must meet a MOE requirement that state spending on assistance for needy families be at least 75 percent of the federal fiscal year (FFY) 1994 level, which is $2.7 billion for California. (The requirement increases to 80 percent if the state fails to comply with federal work participation requirements.) Countable MOE expenditures include those made on behalf of CalWORKs recipients, as well as for families who are *eligible* for CalWORKs but are not receiving cash assistance. Although the MOE requirement is primarily met through state and county spending on CalWORKs and other programs administered by DSS, state spending in other departments is also counted toward satisfying the requirement.

DRA Expands Definition of MOE Spending. The DRA expands the definition of what types of state spending may be used to meet the MOE requirement. Previously, countable state spending had to be for aided families or for families who were otherwise eligible for assistance. The DRA allows state expenditures designed to prevent out-of-wedlock pregnancies or promote the formation of two-parent families to count toward the MOE requirement, even if the program participants are not otherwise eligible for aid. Essentially, the act removes the requirement that countable spending for these purposes be on behalf of low-income families with children.

We would note that some states have already claimed expenditures for these types of services as part of their MOE spending. Because of this change, California can now count some existing spending on higher education tuition assistance (CalGrants and community college fee waivers) and after school programs toward the MOE requirement. The rationale for tuition assistance is that higher education is generally associated with better employment and life outcomes, which in turn may result in fewer out-of-wedlock births. Similarly, after school programs are associated with better school attendance and achievement, which in turn improves employment and life outcomes, potentially resulting in fewer teen pregnancies.

Excess MOE Spending Results in Caseload Reduction Credit. As discussed more fully in the next section, pursuant to the DRA, states must meet federal work participation rates (50 percent for all families) less a caseload reduction credit based on the decline in their caseloads since FFY 2005. Current federal regulations allow states that spend above their required MOE level to subtract out cases funded with excess MOE for the purpose of calculating the CRC. States first used this regulation during FFY 2005. Based on the amount of excess MOE spending during FFY 2006, California increased its CRC from 3.5 percent to 4.7 percent on an FFY basis. Pursuant to federal rules, the CRC percentage that is due to excess MOE spending during FFY 2006, is subtracted from the federal work participation requirement for the subsequent year (FFY 2007).

We note that the authority to increase the CRC based on excess MOE spending is part of current regulations, not current law. Accordingly, the federal administration could end this authority by changing the regulations, and some observers believe this may happen in future years. Also, the federal government has not yet approved California's methodology for determining the amount of excess MOE cases. Thus, we would caution that long-term plans for attaining compliance with federal work participation rates should not overly rely on the excess MOE caseload reduction regulations.

Figure 2 shows base MOE spending and excess MOE spending proposals for 2006-07 and 2007-08. For both years, base MOE spending will be approximately $2.7 billion. With respect to excess MOE, the budget proposes a reduction from $470 million to $203 million. Figure 2 also shows that based on the Governor's proposed spending levels, the CRC would be 12.6 percent in 2006-07, falling to 5.4 percent in 2007-08. As a point of reference, we show estimated excess MOE spending in 2007-08 under current law (if the Legislature rejects the Governor's time limit aid sanction proposals). (These CRCs are estimates on a state fiscal year basis, and will differ from the actual CRCs which are calculated on an FFY basis.)

Figure 2

CalWORKs Maintenance-of-Effort (MOE) Spending

2006-07 and 2007-08
(In Millions)

		2007-08	
	2006-07	Governor's Budget	Current Law
Base MOE Spending			
CalWORKs program	$2,033.6	$1,356.0	$1,680.4
DSS Non-CalWORKs programs	20.9	23.4	23.4
MOE from other departments	478.2	1,133.1	808.7
County spending	135.4	136.8	136.8
State support	2.8	2.7	2.7
Subtotals	($2,670.8)	($2,652.1)	($2,652.1)
Excess MOE Spending			
CDE child care programs	$30.4	$75.0	$87.1
After school programs	225.3	128.0	225.3
CalGrants	215.0	—	215.0
Subtotals	($470.7)	($203.0)	($527.4)
Estimated caseload reduction credit from excess MOE	12.6%	5.4%	14.1%
Grand Totals	**$3,141.5**	**$2,855.1**	**$3,179.5**

CalWORKs = California Work Opportunity and Responsibility to Kids;
DSS = Department of Social Services; CDE = California Department of Education.

Current Work Participation Requirement and Status

Federal law requires that states meet a work participation rate of 50 percent for all families and 90 percent for two-parent families, less a caseload reduction credit (CRC). The Deficit Reduction Act of 2005 and associated regulations significantly changed the calculation of the participation rate and the CRC.

Background

Required Hours of Work for Adults. To comply with federal work participation rates, adults must meet an hourly participation requirement each week. For single-parent families with a child under age 6, the weekly participation requirement is 20 hours. The requirement goes up to 30 hours for single parents in which the youngest child is at least age 6. For two-parent families the requirement is 35 hours per week. The participation hours can be met through unsubsidized employment, subsidized employment, certain types of training and education related to work, and job search (for a limited time period).

Work Participation Penalties for States. If a state fails to meet the work participation rates, it is subject to a penalty equal to a 5 percent reduction of its federal TANF block grant. For each successive year of noncompliance, the penalty increases by 2 percent to a maximum of 21 percent. For California, the 5 percent penalty would be approximately $149 million annually, potentially growing by up to $60 million per year. Penalties are based on the degree of noncompliance. For example, if a state is in compliance with the all-families rate, but is out of compliance for the two-parent rate, the penalty would be prorated down based on the percentage of cases that are two-parent cases.

State Impact of Penalties. States that fail to meet their work participation requirements are required to (1) backfill their federal penalty with state expenditures and (2) increase their MOE spending by 5 percent. States out of compliance may enter into corrective action plans which can reduce or eliminate penalties, depending on state progress in meeting the negotiated goals of the corrective plan.

Prior Law Work Participation Requirements for States. Prior to enactment of DRA, states had to meet two separate work participation rates—an all-families rate of 50 percent and a two-parent rate of 90 percent. Both of these rates were adjusted downward to reflect the caseload decline since FFY 1995. From 1995 through 2004, California's caseload declined by approximately 46 percent, but has been relatively stable since then. Thus, California achieved a substantial CRC pursuant to prior law. Specifically, this 46 percent reduction reduced California's required participation rate to about 4 percent (the 50 percent requirement, less the 46 percent credit).

With respect to two-parent families, prior law permitted states to create state-only funded programs, and families served in such programs were removed from TANF work participation calculations. Given this prior flexibility, California served two-parent families in a separate state-only program, and thus was not subject to the 90 percent two-parent family rate. (The two-parent families, however, are subject to state work participation requirements.)

Deficit Reduction Act Effectively Increases Participation Requirements for States

The DRA increased participation requirements on states in three different ways. First, it moved the base period for calculating the CRC from 1995 to 2005. Because California's caseload decline mostly occurred before 2005, this substantially reduces the CRC, from about 46 percent to about 3.5 percent. Second, it made families served in separate state programs subject to federal participation rates. Thus, beginning in FFY 2007 California is subject to the 90 percent federal work participation rate for two-parent families. Third, it provided the Secretary of Health and Human Services with broad authority to adopt federal regulations (which he exercised) to (1) narrow the definition of work and participation and (2) expand the number of families who are included in work participation calculations.

Figure 3 summarizes how the DRA and associated regulations changed the work participation mandate on states. The two middle columns compare prior law and regulations to the new law and regulations under the DRA. The final column summarizes the impact on the participation calculation for California. A state's actual work participation rate is calculated as follows:

$$\frac{\text{number of families meeting participation requirement}}{\text{number of families subject to participation requirement}} = \text{participation rate}$$

As Figure 3 indicates, new regulations pertaining to cases in sanction status (child-only cases where the adult is removed from aid for noncompliance), and safety net cases (child-only cases where the adult is removed from aid for hitting the five-year time limit) make an additional 86,100 cases subject to the work participation calculation. On the other hand, the state may now exclude those caring for an ill or incapacitated family member from the calculation (about 5,000 cases). Also, about 9,000 cases which have received aid for five years and are in the safety net are now counted as participating in the numerator.

Figure 3

Deficit Reduction Act of 2005
Major Changes to Work Participation Calculation

Provision	Prior Law/Regulations	Deficit Reduction Act/ Associated Regulations	Impact on Participation Rate Calculation
Calculation of caseload reduction credit (CRC)	Based on reduction since FFY 1995 (46%)	Based on reduction since FFY 2005 (3.5%)	Reduces CRC by 42 percentage points
Separate State Programs (SSP)	Cases in SSP excluded from a work participation calculation	Cases in SSP must be included in work participation calculation	State may no longer avoid 90 percent rate for two-parent families through SSP
Adults in sanction for more than 90 days	When adult is removed from case for sanction, the case is excluded from work participation calculation	Must be included in work participation calculation	Adds 40,100 cases to participation calculation (+40,100 in denominator)
Safety net for children of parent hitting five-year time limit	When adult is removed from a case for time limit, the case is excluded from work participation calculation	Must be included in work participation calculation	Adds 46,000 cases to participation calculation, 9,000 of which are meeting work requirement (+9,000 to numerator, +46,000 to denominator)
Caring for ill or incapacitated family member	Included in work participation calculation	Excluded from work participation calculation	Removes 5,000 cases from work participation calculation (-5,000 from denominator)

FFY = federal fiscal year.

Current Participation Status

The most recent participation data for California is from FFY 2005. Figure 4 (see next page) shows the calculation of the all families participation rate under prior law and under current law with DRA regulations. In both calculations, the two-parent families have been added into the numerator and denominator, pursuant to the DRA which prevents their exclusion through a separate state funded program. As Figure 4 shows, under prior rules, California's participation rate would be almost 28 percent. Under the new rules, the rate falls to just over 23 percent. Most of the decline is attributable to adding sanctioned cases and safety net cases to the participation rate in the denominator (81,153 cases). For two-parent families (not shown in Figure 4), the participation rate is 33.6 percent based on data from FFY 2005.

Figure 4

Work Participation Status—All Families[a] Under Prior and Current Law

	Prior Law and Regulations	Current Law/DRA Regulations	Change From Prior Law
Families meeting requirements	60,148	69,174	9,026
Families subject to participation	215,822	296,975	81,153
	=	=	
Participation rate	27.9%	23.3%	-4.6%

[a] Based on California data from federal fiscal year 2005.

DRA = Deficit Reduction Act of 2005.

Impact of Recent Policy Changes on Participation

In recent years, California has made significant changes in the California Work Opportunity and Responsibility to Kids program in order to increase work participation among recipients. Estimates by the administration of the participation increases associated with recent policy changes, in conjunction with the caseload reduction credit, suggest that California would likely be in compliance with federal work participation requirements in federal fiscal year 2008.

Over the past two years, the Legislature has made significant program changes that should increase work participation to some unknown extent among CalWORKs families. First, Chapter 68, Statutes of 2005 (SB 68, Committee on Budget and Fiscal Review), created the Pay-for Performance program for counties. This program creates a performance incentive system whereby counties earn a share of $40 million based on improving performance on three specified measures related to employment, earnings, and participation. Then, Chapter 75, Statutes of 2006 (AB 1808, Committee on Budget), made the following changes designed to improve program operations and engagement of clients with participation:

- ***County Plan Addenda***. Each county is required to indicate how it intends to meet program goals and work participation requirements, by amending it CalWORKs plan.
- ***County Penalty Pass-On.*** Statute requires that counties backfill their share of any federal penalties the state might receive for failing to meet federal participation requirements.
- ***Data Master Plan.*** Among other changes, the master plan prepared by the state will result in a new monthly report which tracks hourly participation rates in each country. It is anticipated that this will focus case managers and administrators on the work participation status of their caseloads.
- ***Ending Durational Sanctions***. Chapter 75 allows recipients to end their sanction immediately after coming into compliance. Under prior law, recipients being sanctioned for the second or third time would be required to remain in sanction status and, thereby, excluded from the participation rate even if they are employed.
- ***Expanding Homeless Assistance Eligibility.*** Under prior law, CalWORKs recipients were entitled to a once-in-a-lifetime assistance payment if they became homeless. Chapter 75 permits this payment to be provided upon threat of eviction. This should stabilize housing situations, enabling more families to participate in work.
- ***Temporary Assistance Program (TAP).*** Chapter 75 created a non-MOE funded TAP for CalWORKs recipients who are exempt from work participation (usually temporarily disabled). This program would have increased the participation rate and resulted in a CRC. However, as discussed below, the program cannot be implemented as intended by the Legislature.

Budget Estimate of Work Participation Impact. With the exception of the TAP program (which cannot be implemented at this time), all of the changes described above should increase work participation. The difficult question is estimating the magnitude of the impact on participation. The Governor's budget estimates that together these changes will increase California's work participation rate by just over 5 percent in FFY 2007 and 11.4 percent in FFY 2008, as shown in Figure 5 (see next page). The administration specifically estimates that the homeless assistance policy change will stabilize housing for certain CalWORKs recipients resulting in about 700 and 1,400 cases meeting work participation in FFY 2007 and FFY 2008, respectively. Based on the change in durational sanctions, the budget estimates further respective participation increases of 3,000 and 3,750 over the next two years. Finally, from all other changes, the budget anticipates 12,000 cases will meet work participation in FFY 2007 and 29,600 cases in FFY 2008. Figure 5 estimates how these policy changes will increase participation to 34.7 percent in FFY 2008.

Figure 5

Estimated Work Participation Rates— Based on Current Law

	Federal Fiscal Year			
	2007		2008	
Base participation rate		23.3%		23.3%
Projected increase from policy changes				
Homeless assistance	0.2%		0.5%	
Ending durational sanctions	1.0		1.0	
All other policies	4.0		10.0	
Subtotals		5.3%		11.4%
Total Estimated Participation Rate		**28.6%**		**34.7%**

Totals may not add due to rounding.

LAO Comments on Increased Participation Estimates. Estimating the impact of policy changes on work participation is difficult. The administration's estimates for homeless assistance stabilization (0.5 percent) and ending durational sanctions (1 percent) appear reasonable. However, the estimate that all other changes will increase participation by 10 percentage points may be overstated, given the magnitude of this estimated growth. The administration provides no specific evidence explaining how these changes will increase participation among recipients. To assume an increase of 10 percent in a single year from what are essentially better incentives for counties (pay-for-performance, potential county penalties, and better data tracking), may be risky.

California Likely to Meet Work Participation Requirements in FFY 2008

As described above, California is required to meet a work participation rate of 50 percent, less a CRC. Currently, participation is about 23 percent, but the budget assumes as existing law changes are implemented, participation will increase by 11.4 percent by FFY 2008. Figure 6 compares the net participation requirement (after CRC) to the estimated level of participation in FFY 2007 and FFY 2008. As the figure shows, California is projected to be 16.7 percent below the net requirement in FFY 2007, but to exceed the requirement by 1.7 percent in FFY 2008. Although California is projected to be in compliance as of FFY 2008, there are risks associated with this projection. First, much of the compliance is based on the "excess" MOE CRC. This credit is based on regulations, not statute, and could be terminated by the federal administration. Moreover, California's method for calculating the excess MOE credit has not yet been approved by the federal Government. Finally, California's rate of 34.7 percent is dependent on the assumption that existing policies will increase participation by 11.4 percent.

Figure 6

Estimated Work Participation Shortfall(-)/Surplus

	Federal Fiscal Year (FFY)			
	2007		2008	
Federal requirement		50.0%		50.0%
Caseload reduction credit				
"Natural" caseload decline since FFY 2005	3.5%		4.1%	
Excess MOE reduction	1.2		12.9	
Total Credit		4.7%		17.0%
Net requirement		45.3%		33.0%
Estimated participation rate (see Figure 5)		28.6%		34.7%
Estimated Participation Shortfall(-)/Surplus		**-16.7%**		**1.7%**

MOE = maintenance-of-effort.

TAP Implementation Issues

As noted above, TAP cannot be implemented as planned. Before describing the implementation issues, we discuss the potential benefits of TAP.

Potential Benefits of TAP. Currently, certain CalWORKs recipients (such as those temporarily disabled, caring for a disabled relative, or over age 60) are statutorily exempt from work participation requirements. Chapter 75 created a separate state program funded exclusively with state monies which are not used to meet the MOE requirement. The TAP would serve CalWORKs recipients who are exempt from participation. Because of the exclusive state funding, the recipients of this program are outside the federal TANF program and are excluded from the federal work participation rate calculation. If implemented, it is estimated that this program would have increased the work participation rate by about 1.5 percent. It is also estimated that the program would have resulted in a CRC of about 5 percent, because the families would have exited TANF. Given these positive impacts on participation and caseload reduction, TAP would be an effective way of achieving compliance with federal work participation requirements. The Legislature required that TAP be a voluntary program providing identical benefits and obligations for TAP recipients as for CalWORKs participants.

Child Support Issues Threaten Implementation. This voluntary program was to be implemented in April 2007. Chapter 75 authorizes the administration to delay implementation until October 2007 under specified circumstances. Since enactment of this program, a working group of legislative staff, administration representatives, county staff, and advocates have learned that federal law appears to require that TAP receive a pass-through of all child support collected on behalf of participants. Because this requirement differs from the way child support payments are treated with respect to CalWORKs families (where child support beyond $50 is retained by the government), TAP cannot be implemented as scheduled. Pursuant to Chapter 75, DSS notified the Joint Legislative Budget Committee in January 2007 that TAP implementation would be delayed indefinitely.

On a very preliminary basis, the Department of Child Support Services indicates that to resolve the child support distribution issues, substantial automation changes are necessary, and these changes could not be implemented until after Phase 2 of the child support automation project is completed in 2008. Accordingly, it is likely that implementation will be delayed beyond October 2007. Because current law requires that TAP be implemented no later than October 2007, the Legislature will need to address the issue of when and whether to implement TAP.

GOVERNOR'S SANCTION PROPOSAL

In order to increase work participation, the Governor's budget proposes new sanctions on children whose parents cannot or will not comply with California Work Opportunity and Responsibility to Kids participation requirements. We review the sanction proposal's impact on work participation, families, and the state budget. We recommend rejecting the sanction proposal because by the administration's own estimates it is not needed to meet federal work participation requirements.

The budget proposes a full-family sanction (eliminating all cash assistance) for families in which the adult has been out of compliance with program requirements for at least three months. The Governor's budget states that a stronger sanction is necessary to increase the work participation rate so that the state can avoid substantial federal penalties. However, as discussed above, based on the Governor's own assumptions about the impacts of current law and the ability of the state to obtain a CRC, it appears that this change is not necessary to attain federal compliance by FFY 2008. Below we discuss the sanction proposal in terms of its impact on the budget, work participation, and families.

Full-Family Sanction

Policy Description. Currently, when an able-bodied adult does not comply with CalWORKs participation requirements, the family's grant is reduced by the adult portion, resulting in a "child-only" grant. The budget proposes a full-family sanction whereby the reduced grant for the children is eliminated if an adult is out of compliance with participation requirements for at least three months. In order to restore the family's grant, the noncompliant adult would need to sign an agreement to come into compliance and then complete the terms of the agreement for up to 30 days.

The agreements are to address the specific reason for noncompliance. For example, if the sanction was due to failing to complete a job club/job search program, the agreement would typically require the individual to complete the job club. Once completed, aid would be fully restored back to the day the client signed the agreement. These procedures are the same as current law.

The Governor proposes that this policy would be implemented on November 1, 2007. Families would be entitled to food stamp benefits during the period that they were not receiving a grant. For a family of three, we estimate that their monthly food stamps allotment would increase by about $10 to a total of $408, after the full-family sanction was imposed.

Impact on Families. According to sample data from 2005, there are about 36,400 cases that have been in sanction status for three months or more. These cases have an average of 1.9 children, so potentially about 70,000 children could lose cash aid unless their parents met work participation requirements. The Governor's budget assumes that 70 percent of cases, facing a full-family sanction, would fully participate through unsubsidized employment or a combination of other eligible participation activities so as to avoid the sanction. The budget estimates that it will take 12 months for these changes to occur as recipients may appeal their sanctions. As of November 2008, DSS estimates that 25,450 families would have avoided the sanction through compliance and that 10,950 families would receive the full family sanction. The 10,950 families include about 21,000 children. Below, we discuss why this 70 percent success rate is overly optimistic.

Impact on Work Participation. Based on the Governor's 70 percent assumption, there are two impacts on the state's work participation rate. First, the 70 percent of families meeting work participation raise the numerator in the work participation fraction. Second, the 30 percent of families unable to meet participation will exit the program and reduce the denominator. Together, the budget estimates that these changes will increase the work participation rate by about 3 percent in FFY 2008, rising to 9.6 percent in FFY 2009. We note that regardless of the success rate of this policy in encouraging families to work, the policy will increase the work participation rate, because families who experience the full-family sanction will be excluded from the denominator. The only question is the number who will be excluded.

Impact on Budget. Because of the estimated increase in compliance and work participation, the budget estimates increased child care and welfare-to-work services costs of about $27.8 million in 2007-08. These costs would be offset by grant savings ($16.4 million) from the families that experience the full-family sanction. Thus, the Governor's budget estimates these net costs to be $11.4 million in 2007-08, rising to $81 million in 2008-09.

Comments on the Governor's Full-Family Sanction Proposal

Estimated Behavioral Response Is Overly Optimistic. We believe the Governor's assumption that 70 percent of those cases already in sanction status will meet the federal participation requirements in response to a full-family sanction is substantially overstated. Using sanction data from 1999-00, the administration developed a "sanction cure rate" of 45 percent. It obtained this compliance rate by dividing the average number families ending their sanction by the average number of new sanctions per month. This 45 percent rate is overstated, however, because it is based on aggregate data, not the individual behavior of families returning to compliance. (As we discuss below, Riverside County, tracking individual families, found that 27 percent of sanctioned families eventually came into compliance.) Moreover, "compliance" was not exclusively defined as meeting the federal work requirements (20 to 30 hours per week) but included signing an agreement and completing the required activity, such as attending orientation. It could also mean that the family was found to be exempt. Based on our review, although some families coming into compliance would participate sufficiently to meet federal requirements (20 to 30 hours per week), far less than 45 percent of those ending would be at this high level of participation. Finally, the administration presents no specific evidence that a full-family sanction would increase their estimated rate of attaining compliance from 45 percent to 70 percent.

Available Research Does Not Directly Address Relationship of Sanctions to Work Participation. There is no consensus in the research community on whether stronger sanctions correlate with better employment outcomes for families. This is mostly because there have been no controlled studies that compare the impacts of randomly assigned participants to weaker and stronger sanctions. Changes in sanction policy are typically accompanied by other changes, such as time limits and work incentives (such as allowing recipients to keep more of their cash grant even as their earnings increase). Nevertheless, there is research on the characteristics of sanctioned cases and what happens to them over time.

Longitudinal and Characteristics Data. Research from California and other states consistently finds that sanctioned cases face more barriers to employment than their nonsanctioned counterparts. Given that the sanctioned caseload faces greater barriers to employment, there is no basis to conclude that their estimated participation (assumed to be 70 percent) would be greater than the nonsanctioned caseload, which currently has a work participation rate of about 24 percent. A longitudinal study by Riverside County showed that within ten months, 27 percent of sanction cases ended their sanction and "participated." However, in this study, "participation" meant any level of participation, for example, attending job club. It did not necessarily mean participating for sufficient hours to meet federal requirements. We note that a full-family sanction represents a greater financial hardship and, therefore, a greater incentive to comply than the current "adult-only" sanction. Nevertheless, our review of the research on sanction impacts suggests that the success rate from a full-family sanction is likely to be substantially less than 70 percent.

What Happens to Sanctioned Families? Some studies indicate that families experiencing a full-family sanction have greater material hardships (such as utility shut off), than nonsanctioned families. However, none of the studies finding greater hardship could establish a causal relationship between the sanctions and the hardship.

Research from some states with graduated full-family sanctions indicates that some sanctioned families turned to other sources of support, primarily other family members when they were removed from aid.

Some observers predicted that sanctions and time limits associated with the 1996 federal welfare reform legislation would increase child welfare caseloads nationally. However, an Urban Institute study from 2001 found no such impacts.

Because there are no controlled studies of states that increased their sanction from adult only to full family, it is difficult to generalize about how a full-family sanction might impact families and work participation in California.

Analyst's Recommendation. Because the full-family sanction policy is not necessary to meet federal work participation rates and would substantially reduce the income for children in families where the adult is unwilling to participate, we recommend that the Legislature reject the Governor's proposal. Below we present an alternative approach to strengthen and improve the sanction policy.

Alternative Approach to Strengthening the CalWORKs Sanction

We recommend an in-person engagement strategy for each case that is in sanction status for three or more months. If upon being contacted by a caseworker, the family does not have good cause, cannot meet an exemption criteria, and is unwilling to participate, we recommend reducing the family's grant to one-half of its original total.

There are some CalWORKs families headed by able-bodied adults who could meet program participation requirements, but choose not to do so and accept the current sanction. In order to engage the adults in these families in work participation, we propose a reengagement strategy, in part modeled on a sanction prevention project in Los Angeles County.

Los Angeles County Approach to Preventing Sanctions. In order to improve compliance with work participation and avoid sanctions, Los Angles County developed a project designed to engage noncompliant families. Specifically, within ten days of sending the notice of noncompliance, a telephone contact is attempted. If the phone contact fails, a letter notifying them of a home visit is mailed to the recipient. (Recipients may decline the home visit.) Then, by phone or home visit, welfare caseworkers provide information about supportive services, program requirements, program exemptions, and the sanction process. Based on the discussion with the client, the caseworker attempts to resolve the pending sanction. The majority of the cases contacted in this project were able to avoid a sanction because:

- The recipient agreed to participate (20 percent) or went to work (6 percent);
- The caseworker determined that the client met the criteria for good cause for nonparticipation (20 percent), or met an exemption criteria (9 percent); or
- Compliance was met through other means (22 percent).

Long-Term Sanctions. Many cases resolve their sanction sometime after entering sanction status. Over a 24-month period, Riverside County found that 69 percent of cases never experienced a sanction while 31 percent had at least one month in sanction status. Of the 31 percent that were sanctioned, about 62 percent resolved their sanction at some point over the two years. The remaining 38 percent of sanctioned cases never ended their sanction, apparently because they were unwilling to do so.

A Stronger Sanction for Those Unwilling to Comply. We think a sanction more narrowly targeted at those unwilling to comply has merit. Specifically we believe that those in sanction status for over three months should be contacted, by phone or home visit, based on the Los Angeles County engagement model described above. If upon making contact with a caseworker, the family does not have good cause, cannot meet an exemption criteria, and is unwilling to participate, their grant could be reduced to one-half of its original total. If this stronger sanction were adopted by the Legislature, we recommend requiring DSS to report on the impacts on families of this increased sanction. Based on the results of the report, the Legislature could further modify the sanction policy.

Analyst's Recommendation

We recommend enactment of legislation (1) requiring a home visit or other in-person contact with each family who is out of compliance for three months or more, and (2) increasing the sanction to 50 percent of a family's grant if the adult refuses to comply with participation requirements.

GOVERNOR'S TIME-LIMIT PROPOSALS

In order to increase work participation, the Governor's budget proposes new time limits on children whose parents cannot or will not comply with the California Work Opportunity and Responsibility to Kids participation requirements. We review the impact of these time limits on work participation, families, and the state budget. We recommend rejecting the proposed time limits because they are not needed to meet federal work participation requirements.

Safety Net Time Limit. Currently, after five years of assistance, a family's grant is reduced by the adult portion, and the children continue to receive a child-only grant in the safety net program. The budget proposes to eliminate the safety net grant for children whose parents fail to comply with the federal work participation requirements as of November 1, 2007. Families currently on the safety net would be given 90 days to increase their work hours to remain eligible. Families unable to meet federal requirements would be terminated from aid.

Working Families Could Not Reenter Safety Net. We note that families who are unable to sufficiently increase their work participation within the 90-day window described above would generally be unable to return to the safety net even if they later worked sufficient hours. This is because the income ceiling for families applying for CalWORKs is below the income one would typically earn if one met federal participation requirements. This represents a "catch-22" because the family will be unable to return to the safety net regardless of work effort.

Child-Only Time Limit. The budget also proposes to limit assistance to five years for most other child-only cases (such as those with parents who are undocumented or ineligible due to a previous felony drug conviction). These time-limit policies are estimated to result in savings of about $336 million in 2007-08.

Time-Limit Impacts on Safety Net Recipients. In the current year, the budget estimates that there are 45,100 families in the safety net, rising to about 50,000 in 2007-08. The budget assumes that in 2007-08, 26 percent of these families—13,000 cases—will work sufficient hours to maintain eligibility for the safety net. The DSS bases this 26 percent rate on data indicating that currently about 19 percent of safety net cases are meeting the federal participation requirements, and that when faced with complete benefit termination, an additional 7 percent who are working part time would increase their hours so as to remain eligible. The budget estimates that the other 37,000 cases, with 94,400 children, would lose aid as of November 2007, rising to 39,600 cases (101,000 children) by June 2008.

Time-Limit Impacts on Other Child-Only Cases. The budget estimates that there are approximately 38,000 child-only cases with undocumented parents or parents with felony convictions making them ineligible for CalWORKs, that have received aid for five or more years. These cases have approximately 73,300 children. As of November 1, 2007, the budget proposes to eliminate the grants for these 73,300 children.

Fiscal Impacts. The budget estimates that the safety net time limit will result in savings of $176 million in 2007-08 based on part-year implementation, rising to $268 million in 2008-09. The child-only time limit is estimated to result in savings of $160 million in 2007-08 rising to $239 million in 2008-09.

Impacts on Work Participation Rate. The safety net time limit would increase participation in two ways. First, it modestly increases the number of families working enough hours to meet federal requirements (the 7 percent of families on the safety net who are working part-time and are assumed to reach the federally required levels in response to potential benefit termination). Second, those unable to meet federal participation would have their benefits terminated. By removing these cases from assistance, it reduces the denominator, thus increasing the participation rate. The budget estimates that these combined impacts will raise the work participation rate by 3 percent in FFY 2008, and just over 4 percent in FFY 2009. These estimates appear reasonable. Time limiting benefits for other child-only cases (where the parents are ineligible because they are drug felons or undocumented) has no impact on work participation. This is because they are already excluded from the work participation calculation. If the Legislature were to reject these time-limit proposals, the CalWORKs budget would increase by $336 million in 2007-08. We note that this increase in expenditures would increase the CRC by approximately 9 percent due to the additional excess MOE spending.

Analyst's Recommendation. Because the proposed five-year time limits for safety net cases and other child-only cases are not necessary to meet federal work participation rates and would substantially reduce the income for children in these families, we recommend that the Legislature reject these time limit proposals. We note that these proposals provide savings of $336 million in 2007-08, rising to $507 million in 2008-09. Rejecting these policies will require the Legislature to identify alternative budget solutions elsewhere.

Increasing Participation Through Food Stamps Benefits

By providing additional state-funded food stamps to families who are working sufficient hours to meet federal participation requirements but are not on California Work Opportunity and Responsibility to Kids, California could increase its work participation rate by nearly 10 percent.

Based on data from Los Angeles County, we estimate that there are approximately 42,000 families statewide who are working enough hours to meet federal participation requirements and are receiving food stamps but no CalWORKs grant. Some of these families are former CalWORKs families while others are not. If California were to increase the food stamps allotment for these families (for example, by $50 per month) using MOE funds, these cases would become assistance cases for purposes of calculating the federal work participation rate. By adding them to the calculation, California's work participation rate would increase by approximately 9.5 percent. We note that adding these cases would increase the caseload, thus reducing CRC by about 3.5 percent. The net benefit in terms of work participation would be about 6 percent (9.5 percent participation increase less a 3.5 percent reduction in the CRC).

Impacts on Recipients. Receiving this benefit (which does not involve a cash grant, only food stamps) would be seamless to recipients. The benefits would be added to their regular food stamps allotment which is currently provided through Electronic Benefit Transfer (EBT) cards which work like debit cards at food retailers. Recipients already complete a quarterly report regarding their income and eligibility status in order to receive food stamps. It may be necessary to make minor modifications to this form, but completing the form would not be an additional burden for recipients. Because these are state funded benefits, there would be no impact on the federal five-year time limit for receiving TANF-funded benefits.

Implementation Issues. The most significant barrier to implementation of this change is making the necessary programming changes to the EBT system and to the four welfare automation consortia. Costs for reprogramming are unknown. A DSS sponsored workgroup (comprised of state staff, legislative staff, county representatives, and advocates) is currently examining these implementation issues. The annual cost of the enhanced benefit would be about $25 million if it were set at $50 per month. The exact food stamp level would be a policy decision for the Legislature.

Analyst's Recommendation. Although the Governor's budget projects that California will attain federal compliance by FFY 2008, there are risks associated with this projection. First, attaining compliance is dependent on receiving the excess MOE CRC. This credit is part of current regulations and may be eliminated administratively in future years. Moreover, the federal government has not yet approved California's methodology for estimating the credit. If there is disagreement, the magnitude of the credit could be smaller. Second, attaining compliance assumes that current law policies will increase participation by 10 percent by FFY 2008. Although this is possible, we believe this 10 percent increase may be overly optimistic. Given the potential risk that California may not be in compliance in FFY 2008 (resulting in federal penalties of up to $149 million), the Legislature may wish to consider this strategy which would improve participation compliance by about 6 percentage points, and provide additional food stamp benefits for the working poor.

In-Home Supportive Services

The In-Home Supportive Services (IHSS) program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such assistance. An individual is eligible for IHSS if he or she lives in his or her own home—or is capable of safely doing so if IHSS is provided—and meets specific criteria related to eligibility for the Supplemental Security Income/State Supplementary Program. In August 2004, the U.S. Department of Health and Human Services approved a Medicaid Section 1115 demonstration waiver that made about 93 percent of IHSS recipients eligible for federal financial participation. Prior to the waiver, about 25 percent of the caseload were not eligible for federal funding and were served in the state-only "residual" program.

The budget proposes nearly $1.5 billion from the General Fund for support of the IHSS program in 2007-08, an increase of $27 million (1.9 percent) compared to estimated expenditures in the current year. This increase is attributable to caseload growth partially offset by increased savings from full implementation of the quality assurance reforms enacted in 2004-05.

IHSS Caseloads Overbudgeted

We recommend that proposed General Fund spending for In-Home Supportive Services be reduced by $26.9 million in 2006-07 and $33.9 million for 2007-08 because the caseload is overstated. (Reduce Item 5180-111-001 by $33.9 million.)

Governor's Budget. For 2006-07, the revised budget for IHSS assumes that the caseload will grow by 6.4 percent over the previous year. As a result, the budget estimates the average number of IHSS cases to be 375,000 in 2006-07, as shown in Figure 1 (see next page). The Governor's budget estimates that the IHSS caseload will reach 395,000 cases in the budget year, an increase of 5.4 percent over the current year.

LAO Estimate. Based on our review, we conclude that the Governor's caseload projections for the current and budget year are overstated. Our conclusion is based on an examination of the actual caseload for the first six months of 2006-07, which indicates that the average monthly caseload is significantly below the Governor's current estimate for that six month period. We have adjusted the budget's caseload downward to account for the most recent actual monthly caseload (December 2006). Figure 1 reflects this adjustment, and shows that the total caseload is overstated by 2 percent for 2006-07 and by 2.5 percent for 2007-08. Because the caseload is overstated, we estimate that the IHSS program is overbudgeted by $77.6 million ($26.9 million General Fund) in 2006-07, and $97.7 million ($33.9 million General Fund) in 2007-08. Accordingly, we recommend that the Legislature recognize a General Fund savings of $26.9 million in 2006-07 and reduce the IHSS budget by $33.9 million General Fund in 2007-08.

Figure 1

IHSS Caseload
Governor's Budget and LAO Estimate

Year	Governor's Budget	LAO Estimate	Difference	
			Amount	Percent
2005-06	352,386	352,386	—	—
2006-07	374,999	367,362	-7,637	-2.0%
2007-08	395,100	385,391	-9,709	-2.5

A separate analysis of unaudited monthly cash expenditures for the program indicates that IHSS savings may be even greater than indicated above. Six months into the year, monthly cash expenditures are running below where one would expect them to be, given the amount of funding appropriated for the program. The lower-than-expected expenditures suggest that the IHSS cost per case is declining. However, we are reluctant to recognize additional savings at this time because (1) the expenditures are unaudited and (2) the budget already reflects a reduction in the cost per case due to full implementation of the quality assurance initiative. We will continue to monitor expenditures and report to the Legislature on the IHSS caseload and expenditures at the May Revision.

FREEZING STATE PARTICIPATION IN PROVIDER WAGES

The budget proposes to limit state participation in provider wages and benefits. This proposal results in General Fund savings of at least $14 million in 2007-08, plus substantial cost avoidance in future years. We review current law regarding state participation in wages, describe the General Fund exposure associated with current law, and provide alternatives to the Governor's proposal.

Program Funding. The federal, state, and local governments share in the cost of the IHSS program. The federal government pays for 50 percent of program costs that are eligible for reimbursement through the Medicaid Program. Under the recently approved Medicaid demonstration waiver, about 93 percent of cases receive federal funding. The state pays 65 percent and the counties pay 35 percent of the nonfederal share of provider wages.

State Participation in Wage Increases. Chapter 108, Statutes of 2000 (AB 2876, Aroner), authorized the state to pay 65 percent of the nonfederal cost of a series of wage increases for IHSS providers working in counties that have established "public authorities." The public authorities, on behalf of counties, negotiate wage increases with the representatives of IHSS providers. The wage increases began with $1.75 per hour in 2000-01, potentially to be followed by additional increases of $1 per year, up to a maximum wage of $11.50 per hour. Chapter 108 also authorizes state participation in health benefits worth up to 60 cents per hour worked.

State participation in wage increases after 2000-01 is contingent upon meeting a revenue "trigger" whereby state General Fund revenues and transfers grow by at least 5 percent since the last time wages were increased. Pursuant to this revenue trigger, the state currently participates in wages of $10.50 per hour plus 60 cents for health benefits, for a total of $11.10 per hour. Based on current revenue estimates, the final trigger increasing state participation in wages to $12.10 per hour would be pulled for 2007-08.

Future General Fund Exposure. Although the state participates in wages up to $11.10 per hour, current county wages range from $7.50 to $13.30 per hour. Figure 2 (see next page) shows that several large counties, such as Los Angeles, San Diego, and Riverside have wages below $11.10. Given that these large counties are below $11.10, the state General Fund faces significant exposure to increased costs if counties increase wages. Specifically, if all counties were to increase their wages to $11.10 per hour, the increased annual cost to the General Fund would be about $225 million. Once the final wage trigger is pulled, allowing state participation in wages up to $12.10 per hour, the General Fund exposure increases by $125 million to a total of about $350 million annually. It is difficult to estimate how fast wages will increase, as wage increases are largely dependent on county fiscal health and collective bargaining outcomes. Nevertheless, we believe it will take several years to reach the $350 million in additional annual costs. As a point of reference, from July to November 2006, the General Fund costs from increased wages and benefits was about $20 million.

Figure 2

IHSS Hourly Wages and Benefits by County Approved by January 10, 2007

Alameda	$11.42	Orange	$9.00
Alpine	7.50	Placer	9.60
Amador	8.85	Plumas	8.75
Butte	8.75	Riverside	9.60
Calaveras	8.98	Sacramento	11.10
Colusa	7.50	San Benito	9.50
Contra Costa	11.83	San Bernardino	9.23
Del Norte	8.75	San Diego	9.67
El Dorado	9.10	San Francisco	12.30
Fresno	9.80	San Joaquin	9.53
Glenn	7.75	San Luis Obispo	9.60
Humboldt	7.50	San Mateo	11.38
Imperial	7.50	Santa Barbara	10.60
Inyo	7.50	Santa Clara	13.30
Kern	8.55	Santa Cruz	11.10
Kings	8.60	Shasta	7.50
Lake	7.50	Sierra	8.75
Lassen	7.50	Siskiyou	7.50
Los Angeles	8.96	Solano	11.10
Madera	7.50	Sonoma	11.10
Marin	11.10	Stanislaus	8.85
Mariposa	7.75	Sutter	8.85
Mendocino	9.60	Tehama	8.10
Merced	8.10	Trinity	7.50
Modoc	7.50	Tulare	8.10
Mono	7.50	Tuolumne	7.50
Monterey	11.10	Ventura	9.60
Napa	11.10	Yolo	11.10
Nevada	8.75	Yuba	9.10

Governor's Proposal. The budget proposes to freeze state participation in wages and benefits. Such a freeze results in a savings of $14 million in 2007-08. This is because some counties already pay providers over $11.10, and absent this proposal, the state would have to increase its participation in those wages. Depending on the degree to which the remaining counties would have increased wages absent this proposal, the Governor's approach would result in additional, unknown cost avoidance in 2007-08. Finally, the Governor's proposal eliminates the $350 million future exposure discussed above.

We note that the Governor's proposal does not limit the wages paid to IHSS providers; rather, it caps state participation to the level in effect on the date the freeze is enacted. Counties that elect to pay wages above what they were paying as of the wage freeze would share such wage cost increases with the federal government (50 percent county and 50 percent federal). The state would continue to pay its 65 percent share of the nonfederal costs of wages up to the county wage in place on the date of the wage freeze. This means that the counties that have higher wages in place at the time of the freeze would lock in a greater degree of state participation prospectively than the counties with lower wages as of that date.

Current-Year Wage Increases. The administration believes it has the authority to freeze state participation in wages to January 10, 2007 levels during 2006-07. However, the administration now indicates that it will continue to participate in post-January 10, 2007 wage increases until its urgency legislation proposal prospectively limiting state participation is enacted by the Legislature.

Impacts on Recipients and Providers. In the short term, we believe that freezing wages at their current levels will have minimal influence on the supply of available IHSS providers. However, in the long run, if counties decide that they cannot afford to increase wages without state participation, there may be a reduction in the supply of providers. This could impact the quality of care for IHSS recipients, as it may be more difficult to find skilled providers. Additionally, about 43 percent of IHSS providers are immediate family members, and assuming the provider lives with the recipient, a long-term wage freeze may limit the household income of the provider and the recipient.

Alternatives to the Governor's Proposal

By freezing state participation in wages, the Governor's proposal eliminates the state's current exposure of about $350 million from future wage increases. Below we present some alternatives to this proposal which offer less budgetary savings.

Alternative 1: Reject the Governor's Proposal. The Legislature could reject the proposal, and allow the final wage trigger to increase state participation in wages and benefits up to $12.10 per hour. This alternative would result in (1) costs of $14 million in 2007-08, (2) unknown additional costs in 2007-08 depending on county wage increases, and (3) a future exposure of about $350 million.

Alternative 2: Eliminate Final Wage Trigger. The Legislature could eliminate the final wage trigger, but allow state participation in wages up to the currently established combined level of $11.10 per hour. This would result in a savings of $14 million in 2007-08, and would limit future state exposure to about $225 million as counties increase their wages towards $11.10. One advantage of this alternative is that it would give all counties that are currently below $11.10 per hour an opportunity to increase wages and obtain state participation. The disadvantage is that it allows unknown additional costs in 2007-08 and leaves an exposure of $225 million, which is significantly more than the Governor's approach.

Alternative 3: Delay Final Wage Trigger. Another option is delaying the final wage increase indefinitely. This would allow all counties to receive state participation in wages up to the currently established $11.10 per hour in 2007-08, and would leave the decision of raising state participation to $12.10 to future years, when the state's fiscal health may have improved. In the short run, this would limit the General Fund exposure to $225 million. However, it adds unknown costs to 2007-08, compared to the Governor's proposal, depending on the number of counties that increase their hourly IHSS provider wage up to $11.10.

Conclusion. The Governor's proposal to freeze wages results in budgetary savings of $14 million in 2007-08. Additionally, it eliminates potential future annual costs of about $350 million for provider wages. In deciding whether to adopt this proposal, the Legislature should weigh the budgetary savings against the potential for a long term county wage freeze which may make it somewhat more difficult for recipients to find skilled providers.

ENHANCING PROGRAM INTEGRITY

Chapter 229, Statutes of 2004 (SB 1104, Committee on Budget and Fiscal Review), created an In-Home Supportive Services quality assurance (QA) initiative designed to improve the accuracy of needs assessments and program integrity. Although the QA initiative has improved the accuracy and standardization of service hour authorizations by social workers, there are limited controls assuring that recipients receive their service hours in accordance with their case plan. Furthermore,

current law and regulations are unclear as to whether recipients are permitted to reallocate their total approved hours in a way that deviates from the allocation determined by the social worker. We review the department's implementation of the quality assurance initiative, and provide recommendations to enhance program integrity and increase the likelihood that recipients receive services in accordance with their case plans.

Background

The IHSS program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such assistance. Figure 3 (see next page) shows specific tasks for which IHSS recipients may receive assistance. The IHSS program relies on county social workers to determine the number of hours for each type of IHSS task that a recipient needs in order to remain safely in his/her own home. Typically, social workers conduct reassessments once every year to determine whether the needs of a recipient have changed. After the social worker has determined the appropriate tasks, and time needed for each, a notice of action (NOA) is sent informing the recipient of the number of assigned hours for each task.

Quality Assurance Initiative

Chapter 229 outlined a number of quality assurance (QA) activities to be performed by the Department of Social Services (DSS), the counties, and the Department of Health Services to improve the accuracy of IHSS needs assessments, enhance program integrity, and detect and prevent program fraud and abuse. A key feature of the QA initiative is improving the accuracy of assessments for service hours. This is important because the correct assignment of service hours by task is critical if recipients are to remain in their own homes. For similar reasons, as we discuss later, it is important for recipients to *use* their authorized hours as allocated.

Below we discuss the most significant QA changes concerning the development of hourly task guidelines and county QA units.

Hourly Task Guidelines

Prior to the QA initiative, social workers relied significantly on their own judgment when determining the number of service hours to provide to IHSS recipients. As a result, IHSS recipients with similar disabilities, but residing in different counties may not have been granted similar hour allocations. Another way to identify social worker variance in assigning

Figure 3

In-Home Supportive Services Task Categories

Tasks	Examples
Domestic Services	Cleaning; dusting; picking up; changing linens; changing light bulbs; wheelchair maintenance; taking out garbage
Laundry	Sorting; washing; hanging; folding; mending and ironing
Shopping and Errands	Purchasing groceries, putting them away; picking up prescriptions; buying clothing
Meal Preparation	Planning menus; preparing food; setting the table
Meal Cleanup	Washing dishes and putting them away
Feeding	Assistance with food and fluid intake
Ambulation	Assisting recipient with walking or moving in home or to vehicle
Bathing, Oral Hygiene, Grooming	Cleaning the body; getting in or out of the shower; hair care; shaving; grooming
Routine Bed Baths	Cleaning the body
Dressing	Putting on/ taking off clothing
Medications and Assistance with Prosthetic Devices	Medication administration assistance; taking off/putting on, maintaining, and cleaning prosthetic devices
Bowel and Bladder	Bedpan/ bedside commode care; application of diapers; assisting with getting on/off commode or toilet
Menstrual Care	External application of sanitary napkins
Transfer	Assistance with standing/ sitting
Repositioning/ Rubbing Skin	Circulation promotion; skin care
Respiration	Assistance with oxygen and oxygen equipment
Protective Supervision	Ensuring recipient is not harming themselves

hours is to compare the average hour allocations per case among the ten largest counties. As shown in Figure 4, among California's ten largest counties in 2006-07, average hours per case ranged from 69 to 101 hours. We assume that these large counties are serving similar populations. Thus, differences in the average hours assigned are likely to be the result of social worker discretion and practice.

Figure 4

IHSS Service Hours Vary Substantially Across Largest Counties

2006-07

County	Average Hours Per Case[a]	Average Monthly Cases
Santa Clara	69.6	11,202
Orange	69.7	11,557
San Diego	79.7	19,027
Los Angeles	80.6	149,806
San Francisco	82.1	16,209
California	**83.9**	**344,484**
San Bernardino	86.3	14,935
Alameda	91.6	13,279
Riverside	94.0	10,229
Sacramento	98.5	16,681
Fresno	101.1	11,019

a These averages are from the IHSS Personal Care Services Program (PCSP) which is approximately 93 percent of the total IHSS caseload.

To meet the requirements of Chapter 229, DSS lead a workgroup composed of state representatives, county staff, legislative staff, and advocacy groups. The workgroup collected information from each county on the average number of hours granted per IHSS case. They then considered various levels of IHSS recipient ability, and developed corresponding ranges of times that would be appropriate to grant for each task. From this workgroup, hourly task guidelines (HTG) were created to provide social workers with a standard tool to ensure that service hours are authorized consistently and accurately throughout the state.

Since September 2006, HTG have been used statewide by social workers during their assessments. The guidelines help social workers to determine a recipient's level of ability to perform each IHSS task. After determining a recipient's level of ability, the social worker decides if the number of hours of assistance needed per week is within the HTG range for a particular task. The HTG do not take away the individualized assessment process, but instead require a social worker to provide a written justification if a recipient is assessed as needing hours that are outside (either above or below) the range established by HTG . These task guidelines increase the probability of consistent assessments throughout the state.

In a further effort to achieve uniformity, the IHSS Social Worker Training Academy was developed as a standardized method to educate social workers in QA and the proper usage of HTG. Interviews with county workers suggest that HTG and uniform training will likely increase the uniformity of assessments among counties so that IHSS recipients moving from one county to another will not likely experience large increases or decreases in their hour allocations.

County Quality Assurance Units and Reviews

Prior to the QA initiative, county efforts to review IHSS cases and hours varied. Some counties dedicated resources to reviewing cases and promoting uniformity, while others did not. Pursuant to QA requirements, each county has now established a QA unit to review and investigate cases. The *2006-07 Budget Act* funded a total of 110 QA positions, which were allocated to the 58 counties. The QA units conduct desk reviews, home visits, and targeted reviews. Although QA reviews began in 2005-06, legislative reporting requirements were not in place until 2006-07. As a result, DSS indicates that it is now compiling quarterly reports on these reviews, and these results will be available during budget hearings in 2007.

Mandatory Desk Reviews. Chapter 229 requires counties to complete 250 randomly selected desk reviews each year for each QA worker in a given county. Thus, a total of about 27,500 desk reviews will be conducted during the current year. During a desk review, a QA worker reviews a case to verify the presence and accuracy of all required forms, necessary hour calculations, and documentation. This type of review is used to ensure that caseworkers accurately apply the IHSS rules and procedures for assessing a recipient's need for services. A desk review may be supplemented with a phone call or home visit, but interaction with the program recipient is not required.

Home Visits. Counties are required to complete 50 home visits per allocated QA worker per year. A home visit requires QA workers to schedule an in-person meeting with an IHSS recipient to validate the information in the case file and verify that the services authorized are consistent with the needs of the recipient.

Targeted Reviews. Chapter 229 requires counties to develop a schedule under which QA staff will periodically perform targeted case reviews. The purpose of such reviews is to look more closely at individuals and situations that raise concerns about the delivery of IHSS services. Counties may use broad discretion in determining the types of cases to target.

Counties have used information gathered during home visits and desk reviews to determine which cases to target.

One example of cases some counties have chosen to target involves providers who are paid for delivering over 300 hours of services each month. Working over 300 hours per month is the equivalent of working 10 hour days, seven days per week. Although the program does not prevent providers from working over 300 hours, there is some concern that it would be difficult to provide this much service to a recipient if the provider does not live in the same household. As such, some counties have opted to target cases involving a provider that is paid for over 300 hours of services per month, but is not living with the recipient. These cases were chosen to verify that quality care was actually being provided in the reported amounts. Counties believed that targeting this population might yield results that could lead to IHSS improvements.

Expanding Quality Assurance to Service Delivery

Through a standardized assessment process, the QA initiative increases the likelihood that recipients with similar impairments will be provided similar service hours to meet their needs. However, there has been no parallel effort to ensure that the hours granted are being provided in accordance with how they were allocated. Current law and current practice are unclear as to whether it is appropriate for recipients to reallocate their hours among tasks, or across weeks, as long as they do not go over their total approved monthly hours. At the assessment, recipients are given documents suggesting that the intent of the program is to use hours according to the hour allocations assigned by the social worker, but there are no penalties for reallocating hours without social worker approval. Below we review current law and current practice regarding the use of authorized hours.

Current Law

State law provides that the purpose of the IHSS program is to provide supportive services to eligible aged, blind, and disabled individuals who cannot safely remain in their homes without these services. Current law further states that a recipient of IHSS services shall receive a description of "each specific task authorized and the number of hours allotted." Current law also requires that county welfare departments reassess each recipient's need for service at least once every 12 months with limited exceptions. Finally, counties must reassess "a recipient's need for supportive services anytime that the recipient notifies the county of a need to adjust" service hours.

Given current law requirements that each client (1) receive notification of the tasks and hours authorized, and (2) be reassessed anytime an adjustment in service hours is needed, it appears that legislative intent is for clients to use their hours of service as authorized. Although a recipient's reallocating hours from one task to another (for example, from bathing to domestic services) seems contrary to current statutory provisions, there is no explicit statutory prohibition against such reallocation.

Current Practice

The IHSS program is designed to provide individuals with the services necessary to allow them to remain safely in their own homes. Several documents provided to IHSS recipients and providers reinforce the intent that tasks authorized and the hours allocated should be used in the way in which they were assigned. Ultimately, however, this expectation may be unclear to recipients and providers.

Notice of Action. After a social worker completes an assessment, the recipient is notified of the number of hours for *each* IHSS task they were granted. Currently, this information is provided through a NOA that is sent *only* to the recipient. It then becomes the responsibility of the recipient to direct his or her care by informing the provider of the number of hours authorized for each task. As a result of this practice, IHSS providers may only know what their clients tell them. For example, if a recipient who is assessed as needing three hours of bathing and four hours of meal preparation per week instructs his/her provider to perform seven hours of meal preparation and no bathing, the provider would likely not know that bathing was a task approved by the IHSS social worker. We note that some counties have changed this practice, and now send providers a document that provides varying details of the hours assigned to each task. However, there is no established statewide method for counties to inform providers of the care that was authorized by the social worker. The NOA states that recipients must notify their social worker of any changes in their condition that may affect their hour allocations. However, this does not indicate that there is any prohibition on reallocating approved hours.

IHSS Recipient/Employer Responsibility Checklist. The recipient/employer responsibility checklist explains IHSS rules and responsibilities, and is intended to be discussed between the IHSS social worker, recipient (who is also considered the employer), and provider. The form provides places for these three parties to sign to indicate that they have discussed the information provided. However, the form is often only signed by the recipient and the social worker at the time of the assessment. Although DSS considers this form to be required, there are currently no consequences if a provider does not sign the form.

The form states that the "recipient has informed their provider of the services authorized and the time given to perform those services." This statement suggests that reallocating assessed hours is not allowed in IHSS, but it does not include a statement that prohibits reallocating hours across tasks or across weeks.

Time Cards. In order to receive payment, recipients and providers sign and return timecards to their counties every two weeks. These timecards require the recipient and provider to report the *total* number of hours that were provided each day of the pay period, but do not ask them to indicate the number of hours they spent on each specific task.

Since DSS regulations require that social workers assess hours per task on a weekly basis, it may be implied that hours are intended to be used weekly. In other words, a person needing 100 hours per month of a particular service would be assessed as needing that service 25 hours per week, and should presumably use their hours accordingly. However, there is currently no prohibition against reallocating hours across weeks.

We are aware of one county which is concerned about clients reallocating hours across weeks, and follows up with recipients when they see that more than 59 percent of the approved hours per month were used in any two-week period. This county acknowledges that IHSS recipients may have weeks where they need to use more or less of their approved hours, and as a result they are not overly concerned when hours vary by 9 percent or less. It is the belief of this county that when a recipient and provider claim over 59 percent of their hours in a two-week pay period, it may be possible that the condition of the recipient has changed so drastically that a reassessment is necessary.

Bottom Line: Unclear Expectations for Recipients and Providers

Program design and documents imply that hours should be used as they were allocated. However, because there is no explicit prohibition on reallocating hours across tasks or weeks, recipients and providers may not be aware that the intent of the program is to have them use their hours as assigned by the social worker. In other words, recipients may believe that the hours they receive are flexible and reallocate them amongst tasks, thereby treating them as a block grant of hours. Local officials indicate that some IHSS recipients reallocate their total approved hours between tasks without social worker approval. This practice could result in either inadequate or unneeded care. In the former case, a recipient receiving inadequate care could be in jeopardy of being placed in a nursing home if his/her condition deteriorated. In the latter case, the state would be paying for services that were unneeded.

Analyst's Recommendations

Below we recommend changes to current law and practices that are likely to result in clearer expectations for IHSS recipients, providers, social workers, and administrators. Figure 5 provides a brief summary of the proposed recommendations. If adopted, these recommendations would enhance program integrity and the delivery of services by ensuring that recipients receive the level and type of services authorized by the social worker.

Figure 5

Summary of LAO Recommendations

- ✓ ***Clarify Expectations in Statute.*** Clarify in statute that reallocation of hours across tasks is prohibited without social worker approval, and place limits on reallocation of hours across weeks.
- ✓ ***Notify Provider of Authorized Tasks.*** Require counties to inform providers of the authorized hours by task, and require providers to acknowledge receipt of this information.
- ✓ ***Inform Recipients of Program Requirements.*** Modify the recipient/employer checklist to inform In-Home Supportive Services recipients of the requirement to use services as authorized by their social worker, and require recipients to sign this form prior to the receipt of IHSS services.

Clarify Expectations in Statute

As discussed above, although current law and practice suggest that recipients should not reallocate their hours among tasks, and across weeks, such action is not prohibited. Moreover, documented reallocation is not grounds for nonpayment. Therefore, we recommend enactment of legislation that sets clear expectations for the use of authorized hours. This legislation would (1) prohibit reallocation across tasks without social worker approval, (2) limit reallocation across weeks, and (3) provide that documented misuse of hours is grounds for nonpayment. With respect to reallocation across weeks, we believe the "59 percent" approach discussed above provides sufficient flexibility for recipients to use services as needed while maintaining program integrity.

Make Certain Certifications Mandatory to Establish Payment

In order to assure that providers know the number of hours assigned to each IHSS task, we recommend (1) that providers indicate in writing that they have reviewed a document stating the hours per task and (2) that clients sign the recipient/employer checklist as a condition for processing the first payment. We discuss these certifications and our recommendations below.

Notify the Provider of Authorized Tasks. We recommend enactment of legislation requiring the provider be given a copy of the NOA, or a similar document, which identifies the tasks and the number of hours per task that were approved by the social worker. The provider would have to indicate in writing that he/she has seen the authorized hours by task, and understands that service hours are to be delivered as authorized. Currently, the provider must sign an enrollment form that provides the county with general information, such as name, address, and social security number. Because the provider must already supply the county with an enrollment form prior to receiving payment, requiring this new or modified form, would not represent an additional burden. This signed form will increase the probability that recipients will receive the services that they need to avoid institutionalization.

A further benefit of this requirement is that it would allow counties to hold providers accountable in instances of IHSS recipient neglect. Currently, because providers rely completely on the recipients to inform them of the approved tasks and hours, it is difficult to hold providers accountable when neglect occurs due to inadequate service. This is because providers can claim that they were not aware of the services authorized by the social worker, and were following the instructions given to them by the recipients. By requiring the providers to review the authorized services, counties will be able to hold providers responsible for providing those services. Additionally, providers will know when the recipients are asking for unauthorized activities, and providers will not be able to claim that they were unaware of the services they were authorized and paid to provide.

Inform Recipients of Program Requirements. As discussed earlier, there are a couple of flaws with the IHSS recipient/employer checklist. First, although recipients receive this form each time they are assessed, there is currently no consequence when either a recipient or a provider does not sign and return an IHSS recipient/employer checklist. Second, this form implies that hours should be used in accordance with the way in which they were allocated, but does not indicate that there are any consequences for reallocating such hours.

In order to address these shortcomings, we make several recommendations. First, we recommend that *recipients* be required to have these signed forms on file in order to process payment. Second, we recommend that this form be modified to only be signed by the recipient and social worker since the provider must already acknowledge their understanding of program expectations when they sign the recommended form mentioned above. Third, we recommend that this form be modified to indicate a recipient's responsibility to use hours as allocated and seek social worker approval before reallocating such hours. Finally, the form should indicate that reallocating hours across tasks and weeks without social worker approval could be grounds for nonpayment. We note that requiring recipients to sign this modified form should not create an additional burden, as it is current practice for the recipient to sign the current recipient/employer checklist form at the time of assessment and reassessment.

Setting clearer expectations for recipients and providers increases the probability that hours will be used as authorized. Ultimately, using hours as authorized by the social worker increases the likelihood that recipients will receive the services necessary for remaining in their own homes.

Fiscal Impacts. The recommendations above will most likely result in savings in payments for services, which will be partially offset by increases in workload as recipients request more reassessments and modifications. We estimate the net General Fund savings could range between $2 million and $5 million. Currently, recipients and providers claim about 96 percent of the hours they are authorized each month. We believe that most recipients want to comply with the rules of the program, and that with clearer rules against reallocating hours there will be a slight decrease in the utilization of authorized service hours. This is because when recipients do not need all of the hours assigned to a specific task in a given pay period, they will know that they are not permitted to ask their provider to spend the extra time on another task and will instead claim fewer hours in the pay period.

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 $3.9 billion from the General Fund for the state's share of SSI/SSP in 2007-08. This is an increase of $350 million, or 9.9 percent, over estimated current-year expenditures. This increase is due primarily to caseload growth, the cost-of-living adjustment (COLA) to be provided in January 2008, and an increase in the federal administrative fee.

In 2007-08, it is estimated that there will be an average of 370,600 aged, 21,600 blind, and 872,600 disabled SSI/SSP recipients. In addition to these federally eligible recipients, the state-only Cash Assistance Program for Immigrants (CAPI) is estimated to provide benefits to an average of 11,400 legal immigrants in 2007-08, for whom federal financial participation is not available.

Budget Overestimates Cost of Providing Statutory COLA

The General Fund cost of providing the statutory Supplemental Security Income/State Supplementary Program cost-of-living adjustment (COLA) will be $45 million below the budget estimate due to a downward revision in the California Necessities Index and an upward revision of the Consumer Price Index. We recommend that proposed General Fund spending to provide the 2008 COLA be reduced by $45 million in 2007-08. (Reduce Item 5180-111-001 by $45 million.)

Background. Pursuant to current law, the Governor's budget provides the statutory COLA in January 2008. 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 COLA (based on the Consumer Price Index for Urban Wage Earners and Clerical Workers, or the CPI-W) 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-W, the budget includes $217 million for providing the statutory COLA for six months, effective January 2008.

The CNI Revised. The January 2008 COLA is based on the change in the CNI from December 2005 to December 2006. The Governor's budget, which is prepared prior to the release of the December CNI figures, estimates that the CNI will be 4.2 percent, based on partial data. Our review of the actual data, however, indicates that the CNI will be 3.7 percent.

The CPI Underestimated. The January 2008 federal SSI COLA will be based on the change in the CPI-W from the third quarter (July to September) of calendar 2006 to the third quarter of calendar 2007. The Governor's budget estimates that the change in the CPI-W for this period will be 1.2 percent. Based on our review of the consensus economic forecasts for 2007, we estimate that the CPI-W will be 1.4 percent. This increase in the CPI-W (compared to the Governor's budget) slightly reduces the state cost of providing the statutory COLA because it effectively increases federal financial participation toward the cost of the state COLA.

Cost of Providing COLA Is Overestimated. Taken together, the changes in CNI and CPI-W (in relation to the Governor's budget) decrease the General Fund cost of providing the statutory COLA by approximately $45 million. Accordingly, we recommend that the Legislature reduce the SSI/SSP budget by $45 million in 2007-08, to reflect a more recent estimate of the amount of funds needed to fund the SSI/SSP COLA.

Redirecting SSI/SSP COLA Funding to the California Work Opportunity and Responsibility to Kids (CalWORKs)

In order to more effectively utilize General Fund resources for cash assistance program COLAs to reduce poverty, we recommend redirecting $123.7 million of the funds proposed for the SSI/SSP COLA to provide the CalWORKs COLA. Please see the "Crosscutting Issues" section of this chapter for the details of this recommendation.

SSI/SSP Grant Levels

Figure 1 shows SSI/SSP grants on January 1, 2008, for both individuals and couples as displayed in the Governor's budget and adjusted to reflect the actual CNI and our estimate of the CPI-W. As the figure indicates, grants for individuals will increase by $32 to a total of $888 per month, and grants for couples will increase by $56 to a total of $1,558 per month. As a point of reference, we note that the federal poverty guideline for 2007 is $851 per month for an individual and $1,141 per month for a couple. Thus, the grant for an individual would be 4 percent above the

2007 poverty guideline and the grant for a couple would be 37 percent above the guideline.

Figure 1

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

(January 2007 and January 2008)

Recipient Category	January 2007	January 2008 Governor's Budget	January 2008 LAO Projection[a]	LAO Projection Change From 2007 Amount	LAO Projection Change From 2007 Percent
Individuals					
SSI	$623	$630	$632	$9	1.4%
SSP	233	262	256	23	9.9
Totals	**$856**	**$892**	**$888**	**$32**	**3.7%**
Percent of poverty[b]	101%	105%	104%		
Couples					
SSI	$934	$946	$947	$13	1.4%
SSP	568	619	611	43	7.5
Totals	**$1,502**	**$1,565**	**$1,558**	**$56**	**3.7%**
Percent of poverty[b]	132%	137%	137%		

a Based on actual California Necessities Index increase (3.7 percent) and projected U.S. Consumer Price Index increase (1.4 percent).

b 2007 U.S. Department of Health and Human Services Poverty Guidelines. The guidelines are adjusted annually for inflation.

Caseload Overstated for CAPI

We recommend that proposed General Fund spending for the Cash Assistance Program for Immigrants be reduced by $5.3 million in 2006-07 and $3.3 million for 2007-08 because the caseload is overstated. (Reduce Item 5180-111-001 by $3.3 million.)

Background. Pursuant to current law, since September 2006, sponsored immigrants who have lived in the United States for at least ten years no longer have their sponsor's income counted when determining their eligibility. If they meet the financial eligibility rules for SSI/SSP, and have not attained citizenship, they became eligible for CAPI.

Budget Estimate. The *2006-07 Budget Act* assumes that the end of the ten-year deeming period would result in approximately 250 sponsored noncitizens becoming eligible for CAPI each month beginning in September 2006. This increase in the CAPI caseload results in a General Fund cost of $13 million in 2006-07, and $46 million in 2007-08.

Actual Caseload. Our review of the actual CAPI caseload from July through November 2006 indicates that these sponsored immigrants have not yet joined the CAPI program. Specifically, the CAPI caseload through November 2006 is about 750 cases (4 percent) below the budgeted caseload.

LAO Caseload Estimate. We have adjusted the budget's caseload trend downward to account for the most recent actual data. To account for the possibility that some sponsored immigrants may enter the caseload later than expected, our revised forecast adds back 250 such cases in the spring and fall of 2007. After these adjustments, we estimate that the CAPI caseload is overstated by 5.6 percent in 2006-07, and 2.6 percent in 2007-08. Based on our revised caseload, we further estimate that CAPI is overbudgeted by $5.3 million in 2006-07 and $3.3 million in 2007-08. Therefore, we recommend that the Legislature recognize a General Fund savings of $5.3 million in the current year, and reduce the CAPI budget by $3.3 million in 2007-08. We will continue to monitor the CAPI caseload and report to the Legislature at May Revision on any changes.

CHILD WELFARE SERVICES

California's state-supervised, county-administered Child Welfare Services (CWS) program provides services to abused and neglected children, children in foster care, and their families. The CWS program provides (1) immediate social worker response to allegations of child abuse and neglect; (2) ongoing services to children and their families who have been identified as victims, or potential victims, of abuse and neglect; and (3) services to children in foster care who have been temporarily or permanently removed from their family because of abuse or neglect.

The *2007-08 Governor's Budget* proposes $2.4 billion from all funds and $714 million from the General Fund for the Child Welfare System. This amount includes an estimated $1.4 billion in federal funds. This represents an increase of slightly less than 1 percent in total funds and a decrease of 8 percent General Fund from the current year. The General Fund decrease is primarily due to the budget proposal to use $56 million in Temporary Assistance for Needy Families (TANF) funds to offset a like amount of CWS General Fund costs in 2007-08.

DESPITE SUBSTANTIAL IMPROVEMENT, FEDERAL FINANCIAL PENALTIES LIKELY IN 2007-08

Federal law requires California to improve its performance on outcome measures established for the child welfare system. We provide an update on the state's recent improvement on federal outcome measures, and an estimate of the risk of penalties based on current performance.

Federal Review System for Child Welfare and Foster Care

The federal Adoption and Safe Families Act (ASFA) of 1997 made significant changes to state CWS and foster care programs. Among other changes, ASFA required that the federal Department of Health and Human Services develop a set of outcome measures and create an ongoing state performance review process for these programs. The Child and Family Service Reviews, resulting from ASFA directives, include: (1) a focus on outcomes for children and families, (2) the use of multiple quantitative and qualitative measures to evaluate outcomes and performance, and (3) joint federal and state review teams.

Federal Child Welfare Performance Requirements. In 2002, the federal Administration for Children and Families (ACF) conducted its first performance review of California's child welfare system. At the time of the review, California failed all seven of the outcome measures pertaining to child safety, well-being, and permanency. Child safety outcomes focus on the protection of children from abuse. Permanency outcomes measure the state's success at providing stable foster care placements for a child and/or permanent resolutions for children who cannot return home. Finally, well-being outcomes pertain to meeting children's educational, physical, and mental health needs, and maintaining connections to their family and communities. Each outcome may contain a number of subgoals, all of which must be met in order to receive a "passing" grade for the measure.

Corrective Action. Because California failed the 2002 federal review, the state was required to develop and implement a Performance Improvement Plan (PIP) in order to avoid penalties in the form of reductions in federal funding. In our *Analysis of the 2006-07 Budget Bill*, we reviewed the most recent data available, from the second quarter of 2005, and found that at that time the state was still failing all seven of these measures.

California's Current Performance

The federal government will review the state's performance on its PIP in April 2007 (examining data from the 3rd quarter of 2006). Because 3rd quarter data are not yet available for review, we have compared the state's performance in the 2nd quarter of 2005 with the same quarter in 2006. Figure 1 shows that the state has made notable improvement and is now passing in four of seven outcome areas, while continuing to fail in the remaining three.

Partial Credit for Permanency Outcome? As Figure 1 shows, within the permanency outcome (#3), the state is passing four and failing two out of the six required subgoals. As mentioned above, normally, all subgoals within an outcome must be met in order for the state to "pass" the outcome measure. However, it is possible that California could receive partial credit for this outcome. The precedent for this occurred with the review of the District of Columbia, where federal penalties were decreased based on the number of subgoals that the district had met at the time of its final PIP review. From this perspective, California could be determined to have passed four of the outcomes completely, and one (permanency) partially.

Figure 1

Child Welfare Services
California's Performance Improvement Status

Performance Outcomes	Performance Second Quarter 2005		Performance Second Quarter 2006	
	Result	Pass/ Fail	Result	Pass/ Fail
Safety				
(1) Children are protected from abuse and neglect (two goals)		**F**		**P**
Children with repeat maltreatment ↓	8.7%	P	8.4%	P
Maltreatment of children in foster care ↓	0.78	F	0.66	P
(2) Children are safely maintained in their homes		**F**		**P**
Children with repeat maltreatment ↓	22.6%	F	22.1%	P
Permanency				
(3) Children have permanency and stability in their living situations		**F**		**F**
Children who reenter foster care after exit ↓	10.7%	F	10.9%	F
Children/family reunified within 12 months ↑	68.2	P	68.2	P
Children adopted within 24 months ↑	29.3	P	29.7	P
Children with two or less placements in 12 months ↑	85.2	F	85.7	F
Timely establishment of permanency goals ↑	74.3	P	77.8	P
Proportion of children with goal of long-term foster care ↓	31.3	P	28.8	P
Well-Being				
(4) Children whose family relationships and connections are preserved		**F**		**P**
(5) Families have enhanced capacity to provide for their children's needs		**F**		**F**
(6) Children receive appropriate services to meet their educational needs		**F**		**F**
(7) Children receive adequate services to meet their physical and mental health needs		**F**		**P**

↑ ↓ Arrows indicate direction of desired performance improvement.

Estimate of Penalty Exposure. Figure 2 (see next page) presents our estimate of the potential federal penalties facing California. Our estimate is based on the most recent performance data from the second quarter of 2006, and it is possible that California will improve further in the third quarter of 2006. We calculate the state's penalty exposure, assuming there is no improvement.

Figure 2

Potential Federal Penalties Child Welfare Services Program

(In Millions)

Federal Fiscal Year	Estimated Annual Penalty	Interest Owed[a]	Total Estimated Penalty With Interest
2002	$4.5	$0.6	$5.1
2003	5.0	0.6	5.6
2004	4.7	0.6	5.2
2005	4.4	0.5	4.9
2006	4.4	0.5	4.9
Totals	**$23.0**	**$2.8**	**$25.8**

[a] Based on federal Department of Health and Human Services Office of Finance interest rate of 12.25%.

The federal penalties are assessed based on whether the state meets its goal for each outcome. For each outcome not met, a penalty of 1 percent is assessed on a portion of the state's federal fund allocation. This penalty formula is applied to each year's federal funding, beginning with federal fiscal year 2002. Because the state has a PIP, the federal government holds these penalties in abeyance until the final review, however, interest and the penalties continue to accumulate for each year. We estimate that the full penalty amount for the failure of three outcome measures (along with interest) to be about $26 million, as shown in Figure 2. This estimate does not reflect the possibility of receiving partial credit for the Permanency outcome subgoals, as discussed earlier. If the state received partial credit, penalties would be reduced to approximately $20 million.

When Will Penalties Be Applied? Once ACF receives the final data for review of the PIP in April, sanctions and penalties could be applied as soon as May or June 2007. The state may at that time begin an appeal of these sanctions. We cannot estimate how long an appeal would take. However, during appeal, interest on any penalties will continue to accrue at a rate of 12.25 percent.

Another Federal Review to Occur in 2008. The federal government is scheduled to conduct another review sometime in 2008. Although there will be some significant changes to the design of the review's outcome standards, the state will still be held responsible for outcomes not met under the first review and PIP. Once the second review is completed, penalties for outcome areas still below federal standards double to 2 percent for each outcome area not in compliance. Because of the ongoing risk of penalties, the Legislature should continue to monitor closely the state's performance on federal child welfare outcomes.

Balancing the Risk and Potential of the Federal IV-E Waiver Project

Over the next five years, the state will participate in a federal IV-E funding waiver demonstration project. The waiver caps the amount of federal funding available to the state during this period, while also providing an opportunity for the state to use these federal funds more flexibly. However, the limit on federal funding could pose some risk to the state. We review the implementation status of the waiver project, and recommend adopting budget bill language in order to better balance the risks to children with the opportunities to improve outcomes.

Federal Funding of CWS

Federal IV-E Funds Provide Limited Flexibility. Title IV-E of the Social Security Act, provides the majority of the federal funding dedicated to child welfare programs, such as foster care, adoptions assistance, and independent living. These funds are normally an open-ended entitlement which may be used to cover costs for board, care, and related administration for eligible children in foster care (including social worker salaries and support). Federal IV-E funds may be used for case management activities, including referral to services, but not for services themselves, such as counseling or treatment that would be used to prevent child abuse, speed reunification, or maintain safety for children who remain in their homes. There are other federal funds, (those authorized under Title IV-B) that may be used for these types of services and prevention activities. However funding under IV-B is capped, and the majority of these funds are usually spent by the end of the second quarter of each fiscal year.

IV-E Funding Waiver Granted. On March 31, 2006, the federal government approved the state's request to waive certain provisions of Title IV-E under a IV-E waiver demonstration project. Under the terms of the federal IV-E waiver, up to 20 counties can participate, using federal funds for services that would not normally be eligible for federal reimbursement. The purpose of the waiver is to encourage and allow the use of innovative strategies or intensive services in order to prevent or limit placement in foster care. Two counties have chosen to opt into the waiver demonstration, Los Angeles and Alameda. Together these two counties account for 37 percent of the child welfare caseload in California.

Waiver Opportunity. The waiver presents a unique opportunity for the state to end what is described by some as a perverse funding incentive. This perverse incentive results from the availability of *uncapped* federal funding for the costs of foster care placement while capping federal funds for services that might avoid foster care placements. These services usually involve mental health and substance abuse assessment and treatment, or other types of family supports that address underlying causes of abuse and neglect. The waiver will allow the state to use IV-E funds for such services. Foster care placement is generally the most costly intervention for a case of child abuse or neglect. As a result, if the waiver project successfully decreases the use of foster care placement it will result in savings which the participating counties may re-invest in a broader variety of services for children.

How Will the Title IV-E Waiver Work?

Capped Allocation. Participating counties will receive a capped allocation of IV-E funds. The allocation amount is an average of the county's IV-E expenditures for federal fiscal years 2003 through 2005. The capped allocation of federal funds is combined with the state's contribution of General Fund support to create a "block grant" to the participating counties to fund child welfare and foster care services. The participating counties may not claim more than this annual allocation. Any unspent allocation will be available to the county in the subsequent year.

For the two counties who have chosen to participate in the waiver, this funding allocation is higher than it otherwise would be without the waiver. This is because both counties have experienced a decrease in their IV-E-eligible foster care caseload relative to the amount of block grant funding established under the waiver. We estimate that approximately $81 million in additional flexible funds will be available over the five-year waiver period for both counties.

Year-to-Year Funding Growth. The state's agreement with the federal government allows the funding amount for the counties to increase by 2 percent for each of the five years of the waiver period. In addition, counties may opt to use up to 5 percent of their year-five allocation during their first year for start-up related expenses.

Legislative Direction. Chapter 75, Statutes of 2006 (AB 1808, Committee on Budget), authorized the department to develop memoranda of understanding (MOUs) with participating counties, which would include among other provisions, the allocation methodology for state funds and the required county share of cost. Chapter 75 provided broad authority to the administration to manage the implementation of the waiver, including the elements of the agreements between the counties and the state. These agreements define how the state and the counties share the risks posed by a capped allocation and the state's total funding commitment over the five years.

Risks and Opportunities

Opportunities of Waiver Project. Increased funding flexibility offers an opportunity to "lock in" an historical amount of federal funds that is higher than current baseline estimates, and to provide more preventive services, using savings generated from lowering dependence on foster care. Further, if these strategies are successful, the waiver project will likely improve the system's performance on both federal and state outcome measures.

Alameda County's plan provides a good example of how the waiver may present an opportunity to improve performance on these outcome measures. Currently, Alameda County performs well on its rate of timely reunification for children in its foster care system. However, the county also has a high rate of reentry to foster care. The county plans to expand the services it offers to support children and families after reunification, in an attempt to prevent a reoccurrence of abuse or neglect. If successful, the county's waiver project will impact the county's performance on the related federal and state outcome measure, as well as avoid additional costs of subsequent foster care placements for a child.

Similarly, Los Angeles County plans an expansion of assessments and access to mental health or substance abuse services, at the initial investigation of abuse or neglect. Such assessments, now used on a limited basis, would be eligible for funding under the IV-E waiver. This type of service, conducted early in a case, can identify when an underlying issue might be present that, if left untreated, could affect the safety of a child remaining at home. The early identification of such issues may also reduce the time it otherwise might take for the county social worker to identify these issues, thus decreasing the amount of time a child spends in foster care. If successful, this intervention could improve both safety and permanency measures.

Financial Risk. Because the waiver shifts funding from an open ended entitlement to a capped allocation, it could pose a financial risk to participating counties. If project strategies do not produce the anticipated reduction in foster care and resulting cost avoidance, participating counties may be unable to provide the foster care services within the capped funding level. Some of this risk is the result of external factors, over which neither the state nor the counties have any control. For example, significant increases in a particular type of substance abuse or other unforeseen social or policy changes could create conditions leading to higher rates of child abuse and neglect or demand for foster care placement during the five-year period. If this occurs, and a participating county overspends its cap, there could be pressure on the state to make up the difference. Though the final MOUs with the counties had not yet been completed at the time this analysis was prepared, it appears that the Department of Social Services (DSS) has placed the liability for all costs that exceed the federal cap on the counties.

Child Safety Risk. Another potential risk stems from capped funding for foster care placement in the event of a caseload spike. To the extent that limited funding creates an incentive to reduce caseload, there is a risk that the county could favor the use of other interventions instead of removal from the home when removal might be the most appropriate alternative to prevent further abuse or neglect.

Balancing Risks and Opportunities. The federal funding waiver presents a significant opportunity for the state to meet a number of its most important goals with respect to child welfare programs. With the increased funding flexibility, the counties can potentially provide a mix of services to families and children that will enable them to improve their performance on child welfare outcomes. As discussed earlier in this chapter, the consequences of not improving on federal outcomes is federal penalties. Moreover, a continued decrease in the use of costly foster care placement is a longer term financial benefit to counties as well as the state.

Thus far, the Legislature has provided broad authority to the administration to define the terms of the waiver and manage the opportunities and risks. Below we describe the elements of the state's plan, as they were available at the time this analysis was prepared. We also recommend ways the Legislature could mitigate potential risks and increase its oversight of the waiver project in general.

Current Plans for State Implementation

Amount of State General Fund Provided for the Waiver Project. Normally, state funds are provided for foster care and the administration of child welfare programs based on caseload. Like the federal funds described earlier, these funds are not capped and increase based on the number of cases the county is managing. Under the IV-E waiver project, DSS will freeze the state General Fund portion of foster care grant payments going to the participating counties at the 2005-06 levels, while providing an annual growth rate of 2 percent for child welfare administrative costs. This is in contrast to the federal funds, which will increase for both types of costs, by 2 percent each year. By freezing the General Fund allocation for foster care, the state's plan decreases the pool of flexible funds available to the participating counties for reinvestment in waiver services, while conserving state General Fund resources.

Provisions to "Opt-Out" of Capped Allocation. The counties participating in the waiver project may opt-out if the demonstration is unsuccessful and the capped allocation proves to be insufficient to meet the counties' costs for services and grants. There are two main features of the opt-out policy: (1) a county must provide six-month notice to the state of its intention to opt-out of the waiver project and (2) the county is responsible for reimbursing any federal fund liabilities for services that would not have normally been eligible for IV-E funding. This feature of the state's plan shifts to the counties any risk that these additional costs would pose to the state General Fund.

Most Risk Is Shifted to Counties. Both the arrangement for state General Fund allocation and the opt-out policies essentially shift the financial risks of the capped allocation to the counties. Because the benefits from successful use of the waiver would accrue to both the counties and the state, we think that the Legislature should modify these policies to ensure that the children in the child welfare system benefit as much as possible from the waiver's opportunities, while controlling General Fund exposures.

Analyst's Recommendation

Provide Reserve for State Foster Care Allocation. Overall, the state's cost for foster care assistance payments is forecast to increase over the next five years by slightly less than 1 percent each year. In a county that is not participating in the waiver, these additional funds will support increases in foster care payments. Under the current arrangement, waiver counties will not receive this additional funding each year, which somewhat limits the advantages to them of participating in the project. The Legislature could offer to the waiver counties these growth funds (an average of $1.4 million each year, over the five years) as an "emergency reserve" that could be triggered by an increase in foster care caseload, if it occurs. Absent such a reserve, counties would have to absorb these costs. Thus, this reserve would alleviate some of the program risks to child safety described earlier. Accordingly, we recommend the adoption of budget bill language that establishes this reserve fund and sets out conditions for its use.

Monitor Outcomes for Increased Safety Risk. Though it is likely that participating counties will monitor caseload and outcome changes, we believe the potential impacts of the waiver on children merit further attention. Accordingly, we will review reported outcomes for Alameda and Los Angeles Counties and notify the Legislature of significant changes.

CWS Budget Methodology

Although statute requires the Department of Social Services to provide the Legislature with an updated budget methodology for child welfare services by February 1, 2007, this methodology had not been provided at the time this analysis was prepared. We withhold recommendation on the methodology, pending receipt of this proposal. We provide key issues for the Legislature to consider when reviewing the department's proposal.

Current CWS Budget System

Funding for the CWS program comes from a variety of state, federal, and local sources. Listed below are the main components of state funding for core CWS.

- ***CWS Base Funding.*** The state currently allocates base funding to CWS by applying caseload standards (that is, number of cases handled by a caseworker) to average monthly case counts to determine the number of workers necessary to provide services in the program. The current methodology uses caseload standards agreed upon in 1984.
- ***Hold Harmless Funding.*** In preparing the budget for CWS, DSS adjusts funding upward when the caseload increases, but does not adjust funding downward when the caseload declines. The practice of not adjusting the budget to reflect caseload decline is known as the "hold harmless" approach and provides substantial additional funding to counties with declining caseloads.
- ***CWS Augmentation.*** The Legislature has been concerned about the size of social worker caseloads and its effect on services. As a result, the Legislature established the CWS augmentation in 1998, increased the amount available in 2000, and added an additional $98 million in 2006-07 to be continued on an ongoing basis. There is no county matching requirement for these funds.

Concerns About High Social Worker Caseloads

There has been an ongoing effort to determine how many cases a social worker can carry and still effectively do his or her job. In 1984, the County Welfare Directors Association and DSS established an agreed upon level of cases per social worker. In 2000, the Child Welfare Services Workload Study, required by Chapter 785, Statutes of 1998 (SB 2030, Costa), determined that social workers carried too many cases to effectively ensure the safety and well-being of California's children. The SB 2030 Study, as it is commonly called, proposed minimum and optimum caseload standards for social workers. The state has yet to adopt these standards for caseload budgeting, although the other funding adjustments described above have been made with the intention of decreasing caseload sizes.

Legislature Requested Review of Budgeting

Chapter 75 required DSS to report to the Legislature with a new methodology for budgeting CWS funds. The legislation requires that the department's review include the SB 2030 study, other research literature, as well as models from other states. Moreover, the legislation requires that the revised methodology be incorporated into the May Revision of the Governor's budget for implementation in 2007-08.

Key Questions for Assessing CWS Budgeting Changes

Because the details of the administration's proposal are not yet available, we cannot comment on the proposed changes at this time. However, we recommend that the Legislature consider the following questions in assessing this proposal.

How Does the Plan Adjust for the Effects of the Hold Harmless Policy? County funding through the hold harmless policy varies widely. Some counties may already have significantly lower caseload ratios as the result of hold harmless gains, and as a result, may reach recommended caseload standards with less additional funds. It would be more cost effective for the state to target its resources on counties with the greatest caseloads per worker than to provide increases regardless of current county caseloads.

Does the Proposal Connect Funding and Performance on Outcome Measures? Chapter 75 states that the $98 million for outcome improvement "be linked to improved outcomes." Given the Legislature's interest in outcome improvement, does the proposal link the allocation of funds to a county's CWS outcomes?

Community Care Licensing

The Community Care Licensing (CCL) Division of the Department of Social Services (DSS) develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. The CCL oversees the licensing of about 86,000 facilities, including child care centers, family child care homes, foster family and group homes; adult residential facilities; and residential facilities for the elderly. Counties who have opted to perform their own licensing operations monitor approximately 11,000 of these facilities.

The Governor's budget proposes total expenditures of $119.9 million ($38.2 million General Fund) for CCL in 2007-08. This is an increase of 18 percent, or slightly less than $6 million in General Fund from the current year. Most of the increase is due to the addition of staff for more facility inspections. This is pursuant to a requirement in current law that triggers increased random inspections if violations increase by more than 10 percent from the prior year.

Automation Project Does Not Meet Legislature's Goals

The Governor's budget proposes $1.7 million ($1.5 General Fund) in 2007-08 and $1.4 million ($1.2 million General Fund) in 2008-09 for an automation project that is part of an overall Information Technology Strategic Plan for the Community Care Licensing (CCL). We find that the project does not meet the schedule set out in the strategic plan and as a result, will not address the Legislature's concerns. We recommend that CCL report at budget hearings on the costs and time that would be required to adhere to the schedule in the strategic plan.

Background

Legislative Interest. The Legislature has expressed interest in two areas with regard to CCL. These are (1) ensuring that CCL is effectively monitoring and enforcing facility safety and (2) providing facility compliance information on the Internet. In 2006-07, CCL could not provide key information related to enforcement activities with noncompliant facilities. As a result, in the *Supplemental Report of the 2006 Budget Act,* the Legislature required that the department provide a report on the costs to track this information in the future. In the same year, the Legislature added $366,000 to the budget in order to place facility inspection reports on the Internet. These funds were subsequently vetoed by the Governor.

CCL Information Technology Strategic Plan. The CCL has provided to the Legislature an Information Technology Strategic Plan that describes upgrades to automation that will improve its operations and enable it to address the concerns of the Legislature mentioned above. The plan estimates that this improvement will take a total of four years, and will be completed in two phases. Phase One is scheduled to be complete in 2008-09.

According to the strategic plan, CCL lacks sufficient automation infrastructure to accurately report on its monitoring activities. The plan cites the May 2006 Bureau of State Audits report, which indicates that because of flawed collection and tracking of licensing data, the information reported to the Legislature regarding visits and violations in the past may have been unreliable. The first two years of the plan (Phase One) would correct these problems, allowing CCL to accurately track data, access necessary management reports, and manage the activities of licensing field analysts. Phase One of the plan also includes developing the ability to display facility inspection reports and file facility complaints on the Internet. Phase Two adds functions such as online fee payment and access to licensing information for licensees.

Automation Project. The governor's budget proposes $1.7 million ($1.4 million General Fund) in 2007-08 and $1.4 million ($1.2 million General Fund) in 2008-09 for the Licensing Automation Reform Project. The proposal includes ten positions and approximately $800,000 in consulting contracts to upgrade CCL's existing automated systems. According to CCL, the automation project is the first phase of the strategic plan.

Automation Project Misses Key Legislative Goal. The goal of the strategic plan is to improve the management and efficiency of CCL. If implemented, some of the key features outlined in the plan would address the concerns of the Legislature. Specifically, the automation proposal indicates that by October of 2008, CCL will be able to track the effectiveness of monitoring and enforcement. However, the proposed automation project does not include providing access to any licensing information via the Internet, which is also a key interest of the Legislature. The department contends that because it must first make fundamental improvements to the basic tracking and management of licensing operations, providing information on the Internet cannot be done within current fiscal constraints. As such, this automation project will not meet the schedule outlined in the strategic plan, and will not address a key legislative goal.

Analyst's Recommendation

Because the automation project does not completely address the Legislature's goal of providing public information regarding licensing compliance, we recommend that DSS report at budget hearings on the estimated time and cost to complete all of the features outlined in Phase One in the strategic plan, including making licensing information available on the Internet.

Findings and Recommendations

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Crosscutting Issues

Evaluating Cost-of-Living Adjustments (COLAs) For Cash Assistance Programs

C-19 ■ **Targeting Anti-Poverty Funds.** In order to more efficiently utilize General Fund resources for cash assistance program COLAs, we recommend redirecting $124.4 million of the funds proposed for the Supplemental Security Income/State Supplementary Program COLA to provide the California Work Opportunity and Responsibility to Kids COLA.

Alcohol and Drug Programs

C-29 ■ **Proposition 36 Under Policy Change. Increase Item 4200-105-0001 by $60 Million, Reduce Item 4200-101-0001 by $35 Million.** Recommend increase General Fund appropriation for transfer to the Substance Abuse and Treatment Trust Fund by $60 million and reduce funding to the Substance Abuse and Treatment Program by $35 million. Further recommend the Legislature seek legal guidance from Legislative Counsel about Proposition 36 policy changes.

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Medi-Cal

C-40 ■ **Budget Projects Modest Caseload Growth.** We find that the budget's overall estimate for the Medi-Cal caseload is reasonable but shows risk of being slightly higher than justified. We will continue to monitor the caseload trends and will recommend any appropriate adjustments to the caseload estimate at the May Revision.

C-42 ■ **Data Match Increases Veterans' Access to Benefits and Reduces Cost of Health and Social Services Programs.** We recommend the Legislature appropriate the necessary funds to implement the federal Public Assistance Reporting Information System (PARIS) matching process, provided that the costs of implementing PARIS and the ongoing cost of participating in PARIS are offset by reduced costs in certain health and social services programs, resulting in net savings. We further recommend the Legislature require the Department of Health Care Services (DHCS) to report at budget hearings on the estimated costs for implementing the federal Public Assistance Reporting and Information System.

C-51 ■ **Significant Medi-Cal Fraud Continues.** Recommend that the Legislature adopt supplemental report language requiring the department to submit to the Legislature the antifraud evaluation report being prepared by a consultant by August 15, 2007.

C-53 ■ **Requests for Added Staff Excessive. Reduce Item 4260-001-0001 by $1.9 Million and Item 4260-101-0001 by $2.7 Million. Increase Item 4260-001-0995 by $504,000 and Item 4265-001-3098 by $504,000.** The budget request for DHCS includes various proposals for additional staff and contract funding generally related to the administration of the Medi-Cal Program. Recommend that some of the requests for funding for additional staff and contract resources be approved, but that others be reduced or deleted because they are not justified on a workload basis.

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Department of Public Health (DPH)

C-63 ■ **New DPH.** The Governor's budget plan implements enacted legislation that creates a new DPH. We find the administration's proposed organization structure to be reasonable, but find that the department should be more transparent in its budgeting. For this reason, we withhold recommendation on this proposal pending receipt of key budget documentation.

C-69 ■ **Licensing and Certification Proposal. Reduce Item 4265-001-3098 by $291,000.** The Governor's budget proposes 77.5 additional staff to implement enacted legislation and to implement the administration's proposals to improve the state's oversight of certain health care facilities. Recommend the Legislature approve the proposals, but reduce the level of staff proposed.

C-73 ■ **Foodborne Illness Proposal. Reduce Item 4265-001-0001 by $800,000.** We recommend a reduction on a workload basis of five of nine positions requested to expand emergency response capabilities to foodborne illness. We recommend approval of four positions and research funds to prevent foodborne illness outbreaks.

C-78 ■ **Prostate Cancer Treatment Program.** The Governor's budget includes $3.5 million General Fund to provide treatment services through the prostate cancer treatment program. We withhold recommendation on this proposal pending receipt from the administration of a statutorily required report evaluating the cost-effectiveness of the program.

C-78 ■ **Health Care Infection Control Program. Reduce Item 4265-001-0001 by $1.4 million and Increase 4265-001-3098 by $1.4 million.** The Governor's budget includes $2 million ($1.6 million General Fund) and 14 positions to implement a health care associated infections surveillance and preven-

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tion program. We find that there is an alternative funding source to implement this program that would result in lower General Fund costs.

C-80 ■ **Oral Health Assessment. Reduce Item 4265-001-0001 by $221,000.** The Governor proposes $221,000 General Fund and two limited term positions to complete a report regarding the improvements in the oral health of children resulting from recently enacted legislation. We recommend denial of the proposal and find that the department should seek private funds to contract out for this report resulting in a General Fund savings of $221,000.

Developmental Services

C-86 ■ **Regional Center (RC) Caseload Below Projected Levels.** The administration is requesting an additional $33 million General Fund to address a deficit in the current-year funding for the RC system due to cost increases and utilization of services. We recommend the Legislature require the department to report in budget hearings on the specific causes for increased utilization and costs.

C-88 ■ **Intermediate Care Facility for the Developmentally Disabled (ICF/DD) Rate Restructure Would Leverage Federal Funds.** We recommend the Legislature assume that the ICF/DD state plan amendment will be submitted by the Department of Health Care Services (DHCS) to the federal Center for Medicare and Medicaid Services in April of 2007 and that it will be approved. We estimate that this would result in an additional $11 million in federal reimbursements for 2006-07 and allow for a commensurate reduction in state General Fund support for the RC system.

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C-90 ■ **Rate Reform Progressing Slowly.** We recommend that the Department of Developmental Services report at budget hearings on the implementation of the rate reform initiative including the timeline for proposing revised regulations packages and the estimated savings for implementing rate reform for specified services.

C-91 ■ **Residential Care Models Allow Shift From Institutions to the Community.** We recommend the Legislature adopt supplemental report language requiring DHCS to report on the intermediate care facility for the developmentally disabled-continuous nursing pilot program.

Department of Mental Health (DMH)

C-97 ■ **The Early and Periodic Screening Diagnosis and Treatment (EPSDT) Projection Methodology Is Broken.** We withhold recommendation on both the funding requested for the current year and the budget year until DMH presents their revised EPSDT estimate methodology. We recommend the Legislature require the Office of State Audits and Evaluations within the Department of Finance to report at budget hearings on the findings from their review of the EPSDT estimate methodology and DMH's administrative practices.

C-99 ■ **New Sexually Violent Predator (SVP) Laws Drive Increased Costs.** We recommend the Legislature recognize current-year savings of $6 million General Fund due to lower-than-projected SVP caseload. We also recommend the Legislature wait until more information is available before taking action to fund additional administrative and caseload costs.

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Department of Rehabilitation

C-105 ■ **Automation Proposal Poses Future General Fund Risk.** Our review indicates that this automation proposal (1) is based on an overly optimistic development schedule, and (2) will likely require General Fund support in future years because there is no ongoing federal fund source. Recommend that the department report at budget hearings on the availability of federal funds in subsequent years, and how they intend to meet their schedule.

Department of Child Support Services (DCSS)

C-107 ■ **Federal Penalty Held in Abeyance.** In September 2006, DCSS applied for federal certification of the California Child Support Automated System. Once the state applied for certification, federal penalties were placed in abeyance. We discuss the current automation system and certification process.

C-108 ■ **Budget Proposes to Absorb Federal Administration Fee.** Pursuant to the Deficit Reduction Act (DRA) of 2005, the federal government will begin to assess an annual fee on the state of $25 for most never assisted child support cases. We review the decision to use state funds to cover the fee in 2007-08, and recommend supplemental report language requiring the department to provide a report to the Legislature in 2008 on the costs and benefits of collecting this fee.

C-110 ■ **Child Support Pass-Through Options.** The DRA increases federal participation in the amount of child support passed through to families who currently receive welfare assistance. We discuss the costs and benefits of various pass-through options.

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California Work Opportunity and Responsibility to Kids (CalWORKs)

C-114 ■ **Budget Suspends Statutory Cost-of-Living Adjustment (COLA).** By suspending the statutory COLA, the budget achieves a costs avoidance of $124.4 million.

C-116 ■ **LEADER Computer System Replacement.** Rather than joining one of the other two recently completed automation consortia, the budget proposes $2 million for planning activities for replacing the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) computer system with an entirely new system. Recommend that the Legislature withhold funding for planning activities until a cost-benefit analysis for a new system is provided.

C-117 ■ **TANF Transfer to CWS Contrary to Legislative Approach.** By using federal Temporary Assistance for Needy Families (TANF) block grant funds to replace General Fund support for certain Child Welfare Services (CWS) emergency assistance costs, the Governor's budget achieves General Fund savings of $56 million in 2007-08. The Legislature should assess whether this proposed fund shift is consistent with its priorities for limited TANF block grant funds.

C-118 ■ **Maintenance-of-Effort (MOE) and Caseload Reduction Credit (CRC).** By spending above the federally required MOE level, the budget proposes to achieve a CRC which has the effect of reducing California's work participation requirement for CalWORKs families. We review the MOE requirement, the impact of the Deficit Reduction Act (DRA) of 2005 on countable MOE spending, and the Governor's proposal to obtain a CRC.

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C-121 ■ **Current Work Participation Requirements and Status.** Federal law requires that states meet a work participation rates of 50 percent for all families and 90 percent for two-parent families, less a CRC. The DRA and associated regulations significantly changed the calculation of participation rates and the CRC.

C-124 ■ **Impact of Recent Policy Changes on Participation.** California has made significant changes in the CalWORKs program in order to increase work participation among recipients. Estimates by the administration of the participation increases associated with recent policy changes, in conjunction with the caseload reduction credit, suggest that California would likely be in compliance with federal work participation requirements in federal fiscal year 2008.

C-128 ■ **Governor's Sanction Proposal.** In order to increase work participation, the Governor's budget proposes a full-family sanction for children whose parents cannot or will not comply with CalWORKs participation requirements. We review the impact of the Governor's sanction proposal on work participation, families, and the state budget. We recommend rejecting the sanction proposal because it is not needed to meet federal work participation requirements.

C-132 ■ **Alternative Approach to Strengthening the CalWORKs Sanction.** Recommend enactment of legislation (1) requiring a home visit or other in-person contact with each family who is out of compliance for three months or more, and (2) increasing the sanction to 50 percent of a family's grant if the adult refuses to comply with participation requirements.

C-133 ■ **Governor's Time-Limit Proposals.** In order to increase work participation, the Governor's budget proposes new time limits on children whose parents cannot or will not comply with CalWORKs participation requirements. We review the impact of these time limits on work participation, families,

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and the state budget. We recommend rejecting the proposed time limits because they are not needed to meet federal work participation requirements.

C-135 ■ **Increasing Participation by Enhancing Food Stamps Benefits.** By providing an additional state-funded allotment of food stamps to families who are working sufficient hours to meet federal participation requirements but are not on CalWORKs, California could increase its participation rate about 10 percent. We review the costs and benefits of this approach.

In-Home Supportive Services (IHSS)

C-137 ■ **IHSS Caseloads Overbudgeted.** Reduce Item 5180-111-001 by $33.9 Million. Recommend that proposed General Fund spending for IHSS be reduced by $33.9 million for 2007-08 due to an overstatement of the caseload.

C-139 ■ **Freezing State Participation in Wages.** The budget proposes to freeze state participation in provider wages and benefits, resulting in General Fund savings of at least $14 million in 2007-08, plus substantial cost avoidance in future years. We review current law regarding state participation in wages, describe the General Fund exposure associated with current law, and provide alternatives to the Governor's proposal.

C-142 ■ **Enhancing Program Integrity.** Although the quality assurance (QA) initiative has improved the accuracy and standardization of service hour authorizations by social workers, there are limited controls assuring that recipients receive their service hours in accordance with their case plan. We review the department's implementation of the QA initiative, and provide recommendations to enhance program integrity and increase the likelihood that recipients receive services in accordance with their case plans.

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Supplemental Security Income/ State Supplementary Program

C-153 ■ **Budget Overestimates Cost of Providing Statutory Cost-of-Living Adjustment (COLA). Reduce Item 5180-111-0001 by $45 Million.** Recommend that proposed General Fund spending for the 2008 COLA be reduced by $45 million in 2007-08 due to a downward revision of the California Necessities Index and an upward revision of the Consumer Price Index.

C-155 ■ **Caseload Overstated for CAPI. Reduce Item 5180-111-0001 by $3.3 Million.** Recommend that proposed General Fund spending for Cash Assistance Program for Immigrants be reduced by $3.3 million for 2007-08 due to an overstatement of the caseload.

Child Welfare Services

C-157 ■ **Despite Substantial Improvement, Federal Financial Penalties Likely in 2007-08.** We provide an update on the state's recent improvement on federal outcome measures and an estimate of the risk of penalties based on current performance.

C-161 ■ **Balancing the Risk and Potential of the Federal IV-E Waiver Project.** We review the implementation status of the waiver project, and recommend adopting budget bill language in order to better balance the risks to children with the opportunities to improve outcomes.

C-166 ■ **Child Welfare Services Budget Methodology Proposal.** We withhold recommendation, pending details of this proposal. However, we suggest key questions for the Legislature to consider when reviewing the department's proposal.

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Community Care Licensing (CCL)

C-168 ■ **Automation Project Does Not Meet Legislature's Goals.** We find that the project does not meet the schedule set out in the strategic plan and, as a result, will not address the Legislature's concerns. We recommend that CCL report at budget hearings on the costs and time that would be required to adhere to the schedule in the strategic plan.