HEALTH & SOCIAL SERVICES

LAO

65 YEARS OF SERVICE

2008-09 Analysis

Major Issues

Health and Social Services

☑

Alternative Approach to Increasing Work Participation in CalWORKs

- Failure to comply with federal work participation requirements could result in penalties in the hundreds of millions of dollars. The Governor proposes a graduated full-family sanction and a five-year time limit for children whose parents cannot or will not meet federal work participation requirements. These policies would address anticipated work participation shortfalls and result in savings of $471 million. We present alternative approaches to increasing work participation that result in less budgetary savings and fewer children losing aid (see pages C-105 and C-113).

☑

Child Welfare Services (CWS)

- The Governor proposes to reduce county allocations for CWS by $84 million. We evaluate the potential impacts of this proposal on social worker caseloads and children; and provide alternatives that more narrowly target reductions in CWS expenditures (see page C-118).

- The budget proposes to continue with the development of a new CWS computer system at a total cost of $247 million. We recommend canceling the proposed new system and instead updating the existing CWS/CMS to provide required functionality, resulting in savings of $184 million over the next seven years (see page C-124).

☑

In-Home Supportive Services (IHSS) Wages

- Current law grants counties broad discretion to set wage levels and the conditions under which potential providers may list themselves as available to be employed by recipients. To improve the IHSS labor force and the quality of services for recipients, we recommend enactment of legislation, prior to 2010-11, which ties state participation in wages to the level of training and tenure of IHSS providers (see page C-146).

☑ **Reforming Categorical Funding for Public Health Programs**

- The state's current process for administration and funding of over 30 public health programs at the local level is fragmented, inflexible, and fails to hold local health jurisdictions (LHJs) accountable for achieving results. We make several recommendations to improve the coordination and integration of these programs so that LHJs can focus on meeting the overall goal of improving the public's health (see page C-52).

☑ **Most Proposed Reductions to Provider Reimbursement Could Further Limit Access to Care**

- The Governor's budget proposes broad reductions to Medi-Cal health care provider rates and other reimbursements. We find that the majority of these proposed reductions could further limit program enrollees' ability to find providers who are willing to serve them. We recommend that the Legislature reject most of these proposed reductions. We further recommend that the state shift certain federal funds from hospital payments to other health care programs in order to reduce General Fund spending in those programs (see page C-34.)

☑ **Pay-for-Performance Program Could Reduce Medi-Cal Costs and Improve Patient Care**

- We estimate the implementation of a pay-for-performance (P4P) program in Medi-Cal could eventually save the state tens of millions of dollars while improving patient care. We recommend the Department of Health Care Services (DHCS) take some steps towards implementing a statewide P4P program for all Medi-Cal providers by first implementing a P4P program for managed care plans and requiring the DHCS to report on how a P4P program could be implemented for fee-for-service providers (see page C-40).

Table of Contents
Health and Social Services

OVERVIEW

Health and Social Services

Compared to the current year, General Fund spending for health and social services programs is proposed to decrease by 0.9 percent to about $29.3 billion. Most of this net decrease is attributable to a variety of caseload increases which are more than offset by proposed budget-balancing reductions in Medi-Cal reimbursement rates, grants for children receiving California Work Opportunity and Responsibility to Kids, foster care and related payments, In-Home Supportive Services domestic service hours, and county administration of various programs.

EXPENDITURE PROPOSAL AND TRENDS

Budget Year. The budget proposes General Fund expenditures of $29.3 billion for health and social services programs in 2008-09, which is 29 percent of total proposed General Fund expenditures. Figure 1 shows health and social services spending from 2001-02 through 2008-09. The proposed General Fund budget for 2008-09 is $300 million (0.9 percent) below proposed spending for 2007-08. The overview reflects the Governor's January 10 budget plan and does not reflect technical adjustments, provided at a later date, that we describe in our analysis of the Medi-Cal Program. The reduction reflects budget-balancing reductions (BBRs) proposed for these programs by the Governor. Special funds spending for health and social services is proposed to increase by about $170 million (2.1 percent) to about $8.1 billion. Most of this special funds growth is due to an increase in realignment payments to local government.

Historical Trends. Figure 1 (see next page) shows that General Fund expenditures (current dollars) for health and social services programs are projected to increase by $7.5 billion (or 34 percent) from 2001-02 through 2008-09. This represents an average annual increase of 4.3 percent. Similarly, combined General Fund and special funds expenditures are projected to increase by about $10.9 billion (41 percent) from 2001-02 through 2008-09, an average annual growth rate of 5 percent.

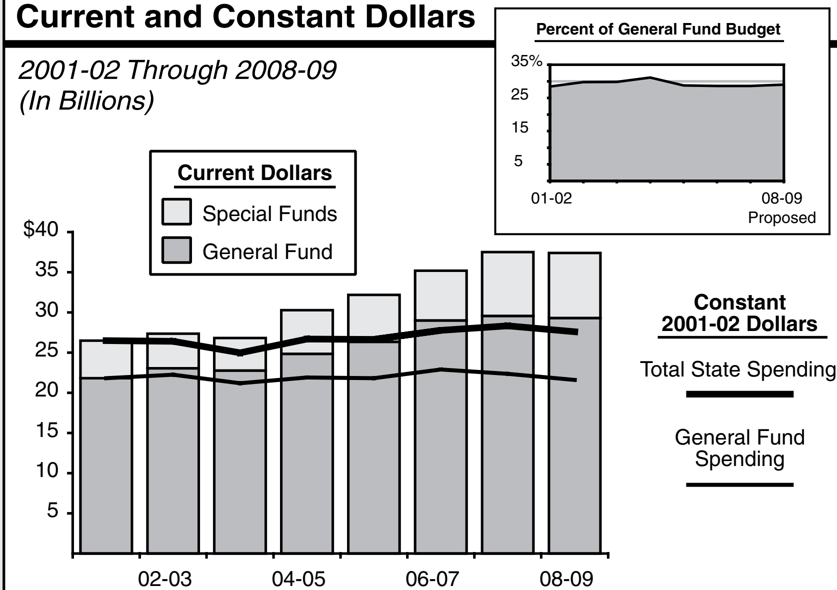
Adjusting for Inflation. Figure 1 also displays the spending for these programs adjusted for inflation (constant dollars). On this basis, General

Fund expenditures are estimated to decrease by 1 percent from 2001-02 through 2008-09. Compared to the current year, General Fund spending for 2008-09 is proposed to decline by 3.3 percent in constant dollars. Combined General Fund and special funds expenditures are estimated to increase by 4.2 percent during this same period, an average annual increase of less than 1 percent.

Figure 1

Health and Social Services Expenditures Current and Constant Dollars

2001-02 Through 2008-09 (In Billions)



Caseload Trends

Caseload trends are one important factor influencing 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 California Work Opportunity and Responsibility to Kids (CalWORKs) and SSI/SSP.

Medi-Cal Caseload. The Governor's budget plan assumes that the current-year caseload for Medi-Cal will increase by 51,600 individuals, or almost 2 percent, over the number assumed in the *2007-08 Budget Act*. As

Figure 2

Budget Forecasts Continued Growth In Medi-Cal Caseloads

1998-99 Through 2008-09 (In Millions)

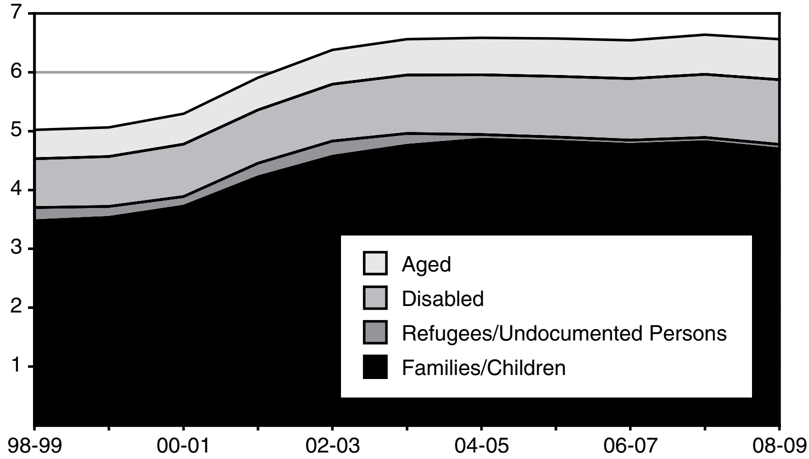
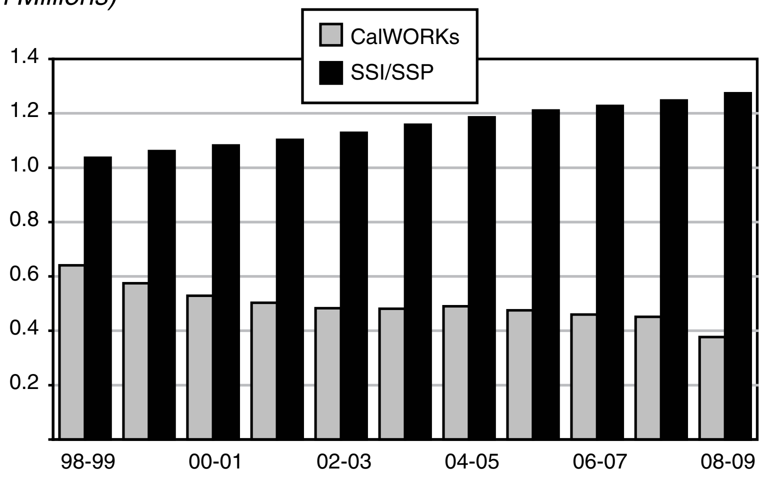


Figure 3

CalWORKs Caseload to Decline SSI/SSP Caseloads Increasing Slightly

1998-99 Through 2008-09 (In Millions)



shown in Figure 2, the Governor's budget plan assumes a modest decrease of 73,900 individuals, or a 1.1 percent reduction, in caseload for the budget year in the Medi-Cal Program. The caseload projections for 2008-09 take into account reductions of almost 172,000 individuals attributable to the Governor's proposed reinstatement of quarterly reporting requirements for children and parents. The Medi-Cal budget proposal also reflects caseload growth in several eligibility categories for the aged and disabled.

Healthy Families Program (HFP) Caseload. The Governor's budget plan assumes that the current-year enrollment for HFP will fall short by about 20,500 children compared to the number assumed in the *2007-08 Budget Act*. However, the spending plan further assumes that the program caseload will increase by about 66,000 children, or about 7 percent, during the budget year. The budget proposal estimates that a total of about 954,000 children will be enrolled in HFP as of June 2009.

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 2008-09, the budget assumes that CalWORKs will serve about 960,000 individuals.

As Figure 3 shows, the CalWORKs caseload declined steadily from 1998-99, essentially leveling 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. After this one-time increase, the caseload resumed its decline, at just over 3 percent in 2005-06 and 2006-07. For 2007-08 the decline is forecasted to moderate to 1.8 percent. In 2008-09, the caseload is projected to drop by about 16 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 about 2.5 percent per year. Since 1998, the overall caseload has been growing moderately, between 2 percent and 2.5 percent each year. For 2007-08 and 2008-09, the budget forecasts caseload growth of 1.7 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 2006-07, and as proposed for 2007-08 and 2008-09. Both the current- and budget-year amounts reflect the Governor's BBRs. As shown in the figure, three major benefit payment programs—Medi-Cal, CalWORKs, and SSI/SSP—account for a large share, about two-thirds, of total spending in the health and social services area.

As Figure 4 shows, General Fund spending is proposed to decrease for both Medi-Cal (-3.4 percent) and HFP (-1.5 percent) in the budget year. In contrast, the budget plan proposes increased funding for community mental health services (7.8 percent), mental hospitals (6.9 percent), and regional centers (5.4 percent). Despite the increases in these three programs, the significant cuts proposed in the Medi-Cal Program result in an overall reduction in spending for services provided by the state's health care programs.

In regard to major social services programs, General Fund support will increase for CalWORKs (4 percent) and SSI/SSP (2.9 percent) even after the Governor's BBRs (discussed later). Conversely, the budget proposes to reduce General Fund support for Child Welfare Services/Foster Care (-7.7 percent) and Child Support Services (-14 percent), primarily as a result of BBRs. Overall, the budget proposes to hold General Fund spending on social services programs constant at about $9.5 billion.

Major Budget Changes

Figures 5 (see page 13) and 6 (see page 14) illustrate the major budget changes proposed for health and social services programs in 2008-09. (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 cost-of-living adjustments (COLAs), (3) rate reductions, (4) across-the-board reductions, and (5) other policy changes.

Caseload Changes. The budget reflects caseload changes in the major health and social services programs. For example, the budget reduces resources for the Medi-Cal caseload in 2008-09 because of the expected caseload decline resulting from elimination of continuous eligibility for children and restoration of quarterly status reports for children and parents. General Fund support for regional centers (RCs) that serve the

Figure 4

Major Health and Social Services Programs Budget Summary[a]

(Dollars in Millions)

	Actual 2006-07	Estimated[b] 2007-08	Proposed 2008-09	Change From 2007-08	
				Amount	Percent
Medi-Cal					
General Fund	$13,628.3	$14,063.9	$13,591.8	-$472.1	-3.4%
All funds	35,402.1	36,997.1	36,034.7	-962.4	-2.6
CalWORKs					
General Fund	$2,017.8	$1,481.0	$1,547.2	$66.2	4.5%
All funds	N/A	5,176.5	4,798.2	-378.4	-7.3
Foster Care/Child Welfare Services					
General Fund	N/A	$1,235.7	$1,140.5	-$95.2	-7.7%
All funds	N/A	4,365.8	4,179.3	-186.5	-4.3
SSI/SSP					
General Fund	$3,427.3	$3,640.8	$3,747.9	$107.1	2.9%
All funds	N/A	9,153.7	9,510.2	356.4	3.9
In-Home Supportive Services					
General Fund	$1,474.0	$1,629.8	$1,632.6	$2.8	0.2%
All funds	N/A	4,863.2	4,846.9	-16.3	-0.3
Regional Centers/Community Services					
General Fund	$2,106.8	$2,222.4	$2,342.2	$119.8	5.4%
All funds	3,288.2	3,656.8	3,798.3	141.5	3.9
Community Mental Health Services					
General Fund	$755.1	$756.3	$815.0	$58.7	7.8%
All funds	2,188.4	3,492.6	3,562.4	69.8	2.0
Mental Hospitals/Long-Term Care Services					
General Fund	$959.2	$1,128.3	$1,206.2	$77.9	6.9%
All funds	1,034.1	1,234.4	1,312.9	78.5	6.4
Healthy Families Program					
General Fund	$347.7	$393.6	$387.8	-$5.7	-1.5%
All funds	969.6	1,090.1	1,072.4	-17.7	-1.6
Child Support Services					
General Fund	$525.6	$351.5	$300.8	-$50.7	-14.4%
All funds	1,116.5	1,036.6	858.9	-177.7	-17.1

a Excludes administrative headquarters support.

b Includes Governor's budget-balancing reduction proposals.

N/A=not available.

Figure 5

Health Services Programs
Proposed Major Changes for 2008-09
General Fund

Medi-Cal (Local Assistance)	Requested:	$13.6 Billion	
	Decrease:	$472.1 Million	(-3.4%)

+ $295 million for increases in costs and utilization of prescription drugs and inpatient hospital services
+ $93 million for increased payments to Medi-Cal managed care plans
+ $59 million from increased costs for premiums paid by Medi-Cal on behalf of beneficiaries who are also enrolled in the federal Medicare Program

---

– $602 million from reducing provider rates for physicians and other medical and service providers
– $134 million by eliminating certain optional benefits for adults who are not in a nursing facility such as dental and chiropractic services
– $92 million from reductions in caseload due to the elimination of continuous eligibility for children and restoration of quarterly status reports for children and parents
– $87 million from reducing rates paid to long-term care facilities and certain hospitals

Department of Developmental Services (Local Assistance)	Requested:	$2.3 Billion	
	Increase:	$119.8 Million	(+5.4%)

+ $62 million primarily for increases in regional center caseloads

---

– $215 million continuation of regional center cost containment measures

developmentally disabled would continue to grow due mainly to caseload growth. Funding would be adjusted upward in the budget year for HFP to reflect anticipated caseload growth.

Figure 6

Social Services Programs
Proposed Major Changes for 2008-09
General Fund

CalWORKs	**Requested:**	**$1.5 Billion**	
	Increase:	**$66 Million**	**(+4.5%)**

+ $258 million to backfill reduced Temporary Assistance for Needy Families (TANF) balances
+ $131 million for the 4.25 percent cost-of-living adjustment
+ $87 million for restoring the TANF reserve
+ $83 million for child care and services for families who comply with work requirements in response to the graduated full-family sanction

– $57 million for caseload decrease
– $486 million from grant savings associated with new time limits and the graduated full-family sanction

SSI/SSP	**Requested:**	**$3.7 Billion**	
	Increase:	**$107 Million**	**(+2.9%)**

+ $103 million for caseload increase

In-Home Supportive Services	**Requested:**	**$1.6 Billion**	
	Increase:	**$3 Million**	**(+0.2%)**

+ $79 million for caseload increase
+ $52 million for new computer system

– $10 million from reducing county administration by 10 percent
– $109 million from reducing domestic service hours by 18 percent

Suspended COLAs. Pursuant to current law, the budget provides $131 million to fund the July 2008 CalWORKs COLA. The budget proposes to delete both the June 2008 and June 2009 SSI/SSP COLAs, resulting in total savings of $23 million in 2007-08 and $300 million in 2008-09. The budget does not provide the discretionary Foster Care COLA, nor does it provide the inflationary adjustment for payments to counties for administration of the Medi-Cal Program resulting in General Fund savings of $22.4 million in 2008-09.

Rate Reductions. The Governor proposes rate reductions in Medi-Cal, HFP, Foster Care, Developmental Services, Rehabilitation, Alcohol and Drug Programs, and to other health care services. These rate reductions are generally in the range of 10 percent and taken together result in General Fund savings of about $800 million.

Across-the-Board Reductions. The budget proposes to apply across-the-board reductions to many programs after they were first adjusted on a workload basis. Typically, the reduction is in the range of 10 percent of the adjusted base. Impacted programs include child welfare services allocation to counties ($83.7 million), food stamps administration ($14.4 million), IHSS administration ($10.2 million), public health ($31.7 million), the mental health managed care program ($23.8 million), developmental services programs ($22.5 million), and alcohol and drug programs ($6.2 million).

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 Governor proposes to increase this sanction to 50 percent of the remaining child-only grant after six months in sanction status, and completely eliminate the family's grant after another six months elapses, unless the adult comes into compliance. In response to this increased sanction, the budget estimates that many families will enter employment, resulting in child care and employment services costs of $83 million. In cases where families do not comply, the budget estimates grant and administrative savings of $62 million, so the net cost of this proposal is about $21 million in 2008-09.

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 $500 million in 2008-09.

Reducing Domestic Service Hours for IHSS Recipients. Currently social workers assess each IHSS client to determine the number of hours of service that the recipient will need to remain safely in their own home. Services include personal care services (such as bathing, toileting, ambulation, and medication management), as well as domestic services (meal preparation, cleaning, and errands). The budget proposes to reduce domestic services hours by 18 percent, resulting in savings of $109 million in 2008-09.

Medi-Cal Benefit Reductions. The budget proposes to eliminate certain Medi-Cal optional benefits provided to adults not residing in nursing facilities including dental, incontinence creams and washes, acupuncture, and chiropractic services for savings of $134 million General Fund in 2008-09. Most of the savings ($115 million) results from the elimination of dental services.

Continue RC Cost Containment Measures. The budget plan proposes to make permanent in 2008-09 cost containment measures that have been in place since 2003-04, for savings of almost $215 million General Fund. The cost containment measures include rate freezes to certain providers and a freeze on funding for the startup of new programs.

Changes to Early and Periodic Screening Diagnosis and Treatment (EPSDT). The budget plan proposes to achieve savings of about $46 million General Fund in the budget year through changes to the EPSDT program. A prior authorization requirement would be imposed on requests for day treatment services exceeding six months in duration. Savings would also be achieved through rate reductions to providers.

HFP Benefit Limits and Co-Payments. The budget proposes to establish a $1,000 annual benefit limit for dental coverage for HFP participants and increase co-payments for nonpreventative services and premiums for children in families with incomes over 150 percent of the federal poverty level. These changes are estimated to result in $20.8 million in annual General Fund savings. According to the Managed Risk Medical Insurance Board, these changes must be negotiated with the health plans by March 1, 2008 in order to be effective for the budget year.

Proposition 36 Funding Reduction. The budget proposes a net reduction of $12 million General Fund for Proposition 36 drug rehabilitation programs. This would be achieved by reducing funding by $10 million for the Substance Abuse and Treatment Trust Fund, established by Proposition 36. Funding for the Substance Abuse Offender Treatment Program—established to improve the outcomes of Proposition 36 Programs—would decrease by $2 million.

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, 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 $4.8 billion ($1.5 billion General Fund, $107 million county funds, $35 million from the Employment Training Fund, and $3.1 billion federal funds) to the Department of Social Services (DSS) for the CalWORKs program in 2008-09. In total funds, this is a decrease of $378 million, or 7.3 percent, compared to estimated spending of $5.2 billion in 2007-08. 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 2008-09 is proposed to be $59 million, 4 percent, more than estimated spending for 2007-08. This General Fund increase is due to a higher federal maintenance-of-effort (MOE) requirement, partially offset by using more countable MOE funds from other departments.

BUDGET UNDERESTIMATES COST OF CALWORKS COLA

The Governor's budget provides $131 million to fund the California Work Opportunity and Responsibility to Kids (CalWORKs) cost-of-living adjustment (COLA) based on an estimated California Necessities Index (CNI) of 4.25 percent. Our review of the actual data indicate the CNI will be 5.26 percent, which raises the cost of the CalWORKs COLA by $31 million, to a total of $162 million.

Actual CNI Exceeds Governor's Estimate. Current law requires that the CalWORKs grant be adjusted in July 2008 based on the change in the CNI from December 2006 through December 2007. The Governor's budget, which is prepared prior to the release of the actual data from December 2007, estimates that the CNI will be 4.25 percent. Our review of the actual data, however, indicates that the CNI will be 5.26 percent.

Higher State Cost to Provide COLA. Based on its estimate of CNI, the Governor's budget provides $131 million to fund the CalWORKs cost-of-living adjustment (COLA) beginning in July 2008. Based on the actual CNI of 5.26 percent, we estimate the cost of providing the CalWORKs COLA to be $162 million, an increase of $31 million compared to the Governor's budget.

Grant Levels Compared to Poverty. Figure 1 shows the combined cash and food stamps in 2007-08 and in 2008-09 after the July COLA has been provided. As the figure shows, maximum monthly cash grants increase by $38 in high-cost counties, and $36 in low-cost counties. These increases are in part offset by a $17 monthly reduction in food stamps benefits. The figure also compares the combined grant and food stamps benefit to the federal poverty guideline for 2008. As the figure shows, combined benefits will be about 75 percent of the guideline in high-cost counties and 74 percent of the guideline in low-cost counties.

MAINTENANCE-OF-EFFORT AND CASELOAD REDUCTION CREDIT (CRC)

Pursuant to federal law, any spending above the federally required maintenance-of-effort (MOE) level results in a caseload reduction credit (CRC) which reduces California's work participation requirement in the California Work Opportunity and Responsibility to Kids program. Recent federal changes are likely to reduce the amount of countable MOE spending and CRC available to California. We review the MOE requirement, the impact of the recent federal changes, and forecast the CRC through 2010-11.

Figure 1

CalWORKs Maximum Monthly Grant and Food Stamps 2007-08 and 2008-09 Family of Three

			Change	
	2007-08	2008-09[a]	Amount	Percent
High-Cost Counties				
Grant	$723	$761	$38	5.0%
Food stamps	361	344	-17	-4.9
Totals	**$1,084**	**$1,105**	**$21**	**1.9%**
Percent of poverty[b]	*73.9%*	*75.3%*		
Low-Cost Counties				
Grant	$689	$725	$36	5.0%
Food stamps	377	360	-17	-4.7
Totals	**$1,066**	**$1,085**	**$19**	**1.8%**
Percent of poverty[b]	*72.7%*	*74.0%*		

a Based on a grant COLA of 5.26 percent resulting from the actual change in the California Necessities Index.

b Federal fiscal year 2008 federal poverty guidelines.

Temporary Assistance for Needy Families (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.) Because California is likely to fail the work participation requirement for FFY 2007, the required spending level rises to 80 percent beginning in the 2008-09 budget. 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.

Expanded Definition of MOE Spending. The federal Deficit Reduction Act (DRA) of 2005 expanded 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.

Because of this change, California now counts 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 CRC. As discussed more fully in the next section, pursuant to DRA, states must meet federal work participation rates (50 percent for all families) less a CRC 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 CRC. Based on the amount of excess MOE spending during FFY 2006, California increased its CRC from 3.5 percent to a total of 14.4 percent. 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).

New Federal Regulations

On February 5, 2008, the federal Administration for Children and Families published new regulations regarding the implementation of DRA. Although these regulations make many modifications to the prior rules, the most significant changes are to (1) the method by which CRC from excess MOE is calculated and (2) which types of expenditures may be counted as MOE. The new rules take effect on October 1, 2008.

Change in Calculation of the MOE CRC. Many states have claimed excess MOE spending and have submitted federal reports which calculate CRC based on their amount of excess spending. The new regulations limit the amount of countable excess MOE spending to that portion of the excess MOE spending that represents "assistance." Because California's assistance spending is about one-half of its total MOE expenditures, imposition of this calculation methodology will significantly reduce California's credit by about 50 percent compared to the existing California calculation method.

To date, the federal government has not yet notified California that its credit will be reduced, but such notification is expected in the near future.

Limits on Spending Which May Be Counted as MOE. As described earlier, DRA allowed states to count spending on individuals and families that were not eligible for TANF so long as the spending was reasonably calculated to reduce out-of-wedlock births or promote marriage. The new regulations only allow expenditures on specified programs that support marriage (such as mentoring programs, and marriage education) to be counted as MOE. States will no longer be able to count tuition assistance and other programs for families and individuals not otherwise eligible for TANF. Because these regulations go into effect on October 1, 2008, they impact how state spending is counted during FFY 2009 (October 2008 through September 2009), and impact the FFY 2010 CRC.

Given this recent federal change, further analysis of California's spending which is outside of the regular CalWORKs program, and used to satisfy either the MOE requirement and/or create excess MOE CRC, is needed. On a preliminary basis, we are concerned that these regulations would substantially reduce countable excess MOE spending, most likely eliminating the excess MOE CRC beginning in FFY 2010. Moreover, the ability to meet the base MOE requirement under the Governor's budget may be jeopardized. This problem is compounded by recent information suggesting that Proposition 49 after school funds may not be countable toward MOE because they are in part used to obtain federal education funds. On the other hand, it may be possible to create TANF fund shifts to restore the some of the excess MOE funds. After we have more carefully reviewed the regulations we will provide the Legislature with options for potentially mitigating this loss of MOE funds.

From FFY 2007 through FFY 2010, Figure 2 (see next page) shows estimated excess MOE spending under both the Governor's budget and under current law. For comparison purposes, the current law version backs out the savings from the Governor's reforms discussed later in this chapter. The only difference is the credit for FFY 2009, which is based on spending in FFY 2008. The Governor's proposals reduce spending during 2007-08 and 2008-09, and approximately $75 million of this savings impacts the FFY 2009 CRC. For FFY 2010, the figure shows no excess MOE spending because of the impact of the new federal regulations. Depending on the level of spending within the regular CalWORKs program, it may be possible, through fund shifts, to restore some of the excess MOE CRC in FFY 2010.

Figure 2

Excess MOE Caseload Reduction Credit Current Law and Governor's Budget

Federal Fiscal Year 2007 through 2010 (Dollars in Millions)

	2007	2008[a]	2009[a]	2010
Governor's Budget				
Excess MOE spending[b]	$408.5	$749.2	$485.1	—
Caseload reduction credit	-6.3%	-10.9%	-7.4%	—
Current Law				
Excess MOE spending[b]	$408.5	$749.2	$558.8	—
Caseload reduction credit	-6.3%	-10.9%	-8.4%	—

a Amounts for 2008 and 2009 would be lower if Proposition 49 after school funds cannot be counted as MOE.

b The excess MOE spending is actually from the year prior to the credit shown, because credits are based on prior-year spending.

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 CRC. We estimate California's work participation rate under these federal changes, and find that absent policy changes, California is out of compliance with federal requirements.

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 six, 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 six. 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 $70 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. Pursuant to current state law, the state and counties would share in any federal penalty.

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. Given past practice and regulations, if California were notified in late 2008 that it was out of compliance with work participation in FFY 2007, California would have until FFY 2010 to meet the goals of a corrective action plan.

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 CRC from 1995 to 2005. Because California's caseload decline mostly occurred before 2005, this substantially reduces the state's CRC, from about 46 percent to about 3.5 percent for FFY 2007 and an estimated 6.8 percent in FFY 2008. Second, it made families served in separate state programs subject to federal participation rates. Thus, beginning with FFY 2007, California is subject to the 90 percent federal work participation rate for two-parent families. In the past, these families were not subject to federal work participation requirements. Third, it provided the Secretary of Health and Human Services with broad authority to adopt federal regulations to (1) narrow the definition of work and participation and (2) expand the number of families who are included in work participation calculations. (For a complete description of how the DRA and the regulations changed the work participation calculations see Figure 3 on page C-123 of the *Analysis of the 2007-08 Budget Bill*.)

Current Participation Rate

The most recent data on California's work participation rate are from FFY 2006. The DRA provisions, which became effective in FFY 2007, increase the number of families required to participate and also expand the definition of which families are meeting the rate. Based on data from FFY 2006, Figure 3 estimates California's work participation for 2007 under DRA. As the figure shows, DRA changes have the effect of reducing the participation rate from 25 percent to 21 percent. Most of this loss is attributable to changes requiring that families sanctioned for more than three months and families in the safety net program (who have been on aid for five years) be included in the work participation rate.

Figure 3

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[b]	49,473	59,742	10,269
Families subject to participation[c]	201,076	281,925	80,849
	=	=	
Participation rate	24.6%	21.2%	-3.4%

a Most recent data are from FFY 2006.

b This is the numerator of the participation rate calculation.

c This is the denominator of the participation rate calculation.

Estimated Impact of Recently Enacted State Reforms. Through enactment of Chapter 68, Statutes of 2005 (SB 68, Committee on Budget and Fiscal Review) and Chapter 75, Statutes of 2006 (AB 1808, Committee on Budget), the Legislature has made significant program changes that should increase work participation among CalWORKs families. Last year, DSS estimated that these measures would increase participation by 4 percentage points in FFY 2007 and 10 percentage points in FFY 2008. Now DSS is forecasting that these changes will have almost the same impact, but one year later. In other words, the 4 percent increase is projected to occur in FFY 2008 with an additional 6 percent in FFY 2009. Thus, given the current participation rate of 21 percent, DSS estimates that participation will be 25 percent in FFY 2008 and 31 percent in FFY 2009.

Projected Participation Shortfalls

In order to assess where California stands with respect to meeting the federal work participation requirements, we have projected future participation and future CRCs based on the assumptions described above. Figure 4 projects that California will fall substantially below (19 percent) the required work participation rate in FFY 2007. However, in FFY 2008 the shortfall is reduced to 7 percent, falling to just under 4 percent in FFY 2009. In FFY 2010 the shortfall goes up to 12 percent, assuming the new federal rules regarding countable MOE spending cannot be mitigated by state changes. We note that the shortfall in 2009 would rise to about 12 percent if it turns out Proposition 49 funds for after school programs cannot be counted.

Figure 4

**Estimated Work Participation Shortfalls
Current Law**

	Federal Fiscal Year (FFY)				
	2007	**2008**	**2009**	**2010**	**2011**
Federal Participation Requirement	**50.0%**	**50.0%**	**50.0%**	**50.0%**	**50.0%**
Caseload Reduction Credits					
"Natural" caseload decline[a]	-3.5%	-6.8%	-6.5%	-7.3%	-7.3%
Excess MOE reduction	-6.3	-10.9	-8.4	—	—
Total Credit	-9.8%	-17.8%	-14.9%	-7.3%	-7.3%
Net Participation Requirement	**40.2%**	**32.2%**	**35.1%**	**42.8%**	**42.8%**
Work participation rate	21.2%	25.2%	31.2%	31.2%	31.2%
Participation Shortfall	**-19.0%**	**-7.0%[b]**	**-3.9%[b]**	**-11.6%**	**-11.6%**

[a] Since FFY 2005.
[b] Shortfalls increase if Proposition 49 after school funds cannot be counted as MOE.

GOVERNOR'S REFORMS ADDRESS PARTICIPATION SHORTFALL AND ACHIEVE BUDGETARY SAVINGS

In order to increase work participation and achieve budgetary savings, the Governor proposes a series policy changes for the California Work Opportunity and Responsibility to Kids program. These are (1) a

graduated full-family sanction that increases to 100 percent of the grant after one year in sanction status, (2) a five-year time limit on children whose parents cannot meet federal work participation requirements, (3) a nutritional supplement for working poor families, and (4) a five-year time limit for other child-only cases. We review the Governor's proposals and comment on them.

Overview of Governor's Proposal

The Governor's budget proposes four major policy changes which would significantly alter the CalWORKs program. As a package, these proposals result in net savings of $471 million in 2008-09, and are estimated to increase work participation by 9.7 percent in FFY 2009 and 19.8 percent in FFY 2010. Figure 5 summarizes the estimated fiscal and work participation impacts of each component. We discuss each aspect of the Governor's proposal below.

LAO Bottom Line. The Governor's CalWORKs proposals would increase the work participation rate and result in substantial budgetary savings because many children would lose access to cash assistance. The proposals raise significant policy and budget issues. Later in this chapter we present alternative policy approaches which increase work participation but provide much less budgetary savings. In order to address federal work participation requirements, the Legislature will need to set its own priorities with respect to the policies and budget for CalWORKs.

Graduated 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 Governor proposes to increase this sanction to 50 percent of the remaining child-only grant after six months in sanction status, and completely eliminate the family's grant after another six months elapses, unless the adult comes into compliance. Families would be able to end the sanction and restore their grants by complying with program requirements.

Proposed trailer bill language "strongly encourages" counties to contact noncompliant cases by phone, letters, or home visits, before imposing the increased sanction. However, the budget does not include any additional funds for these activities (meaning that counties would have to absorb these contact costs within their existing block grants).

The Governor proposes that this policy be enacted through special session legislation. Clients would be notified in March about this sanction, and would begin experiencing the increased sanction in June 2007 unless they complied with program rules.

Impact on Families. Here we describe the financial impact of this proposal using a family of three in a high-cost county for purposes of example. Currently, the maximum grant for a family of three is $723 per month plus $361 in food stamps, for a total of $1,084 per month. When a family moves into sanction status, the adult is removed, the grant drops to $584 and the food stamps increase to $416, for a total of $1,000 per month. Under the Governor's proposal, after six months in sanction status, the grant for the noncomplying family would drop by 50 percent to $292 plus $426 in food stamps (for a combined benefit package of $718). After an additional six months, the grant would be completely eliminated and the family would retain its food stamps benefits of $426 per month.

Figure 5

Governor's CalWORKs Package
Summary of Fiscal and Work-Related Impacts

(Dollars in Millions)

	2008-09			Change in WPR[a]	
Component	**Grants/ Administration**	**Child Care/ Services**	**Net Fiscal Impact**	**FFY 2009**	**FFY 2010**
Graduated full-family sanction	-$61.7	$82.7	$21.1	3.7%	5.7%
Modified safety net (5-year time limit)	-256.7	-2.5	-259.2	5.1	5.1
Work Incentive Nutritional Supplement (WINS)[b]	8.4	—	8.4	0.9	9.0
Child-only time limit	-241.5	—	-241.5	—	—
Totals	**-$551.5**	**$80.2**	**-$471.3**	**9.7%**	**19.8%**

a WPR = Work Participation Rate.

b In 2008-09, $8.4 million for automation, rising to about $24 million in 2010-11.

Behavioral Impacts on Families. For 2007-08, the estimated number of families in sanction status is 41,700 (with an average of 1.9 children per family). The Governor's budget assumes that 13,000 families (31 percent) will participate sufficiently to come into compliance and avoid further sanction. The remaining 28,700 would receive a 50 percent reduction in their grant. Of this remaining group, the budget assumes that 5,800 families (20 percent) would comply with program requirements and avoid the full-family sanction. The remaining 23,000 families are estimated to experience the full-family sanction. This represents about 44,000 children. The budget further estimates that about 6,300 families experiencing the full-family sanction would subsequently comply with program requirements and return to aid within six months.

Impact on Work Participation. There are two impacts on the state's work participation rate from this policy. First, some families will work sufficient hours to meet federal participation requirements. Specifically, the budget estimates there will be about 1,200 newly participating families in FFY 2008, rising to 8,400 in FFY 2009, and 11,500 in FFY 2010. This increases the numerator, thus raising the work participation rate. Second, the families which experience the full-family sanction exit the program and reduce the denominator. Together, the budget estimates that these changes will increase the work participation rate by about 0.44 percent in FFY 2008, rising to 3.7 percent in FFY 2009, and 5.7 percent in FFY 2010. 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 go off aid and therefore be excluded from the denominator. The only question is the number who would leave aid and be excluded.

Fiscal Impact. Because of the estimated increase in compliance and work participation, the budget estimates increased child care and welfare-to-work services costs of about $83 million in 2008-09. These costs would be offset by grant savings ($62 million) from the families that experience the full-family sanction. Thus, the Governor's budget estimates these net costs to be about $21 million in 2008-09.

LAO Assessment of Graduated Full-Family Sanction

Assumptions Concerning Impacts Reasonable. It is difficult to assess the behavioral impacts of sanction policies because 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 rigorous studies that compare the impacts of randomly assigned participants to weaker and stronger sanctions. (There is research on the characteristics of sanctioned cases and what happens to them. We summarized this research in the CalWORKs section of the *Analysis of the 2007-08 Budget Bill*.)

Last year, the administration assumed that 70 percent of cases experiencing a full-family sanction would not only come into compliance and end their sanction, but would actually participate sufficient hours to meet federal participation requirements. As described in the *Analysis of* *the 2007-08 Budget Bill*, we concluded that these assumptions were overly optimistic.

This year, the budget distinguishes between cases that will comply with program requirements (attend orientation, and participate in required activities for example) and end their sanction and cases that will actually participate enough to meet the federal hourly requirements. The administration assumes that about 28 percent of the sanctioned parents will meet federal participation requirements while 55 percent will experience the full-family sanction. We believe these assumptions are reasonable.

Graduated Sanction Policy Could Be Pilot Tested. The graduated full-family sanction is a high risk and high reward strategy. On the one hand, it is likely to substantially increase work participation by 5.7 percent when fully implemented in 2010. The graduated aspect of the policy gives sanctioned cases more time to come into compliance than last year's immediate sanction proposal. On the other hand, it could result in hardship for children whose parents cannot or will not cooperate with work participation requirements. Given the lack of research on the behavioral impacts of sanction policies, the Legislature could consider pilot testing this policy in several counties. After seeing the results of these pilots, the Legislature could decide whether to end or expand the sanction policy pilot.

Five-Year Time Limit for Children in Safety Net

Policy Description. 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 June 1, 2008. 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 removed from aid.

Working Families Could Reenter Safety Net. In contrast to last year's proposal, families who are removed from aid under this policy would be able to return to the safety net under certain conditions. Specifically, the proposed trailer bill legislation allows former safety net children of adults who work sufficient hours to meet federal participation requirements to rejoin the safety net. This is because for the first six months after being removed from aid, the proposed trailer bill applies the income limits for recipients (about $1,670 per month for a family of three) to this population, rather than the much lower income limits for applicants (about $800 per month for a similar family). The income limits for recipients are higher than those for applicants because recipients have the first $225, and one-half of all earnings above $225, "disregarded" when calculating their grant.

Impacts on Families. The budget estimates that there would be approximately 47,500 safety net cases in June 2008, rising to 48,500 cases during 2008-09. The budget assumes that in 2008-09, 26 percent of these families—about 12,400 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 35,100 cases, with approximately 67,000 children, would lose aid because of this policy.

Fiscal Impacts. The budget estimates that the safety net time limit will result in savings of $18 million in June 2008, rising to $259 million in 2008-09.

Impact on Work Participation. 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 1.6 percent in FFY 2008, and 5 percent in FFY 2009. These estimates appear reasonable.

Work Incentive Nutritional Supplement (WINS)

Policy Description. Beginning on July 1, 2009, the budget proposes to provide a $40 per month nutritional supplement to working families who are not in the CalWORKs program but are working sufficient hours to meet the federal work participation requirements. The benefits would be provided in the form of additional food stamps, which are usually made available to recipients through the use of electronic benefit transfer cards. The budget estimates that approximately 40,000 families will be eligible for this supplement. For 2008-09, the budget proposes $8.4 million to make necessary automation changes. The administration estimates that during 2009-10, the cost of providing benefits under this program would be $18.6 million, rising to $24 million each year thereafter.

Impact on Work Participation. Besides increasing food benefits for the working poor, the primary advantage of this proposal is adding about 40,000 working families to the numerator for purposes of calculating the federal work participation rate. The administration estimates that this proposal will increase the work participation rate by 0.9 percent in FFY 2009, 9 percent in FFY 2010, and 10 percent in FFY 2011.

Because this proposal adds to the CalWORKs caseload, in isolation it reduces the natural caseload reduction credit of 7.3 percent in FFY 2010 and FFY 2011 as shown in Figure 4. This is because the cases receiving WINS would be new CalWORKs cases, creating a caseload increase, which would reverse the 7.3 percent reduction. However, federal rules allow caseload increases from eligibility changes such as this to be offset against eligibility changes that reduce the caseload. The Governor's full-family sanction is an example of such an eligibility change which could be offset against the increase of WINS, thus preserving the full work participation impact of WINS discussed above.

LAO Assessment. We believe that the WINS proposal is a cost-effective way of raising work participation, and we previously recommended adoption of a program like this in the *2007-08 Analysis*. This WINS proposal is incorporated into the LAO CalWORKs reform package presented below.

Child-Only Time Limit

Fiscal Impacts. Effective June 1, 2008, the budget proposes to limit assistance to five years for most child-only cases (such as those with parents who are undocumented or ineligible due to a previous felony drug conviction). There are approximately 37,000 cases which have been aided for five years and would lose assistance under this proposal. Removing these families from assistance results in General Fund savings of $18 million in June 2008, rising to $242 million in 2008-09. There are about 70,300 children in these families.

No Impact on Work Participation. Limiting benefits to other child-only cases to five years (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.

Governor's Proposals Address Participation

As discussed above, the Governor's proposals substantially increase work participation. Figure 6 (see next page) compares the estimated work participation rates assuming adoption of the Governor's proposals against the estimated federal requirements. The figure shows that the Governor's proposal would result in participation surpluses beginning in FFY 2009. However, if Proposition 49 after school funds cannot be counted as MOE, then there would be a 2.7 percent shortfall in FFY 2009, with surpluses beginning in FFY 2010.

Figure 6

Governor's CalWORKs Reforms Estimated Participation Shortfall(-)/Surplus

	Federal Fiscal Year			
	2008	2009	2010	2011
Federal Participation Requirement	**50.0%**	**50.0%**	**50.0%**	**50.0%**
Caseload Reduction Credits				
"Natural" caseload decline[a]	-6.8%	-6.5%	-7.3%	-7.3%
Excess MOE reduction	-10.9	-7.4	—	—
Total Credit	-17.8%	-13.8%	-7.3%	-7.3%
Net Participation Requirement	**32.2%**	**36.2%**	**42.8%**	**42.8%**
Current-Law Work Participation	25.2%	31.2%	31.2%	31.2%
Policy Changes				
Graduated full-family sanction	0.4%	3.7%	5.7%	5.7%
Modified safety net	1.6	5.1	5.1	5.1
Work Incentive Nutritional Supplement	—	0.9	9.0	10.4
Participation Rate[b]	**27.2%**	**40.9%**	**51.0%**	**52.4%**
Participation Shortfall(-)/Surplus	**-5.0%[c]**	**4.7%[c]**	**8.2%**	**9.6%**

a Since FFY 2005.

b Includes estimated affect of policy changes on participation rate.

c Shortfalls increase or emerge, respectively if Proposition 49 after school funds cannot be counted as MOE.

Governor's Proposals Likely to Result in MOE Shortfall

One potential problem with the Governor's proposal is that there may not be sufficient countable MOE expenditures from outside of CalWORKs to meet the base MOE requirement of $2.9 billion. This is because the Governor's proposals result in savings of about $471 million, and the new federal regulations substantially reduce the amount of countable

MOE spending. This most likely creates an MOE shortfall beginning in FFY 2009. If Proposition 49 after school funds cannot be counted as MOE, the problem would begin in FFY 2008. To address this MOE shortfall, the Legislature could (1) reject some or all of the Governor's proposals which result in savings, (2) identify alternative sources of countable MOE spending from other departments, (3) shift TANF funds, or (4) some other combination of these solutions.

ALTERNATIVES TO THE GOVERNOR'S PROPOSALS

We have identified two alternatives to the Governor's proposals which would increase work participation but with less budgetary savings. The two alternatives are a pre-assistance program which prepares incoming recipients to enter the labor force within four months of their application and a community service requirement for adults who have received five years of assistance. We discuss these alternatives, estimate their impacts, and present an alternative package of California Work Opportunity and Responsibility to Kids reforms which includes the Governor's Work Incentive Nutritional Supplement proposal. This package might meet federal requirements in FFY 2009 and would very likely meet these requirements in FFY 2010 and thereafter.

Pre-Assistance Program for Entering CalWORKs Recipients

Federal Flexibility for up to Four Months. When states provide assistance to TANF recipients, all TANF rules concerning work participation, child support assignment, and federal time limits apply. Assistance typically means *ongoing* cash assistance. Federal regulations specifically allow states to provide up to four months of aid without it being counted as assistance because four months is considered short term rather than ongoing. One potential use of this flexibility is that when recipients receive "non-assistance" they are removed from the federal work participation calculation for up to the first four months of aid. States such as Washington, Pennsylvania, and Minnesota, have adopted pre-assistance programs using this federal flexibility.

Currently, there are about 12,000 new families with adults entering CalWORKs each month. In general, able-bodied adults attend orientation and then proceed to a job club/job search program where many recipients find employment. Those unable to find employment are usually assessed for their job skills and barriers to employment. They then sign a welfare-to-work plan with the county indicating what steps the client will take toward becoming self-sufficient. Plans might include substance abuse treatment, English as a second language, vocational training, work experience, attending community college, or a combination of activities. Below we present a four-month pre-assistance program for these newly entering families.

Pre-Assistance Employment Readiness System (PAERS). Under this option, each approved family (meeting current eligibility requirements) entering aid would be placed in PAERS for up to 120 days. The goal of PAERS is to help recipients either become employed or to sign a welfare-to-work plan. The main change under this option is that in order for the family to continue receiving aid after PAERS by entering the CalWORKs program, they must become employed for sufficient hours to meet federal work participation requirements, or sign the welfare-to-work plan, unless they can establish that they are exempt or have good cause under current law for nonparticipation. Failure to meet at least one of these requirements would mean that the family does not enter CalWORKs. Families could immediately have aid restored upon agreeing to sign their plan. There would be no sanction or conciliation process during PAERS. Noncompliant families would be reminded of the requirement that they sign their plan or become employed with 120 days of entering PAERS.

Advantages of PAERS. One advantage of PAERS is the potential that it will improve the work participation rate by more directly focusing clients on quickly obtaining employment or establishing a self-sufficiency plan. Currently some families fail to attend orientation and eventually slip into sanction status where it may take months before a family becomes reengaged with program activities. The 120-day PAERS time limit helps ensure that engagement occurs promptly.

A second advantage of PAERS is that it delays entry into the federal work participation calculation for those unable to find employment. This is because pursuant to the federal flexibility discussed above, PAERS families are not counted in the work participation rate because they are for federal purposes in non-assistance status for 120 days (although they continue to receive cash grants). As soon as families obtain employment they would transfer to the CalWORKs program where their presence would help satisfy the work participation rate. Preliminarily, we estimate that adopting a PAERS would increase the work participation rate by 1.9 percent (when fully implemented) and result in annual net savings of about $10 million per year.

Interaction With Other Policy Changes. As noted in the discussion of the Governor's proposals, the WINS program results in a caseload increase which, in isolation, would reduce CRC by 7.3 percentage points. The PAERS described above would reduce the TANF caseload because PAERS cases are not receiving assistance pursuant to federal rules and thus are outside of the TANF program. This caseload reduction attributable to PEARS could be used to offset the caseload increase associated with WINS, thereby eliminating the loss of 7.3 CRC percentage points that would occur if WINS were implemented in isolation.

Community Service Requirement After Five Years of Assistance

Background. The current safety net provides cash grants to the children of approximately 48,000 families where the adult has been on aid for five years. The safety net caseload includes many situations. About 29 percent of the safety net adults are working at least 17 hours per week. Another 16 percent have some level of participation either in employment or other activities. About 55 percent are not participating at all. These nonparticipants (about 26,000 families) can be further subdivided into three groups: (1) adults unable to work because of substantial barriers to employment, (2) adults who are working but not reporting their income, and (3) adults who are choosing not to work or participate. However, it is difficult to know which cases are in each category. We believe a community service job requirement after five years of assistance could help sort out who is choosing not to participate from who is truly unable to participate.

Required Community Service Job. Under this option, after five years of assistance, each safety net adult would be required to work in nonsubsidized employment for 20 hours per week, participate for sufficient hours to meet federal participation requirements, or accept a subsidized employment or community service job for 20 hours per week arranged by his/her county.

Counties would have discretion in how to set up the community service position and/or whether to offer a subsidized employment opportunity. Adults who refuse to accept the county community service or subsidized job assignment, would have their families removed from aid. Before any such removal, there would be a required county home visit. At the home visit, county staff would attempt to determine if the client has barriers to employment that could be remedied through assistance, whether the client qualifies for an exemption from program participation requirements, or is determined to be incapable of participating pursuant to current law.

Periodic Test of the Labor Market. After every three months of community service or subsidized employment, each client would be placed in a job club/job search program for one month. Some would find non-subsidized employment and thus meet their participation requirement. Those unable to find employment would be required to return to community service for at least 20 hours per week. After three community service/job club cycles have been completed, at the one-year mark, counties would have the option of exempting the client from the community service job requirement while continuing aid to the children.

Clients found to be out compliance with the 20-hour requirement for community service would have the same process that exists in current law with respect to the sanction for nonparticipation. This approach would strengthen the message that in order to receive government paid income assistance, clients must meet an obligation to work or participate in community service if they are able.

Impacts. The exact impacts of this proposal are difficult to estimate. We believe that most clients who are unable to participate would be identified by the county home visit. Most families who are employed but not reporting their income would either leave the program or begin reporting their income and thus retain eligibility by working sufficient hours. As with the Governor's proposal, we estimate that the 5,600 current safety net cases working at least 17 hours per week would choose to increase their participation level so as to meet federal requirements (20 or 30 hours per week depending on the age of the child), thereby retaining their family's grant (less the adult portion). Those who refuse to participate would also exit the program. Preliminarily, we estimate that adoption of this program would increase the work participation rate by 2.9 percent and result in net annual savings of about $30 million.

LAO CalWORKs Reform Package

In order to meet the work participation requirement, we suggest the following package.

- Adopt the Governor's Work Incentive Nutritional Supplement which increases work participation by an eventual 10 percent.
- Adopt the Pre-Assistance Employment Readiness System which increases work participation by 1.9 percent.
- Adopt the requirement that safety net adults either work sufficient hours to meet federal participation or accept a community service job, which raises work participation by 2.9 percent.

This package results in net General Fund savings of about $16 million per year compared to the Governor's workload budget. (Savings of about $40 million from the community service job requirement and PAERS are partially offset by WINS costs of $24 million.)

Figure 7 shows the estimated work participation rates compared to the requirements. In FFY 2009, we estimate that adopting this combination would probably meet work participation requirements if the Proposition 49 after school funding is countable toward the MOE. In FFY 2010 and

FFY 2011, when the program changes are completely phased in, we estimate that California would likely exceed the estimated requirements.

Figure 7

LAO CalWORKs Package
Estimated Participation Shortfall(-)/Surplus

	Federal Fiscal Year (FFY)		
	2009	**2010[a]**	**2011**
Federal Participation Requirement	**50.0%**	**50.0%**	**50.0%**
Caseload Reduction Credits			
"Natural" caseload decline since FFY 2005	-6.5%	-7.3%	-7.3%
Excess MOE reduction	-8.4%	—	—
Total Credit	-14.9%	-7.3%	-7.3%
Net Participation Requirement	**35.1%**	**42.8%**	**42.8%**
Current-Law Work Participation	31.2%	31.2%	31.2%
Policy Changes			
Work Incentive Nutritional Supplement	0.9	9.0	10.4
Pre-Assistance Employment Readiness system	1.6	1.9	1.9
Community service requirement for safety net	1.5	2.9	2.9
Participation Rate[b]	**35.2%**	**45.0%**	**46.4%**
Participation Shortfall(-)/Surplus	**—[c]**	**2.2%**	**3.6%**

a Assumes zero CRC from excess MOE beginning in FFY 2010 pursuant to February 2008 federal regulations.

b Includes estimated affect of policy changes on participation rate.

c Drops to -7 percent if Proposition 49 after school funds cannot be counted as MOE.

The LAO alternative budget (presented in "Part V" of *The 2008-09 Budget: Perspectives and Issues*) does not include this CalWORKs reform package. The alternative budget reflects the current law "workload" funding level without policy changes. In order to address federal work participation requirements, the Legislature will need to set its own budget policy and priorities for CalWORKs.

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.

In 2008-09, the Governor's budget provides a separate CWS General Fund appropriation (Item 5180-153-0001) for the two counties (Los Angeles and Alameda) participating in the Title IV-E Child Welfare Waiver Demonstration Capped Allocation Project. The remaining 56 counties are budgeted in Item 5180-151-0001. Including the waiver counties, the Governor's budget proposes $2.5 billion from all funds and $695 million from the General Fund for the child welfare system. This represents a decrease of 3.5 percent in total funds and a decrease of 7.4 percent in General Fund from the most recent estimates of current-year expenditures. This decrease in funding primarily results from the Governor's budget-balancing reduction proposal to reduce CWS allocations (excluding automation, Adoptions, and Child Abuse Prevention) to counties by 11.4 percent.

Budget Proposes Reduction in CWS Allocations to Counties

The Governor's budget proposes to reduce the total General Fund allocation to counties for Child Welfare Services (CWS) by $83.7 million. Counties will have the discretion to apportion their reduced allocation among various program components. We describe the potential impact of this proposed reduction on social worker caseloads and possible subsequent policy consequences resulting from fewer resources. We also provide three alternatives to the Governor's proposal that more narrowly target reductions in CWS expenditures.

Background

There has been an ongoing effort in CWS to determine how many child welfare cases a social worker can carry and still effectively do his or her job. In 1984, the Department of Social Services (DSS) and the County Welfare Directors Association (CWDA) established an agreed-upon level of cases for each program component of CWS. These 1984 workload standards are still used by DSS to calculate the base level of funding for each county. In 2000, however, the Child Welfare Services Workload Study, which was required by Chapter 785, Statutes of 1998 (SB 2030, Costa), determined that the 1984 caseload standards were too high and that social workers had too many cases to effectively ensure the safety and well-being of the children for which they were responsible. The SB 2030 Study, as it is commonly called, proposed revised minimum and optimum caseload standards for social workers. Figure 1 compares the 1984 standards to the minimal and optimal standards developed in the SB 2030 Study.

Figure 1

Child Welfare Services Workload Standards
Cases Per Social Worker

	Emergency Response Assessment	Emergency Response	Family Maintenance	Family Reunification	Permanent Placement
1984 Workload Standards	322.5	15.8	35.0	27.0	54.0
SB 2030 Standards:					
Minimal	116.1	13.0	14.2	15.6	23.7
Optimal	68.7	9.9	10.2	11.9	16.4

Concerned about large social worker caseloads, over the years the Legislature has added additional funds known as the "augmentation" and the Outcome Improvement Project (OIP). The Governor's workload budget proposes $152.7 million ($96.4 million General Fund) for these funding streams in 2008-09. These monies, in combination with the hold harmless budgeting methodology (which we discuss below), have enabled counties to hire more caseworkers and move toward standards established by the SB 2030 Study.

Governor's Proposal

The Governor's budget proposes to reduce CWS expenditures by $83.7 million General Fund. This represents a reduction of 11.4 percent to the total General Fund allocation for CWS, excluding funds for the Child Welfare Services Case Management System (CWS/CMS), the Adoptions Program, and the Child Abuse Prevention Program. Counties will have the flexibility to choose how to apportion the reduction to various CWS program expenditures. According to DSS, the department will work with CWDA to develop an allocation process for apportioning this proposed reduction. At the time this analysis was prepared, DSS could not provide further details on the implementation of the CWS reduction to county allocations and the potential program impacts.

Staffing Level Impacts of Proposed Reduction to CWS

The impact of the proposed reduction is difficult to measure because counties have multiple ways of responding to reduced funding. County options include reducing payments to service providers for preventive services, reducing transitional services for emancipated foster youth, reducing overhead expenses, and/or hiring fewer social workers. Nevertheless, because social workers and their support costs represent the majority of the CWS budget, counties are likely to substantially reduce the number of social workers.

Increase in Social Worker Caseloads. One potential program impact of the proposed reduction is an increase in county social worker caseloads because of a decrease in the number of funded full-time equivalent (FTE) social workers. The proposed reduction represents approximately 87 percent of the CWS augmentation and OIP monies. As a result, there may be a reversal of some of the progress made by counties in meeting or exceeding SB 2030 minimum standards.

In order to estimate existing staffing levels and the potential impact of the proposed reduction, we used the most recent caseload and budget data available from DSS and made a series of assumptions and adjustments related to non-case carrying social workers, the amount of OIP augmentation funds directed to hiring more social workers, and inflationary adjustments known as the cost-of-doing-business.

As Figure 2 shows, we estimate that in 2007-08, 20 counties, which have 9 percent of the total CWS caseload, are funded for enough FTE social workers to either exceed the SB 2030 minimum standards, or be within 10 percent of the standards. Additionally, 14 counties, which have approximately 43 percent of CWS cases, are between 80 and 89 percent of meeting the minimum standards.

As a result of the proposed reduction, we estimate an increase in the number of counties that are further away from meeting the minimum standards in the budget year. For example, we estimate that the number of counties that would be between 80 and 89 percent of meeting the minimum standards would decrease from 14 counties in 2007-08 to 6 counties in 2008-09. In addition, the number of counties below 80 percent of the standard would increase from 24 (representing 48 percent of the CWS caseload) to 38 (representing 90 percent of the CWS caseload) in the budget year.

Figure 2

Child Welfare Services (CWS)
Number of Counties and Percent of Caseload Meeting SB 2030 Minimum Standards

	2007-08		Proposed 2008-09[a]	
	Number of Counties	Percentage of Cases	Number of Counties	Percentage of Cases
Exceeds standards	10	1.9%	9	2.2%[b]
From 90%-99% of standards	10	7.1	5	3.3
From 80%-89% of standards	14	42.7	6	4.8
From 70%-79% of standards	15	34.0	18	49.6
Less than 70% of standards	9	14.3	20	40.2

[a] Based on Governor's proposals. LAO analysis assuming increases in county social worker caseloads.
[b] This counter-intuitive result is because Butte County's funding is increasing for technical reasons, despite the proposed reduction.

From a statewide perspective, we estimate that the proposed reduction would result in an overall decrease of 522 FTE social workers. As a result, while the total number of funded FTE social workers in the state is at approximately 79 percent of meeting the minimum standards for 2007-08, for 2008-09 that figure would decline to 73 percent.

Potential Consequences of Fewer Resources

While counties will take different approaches to responding to reduced funding, there are several potential policy consequences from their actions:

- Counties that choose to reduce the number of social workers may decide to open fewer CWS cases or close cases earlier than they would otherwise because of limited resources. This could lead to leaving children in more marginally risky situations.

- Counties that choose to reduce spending on preventive services could see an increase in foster care cases. Rather than provide intensive and time-consuming family case-management services to cases in which the child remains in the home, counties with fewer social workers and limited resources may choose to change their policy to removing children from the home more frequently and placing them in foster care.
- Counties that choose to reduce spending in transitional services for emancipated foster youth could see an increase in unstable housing situations for this population.

Alternatives to the Governor's Proposal

Below we present three alternatives to the Governor's proposal which offer less budgetary savings, but are less likely to negatively impact services for children.

Suspend Hold Harmless. In preparing the budget for CWS, DSS adjusts proposed funding upwards when the caseload increases, but does *not* adjust funding downward when the caseload actually decreases. The practice of not adjusting the budget to reflect caseload decline is known as the "hold harmless" approach, though DSS technically refers to this as the "base funding adjustment." Because of the way the hold harmless provision works, the number of social workers funded for the counties remains unchanged despite workload decreases. In other words, if an individual county's caseload is declining, its number of caseworkers is held at the prior-year level. At the same time, if another county's caseload is increasing, the state provides that county with funds to hire additional caseworkers. Therefore, on a statewide basis, despite an overall caseload decline, the funding for CWS continues to grow.

One alternative to the Governor's proposal is to suspend the hold harmless budgeting methodology for 2008-09. For 2008-09, DSS reviewed estimated caseloads per CWS component and included $17.6 million ($6 million General Fund) in the budget for 29 counties with declining caseloads, pursuant to the hold harmless funding provision.

Under this option, the CWS case-management funding per child would remain at its 2007-08 level for these 29 counties. This would result in a General Fund savings of $6 million, while not reducing the level of care and service provided to the children and families in the child welfare system in the budget year. While the Governor's proposed reduction would impact every county, suspending hold harmless would target CWS expenditure reductions to those counties with declining caseloads and would not reduce existing social worker caseload ratios.

Cap Social Worker Costs. Another option is to cap the total cost per social worker at $155,000, which would result in a General Fund savings of approximately $5.1 million. The average statewide "fully loaded" cost of a social worker, which is currently frozen at the level of funding provided in 2001-02, is $129,074. The fully loaded cost represents the social worker's salary and benefits, in addition to the allocated cost of supervisors, data processing, departmental overhead, and other general expenses related to providing services.

The fully loaded social worker cost per county ranges from $72,788 to $176,930. This range in cost per county partially reflects cost-of-living differences, but there are also significant differences in costs between bordering counties. For example, while Sacramento County's fully loaded social worker cost is $162,866, Yolo County's cost is $101,468. Therefore, in some cases, the fully loaded funding for social workers in counties with similar cost-of-living rates are substantially different.

By capping the total cost per social worker at $155,000, which is the 2001-02 average statewide fully-loaded cost of a social worker adjusted for the California Consumer Price Index since that time, seven counties would experience a reduction in funding because their fully loaded social worker cost exceeds the proposed cap. Capping social worker costs is another alternative that targets a reduction in CWS expenditures to specific counties that have larger funding allocations per case, rather than an across-the-board reduction for all counties.

A Combined Approach. The Legislature could also choose a combination of a smaller across-the-board reduction to CWS county allocations, in conjunction with the hold harmless and social worker cost cap alternatives discussed above. For example, a 3 percent reduction to CWS county allocations, in combination with suspending the hold harmless provision and capping the fully loaded social worker cost at $155,000, results in an estimated General Fund savings of $33.1 million.

Conclusion

The Governor's proposal to reduce CWS allocations to counties by 11.4 percent results in General Fund savings of $83.7 million. In deciding whether to adopt this proposal, the Legislature should weigh the budgetary savings against the potential for increased social worker caseloads as a result of fewer FTE social workers, as well as possible subsequent policy consequences resulting from fewer resources in CWS. Although the specific alternatives to reduce CWS expenditures that are outlined above save considerably less than the Governor's proposal, these options set priorities and target the reductions which would lessen their statewide impact.

RETHINKING THE FUTURE OF CWS AUTOMATION

The Governor's budget proposes to spend $247 million ($112 million General Fund) over the next seven years to continue with the development of a new Child Welfare computer system (referred to as the New System). Our review indicates that the current Child Welfare Services Case Management System (CWS/CMS) can be updated to meet federal and county functionality requirements. Accordingly, we recommend cancelling the New System project and updating the CWS/CMS, resulting in savings (all funds) of $184 million over the next seven years.

Current System

The CWS/CMS is a statewide computer system deployed in all 58 counties to support the administration of CWS. From 1992 until 1995, state and county staff participated with the vendor to develop system requirements and design. Statewide system implementation began in 1995, and by 1997 the CWS/CMS was in use in all 58 counties.

Federal Statewide Automated Child Welfare Information System (SACWIS)

Federal Funding. In 1993, the federal government offered "incentive funding" to states that would develop a SACWIS that met federal requirements. These systems would receive 75 percent federal funding for the first three years of system development and 50 percent thereafter. California received the 75 percent funding through 1997 when it implemented CWS/CMS and has received 50 percent federal funding since that time.

SACWIS Compliance. In 1999, a federal review raised concerns about the extent to which CWS/CMS complied with the requirements of SACWIS. In 2003, the federal government notified the state that CWS/CMS did not meet all SACWIS functional requirements. The missing functions included Adoptions case management, Foster Care eligibility, financial management, and automated interfaces to the Child Support and human services systems. In 2004, the state submitted a plan (referred to as the Go Forward Plan) to the Department of Finance (DOF) and the federal government for achieving SACWIS compliance and for meeting additional county business requirements. The counties had two business requirements beyond the SACWIS requirements: (1) a simplified data entry process and (2) the ability to access CWS/CMS from locations other than their office (remote access). The plan proposed to conduct a study to determine the technical viability of the current system to provide the additional functionality and a technical analysis of alternatives. The federal government approved the plan.

Technical Architecture Analysis Alternatives (TAAA)

In 2005, the state Office of Systems Integration (OSI) hired Eclipse Solutions and Gartner Group to conduct a technical analysis that would provide alternatives for meeting the following requirements:

- Achieve SACWIS compliance.
- Meet county requirements for simplified data entry and remote access.

In addition to these requirements, OSI instructed the consultants to propose solutions for making the system accessible from the web by abandoning the existing mainframe platform and moving it onto servers.

TAAA Report Did Not Consider All Possible Alternatives

State Instructions Constrained Analysis. The consultants conducted their analysis as they were instructed by OSI. The instruction that the system should be moved off the large, mainframe computer and onto servers represented a major constraint on the consultants' analysis. It prevented them from considering all possible technical solutions for achieving SACWIS and county requirements.

Only Two Alternatives Were Examined. Because of the constraint placed on the consultants, only two alternatives were examined.

- The first alternative would move the current system, a piece at a time, off the mainframe and onto web servers. In the process of moving the system, software changes would be incorporated to meet the county requirements and the missing SACWIS components would also be added. This alternative would take eight years to accomplish.
- The second alternative was to develop a new system. This alternative would build in all the federal and county requirements. The new system would take three years to develop.

Third Alternative Was Not Considered. A third alternative was not considered by TAAA consultants because the state had specified that it wanted to eliminate use of the mainframe. This alternative would update the current system and leave it on the mainframe. In fact, a 2003 study also conducted by Gartner Group recommended this as a solution for making CWS/CMS accessible from the web in order to provide counties with a simplified data entry process and remote access.

Decision to Procure New System

Of the two alternatives provided in the 2005 TAAA Report, the state chose to develop a new system. A feasibility report was approved by DOF in April 2006. Since that time, DSS, OSI, and the counties have been working to document the detailed business requirements for a vendor bid to build a new Child Welfare system. The proposed technological solution is currently referred to as the "New System."

Proposed New System Adds Risk and Cost. When replacement systems are built, the data from the old system must be moved to the new system. This is referred to as "data conversion." In order to convert data, programmers must write software programs to locate and move the data from the old database to the new database. Data conversion efforts can be complex, time-consuming, expensive, and high risk. The high risk is attributable to the possibility that data can be accidentally altered or even lost during the conversion process. Both the alternatives considered by the TAAA require this costly and risky data conversion process. In order to avoid these cost and risk factors, many companies are choosing to retain their legacy database and modernize their systems by adding a software layer that allows the system to be accessed from the web. This software layer is referred to as an "enterprise service bus." Adding an enterprise service bus enables application changes that can provide remote access and simplify data entry.

LAO Alternative

Update Current System. The CWS/CMS is built on software products currently under vendor support. That is, the vendors continue to maintain, upgrade, and market the software. Therefore, there is no reason to abandon CWS/CMS if it can play a role in meeting the additional SACWIS and county requirements. County requirements not met by the current system can be accommodated by making the system more modular and accessible from the web. This can be accomplished by adding an enterprise service bus as described above. This approach is increasingly being used by organizations to leverage their existing databases in order to minimize both the risk of data conversion and the cost of building a new system. Thus, the LAO alternative is to (1) update the current system and (2) add the missing SACWIS components. This will meet the federal and county business requirements.

Budget and Contract Availability. The CWS/CMS has been in use for more than ten years. There is $10 million in the baseline budget to keep the system current for changes in regulations and legislation. During the first five years that CWS/CMS was in operation, this baseline amount was being spent, most of it to adjust the system for changing business processes as social workers transitioned from a manual operation to an automated one. Over the past five years, approximately one-third has been spent of the $50 million budgeted. This reduced spending pattern is typical for new systems as they stabilize and attain user acceptance. The current vendor contract is effective through 2013 and allows up to $10 million annually for system changes. We estimate that $8 million could be made available each year from the existing baseline budget to update the system to make it accessible from the web and to add the missing SACWIS components. The remaining $2 million would be available to incorporate any regulatory and legislative changes.

Comparing New System to LAO Alternative

Figure 3 shows the total project cost for the New System and the LAO alternative. As the figure shows, the new system is estimated to cost $247 million (all funds), $184 more than the LAO alternative.

Figure 3

Cost Comparison for CWS Automation Projects

(Total Funds in Millions)

	2008-09	2009-10	2010-11	2011-12	2012-13 Through 2014-15	Totals[a]
New system	$6.8	$8.2	$11.2	$39.5	$181.5	$247.2
LAO alternative	14.8	16.2	16.2	16.2	—	63.4

[a] Does not include $7.4 million expended from 2006-07 through 2007-08.

Cost of New System Was Understated. Over the past two years the state has spent $7 million for New System project planning. In November 2007, the administration estimated that it would take seven more years to procure a vendor and complete the system at a cost of $247 million. During the final three years of New System development, after the contract has been awarded, there will be a reduction in federal funding for the current system.

LAO Alternative Reduces Schedule, Cost, and Risk. As shown in Figure 3 above, the total cost of the LAO alternative is $63 million. The current contract provides adequate resources to perform the work necessary to update the current system to meet SACWIS and county requirements. Although there are separate costs for state and county staff to design and test the system, such costs are significantly less than they would be for the New System. This alternative also eliminates the risk and cost of data conversion, which is necessary under the other alternatives. In addition, federal funding levels for the current system will be retained if it is updated to meet SACWIS and county requirements.

Funding the LAO Alternative. The LAO alternative could be funded by applying $8 million of the existing CWS/CMS baseline budget to cover the system programming. In addition, the increased state and county staff needed to help design and test the system changes could be covered by redirecting funding from the New System for 2008-09 ($6.8 million) and 2009-10 ($8.2 million). Thus, through these redirections, there would be no net new cost under the LAO alternative for these years.

Analyst's Recommendation

We recommend canceling the Child Welfare New System Project and updating the current system. This will result in reduced time, cost, and risk. This proposal is budget neutral in 2008-09 and 2009-10. Over the life of the project, total savings would be $184 million (all funds).

FOSTER CARE

Foster Care is an entitlement program funded by federal, state, and local governments. Children are eligible for foster care grants if they are living with a foster care provider under a court order or a voluntary agreement between the child's parent and a county welfare department. The California Department of Social Services (DSS) provides oversight for the county-administered Foster Care system. County welfare departments make decisions regarding the health and safety of children and have the discretion to place children in one of the following: (1) a foster family home, (2) a foster family agency home, or (3) a group home. Seriously emotionally disturbed (SED) children are identified by the California Department of Education (CDE) and are typically placed in group homes to facilitate a greater degree of supervision and treatment.

The *2008-09 Governor's Budget* provides a separate Foster Care General Fund appropriation (Item 5180-153-0001) for the two counties (Los Angeles and Alameda) participating in the Title IV-E Child Welfare Waiver Demonstration Capped Allocation Project. The remaining 56 counties are budgeted in Item 5180-101-0001. Including the waiver counties, the Governor's budget proposes expenditures of $1.6 billion ($425 million General Fund) for the Foster Care program in 2008-09. This represents an 8.6 percent decrease in General Fund expenditures from current-year estimated expenditures. Most of this decrease is attributable to the Governor's budget-balancing reduction proposal to reduce Foster Care, Adoption Assistance, and Kinship Guardianship Assistance Payment (Kin-GAP) payment rates by 10 percent.

BUDGET PROPOSES TO REDUCE FOSTER CARE RATES

The Governor's budget proposes to reduce most Foster Care, Adoption Assistance, and Kinship Guardianship Assistance Payment rates by 10 percent, effective June 1, 2008. This proposed reduction will save an estimated $15.9 million in total funds ($6.8 million General Fund) in the current year and $190.3 million in total funds ($81.5 million Gen-

eral Fund) in 2008-09. We provide background information on existing rates and describe potential impacts of the proposed reductions on the supply of care providers. In addition, we present two alternatives to the Governor's proposal.

Background

Foster Care Placement Types. If there is reason to believe that an allegation of child abuse or neglect is true, county welfare departments can place a child in one of the following: (1) a foster family home (FFH), (2) a foster family agency (FFA) home, or (3) a group home (GH). The FFAs are nonprofit agencies licensed to recruit, certify, train, and support foster parents for hard-to-place children who would otherwise require GH care. The FFA rates are based on the FFH rate, plus a set increment for the special needs of the child and an increment for the support services offered by the FFA.

Children who are identified by the CDE as SED are usually placed in GHs with psychiatric peer group settings. However, some SED children are placed in FFHs and FFA homes.

Permanent Placement Types. The Kin-GAP program provides monthly cash grants for children who are permanently placed with a relative who assumes guardianship. The Adoption Assistance program (AAP) provides monthly cash grants to parents who adopt foster children. Both Kin-GAP and AAP grants are tied to the foster care payment the child would have received if the child remained in a foster care placement.

Existing Rates. Foster care basic grant rates for FFH, FFA, and GH (including SED children) were designed to fund the basic costs of raising a child. For some foster care payment recipients, as a supplement to the basic grant, a specialized care increment (SCI) may be paid for the additional care and supervision needs of a child with health and/or behavioral issues. This could include, for example, a wheelchair ramp for a disabled child. A clothing allowance may also be paid in addition to the basic grant.

For 2007-08, the Legislature approved a 5 percent increase to the basic and SCI rates for FFHs and Kin-GAP recipients, effective January 1, 2008. The 5 percent increase also applies to GHs, excluding the rates for SED children, and new AAP cases entering the program after January 1, 2008. The Legislature did not approve a rate increase for FFA recipients as the average FFA grant is currently significantly higher than the average FFH grant. In addition, there is some evidence that rather than becoming the lower-cost alternatives to GHs, FFA homes have instead become higher-cost alternatives to FFHs. The last foster care rate increase was provided in 2001-02.

Governor's Proposal. The Governor's budget proposes to reduce the basic care, SCI, clothing allowance, and SED rates for children in FFHs and GHs by 10 percent. The proposal also reflects a corresponding 10 percent decrease for Kin-GAP and AAP recipients. In addition, the budget proposes to reduce FFA rates by 5 percent rather than 10 percent, as FFA recipients did not receive the recent 5 percent rate increase. The budget assumes enactment of legislation during the special session so that the rate reductions would go into effect June 1, 2008. This would save an estimated $6.8 million General Fund in the current year and $81.5 million General Fund in 2008-09. Figure 1 compares the average monthly foster care, Kin-GAP, and AAP payments prior to the 5 percent increase, after the rate increase, and with the Governor's proposed reduction.

Figure 1

Foster Care and Related Programs
Average Monthly Payments by Placement

			Governor's Proposal (June 2008)	
	Prior Law (2007)	Current Law[a] (January 2008)	Amount	Percent Reduction
Foster Family Home	$693	$728	$655	-9.9%
Foster Family Agency	1,850	1,850	1,758	-5.0
Group Home	5,058	5,311	4,780	-10.0
Seriously Emotionally Disturbed	5,614	5,614	5,053	-10.0
Adoption Assistance	785	824	706	-14.4
Kin-GAP	552	580	522	-10.0

[a] Reflects 5 percent rate increase except for rates for foster family agency and seriously emotionally disturbed children which received no adjustment.

Potential Impacts of Rate Reductions

While the impact of the proposed reduction on existing and potential care providers is difficult to measure, one possible program impact is a decrease in the supply of care providers for both foster care and permanent placements. This change in the supply of care providers could ultimately lead to increased foster care expenditures depending on which types of placements experience the most significant supply effects. On the one hand, reduced foster care rates could result in a decrease in the number of FFH providers, which could then lead to increased placements in the more expensive FFA homes and GHs. On the other hand, a decrease in the number of GH providers could lead to increased placements in the less expensive FFHs and FFA homes.

In addition, reduced grants for Kin-GAP and AAP recipients could decrease the number of permanent placement providers, which could also lead to longer stays in foster care. This could raise Child Welfare Services costs as these cases remain open with social worker intervention. This could also increase Medi-Cal costs and utilization because recipients are eligible for these health services by virtue of their foster care status.

Alternatives to the Governor's Proposal

Below we present alternatives to the Governor's proposal which offer less budgetary savings, but reduce the financial impact on foster care, Kin-GAP, and AAP recipients.

Rescind Recent 5 Percent Rate Increase. One alternative to the Governor's proposal is to rescind the recent 5 percent rate increase for FFH, GH, Kin-GAP, and new AAP recipients in the budget year. This option would generate an estimated savings of $17 million General Fund in 2008-09. By only rescinding the 5 percent rate increase, and not reducing rates by an additional 5 percent, foster care and permanent care providers would be no worse off financially than they were one year ago.

As part of this alternative, the Legislature should consider reducing the FFA rate by 5 percent in 2008-09, to keep the differential between the FFA rate and other foster care rates established by the Legislature. The Legislature did not provide the recent rate increase to FFAs in part because of a concern that FFA homes have become a higher-cost alternative to FFHs rather than a lower-cost alternative to GHs, which was the original intent of FFAs. The caseload trend for FFAs, which has been consistently increasing while other placement types have been decreasing or holding steady, supports this finding. Reducing FFA rates by 5 percent would generate an additional estimated savings of $6.6 million General Fund in 2008-09.

Cap the SCI Rate in Certain Counties. Another alternative is reforming the current SCI rate structure. As Figure 2 shows, the SCIs range from zero in three small counties to over $2,000 per month in other counties. The SCIs reflect historical rate structures which vary by county. One reform option for the SCI rate structure is to cap the maximum rate at $1,000 beginning in 2008-09. This option could save an estimated $1 million General Fund in the budget year. This cap would impact seven counties representing approximately 20 percent of the caseload. We note that currently 51 counties are able to serve children within this proposed cap.

Figure 2

Foster Care
Distribution of Maximum Specialized Care Increments

Maximum Increment	Number of Counties	Percentage of Cases
$1,001 to $2,097	7	19.5%
$500 to $1,000	28	74.3
$1 to $499	20	6.1
None	3	0.1

Conclusion

The Governor's proposal to reduce most foster care, Kin-GAP, and AAP rates by 10 percent results in General Fund savings of $6.8 million in the current year and $81.5 million in 2008-09. In deciding whether to adopt this proposal, the Legislature should weigh the budgetary savings against the potential for a decrease in foster and permanent care providers, which could lead to increased foster care expenditures as children may move into more expensive placements or remain in care for longer periods. Although the LAO alternatives to reduce foster care expenditures save considerably less than the Governor's proposal, these options would lessen the financial impact on foster care, Kin-GAP, and AAP recipients, and reduce the chance for placement shifts.

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 nearly $3.8 billion from the General Fund for the state's share of SSI/SSP in 2008-09. This is an increase of $107 million, or 2.9 percent, over estimated current-year expenditures. This increase in funding is primarily due to increases in the SSI/SSP caseload.

In 2008-09, it is estimated that there will be an average of about 366,500 aged, 21,600 blind, and 859,500 disabled recipients. In addition to these federally eligible recipients, the state-only Cash Assistance Program for Immigrants is estimated to provide benefits to an average of 11,419 legal immigrants in 2008-09, for whom federal financial participation is not available.

Budget Deletes State Cost-of-Living Adjustments

The Governor's budget proposes to delete the June 2008 and 2009 state statutory cost-of-living adjustments (COLAs), while passing through the federal COLAs. The budget estimates that this proposal will save $23.3 million in the current year, and $300.3 million in 2008-09. Due to revisions of the California Necessities Index and the Consumer Price Index, we estimate that the Governor's budget understates the savings from deleting the state COLA by $5.3 million in 2008-09.

Background

The SSI/SSP payment is funded with federal and state funds, with the SSI component supported with federal funds and the SSP portion funded with state funds. Under current law, both the federal and state components of the SSI/SSP grant are adjusted annually for inflation. In the past, the federal and state cost-of-living adjustments (COLAs) were both applied to the SSI/SSP grant each January (with the exception of several years when the state COLA was deleted and the federal COLA was not passed through). Chapter 171, Statutes of 2007 (SB 77, Ducheny) permanently rescheduled from January to June the annual SSP state COLA.

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, which is applied each January, (based on the Consumer Price Index for Urban Wage Earners and Clerical Workers, or the CPI-W) is applied annually to the SSI (federal) 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 estimates the General Fund cost of providing these COLAs to be $23.3 million in 2007-08 and $300.3 million ($271 million from the June 2008 COLA, and $29.3 million from the June 2009 COLA) in 2008-09.

Deleting the June 2008 COLA

The Governor's budget proposes to delete the June 2008 COLA, and includes the pass-through of the federal COLA. Because the state COLA has been permanently rescheduled from January to June, deleting the June 2008 COLA results in a one month General Fund savings of $23.3 million in 2007-08, and annualized savings of $271 million in 2008-09. Given the lead-time required to notify the Social Security Administration about grant changes, the June 2008 COLA deletion issue must be addressed prior to March 1.

Deleting the June 2009 COLA

The Governor proposes to delete the June 2009 state COLA, while passing through the January 2009 federal COLA. The Governor's budget estimates that deleting the June 2009 COLA will result in a one month General Fund savings of $29.3 million in 2008-09. However, our review of the actual CNI and our estimate of the CPI-W indicates that this proposal understates the General Fund savings in the budget year.

The CNI Revised. The June 2009 COLA is based on the change in the CNI from December 2006 to December 2007. The Governor's budget, which is prepared prior to the release of the December 2007 CNI figures, estimates that the CNI will be 4.25 percent, based on partial data. Our review of the actual data indicates that the June 2009 CNI will be 5.27 percent.

The January 2009 CPI Underestimated. The January 2009 federal SSI COLA will be based on the change in the CPI-W from the third quarter

(July to September) of calendar 2007 to the third quarter of calendar 2008. The Governor's budget estimates that the change in the CPI-W for this period will be 1.7 percent. Our estimate of the CPI-W, based on additional data, is 2.41 percent. Figure 1 compares our estimates of the CNI and the CPI-W to the Governor's budget estimates.

Figure 1

June 2009 COLA Assumptions

	Governor's Budget	LAO Estimate
CPI-W	1.70%	2.41%
CNI	4.25	5.26

CPI-W = U.S. Consumer Price Index for Urban Wage Earners and Clerical Workers.

CNI = California Necessities Index.

Combined COLA Deletion Savings

Taken together, the changes in the CNI and the CPI-W (in relation to the Governor's budget) increase the 2008-09 savings associated with deleting the June 2009 state COLA by $5.3 million, to a total savings of $34.6 million. As shown in Figure 2, in total, we estimate that the Governor's proposals to delete the state COLAs in 2008 and 2009 result in General Fund savings of $23.3 million in the current year, and $305.6 million in the budget year.

Figure 2

LAO Estimate of General Fund Savings From Governor's SSI/SSP COLA Suspension Proposal

(In Millions)

Proposal	2007-08	2008-09
Suspend June 2008 State COLA	$23.3	$271.0
Suspend June 2009 State COLA	—	34.6
Total Savings	**$23.3**	**$305.6**

SSI/SSP Grant Levels

Figure 3 (see next page) shows SSI/SSP average grant levels for individuals and couples under both current law and the Governor's budget proposal. The 2009 grant levels have been adjusted to reflect the actual CNI, and our best estimate of the CPI-W. As the figure indicates, under the Governor's proposal, grants for individuals are expected to rise due to the pass-through of the federal COLA from $870 (100 percent of poverty) in January 2008 to $885 (102 percent of poverty) in June 2009. Absent the Governor's proposal, grants for individuals would increase from $870 in January 2008 to $935 in June 2009 (108 percent of poverty).

Under the Governor's spending plan, grants for couples would increase from $1,524 (131 percent of poverty) in January 2008 to $1,547 (133 percent of poverty) in June 2009 due to the federal COLAs. Under current law, grants for couples are estimated to increase from $1,524 in January 2008 to $1,640 (141 percent of poverty) in June 2009.

Inclusion in LAO Alternative Budget. As part of the LAO alternative budget package presented in *The 2008-09 Budget: Perspectives and Issues*, we recommend the deletion of the June 2008 and 2009 state statutory COLAs. This is because prior pass-throughs of the federal COLA has kept both individuals and couples above the federal poverty guideline. Moreover, the alternative continues to pass-through the federal COLA in 2009, thus ensuring that SSI/SSP recipients remain above poverty.

Additional Savings Included in the LAO Alternative Budget. Also, as part of the LAO alternative budget package, we recommend reducing SSI/SSP couples grants to 125 percent of the 2008 federal poverty guideline. This results in General Fund savings of about $89.5 million in 2008-09. As seen in Figure 3, couples grants are currently at 131 percent of poverty, while grants for individuals are at 100 percent of the 2008 federal poverty guideline. Even with this reduction, SSI/SSP couples will remain further above the poverty guideline than individuals. This proposal would reduce the SSP grant for couples by $66, from $568 to $502, well above the current federal maintenance of effort requirement ($396). This proposal does not result in any federal funds loss, since it only affects the SSP portion of the grant. Couples would continue to receive the federal COLA in January 2009, and would be entitled to future federal and state COLAs when they are provided. The SSP grant of $502, when combined with the federal SSI grant, would total $1,458 per month for a couple.

Figure 3

SSI/SSP Maximum Monthly Grants Current Law and Governor's Proposal

	January 2008	June 2008	January 2009	June 2009
Individuals				
Current Law				
SSI	$637	$637	$652	$652
SSP	233	251	251	283
Totals	**$870**	**$888**	**$903**	**$935**
Percent of Poverty[a]	100%	102%	104%	108%
Governor's Budget				
SSI	$637	$637	$652	$652
SSP	233	233	233	233
Totals	**$870**	**$870**	**$885**	**$885**
Percent of Poverty[a]	100%	100%	102%	102%
Change From Current Law				
SSI	—	—	—	—
SSP	—	$18	$18	$50
Totals	**—**	**$18**	**$18**	**$50**
Couples				
Current Law				
SSI	$956	$956	$979	$979
SSP	568	602	602	661
Totals	**$1,524**	**$1,558**	**$1,581**	**$1,640**
Percent of Poverty[a]	131%	134%	136%	141%
Governor's Budget				
SSI	$956	$956	$979	$979
SSP	568	568	568	568
Totals	**$1,524**	**$1,524**	**$1,547**	**$1,547**
Percent of Poverty[a]	131%	131%	133%	133%
Change From Current Law				
SSI	—	—	—	—
SSP	—	$34	$34	$93
Totals	**—**	**$34**	**$34**	**$93**

a 2008 U.S. Department of Health and Human Services Poverty Guidelines. The guidelines are adjusted annually for inflation.

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 homes without such assistance. An individual is eligible for IHSS if he or she lives in his or her 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 about $1.6 billion from the General Fund for support of the IHSS program in 2008-09, an increase of $2.8 million (0.2 percent) compared to estimated expenditures in the current year. This slight increase is attributable to increases in the IHSS caseload and provider wages, which is largely offset by the Governor's proposal to reduce IHSS domestic and related care service hours.

REDUCING DOMESTIC AND RELATED CARE HOURS FOR IHSS RECIPIENTS

The Governor's budget proposes to reduce the hours of domestic and related services provided to the In-Home Supportive Services recipients by 18 percent, resulting in estimated General Fund savings of about $110 million in 2008-09. Additionally, the budget includes a proposal to reduce county administrative funding and workload by 10 percent, resulting in estimated General Fund savings of about $10 million in the budget year. We provide background on domestic care service hours, highlight key features of the Governor's proposals, present some concerns with the estimated savings, and provide alternatives for achieving savings.

Background

After the needs of an IHSS recipient are assessed by a social worker, the recipient is authorized to receive a specific number of hours of care each month for a variety of services. This care is allocated among certain tasks to create a package of services to assist recipients in remaining in their own homes thereby potentially avoiding being placed in a residential care or nursing facility. Figure 1 provides a list of the tasks for which IHSS recipients may receive service hours.

Who Receives Domestic Services? As shown in Figure 1, domestic and related services include general housekeeping activities, meal preparation, meal clean-up, shopping for food, and errands. For 2008-09, the IHSS caseload is estimated to be about 408,000 persons. Over 95 percent of these recipients are estimated to receive some level of domestic and related care service. Currently, the average number of hours authorized for IHSS domestic services is 37 hours per month, and the average number of hours for all other tasks is about 50 hours per month. In other words, for an average IHSS recipient, domestic and related services make up about 43 percent of their total care hours each month.

The Current Assessment Process. The IHSS program relies on county social workers to conduct individualized assessments to determine the number of hours of each type of IHSS service that a recipient needs in order to remain in his/her home. Recently, social workers have received training in order to implement a standardized assessment process throughout the state.

Reassessment Process. Current law requires social workers to reassess most recipients' need for service every 12 months. The length of time between assessments can be extended for an additional 6 months (to a total of 18 months between assessments) if recipients meet certain criteria relating to their health and living conditions.

IHSS Appeals. Currently, if IHSS recipients disagree with the hours authorized by the social worker, they have a right to request a reassessment, and if still not satisfied, they can appeal their hour allotment by submitting a request for a state hearing to the Department of Social Services (DSS).

Governor's Proposals

County Administration Proposal

The Governor's budget proposes to reduce county administrative funding by about $10 million General Fund (about 10 percent) in 2008-09. He also proposes to reduce the workload for county social workers by extending the interval between IHSS recipient assessments from 12 months to 18 months. The Governor's proposal allows for assessments more frequently than 18 months if recipients meet certain criteria relating to their condition or at any time that a recipient requests an assessment.

Figure 1

In-Home Supportive Services Task Categories

Task	Examples
Domestic and Related Services:	
Domestic Services	Cleaning; dusting; picking up; changing linens; changing light bulbs; 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
All Other Services:	
Feeding	Feeding
Ambulation	Assisting recipient with walking or moving in home or to car
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 recipients are not harming themselves

Domestic and Related Care Reduction

The Governor's budget proposes to reduce the number of hours provided for IHSS domestic and related services by 18 percent in 2008-09. This reduction is estimated to save $110 million General Fund in the budget year. Because most recipients receive domestic care services, this reduction will have an effect on nearly all IHSS recipients and providers. As seen in Figure 2, the average IHSS recipient will go from having 37 hours of domestic and related services to 30.4 hours per month, and their total services will be reduced from 86.6 hours to 80 hours per month.

Figure 2

Domestic and Related Services Reduction Impact of the 18 Percent Reduction Average Monthly Hours

	Current Level	Governor's Proposal	Change	
			Amount	Percent
Domestic and related care service hours	37.0	30.4	-6.6	-18%
All other hours	49.6	49.6	—	—
Totals	**86.6**	**80.0**	**-6.6**	**-8%**

Implementing the Reduction. The Governor's proposal assumes that the reduction in domestic and related care hours would become effective on July 1, 2008. This assumes enactment by the Legislature of the necessary statutory changes by March 1, 2008. Currently, information regarding recipient hour authorizations is stored in the state operated Case Management Information and Payrolling System (CMIPS). The Governor's proposal does not include any administrative or reprogramming costs to enable the reduction. The DSS states that CMIPS will be reprogrammed to automatically apply the 18 percent reduction to existing hour assignments for domestic and related services. At the time this analysis was prepared, it was not clear if CMIPS could make this change within its existing resources or whether additional costs will be incurred for computer reprogramming.

The Assessment Process. The DSS states that there will be no change in the assessment process at the county level. Social workers will continue to use their training and existing guidelines to perform an individualized assessment and determine the amount of care that they believe a recipient should receive to avoid institutionalization.

Pursuant to the proposed trailer bill language, after their hours are reduced by 18 percent, all IHSS recipients will receive a notice in the mail with information about (1) the amount of hours the recipient received prior to the reduction and the number of hours the recipient will receive as a result of the reduction, (2) the reason for the reduction, (3) when the reduction will be effective, and (4) how all or part of the reduction may be restored if the recipient believes he/she will be at serious risk of out-of-home placement if the care is not restored.

Changes to the Appeals Process. Current law states that IHSS recipients do not have the right for a state hearing if they are appealing a reduction in hours that occurred as a result of a change in federal or state law. However, when describing how all or part of the 18 percent reduction in domestic and related care service hours may be restored, the trailer bill language implementing the Governor's proposal refers to a section in current law that allows IHSS recipients to apply to have their hours restored through an IHSS care supplement, which is designed to provide additional hours of service. If the recipient disagrees with the county's determination regarding the need for a care supplement, the recipient may then request a hearing on that determination. Additionally, under the Governor's proposal, recipients retain the right to request a social worker reassessment and to appeal their reassessment if not satisfied.

Projected Savings May Not Be Achieved

Although it is likely that this proposal will lead to some General Fund savings, we are concerned that the estimated savings in the Governor's budget may be overstated. The Governor's budget assumes that by increasing the allowable time between social worker assessments, county workloads will decrease by 10 percent. Additionally, the Governor's plan assumes that *all* IHSS domestic and related care hours will be reduced by 18 percent for *all* recipients in 2008-09. Below we present our concerns with the estimated savings included in the Governor's budget.

Administrative Cost Reduction May Not Lead to Equivalent Workload Reduction. Although the proposal to reduce funding for county administration by 10 percent results in savings, there is the potential that it will not result in a 10 percent reduction to county workload. Although the proposal extends the allowable time between reassessments, it does not change the recipient's ability to request a reassessment at any time. As more time passes between assessments, recipients may experience changes in their conditions and request a social worker reassessment. This may require social workers to perform more assessments than would be budgeted under the Governor's proposal.

Implementing Hour Reduction Proposal. Although the 18 percent reduction in domestic and related care service hours will be applied automatically by CMIPS, it is not clear whether there will be administrative or reprogramming costs to enable the reduction. The Governor's budget does not include any administrative or reprogramming costs that may be required for CMIPS to apply the reduction. To the extent that these costs exist, some of the savings in this proposal will erode.

Appeals for Additional Hours. As recipients become aware of the 18 percent reduction in domestic and related services, there will likely be an increase in the number of recipient requests for hour restorations (whether through reassessments or requests for an IHSS care supplement). This is because the proposal does not change the ability of the recipient to request these reevaluations, and the notice they receive will inform them of their ability to restore hours if they believe that they are at serious risk of out-of-home placement. If these reassessments or appeals result in restored domestic and related care services for recipients, the savings due to this proposal will be less than estimated in the Governor's budget.

Additionally, increased reassessments and appeals would raise administrative costs. This is because it will take a social worker time to process the increase in the requests and appeals.

Social Worker Incentives May Reduce Savings. As social workers become aware of the 18 percent reduction, there may be an incentive to increase the hours in nondomestic categories of care, or inflate the assessed hours for domestic care, to make up for the lost hours. Social workers might do this in order to avoid requests for reassessments and appeals which take additional social worker time. It should be noted that these additional hours could be assigned to domestic or nondomestic services. This is because IHSS recipients typically use their hours as if they are a block grant. Although social workers assign a certain number of hours for each task, recipients often reallocate hours among tasks. (For a more complete discussion of how recipients treat their hours as a block grant, see "Enhancing Program Integrity" in the "IHSS" section of the *Analysis of the 2007-08 Budget Bill.*)

State Plan Amendment May Be Required for Both Proposals. The DSS indicates that a Medi-Cal state plan amendment, approved by the federal Centers for Medicare and Medicaid Services, may be needed in order to implement the extension of time between recipient assessments and the 18 percent reduction in domestic and related care hours. If it is determined that a state plan amendment is required, and the amendment is not approved prior to July 1, 2008, the implementation date will be delayed and the proposed savings will be reduced.

Other Means of Achieving Savings

The administration's proposals reduce service hours without changing the underlying statutory or regulatory criteria for assigning hours. Based on our review, we conclude that some of the estimated savings are likely to be offset by increased appeals and hour restorations, reassessments, and potential administrative costs.

In order to make meaningful changes to service hours, the Legislature could consider changes in statute to the standards for authorizing hours in the program, rather than reduce the hours once they have already been assessed, as the Governor's budget proposes. Below we present some options to consider.

Cap Hours for Certain IHSS Services. Although the Governor's proposal reduces the number of hours assessed by social workers by 18 percent, it does not limit the number of hours which may be assessed. In order to achieve meaningful savings by reducing IHSS hours, the underlying criteria for providing hours could be changed. To achieve this, the Legislature could place caps on the hours authorized for certain IHSS services. Such caps, with exceptions, currently exist for services provided in the IHSS program. For example, the maximum number of hours that recipients can receive for certain domestic services is limited to 6 hours per month, unless there is an exception because the needs of the recipient require additional time. Thus, as an alternative approach, the Legislature could cap the hours for this service at five hours and not allow exceptions.

We believe that it is reasonable to place caps, without exceptions, on certain domestic services where the condition of the recipient is not likely to lead to a variance in the need for service hours. The savings associated with this proposal would depend upon the number of services that are capped without exceptions and the number of hours at which they are capped.

Consider Living Situation When Assessing Hours. The Legislature could also establish differential hours based on the recipient's living situation. In other words, the Legislature could cap the number of domestic hours available to a recipient who lives with their family at a level that is lower than for someone living independently. For example, the current maximum number of hours that recipients may receive for food shopping is one hour per week. The Legislature could consider continuing to allow one hour per week for recipients who live on their own, but authorize only one-half hour per week for recipients who live with relatives.

When assessing hours for certain domestic services, it seems appropriate to consider the living situation of the recipient. As part of the current assessment process, social workers do consider whether the recipient has access to voluntary assistance and other resources. However, there is no formal distinction made between the maximum authorized hours for those who live with family members and those who live independently. Recipients living with relatives may need less hours for domestic services than individuals living independently. This is because family members would likely be performing domestic tasks, such as food shopping, regardless of whether or not they were living with a recipient of IHSS. In such a situation, it would not be necessary to provide the same number of IHSS service hours for recipients living with relatives as are provided for those living independently. The savings attributable to this type of reduction would depend upon the number of services selected for the establishment of differential hour caps, and the amount of the hour differential.

State Plan Amendment. Similar to the Governor's proposal, prior to implementing these types of IHSS hour reforms, a Medi-Cal state plan amendment (with federal approval) may be necessary.

Conclusion

We believe that the Governor's proposal to reduce domestic and related care hours will result in some savings in the budget year. However, due to the concerns mentioned above, it is likely that the savings will be less than estimated by the Governor's budget. To the extent that the Legislature wants to achieve savings by reducing service hours, the preferred approach is to change the statute regarding actual standards for assigning hours, rather than reduce the hours after the need has been assessed.

Improving the IHSS Workforce Through Tiered State Participation in Wages

Although the In-Home Support Services (IHSS) wages represent a significant cost to the state, current law grants local county boards of supervisors the authority to set wage levels and the conditions under which potential providers may list themselves as available to recipients. In order to improve the IHSS labor force, and control growing wage costs, we recommend enactment of legislation, before 2010-11, which modifies the structure for state participation in wages to reflect the training and tenure of IHSS providers.

Background

IHSS Recipients and Providers. In 2008-09, the IHSS program is estimated to provide in-home care to approximately 408,000 recipients. The IHSS care is primarily delivered by an average of 325,000 individual providers located throughout the state. About 58 percent of IHSS providers are related to the IHSS recipient for which they provide care.

Recipient Control. In the IHSS program, the recipient is considered to be the employer, and has the responsibility to hire, supervise, and fire their provider. Although the recipient is the employer, they do not set IHSS wages, which are collectively bargained between counties (generally represented by "public authorities" discussed below) and employer representatives. As the employer, IHSS recipients have few restrictions on who they are permitted to hire. Specifically, the only restrictions on IHSS recipients is that they may not hire individuals who in the last ten years have been convicted of Medi-Cal fraud, child abuse, or elder abuse.

The Role of Public Authorities. For purposes of collective bargaining over IHSS provider wages and terms of employment, all but two counties in the state have established public authorities (other counties have established different entities for this purpose). The public authorities essentially represent the county in provider wage negotiations. Besides collective bargaining, the primary responsibilities of public authorities include (1) establishing a registry of IHSS providers who have met various qualification requirements, (2) investigating the background of potential providers, (3) establishing a system to refer IHSS providers to recipients, and (4) providing training for providers and recipients.

Funding for Provider Wages and Benefits. The federal, state, and local governments share in the cost of IHSS wages. Specifically, the federal government funds 50 percent of the cost, and the remaining, nonfederal share of costs is funded 65 percent by the state and 35 percent by the counties.

Funding Criminal Background Investigations. Among other things, Chapter 447, Statutes of 2007 (SB 868, Ridley-Thomas), provides, if funds are appropriated, for state participation in the cost of performing criminal background investigations (CBIs) on registry and nonregistry IHSS providers. Prior to enactment of this legislation, the state did not share in the cost of CBIs. Pursuant to Chapter 447, if over 50 percent of those on a public authorities registry have received a CBI, the county is eligible for state reimbursement of 65 percent of the nonfederal cost. Additionally, if funds are appropriated in the annual budget act, recipients may request a CBI be conducted on their provider at no cost to the recipient or provider. No such appropriation was made in 2007-08, and the Governor's budget does not include funding for 2008-09. Thus under current practice, there is no state participation in the cost for CBIs.

Flexibility Leads to County Variance

Local county boards of supervisors have used their discretion to implement public authority registry requirements and wage structures that vary throughout the state, as discussed below.

Wages Vary Among Counties. Pursuant to Chapter 108, Statutes of 2000 (AB 2876, Aroner), the state participates in combined wage and benefit levels of up to $12.10 per hour for IHSS providers. Although the state participates in wages of up to $12.10 per hour, as seen in Figure 3, county combined wages and benefits range from $8 per hour to $14.43 per hour. A county, such as Santa Clara, with an established wage over the state participation cap of $12.10 per hour, shares the cost of the portion of the wage that is over the $12.10 with the federal government. In other words, the additional $2.33 above the $12.10 is shared 50 percent by the federal government and 50 percent by Santa Clara County.

Currently, the average statewide IHSS wage and benefit level is about $9.98 per hour. County decisions to raise wages to this level have resulted in state costs of $281 million more than they would have been if counties had continued paying minimum wage ($8 per hour as of January 2008). If all counties decide to raise wages and benefits to the authorized maximum ($12.10 per hour), state costs would increase by about $316 million annually.

Registry Requirements Vary. Each public authority maintains a registry of IHSS providers who have met various background and qualification requirements implemented by the counties. The names of providers listed on the registry are distributed to IHSS recipients to aid them in the hiring process. The IHSS recipients are not required to hire their providers from the registry. Current law grants broad discretion to counties when establishing criteria for providers to qualify for IHSS registry placement. Failure to meet registry requirements does not prohibit a person from working as an IHSS provider, but instead renders them ineligible from being placed on the registry. Below we list some of the requirements that some counties have implemented in order for a person to be placed on the registry.

- Attend provider training,
- Pass a drug screening test,
- Pass a criminal background investigation,
- Provide personal and professional references,
- Participate in an interview with the public authority,
- Provide employment history.

Figure 3

IHSS Hourly Wages and Benefits by County Approved as of January 2008

Alpine	$8.00	San Bernardino	$9.43
Colusa	8.00	Stanislaus	9.44
Humboldt	8.00	Los Angeles	9.51
Inyo	8.00	Yuba	9.57
Lake	8.00	El Dorado	9.60
Lassen	8.00	Kern	9.60
Madera	8.00	Placer	9.60
Mariposa	8.00	San Diego	9.71
Modoc	8.00	***Statewide Average***	***9.98***
Mono	8.00	San Joaquin	10.02
Shasta	8.00	Mendocino	10.05
Siskiyou	8.00	San Luis Obispo	10.10
Trinity	8.00	Ventura	10.10
Tuolumne	8.00	Riverside	10.35
Glenn	8.15	Fresno	10.45
Imperial	8.25	San Benito	10.60
Kings	8.60	Santa Barbara	10.60
Tehama	8.60	Monterey	11.10
Butte	8.75	Napa	11.10
Del Norte	8.85	Sacramento	11.10
Sutter	8.85	Solano	11.10
Calaveras	8.98	Sonoma	11.10
Orange	9.00	Marin	11.19
Amador	9.10	Alameda	11.49
Merced	9.10	Contra Costa	11.83
Tulare	9.10	Santa Cruz	12.10
Nevada	9.16	San Mateo	12.10
Plumas	9.16	Yolo	12.80
Sierra	9.16	San Francisco	13.39
		Santa Clara	14.43

The requirements established for qualification for the provider registry vary by county. Not all counties have implemented all of the registry requirements listed above, and some counties have implemented requirements that are not included. Additionally, counties with similar requirements may implement them in a variety of ways. For example, two counties may require that registry providers attend training, but one county may require more hours of training than another county.

County Experience With Tiered Wages

Although there is wide variation among county registry requirements, with very few exceptions, IHSS workers within each county are paid the same hourly wage. However, at least two counties have used their authority to consider or implement variable wage rates within their counties. Below we discuss a differential wage approach in Los Angeles County and a proposal for tiered wages in Lake County.

The Los Angeles County Back-Up Attendant Program. Los Angeles County has utilized the flexibility in current law to implement a back-up attendant program. The Back-Up Attendant program was set up to ensure that IHSS recipients in Los Angeles County receive their authorized care even if their regular provider is not available. The program provides a wage of $12 per hour for providers who are willing to be listed on the registry as back-up providers, and $9 per hour for all other providers. The back-up providers are used when eligible IHSS recipients have an urgent but temporary need for assistance, and their regular provider is unable to provide that assistance. The requirements to become a back-up provider are the same as the requirements to be listed on the registry, but in addition to those requirements, back-up providers must complete a 12-hour training course or pass a proficiency test to evaluate their skills. The DSS concurred that counties have the authority to set wage levels and approved this differential wage structure, as it was implemented at no additional cost to the state. The Los Angeles Back-Up Attendant program provides an example of how counties have used their authority to make differential wage decisions.

Lake County Two-Tier Wage Proposal. Recently, Lake County proposed to implement a two-tiered wage structure that would pay higher wages to IHSS providers who were willing and able to qualify for the Lake County Public Authority registry. Individuals who did not wish to sign up for the registry, or did not qualify for the registry, could still be hired as an IHSS provider, but would be paid a lower wage. The Lake County Board of Supervisors indicated that the purpose of this tiered wage proposal was to use a monetary incentive to encourage a heightened standard for IHSS providers. They maintain that a tiered wage structure would provide IHSS recipients with the opportunity to make more informed decisions when searching for a provider. To qualify for the registry in Lake County, a provider would have to pass a criminal background investigation, pass a drug screening, and participate in first-aid training. The DSS has concluded that current law permits counties to negotiate tiered wage structures as long as it is done at no cost to the state. Lake County is currently in the process of providing DSS with the details of how it plans to implement a tiered wage structure at no additional state cost.

Tiered Wage Automation Considerations. Both the Los Angeles County Back-Up Attendant Program and the Lake County tiered wage proposal require a payrolling system that is able to accommodate multiple wages within a county. Each county's payroll claim is processed by the state's CMIPS. Currently, CMIPS is only capable of accommodating a single wage for all workers in a given county. Thus, Los Angeles County must use "work arounds" and manual inputs by county workers to operationalize the wage differential for the Back-up Attendant program. Similarly, DSS is requiring Lake County to address the data entry issue at no state cost. However, a new payroll processing system, CMIPS II, is currently being developed, and this new system will be able to accommodate multiple wage levels within a single county. The system should be fully operational by summer of 2011.

Opportunity for the Legislature to Condition State Participation in Wages

Because multiple wages within a county are permissible under current law, and CMIPS II will be able to accommodate multiple wages within a county, more counties may begin to propose differential wage structures. This will provide the Legislature with the opportunity to consider whether it wishes to link the level of state participation in wages to the skills, training, and experience of IHSS providers. Differential wage structures are common in the public and private sectors. Valuing the experience and training of IHSS providers should improve the IHSS labor force and thus the quality of services for recipients. Below we present several alternatives for creating pay differentials among workers.

Higher State Participation in Wages for Experienced Providers. Currently, with very few exceptions, virtually all IHSS providers within a county are paid the same amount in wages and benefits regardless of experience. Typically, wage structures in the public and private sectors are designed to pay those with more experience at a higher level than those new to the job. The Legislature could consider implementing a "training wage" for new IHSS providers, and therefore participate in higher wages for IHSS providers with more experience. In other words, *new* IHSS providers would receive less state participation than providers with at least six months of experience. This would reward skilled providers, and result in some savings to the state with potential county costs or savings. Whether counties will experience savings is dependent upon county behavior. If counties decide to reduce wages to the level of state participation, they will also receive some savings from the training wage. However, those counties that maintain wages despite decreased state participation will experience additional costs.

Higher State Participation for Trained Workers. Similarly, the Legislature could authorize state participation in higher wages for providers who obtain training. For example, the Los Angeles City College currently offers a free IHSS provider training course. This particular training course is designed to provide IHSS providers with the skills needed to be an effective in-home care provider. Upon completion of the course, participants receive a certificate of completion.

Blending Training and Experience Rules. Another alternative for the Legislature to consider would be to allow IHSS providers to substitute successful completion of a training course for up to six months of on-the-job training. The Legislature would specify the number of hours of training needed to substitute training for experience, as well as require provider documentation of course completion in order to receive state participation in the higher wage.

The Legislature would ultimately determine the details of the training wage. For purposes of illustration, if the Legislature creates a wage differential whereby the state participates in $0.50 cents less for a six month training wage for new providers, this would result in General Fund savings of about $1 million annually.

Higher State Participation in Wages for Providers Who Complete a Criminal Background Investigation. The Legislature could provide greater state participation for providers who are willing to have a CBI conducted. Under this approach, workers desiring the higher wage level would apply to the Department of Justice (DOJ) for a CBI. The results of the CBI would be provided to the IHSS recipients and the county. The information in the CBI would assist recipients in making informed decisions during the hiring process. Unless the CBI reveals that the provider was convicted of fraud or abuse as previously described, the state would participate in a higher wage level for providers who complete a criminal background investigation and are hired by an IHSS recipient.

Implementing this criteria would result in some savings to the state, as it is unlikely that all IHSS providers would participate in the CBI. For example, if 10 percent of all providers opt not to participate in a CBI within the timeframe established, and the Legislature decides to participate in $0.50 cents less per hour for those providers, the state would save about $5.7 million annually.

Other Considerations. The options described above would improve the IHSS labor force. Additionally, encouraging training and increasing the recipient's knowledge of the provider through a CBI, may result in reduced fraud in the IHSS program. These options would not prevent counties from maintaining or increasing current wages, as it only affects state participation in those wages. Failure to comply with the criteria established in these differential wage options would not prevent an individual from becoming an IHSS provider.

Analyst's Recommendation

In order to improve the IHSS labor force, we recommend enactment of legislation that conditions state participation in IHSS wages on the provider's experience, training, and willingness to have a criminal background investigation conducted. Because the current version of CMIPS is only able to accommodate one wage level per county, we recommend that variable state participation in wages only become operational when CMIPS II is fully implemented (in 2010-11).

The precise policy mix of state participation in wages would be up to the Legislature. Variants to the options mentioned above could include increases or decreases to the amount of the wage differentiation and the length of time new providers receive the training wage. In other words, the Legislature may decide to participate in $1 less per hour for providers who have not completed a CBI, rather than the $0.50 differential we used in our example, or they may decide to participate in a training wage for three months rather than six months. All of these decisions will influence the amount of savings associated with tiered wages. Adopting all of the options described above ($0.50 wage differentials and six months of the training wage) would result in annual General Fund savings of about $6.7 million. In addition, we believe linking pay to experience and training will improve the IHSS labor force and services for recipients.

County Administration and Automation Projects

The budget appropriates funds for the state and federal share of the costs incurred by the counties for administering the following programs: Food Stamps, California Food Assistance Program, Foster Care, and Refugee Cash Assistance. In addition, the budget provides funds for the ongoing maintenance and development of county welfare automation systems.

For 2008-09, the budget proposes an appropriation of $429 million from the General Fund for county administration and automation systems. This represents a reduction of $20.8 million, primarily attributable to proposed budget balancing reductions which (1) cancel the Interim Statewide Automated Welfare System (ISAWS) Migration Project and (2) reduce Food Stamps administrative funding by 10 percent.

The Future of County Welfare Automation Consortia

Each county uses one of four automated systems to administer California's human services programs. To reduce costs and increase efficiency, we recommend enactment of legislation establishing a goal of standardizing the state's human services programs on no more than two automated systems. In addition, we recommend increasing legislative oversight of information technology consortia contracts that support these systems.

Background

The Department of Social Services oversees the administration of California's social services programs. The actual delivery of services at the local level is carried out by 58 separate county welfare departments. Since the 1970s, the state has made various efforts to develop a single, statewide automated welfare system.

Establishment of the County Consortia Structure

In the 1990s, the state was working with certain counties to develop an automation system which came to be known as ISAWS. At the same time, Los Angles County was pursuing its own system called the Los Angeles Eligibility Automated Determination, Evaluation, and Reporting System (LEADER). Meanwhile other counties came together to pursue their own automated systems. Each group was attempting to demonstrate that its system could be the one statewide system.

There was active discussion about this in the 1995 budget hearings and the Legislature ultimately decided that one statewide system was not feasible. The *1995 Budget Act* instructed the Health and Welfare Data Center (which is now called the Office of System Integration [OSI]) to collaborate with the County Welfare Directors' Association (CWDA) on a consortia strategy for statewide welfare automation. Specifically, the Legislature required that there be "…no more than four county consortia, including ISAWS and LEADER."

During the fall of 1995, OSI worked with CWDA and the counties to develop an agreement on the consortia systems and their member counties. They decided there would be two more consortia in addition to ISAWS and LEADER. An existing system, which included Bay Area counties, would be renamed CalWIN and the Merced County system would be renamed Consortium IV (C-IV). The remaining, unaligned counties selected the consortium they each wanted to join and the four county consortia were formed. Figure 1 shows the relative size of each consortium.

Figure 1

California Welfare Automation Consortia

Consortium	Number of Counties	2007 Estimated Caseload[a]	
		Cases	Percentage
CalWIN Counties	18	363,532	36%
C-IV Counties	4	146,774	14
ISAWS Counties	35	166,097	16
LEADER (Los Angeles)	1	346,958	34
Totals	**58**	**1,023,361**	**100%**

[a] Although certain consortia systems process many programs, this estimate is limited to CalWORKs and Food Stamps cases which are processed by all consortia.
ISAWS = Interim Statewide Automated Welfare System
LEADER = Los Angeles Eligibility Automated Determination, Evaluating, and Reporting System.

Consortia Systems Technology

The technology used to develop large automated systems has evolved rapidly over the past 20 years. Several evolutionary cycles have greatly changed the way these systems function. Systems of the size and complexity of the consortia take years to complete and cannot be redesigned midstream in order to take advantage of evolving technology. Therefore, the technology employed to develop each consortia system reflects the time period during which the system was designed. The older systems do not have the ease of function and support commonly available with more current technology. Below we summarize the technology status of each consortium.

ISAWS. The ISAWS was designed in the late 1980s and uses hardware and software that is nearing the end of vendor support. The programmers needed to support the software are not readily available because the programming language is not commonly used today. Therefore, programmers must be trained specifically for this purpose. In addition, the software must reside on hardware that is available from only one vendor and so it cannot be competitively replaced. The state enters into "sole source" contracts for this ISAWS support.

LEADER. The Los Angeles County LEADER system uses the same technology as the ISAWS system. Over the years, Los Angeles County has entered into a number of sole source contracts to maintain and update its system.

CalWIN. The technology used to develop CalWIN is referred to as client/server. With this technology, the data is stored in a database on a large mainframe. This data interacts with an application on the desktop personal computer (PC). For client/server systems, as the amount of software on the PC grows, the PC must also grow. Therefore, the PC's capacity must be increased periodically via an upgrade or replacement. This drives up the cost of maintaining client/server systems.

C-IV. As use of the Internet increased, vendors began to develop applications that could be accessed over the web, referred to as "web enabled." Web enabled applications do not require special software on a PC to access the application like client/server applications. At the time C-IV was being formulated, vendors also changed the way they develop large systems. Now a series of smaller applications are developed and each performs a discreet function or "service." This is referred to as "service-oriented architecture" and it allows for system changes to be accomplished more quickly. The C-IV system takes advantage of these more current technologies. This makes it easier to maintain and less expensive to adapt the C-IV system to process and regulatory changes.

Recent Re-Procurement Decisions

ISAWS Migration to C-IV. With respect to the 35 ISAWS counties, the Legislature concluded that it was more efficient to consolidate ISAWS counties into the existing C-IV system, rather than procure a new system. This consolidation, approved by the Legislature in 2006, is known as the ISAWS Migration Project and has an estimated cost of $245 million over four years. In light of California's budget deficit, the *2008-09 Governor's Budget* proposes to cancel the ISAWS Migration Project. The administration has stated that it plans to resume this project when it can be accommodated within the state budget. The outcome of this budget proposal is unknown at this time.

LEADER: A New Procurement. As LEADER was approaching the end of its useful life, the initial (2005) procurement strategy was for Los Angeles to receive a replacement system based on either C-IV or CalWIN. In 2007 the county and the administration changed this approach to open the procurement to all viable vendor proposals. The Legislature approved this change, thus allowing Los Angeles to procure a new system.

Where We Stand Today. California has four disparate welfare automation systems. We view the proposed cancellation of the ISAWS migration to C-IV as a temporary delay on a path toward potentially three systems. Each of these systems processes caseload using different business processes, even though they each adhere to the same laws and program regulations. In addition, the consortia systems don't talk to each other; meaning they do not share data, and caseload information cannot be transferred among consortia systems. These siloed business operations have further divided county human services operations across the state.

How Many Consortia Systems in the Future?

The *1995-96 Budget Act* stated that there would be "no more than four consortia." With the decision to move ISAWS to C-IV, the Legislature previously expressed a preference for reducing the number to three: C-IV, CalWIN, and Los Angeles.

Benefits of Further Consolidation. Reducing the number of consortia reduces maintenance costs that are incurred because there are fewer systems that must be modified for regulatory and legislative changes. In addition, there are other administrative savings. Currently, when a client moves to another county with a different system, client information must be recreated. This increases workload and the opportunity for fraud. Having fewer systems reduces the frequency of this occurrence. While it is difficult to quantify total savings, reducing the number of consortia will result in ongoing annual savings for system changes that are currently costing between $10 million and $20 million per system.

Setting a Consolidation Goal. By setting a goal for reducing the number of consortia systems, the Legislature would provide clear guidance for future consortia system proposals. The administration could then make the appropriate plans for current consortia systems as they come to the end of their useful life. This could reduce the cost of future consortia planning activities.

Legislative Oversight of Consortia Contracts

Under Budget Control Section 11.00, state-managed information technology (IT) projects must provide legislative notification 30 days prior to entering into a contract that will increase the project budget by 10 percent, or $500,000, whichever is less. This provides the Legislature an opportunity to review proposed contract terms and conditions. For some state IT projects, vendor contract terms have been renegotiated because of concerns expressed by the Legislature under Control Section 11.00 reviews. However, consortia procurements are conducted at the county level and, while the resulting contracts undergo OSI review, they can be entered into without any legislative notification and review. These county consortia contracts can exceed $100 million and have very limited legislative oversight. Given the substantial state investment in these consortia systems, we believe the Legislature should increase its oversight of consortia contracts.

Analyst's Recommendation

Establish a Goal of Only Two Welfare Consortia Systems. We recommend enactment of legislation which sets a goal to further standardize California's welfare operations by ultimately reducing the number of consortia to two systems. As we discuss above, further consolidation can produce efficiencies and reduce system support costs. By moving in this direction, one-time development costs of $80 million (based on recent state experience) could be saved for each consortia system that is consolidated rather than replaced. Similarly, for each system that is consolidated, there are annual savings in the tens of millions of dollars for ongoing application maintenance.

Enhance Legislative Oversight of County Consortia. Legislative review of consortia contracts should be consistent with Control Section 11.00 requirements to provide 30-day legislative notification prior to contract signature. County consortia contracts are funded, in total, with state and federal funds. Accordingly, the Legislature should be afforded the opportunity to review the contractual arrangements that obligate those funds, consistent with state IT contracting procedures. Specifically we recommend amending Control Section 11.00 notification requirements to include county welfare consortia contracts.

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 $118.2 million ($37.3 million General Fund) for CCL in 2008-09. This is an increase of $1.7 million ($1.3 million General Fund) from the current year. These amounts include state operations and local assistance for the five counties that perform their own licensing operations. Most of the increase is due to the extension of limited-term staff to complete a backlog of facility inspections.

Proposed Reduction in Random Inspections Could Impact Compliance With Existing Statute

The Governor's budget proposes to reduce the Community Care Licensing (CCL) random visits from 30 percent to 14 percent of facilities, resulting in estimated General Fund savings of $2.3 million in 2008-09. Under this proposal, the majority of facilities would receive an inspection approximately once every seven years. We provide background information on existing inspection statutes, describe the potential impact of the proposed reduction on CCL's ability to meet current law, and provide the Legislature with two alternatives.

Current Law. The CCL Division of DSS performs different types of inspection visits to licensed facilities. Facilities with complaints filed against them or those with new applications receive prompt inspections. Those facilities that require close monitoring, due to their compliance history or because they care for developmentally disabled clients, receive annual inspections. Approximately 10 percent of community care facilities require these annual visits.

The remaining 90 percent of community care facilities are subject to a routine unannounced inspection only if selected as part of a 30 percent random sample of facilities. This equates to about 21,300 facilities per year. In practice, this sampling procedure means that most of the licensed facilities in California would receive a routine visit once every three years. In addition to the 30 percent random inspection protocol, there is a separate statutory requirement that a community care facility be visited at least once every five years.

Governor's Proposal. The Governor's budget proposes to reduce the current 30 percent random inspection protocol to 14 percent of facilities. This would result in a reduction of 33 positions and an estimated General Fund savings of $2.3 million in 2008-09, increasing to an annualized savings of $4.7 million General Fund and 66 positions in the following year (these amounts include local assistance). Under this proposal, facilities with complaints would continue to receive prompt attention and those 10 percent of facilities that require close monitoring would continue to receive annual inspections. The remaining 90 percent of facilities would receive inspections at a substantially reduced frequency, as part of a 14 percent random sample of facilities. This proposal will require a change in statute, reducing the current random sample of unannounced visits from 30 percent to 14 percent of facilities. The Governor proposes to retain the existing statutory requirement to visit a facility at least once every five years.

Reduced Random Inspections May Impact Compliance With Existing Statute. Based on our review of CCL's workload and staffing levels, we believe the proposed reduction in random inspections would result in a maximum of 70 percent of facilities receiving a visit at least once every five years. In other words, this proposed staffing level is sufficient to support one facility visit every seven years. Thus, this proposal would be in conflict with the existing statutory requirement to visit every facility at least once every five years.

Alternatives for Legislative Consideration. The proposed reduction to random inspections to community care facilities means that CCL would be unable to comply with the existing statute to visit a facility at least once every five years. To meet the current law standard, CCL would most likely ask for additional resources as it approaches 2013 (five years from now). The Legislature has two options for resolving this issue. First, the Legislature could reduce the current 30 percent random inspection level to 14 percent and amend the existing five-year statute to a minimum requirement of at least one facility visit every seven years. Second, the Legislature could raise the random inspection level from the Governor's proposed 14 percent to 20 percent, to fund CCL at a level that corresponds with the existing five-year statute. This second alternative would reduce General Fund savings from $2.3 million to approximately $1.4 million.

FINDINGS AND RECOMMENDATIONS

Health and Social Services

Analysis Page

Department of Alcohol and Drug Programs

C-19 ■ **Reductions to Drug Diversion Programs Likely to Result in Increased State Costs. Increase Item 4200-105-0001 by $3.3 Million in the Current Year and $10 million in the Budget Year. Increase Item 4200-101-0001 by $1.7 Million in the Current Year and $5.1 Million in the Budget Year.** The Governor's proposal to reduce Proposition 36 and drug court programs funding in the current and budget years is likely to result in offsetting increases in state criminal justice system and child welfare services costs, including state prison expenditures. Based on the demonstrated cost-effectiveness of these programs to the state, we recommend funding these programs at *2007-08 Budget Act* spending levels.

C-22 ■ **Reductions to Proposition 36 and Drug Court Programs Could Be Offset With Other Funds.** The Governor proposes to cut funding for Proposition 36 and drug court programs that have been shown to reduce overall state costs. We recommend the Legislature consider alternative funding sources for these substance abuse treatment services as follows: (1) redirecting advertising funds from the California Methamphetamine Initiative and (2) using a portion of proceeds from state and federal narcotic asset forfeitures. These alternative funding sources could help maintain current spending levels for cost-effective substance abuse treatment services.

Department of Health Care Services (DHCS)

C-30 ■ **Overall Caseload Estimate Is Reasonable. Reduce Item 4260-001-0001 by $12,980,000 and Reduce Item 4260-001-0890 by $12,980,000.** We find that the budget's caseload estimate for the Medi-Cal Program is reasonable, but there are both upside and downside risk factors to the forecast that could result in the projection being overestimated or underestimated. We recommend delaying the implementation of a pilot program allowing Medi-Cal applicants to self-certify their income and assets for savings of $13 million General Fund.

Analysis Page

C-34 ■ **Proposed Rate Reductions Could Reduce Access to Care.** Recommend that the Legislature not adopt the proposed reductions to any providers except hospitals, as these reductions may limit enrollees' access to care in Medi-Cal and other health programs. Recommend that the Legislature shift federal funds for certain hospital payments to backfill General Fund spending for various other health programs.

C-40 ■ **Pay-for-Performance (P4P) Could Reduce Medical Costs and Improve Patient Care.** Recommend the enactment of legislation directing DHCS to implement a statewide P4P program for Medi-Cal managed care. Further recommend the Legislature adopt supplemental report language directing DHCS to explore the feasibility of implementing P4P in fee-for-service Medi-Cal.

C-49 ■ **Providing HIV/AIDS Medications Should Be a Priority. Decrease Item 4260-001-0001 by $2,655,000 and Increase Item 4264-111-0001 by $2,655,000.** Recommend that the Legislature allow the HIV/AIDS Pharmacy Pilot to sunset June 30, 2008, and redirect the funds to the AIDS Drug Assistance Program.

Department of Public Health (DPH)

C-52 ■ **Reforming Public Health Funding.** The state's existing system for administering and funding over 30 public health programs at the local level is fragmented, inflexible, and fails to hold local health jurisdictions (LHJs) accountable for achieving outcomes. This reduces the effectiveness of these programs because these services are not coordinated or integrated and LHJs cannot focus on meeting the overall goal of improving the public's health. Recommend the consolidation of certain programs into a block grant and the enactment of legislation that would direct DPH to develop a model consolidated contract and outcomes and work with counties interested in using this approach.

C-64 ■ **Failure to Promulgate Regulations Leads to State Laws Not Being Enforced.** The Legislature relies on departments to promulgate regulations to implement laws. The DPH is behind in its promulgation of regulations and; consequently, state laws are not being enforced or applied consistently across the state. Recommend the department report at budget hearings on its status in developing and promulgating regulations.

C-66 ■ **Direct Sexual Health Services Should Be Priority. Reduce Item 4265-001-0001 by $127,000. Increase Item 4265-111-0001 by $127,000.** The 2008-09 budget plan proposes $127,000 General Fund and one position to ensure that the state's sexual health education programs are comprehensive and not based on abstinence-only. Recommend the delay of this proposal and redirect the proposed increase in funding

Analysis Page

to offset budget-balancing reductions for teen pregnancy and sexual health services.

Managed Risk Medical Insurance Board (MRMIB)

C-68 ■ **Withhold Recommendation on Budget-Balancing Reductions.** Withhold recommendation on the proposed budget-balancing reductions pending completion of rate and contract negotiations with the health plans.

C-70 ■ **Federal Funding for the Healthy Families Program (HFP) Expires in Budget Year.** Federal funding for HFP expires in March 2009. In light of this funding uncertainty, recommend the Legislature enact legislation that directs how MRMIB should maintain HFP enrollment at a level that is consistent with funding.

Developmental Services

C-78 ■ **Regional Center (RC) Estimate Fails to Take Into Account Increases in Costs and Utilization.** Recommend the Legislature take into account that in the budget year RCs are likely underbudgeted by as much as $113 million General Fund.

Department of Mental Health

C-82 ■ **Sexually Violent Predator (SVP) Caseload Likely to Be Below Projected Levels. Reduce Item 4440-011-0001 by $12.6 in the Current Year and $13.8 Million in the Budget Year.** Updated caseload data indicate that the amount of General Fund needed for support of the state hospital system is likely to be overstated in both the current year and budget year. We recommend the Legislature recognize current-year savings of $12.6 million and budget-year savings of $13.8 million General Fund to reflect that the SVP caseload is unlikely to grow as fast as projected.

C-83 ■ **Mental Health Managed Care Caseload Possibly Overstated. Reduce Item 4440-103-0001 by $2.5 Million.** Our analysis of the Medi-Cal caseload shows that the Governor's mental health managed care budget proposal is likely overstated in the budget year. Based on a reduction of 172,000 eligible mental health managed care beneficiaries, we recommend a corresponding reduction of $2.5 million in the budget year. We will monitor caseload trends and recommend any needed adjustments at the May Revision.

C-84 ■ **Expanded Efforts Could Reduce Cost of Mental Health Drugs.** The cost of mental health drugs in the Medi-Cal Program continues to grow. We estimate the state can save about $5 million General Fund

Analysis Page

annually by reducing inappropriate prescribing practices. Accordingly, we recommend the Legislature consider the following two options: (1) encourage county participation in the California Mental Health Care Management (CalMEND) Program and (2) expand the use of fixed annual allocations to counties that include the cost of prescription drugs. We further recommend the Legislature approve the Governor's CalMEND proposal to support three limited-term positions and expand program activities.

Department of Child Support Services (DCSS)

C-91 ■ **Increasing the Child Support Pass-Through.** We recommend delaying the Governor's proposal to increase the child support pass-through from $50 to $100 until July of 2010. This saves $5.6 million in General Fund Revenue in 2008-09 and $11.2 million in 2009-10.

C-93 ■ **Revenue Losses Exceed Savings for Some Proposals.** We recommend the rejection of the Governor's budget balancing reductions where estimated General Fund revenue loss exceeds estimated savings.

C-94 ■ **Fiscal Risks of Delayed Single System Implementation.** The DCSS applied for certification of a single statewide automation system. We review system implementation, certification, and the risks associated with a delay in federal certification.

California Work Opportunity and Responsibility to Kids (CalWORKs)

C-98 ■ **Budget Underestimates Cost of CalWORKs Grant COLA.** The Governor's budget provides $131 million to fund the CalWORKs cost-of-living adjustment (COLA) based on an estimated California Necessities Index (CNI) of 4.25 percent. Our review of the actual data indicate the CNI will be 5.26 percent, which raises the cost of the CalWORKs COLA by $31 million, to a total of $162 million.

C-98 ■ **Maintenance-of-Effort (MOE) and Caseload Reduction Credit (CRC).** Pursuant to federal law, any spending above the federally required MOE level results in a CRC which reduces California's work participation requirement in the CalWORKs program. We review the MOE requirement, the impact of the recent federal guidance concerning the calculation of the credit, and forecast CRC through 2010-11.

C-102 ■ **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 CRC. We estimate California's work participation rate and find that absent policy changes, California is out of compliance with federal requirements.

Analysis Page

C-105 ■ **Governor's Reforms Address Participation Shortfall and Achieve Budgetary Savings.** In order to increase work participation and achieve budgetary savings, the Governor proposes a series policy changes for the CalWORKs program. These are (1) a graduated full-family sanction that increases to 100 percent of the grant after one year in sanction status, (2) a five-year time limit on children whose parents cannot meet federal work participation requirements, (3) a nutritional supplement for working poor families, and (4) a five-year time limit for other child-only cases. We review the Governor's proposals and comment on them.

C-113 ■ **Alternatives to the Governors Proposal.** Pre-assistance programs focusing on preparing recipients to enter the labor force within four months and a community service requirement for adults who have received five years of assistance are two policies which would increase participation with less budgetary savings than the Governor. We discuss these alternatives, estimate their impacts, and present an alternative package of CalWORKs reforms which meet the anticipated work participation shortfall.

Child Welfare Services (CWS)

C-118 ■ **Reduction in CWS Allocations to Counties.** The budget proposes to reduce CWS county allocations, resulting in General Fund savings of $83.7 million in 2008-09. We describe the potential impact of this proposed reduction on social worker caseloads and possible subsequent policy consequences resulting from fewer resources. We provide three alternatives to the Governor's proposal that more narrowly target the reductions in CWS expenditures.

C-124 ■ **Rethinking the Future of CWS Automation.** The Governor's budget proposes to spend another $247 million over the next seven years to procure a new Child Welfare computer system to meet additional business requirements. Our review indicates that the requirements can be met by updating the current system. We recommend cancelling the New System project and updating the current system, resulting in total (all funds) savings of $184 million over the next seven years.

Foster Care

C-129 ■ **Reduction to Foster Care Rates.** The budget proposes to reduce most Foster Care, Adoption Assistance, and Kinship Guardianship Assistance Payment (Kin-GAP) rates by 10 percent, effective June 1, 2008. This proposed reduction will save an estimated $6.8 million General Fund in the current year and $81.5 million General Fund in 2008-09. We provide background information on existing rates and describe potential impacts of the proposed reductions on the supply of care providers. In addition, we present two alternatives to the Governor's proposal.

Analysis Page

Supplemental Security Income/State Supplementary Program

C-134 ■ **Budget Deletes State Cost-of-Living Adjustments (COLAs).** The Governor's budget proposes to delete the June 2008 and 2009 state statutory COLAs and pass-through the federal COLAs. The Governor estimates that the deletion of these COLAs will result in savings of $23.3 million in 2007-08, and $300.3 million in 2008-09. Based on more recent data, we estimate savings in 2008-09 will increase by $5.3 million to a total of $305.6 million in the budget year.

In-Home Supportive Services (IHSS)

C-139 ■ **Reducing Domestic and Related Care Service Hours for IHSS Recipients.** The Governor's budget includes General Fund savings of about $120 million by proposing to reduce the hours of IHSS domestic and related care services by 18 percent, and reduce county administrative funding and workload. We highlight the key features of the Governor's proposal, present some concerns, and provide alternatives for achieving savings.

C-146 ■ **Improving IHSS Workforce Through Tiered Wages.** Although IHSS wages represent a significant cost to the state, current law grants local county boards the flexibility to establish IHSS wage levels and requirements for providers who choose to be listed on county registries. In order to improve the IHSS labor force and services to recipients, we recommend, prior to 2010-11, enactment of legislation to modify the structure for state participation in wages to reflect the training and tenure of IHSS providers.

County Administration and Automation Projects

C-154 ■ **The Future of County Welfare Automation Consortia.** To reduce costs and increase efficiency, we recommend enactment of legislation establishing a goal of standardizing the state's human services programs on no more than two automated systems. In addition, we recommend increasing legislative oversight of information technology consortia contracts that support these systems.

Community Care Licensing (CCL)

C-159 ■ **Reduction in Random Inspections.** The budget proposes to reduce CCL random visits from 30 percent to 14 percent of facilities, resulting in estimated General Fund savings of $2.3 million in 2008-09. We provide background information on existing inspection statutes, describe the potential impact of the proposed reduction on CCL's ability to meet current law, and provide the Legislature with two alternatives.