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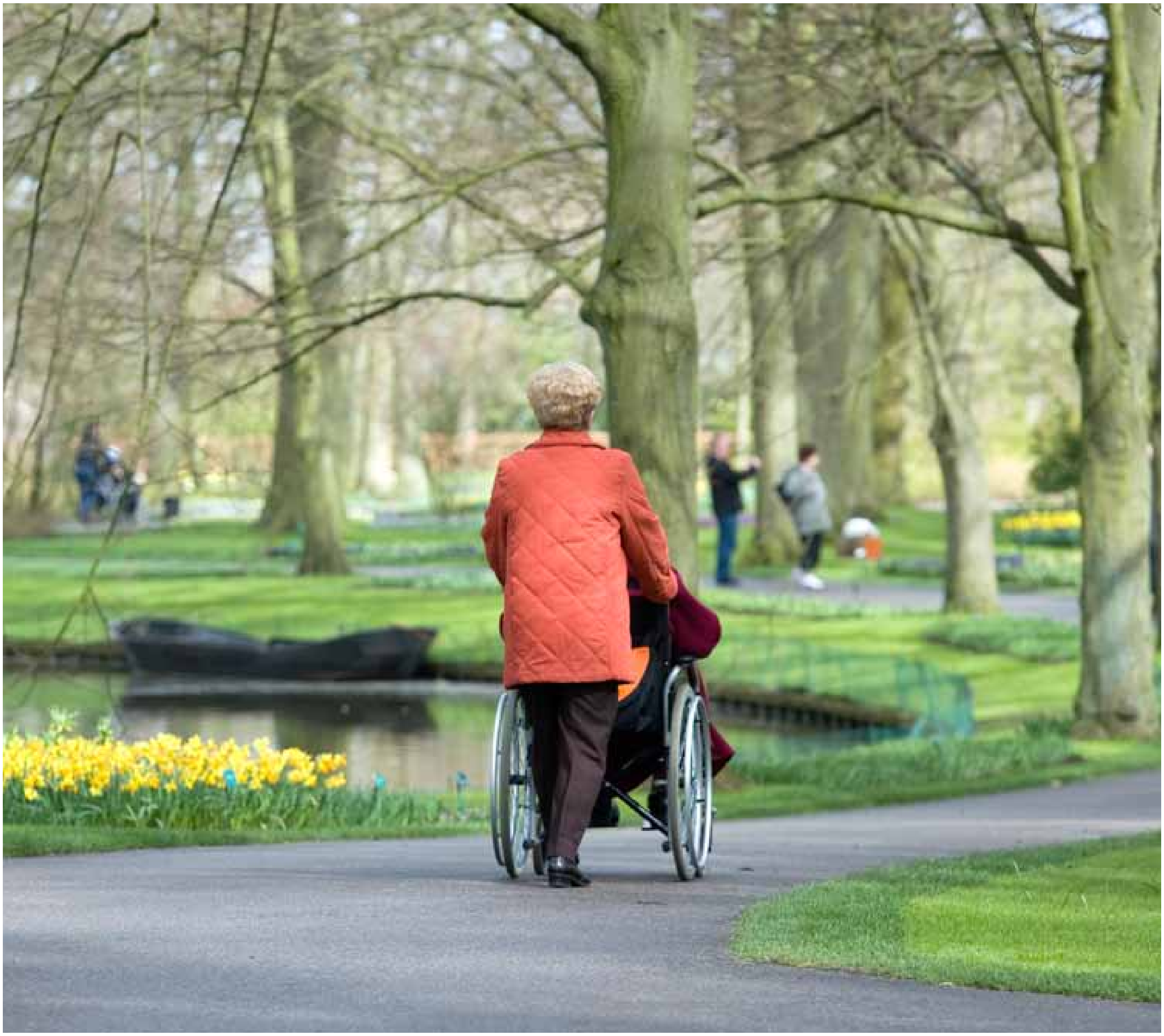
The 2010-11 Budget:

Health & Social Services—A Restricted Environment



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EXECUTIVE SUMMARY

Health and social services (H&SS) expenditures account for about 29 percent of General Fund spending in California. As part of his plan to bring revenues and expenditures into balance, the Governor's budget proposes major reductions and program eliminations in the area of H&SS. In this report we describe spending and program requirements as well as key considerations for evaluating budget solutions. We also identify strategies for achieving savings in a restricted environment.

Spending and Program Requirements. A number of major spending and program requirements restrict the Legislature's ability to make changes in the state's H&SS system. These include: (1) federal rules for participation in programs, (2) maintenance-of-effort requirements, (3) court-imposed restrictions, and (4) ballot measures approved by the voters.

Key Considerations in Evaluating H&SS Budget Solutions. In evaluating budget solutions, the Legislature should consider (1) the likelihood of achieving the savings, (2) potential cost shifts to other state programs or levels of government, (3) the receipt of federal funds, and (4) other potential negative programmatic and fiscal effects. Given the state's fiscal situation, the Legislature will sometimes have to make reductions despite some of these considerations.

Strategies in a Restricted Environment. The federal restrictions on legislative action in H&SS tend to be stronger in the budget year than in future fiscal years beyond 2010-11. We present several strategies for controlling costs and or using existing resources more effectively. These include:

- Seeking additional flexibility from the federal government.
- Minimizing federal fund losses if practical.
- Making certain reductions after enhanced federal funding streams have expired.
- Adopting strategies to avoid court injunctions.
- Seeking flexibility from the voters.
- Establishing foundations for long-term structural reform and efficiency.

Assessing the Governor's Budget Proposals

For the special session, the Governor proposed reductions in H&SS programs totaling $2.9 billion and fund shifts which would provide another $1.5 billion in budget solution. In addition, the Governor has proposed a group of H&SS reductions which would be "triggered" if the state does not receive $6.9 billion in federal funding by July 15, 2010. We find that many of the Governor's special session proposals merit consideration. (Please see our separate January

2010 reports on how special session actions would affect H&SS programs.) However, we generally oppose the Governor's trigger proposals because they result in more severe consequences for beneficiaries or are less fiscally viable.

Other Budget Issues

We discuss three alternatives to the Governor's proposals to achieve savings. We recommend expanding the Regional Center Family Cost Participation Program, maximizing federal funds for subsidized relative guardianship, and reconsidering the approach to the Los Angeles County welfare automation system.

Federal Health Care Reform

At the time of publication for this report, President Obama had just signed the health care reform legislation, and action on a related reconciliation bill was expected in the near future. This legislation includes major changes to the nation's health care system with many potential implications for the state's H&SS programs. Although we note how this federal legislation may limit some state options with respect to H&SS programs we will be evaluating how federal health care reform may affect California in future publications.

BUDGET AND POLICY OPTIONS IN A RESTRICTED ENVIRONMENT

Introduction

Health and social services (H&SS) expenditures account for about 29 percent of General Fund spending in California. (Please see our companion document, *Health and Social Services Budget Primer,* for more information on individual program components, spending trends, and funding sources.) Due mainly to the state's fiscal condition, the Legislature has recently taken action to reduce service levels in various H&SS programs. The Governor's budget plan proposes further reductions to H&SS programs to address the budget shortfall.

In this report, we:

- Describe the various spending and program requirements the Legislature faces in terms of setting service levels and controlling costs in health and human services programs.
- Outline some key considerations for the Legislature as it evaluates various H&SS budget solutions.
- Present budget and policy strategies to reduce spending and control costs in a restricted environment.

Generally, the Legislature has more flexibility in the out-years than in the budget year to achieve savings. Nevertheless, the Legislature has some opportunities to enact statutory changes which could lay the groundwork for future savings or efficiencies in H&SS programs.

Spending and Program Requirements

A number of major spending and program requirements restrict the Legislature's ability to make changes in the state's H&SS system. These include: (1) federal rules for participation in programs, (2) maintenance-of-effort (MOE) requirements, (3) court-imposed restrictions, and (4) ballot measures approved by the voters.

Federal Program Participation Requirements

The federal government establishes various types of programmatic requirements with which states must comply in order to participate in such federal programs as Medicaid. For example, a state that opts to participate in the Medicaid program (as all states have chosen to do), must meet federal standards regarding: (1) quality of service, (2) access to services, and (3) program eligibility. Requirements that certain types of medical providers be certified are intended, for instance, to ensure quality of care for beneficiaries. States are also subject to administrative requirements, such as an obligation for health programs to comply with federal laws governing the privacy and security of patient information.

These federal requirements vary greatly by program, with the federal government giving states broader leeway in how they operate some programs than others. In general, the requirements for many social services programs are broader and less likely to establish specific service levels. For social services, the federal government often exerts oversight through performance measures and the imposition of state penalties for failure to meet those measures.

Sometimes the federal government will grant a waiver of federal law in order to give states more flexibility to manage their programs. However, the types of requirements described above often lock states into obligating a significant amount of their own resources. Together with other requirements we discuss later, these federal program requirements often create what amounts to a spending floor for the states that opt to participate in them. In a number of cases, the state, at its discretion, has chosen to exceed these federal requirements. For example, Medi-Cal offers such optional benefits as durable medical equipment and expanded eligibility to optional beneficiary categories.

Maintenance-of-Effort Requirements

The MOE provisions generally require the state to maintain grant levels or aggregate spending at certain levels. Such MOEs are frequently imposed by the federal government on states as a condition of receiving federal funds. In California, MOEs have also been imposed through the state initiative process. For example, Proposition 63 imposed a MOE requiring the state to maintain its spending on community mental health services at 2003-04 levels. In Figure 1 we describe some of the major MOE requirements affecting H&SS programs.

The penalties for failure to meet MOE requirements vary significantly. For example, the penalty for violating the Supplemental Security Income/State Supplementary Program (SSI/SSP) MOE results in the loss of all federal Medicaid funds.

Court-Imposed Restrictions

In some programs, decisions made by federal courts limit a state's flexibility to reduce the rates it pays providers and restrict eligibility or eliminate services. We note that many of the cases discussed below have not been fully litigated at the federal district court level and that the ultimate outcome of these cases has not yet been determined. In some cases, the decisions made by the courts are based on laws passed to implement and govern specific programs. However, in other cases, federal laws which have a broad scope affecting many programs (such as the

Figure 1

Health and Social Services
Examples of Maintenance-of-Effort (MOE) Requirements

Program	Source	Description	Fiscal Impact for Failure to Meet
SSI/SSP	Federal	State grant levels must be no less than in 1983.	Loss of all federal Medicaid funds—over $30 billion.
CalWORKs	Federal	State must expend at least $2.9 billion for federally specified purposes to receive $3.7 billion in federal block grant funds. Ability to use TANF funds to offset General Fund costs in other departments provides partial way "around" the MOE.	Underspending MOE could result in corresponding loss in federal funds and an increase in the MOE level. Loss of up to $3.7 billion annually.
Mental Health Community Services	Voter	Under the Mental Health Services Act (Proposition 63) the state must maintain spending for mental health programs at 2003-04 levels.	Not specified. Underspending the MOE could result in the state being sued.

TANF=Temporary Assistance for Needy Families.

Americans with Disabilities Act) have been part of the basis for such court decisions. Below are examples of both types of cases.

Foster Care. As part of the 2009-10 budget plan, the Legislature reduced group home reimbursement rates by 10 percent. Group home providers challenged this reduction in court. In November 2009, a federal court enjoined California from making this reduction. Earlier, in a separate case, the same federal court found that California's process for setting group home rates was in "substantial compliance" with the federal Child Welfare Act. However, in December 2009, the Ninth Circuit Court of Appeals found that substantial compliance was not sufficient and remanded the case back to district court. In February 2010, the district court ordered California to increase group home rates by 32 percent, retroactive to December 2009. The state has requested reconsideration and a stay of the group home rate increase. A separate federal case is considering whether foster family home rates are adequate to meet federal requirements.

Medi-Cal Rates. The 2008-09 budget plan enacted 10 percent reductions in the rates paid to several types of Medi-Cal providers. Advocates challenged these reductions in federal courts on the grounds that federal Medicaid law requires rates to be consistent with requirements of economy, efficiency, quality, and sufficiency to ensure beneficiaries adequate access to care. While the district court originally denied advocate's requests, in July 2009 the Ninth Circuit Court of Appeals overturned this action, determining that plaintiffs would likely succeed on the merits, had legal standing to bring the case, and that the rate reductions violated federal Medicaid law. Specifically, the court found that the state failed to base rates on studies demonstrating consistency with Medicaid requirements. As a result, rate reductions to fee-for-service providers for physician, dental, adult day health care, optometry, clinic, and prescription drug services were enjoined. The court also extended this injunction to rate reductions to payments made for non-emergency medical transportation and home health services.

Adult Day Health Centers (ADHC). A 2009-10 budget measure adopted a series of measures to reduce costs in the ADHC program. The measures reduced the maximum number of days per week of ADHC services a beneficiary could receive from five to three, and imposed new, more restrictive eligibility requirements for ADHC services. A group of plaintiffs filed suit to block these changes from going into effect, and they were enjoined by a federal district court. The final outcome of the case is pending and subject to appeal.

One of the allegations in the case is that these new ADHC requirements violate the Americans with Disabilities Act (ADA). This federal law requires, among other provisions, that persons with disabilities receive services in a community setting appropriate for their needs rather than in an institution, such as a nursing home or hospital. The plaintiffs contend that the reductions were in violation of federal Medicaid law by not providing reasonable standards for determining eligibility and by not ensuring that comparable services would be provided to beneficiaries with comparable needs. The plaintiffs also contend that beneficiaries have been denied due process of law through a lack of prior notice and hearings before their benefits would be ended.

In-Home Supportive Services (IHSS). As part of 2009-10 budget plan, the Legislature reduced state participation in IHSS provider wages to $10.10 per hour and eliminated services for the least impaired recipients. Advocates filed lawsuits in federal court to stop both of these budget reductions. In June 2009, the federal court enjoined California from reducing state participation in wages on the grounds that the state must first conduct a study showing that this action would not disrupt the supply of providers available to IHSS recipients. In October 2009, the same federal court enjoined California from eliminating benefits for the least impaired. Among many findings, the court concluded that the state did not have a valid way of determining who was least impaired and that the affected IHSS recipients faced a substantial risk of being placed into institutions, contrary to case law interpreting the ADA. We note that the state has appealed these preliminary injunctions and the trial court has not issued a final ruling in these cases.

Voter-Imposed Requirements

A series of measures approved by the voters limit the authority of the Legislature to make certain budgetary changes. These measures include:

- ***Proposition 63, the Mental Health Services Act.*** Proposition 63 imposed a 1 percent income tax on personal incomes in excess of $1 million to support the expansion of community mental health services. Proposition 63 revenues are allocated to the Mental Health Services Fund established by the measure. Proposition 63 revenues amount to about $1.4 billion in the current year.

- ***Proposition 99, the Tobacco Tax and Health Protection Act of 1988.*** Proposition 99 established a surtax of 25 cents per pack on cigarettes and other tobacco products. Proposition 99 revenues are allocated to six separate accounts established by the measure. Proposition 99 revenues amount to about $280 million in revenues for the current year.

- ***Proposition 10, the California Children and Families Act.*** Proposition 10 created the California Children and Families Commissions, now commonly known as the state and local First 5 Commissions, which rely upon tobacco tax revenues to fund early childhood development programs for children up to age five. Proposition 10 revenues amount to about $500 million for the current year, of which the local commissions receive 80 percent and the state commission the remaining 20 percent.

Under each of these propositions, the funds must be used only for the purposes identified in the measure.

The Legislature would have to go to the voters for approval to make budgetary changes not permitted by these measures. Because statewide elections are generally only held twice every two years, placing a measure on the ballot can present a timing dilemma. The outcome of the election may not be known until late in the budget approval process or after the budget has been enacted. A May 2009 effort by the Legislature to modify Propositions 63 and 10 was defeated by voters.

Key Considerations in Evaluating H&SS Budget Solutions

Some of the key considerations in evaluating H&SS budget solutions include potential cost shifts to other programs, the impact of reductions on the receipt of federal funds, and other potential negative programmatic and fiscal effects. As summarized in Figure 2, we discuss each of these concerns below.

Figure 2

Key Considerations in Evaluating H&SS Budget Solutions

- Potential for fiscal and programmatic shifts.
- Potential loss of federal funds.
- Other negative programmatic fiscal affects.

Fiscal and Programmatic Shifts

The H&SS programs are designed to address the needs of individuals in various circumstances. The programs represent a continuum of services that individuals may access based on their needs. With regard to health care, for instance, county-supported indigent care, private insurance, Medi-Cal, and the Healthy Families Program (HFF) represent just such a continuum. Individuals may move in and out of the services and/or from one program to another as their circumstances change. Some individuals receive services from multiple programs simultaneously. For example, a developmentally disabled individual may be receiving IHSS services at the same time they are receiving services through the regional centers (RCs).

The interrelated nature of these programs is often by design, particularly where the public policy goal is to address gaps in coverage that would otherwise leave individuals without access to services that are fundamental to their well-being and quality of life. While this is a beneficial feature of the H&SS system, it complicates efforts to scale back these types of programs when there is a need, such as now exists, to address a state fiscal shortfall. This is because eligibility and benefits changes to a program within the continuum often have effects on other programs on the continuum.

If Medi-Cal benefits are scaled back, for example, some individuals who no longer qualified for coverage may ultimately increase demand for indigent care, which is frequently provided in clinics and hospital emergency rooms supported mainly by counties. In this example, the state would benefit from the savings created by reducing caseload, but the cost of provided services would effectively be shifted to the counties. The potential unintended consequences of reducing services for vulnerable populations are pervasive and, to some extent, unavoidable if reductions are made in the H&SS system.

While it is possible in many cases to calculate the fiscal impact of a given program policy change, in many instances it is very difficult to quantify its potential impact on other programs. Often the data needed to assess such impacts is lacking. Another complicating factor is the range of potential behavioral responses by individuals who lose benefits. Someone losing cash assistance, for example, may rely on other family members, services offered through private charities, or other government entities. In each individual case, the impact on other state or local programs could vary significantly and unpredictably.

For the reasons discussed above, the Legislature should consider the interrelatedness of the H&SS programs in its deliberations on budget proposals. In developing a budget, the Legislature should seek to minimize these potential program shifts, while recognizing that such shifts are unavoidable and that the fiscal and programmatic effects are often unknown.

Loss of Federal Funds

For 2009-10, federal funds comprise about 57 percent of total state spending on H&SS programs. As described in our *Health and Social Services Budget Primer*, the federal funds come in many different revenue streams with different rules and matching rates. We note that federal policies in establishing these matching rates may not necessarily align with state needs and priorities.

The degree of federal support ranges significantly from program to program. Many programs have a 50/50 state-federal sharing ratio. However, some programs have less than 50 percent federal support. For example, in child welfare, the federal government generally pays 50 percent of the costs, but only for certain low-income children, leaving the state and counties 100 percent responsible for all children whose parents who do not meet certain income requirements to receive aid. The federal government has provided more generous support in some other cases. For example, the federal economic stimulus legislation enacted by Congress in 2009 temporarily increased federal support for many H&SS programs. In California Work Opportunity and Responsibility to Kids (CalWORKs), the federal governments temporarily provides 80 percent funding for increased assistance payments costs, and in Medi-Cal the federal government temporarily provides 62 percent funding for most costs.

Because most state spending on H&SS programs is matched by the federal government, reductions in state expenditures generally result in the loss of federal funds. The potential loss of federal funds should be a consideration for the Legislature when evaluating different budget solutions.

Other Potential Negative Programmatic And Fiscal Effects

In some areas of H&SS, the Legislature has significant flexibility to reduce service levels and control costs. However, reductions in these areas may nonetheless have significant negative consequences that the Legislature should consider in its budget deliberations.

For example, federal rules do not specify a particular service level for the Child Welfare Services (CWS) program. Accordingly, the Legislature could substantially reduce support for CWS. However, such a reduction would reduce the number of social workers and give counties an incentive to open and monitor fewer child welfare cases. This would most likely result in an increase in health and safety risks for some children because of a reduction in prevention and intervention services. Similarly, the Legislature has the flexibility to eliminate or substantially reduce adult protective services, but such an action could put vulnerable adults at risk of abuse and neglect.

In some cases, budgetary actions could have negative fiscal ramifications for the state. For example, the Legislature has substantial flexibility to set service levels for child support enforcement activities. However, child support collections for welfare recipients represent a significant General Fund revenue source for the state. Due to the large amount of federal matching funds that are available for these efforts, scaling back child support enforcement could mean the state achieves little net savings, and potentially could even suffer a revenue loss.

Given the very difficult steps the Legislature has already taken in a number of cases to constrain the cost of H&SS programs, there are few short-term actions available to help balance the budget in this area that do not have some kind of adverse consequences. On the other hand, nearly all of the options available for increasing state revenues and reducing other types of state programs have some potential negative consequences. Thus, the Legislature will have to carefully consider the tradeoffs involved in setting its H&SS budget priorities.

Strategies in a Restricted Environment

As discussed above, the federal government and the courts have placed substantial restrictions on the state's ability to reduce service levels and to control costs in H&SS programs. The restrictions tend to be stronger in the short term, which we define in this case as the budget year, than in future fiscal years beyond 2010-11. One reason that restrictions are stronger in the short run is that many federal American Recovery and Reinvestment Act (ARRA) funds came with additional restrictions or provided such a high level of funding that state reductions are unpalatable. Below, we discuss long-term options for controlling costs and/or using existing resources more effectively. These options are briefly summarized in Figure 3. Complying with spending and program requirements narrows the options for making reductions to H&SS programs. However, there are some actions the Legislature can take to broaden its options and help ensure that savings are achieved.

Figure 3

Strategies for Controlling Health and Social Services Costs in a Restricted Environment

- Seek additional federal flexibility.
- Minimize federal funds losses if practical.
- Consider certain reductions after federal funding expires.
- Adopt strategies to avoid court injunctions.
- Seek flexibility from the voters.
- Establish a foundation for long-term structural reform and efficiency.
- Define core H&SS services.

Seek Additional Flexibility From the Federal Government

Throughout this report, we have pointed out ways in which federal program requirements, federal court decisions, and MOEs have limited the Legislature's ability to set service levels and control program costs. The fiscal difficulties now faced by many states have clearly been aggravated by their inability to modify service and benefit levels and target resources to those most in need in federally supported programs.

In some cases, the federal government has waived program requirements to provide opportunities for states to modify the way services are delivered and potentially target resources more effectively. For example, the state Medi-Cal Program is currently pursuing the opportunity to obtain a waiver that would allow the state to better provide services for the elderly and children with special medical needs. Another area where the granting of flexibility would provide the state with additional control of costs is "means testing." Consider, as an example a state-federal program to provide cash grants to parents who adopt former foster children. Providing financial support for one's children is part of parental responsibility. Accordingly, limiting the amount of such Adoptions Assistance payments to adoptive parents based on the parents' ability to pay is, in our view, a reasonable and appropriate policy. However, federal law prohibits such means testing of participants in this program. There are similar prohibitions against means testing in certain Department of Aging programs. We believe states should have the flexibility to decide such matters.

Obtaining such flexibility from federal authorities can be a challenge, however. Generally, the federal government is reluctant to suspend or modify requirements for a single state, because it is then likely to receive petitions for similar relief from other states. Some changes are impossible absent an act of Congress.

Under these circumstances, it will be important for the Legislature to review where, and under what circumstances, existing federal law and rules afford the state some flexibility to constrain program costs. For example, under existing federal law, the state has some ability to use program transfers and other accounting shifts to obtain at least some relief from federal MOE requirements that apply to the CalWORKs program.

Minimize Federal Fund Losses if Practical

As discussed earlier, there are varying levels of federal financial support for different H&SS programs. The Legislature should consider the potential loss of federal funds when weighing reductions, particularly when federal matching funds supporting a program are significantly larger than the state share.

On the other hand, the potential loss of federal funds alone should not determine whether to reduce or preserve funding for a program—this decision should be based primarily on the merit of the program and the programmatic effect of the proposed reduction. Generous federal funding alone is not a reason to create a program or treat a program as immune from cuts. Almost any substantial reduction to H&SS programs is likely to result in a loss of federal funds. The key consideration is the total benefit of the program to California in comparison to the cost to the state.

In fact, the Legislature has adopted some program reductions, such as for IHSS or Medi-Cal optional benefits, in which the federal funds loss exceeded the state General Fund savings, such due to the enhanced federal match provided under ARRA. Likewise, we recommended scaling back recent rate increases to providers participating in the Family Planning Access, Care, Treatment (Family PACT) program even though in some cases the state receives nine federal dollars for every state dollar spent because of the state's fiscal difficulties.

Consider Certain Reductions After Federal Funding Expires

As we noted earlier, ARRA temporarily provides enhanced levels of federal funding for some major state H&SS programs. Absent further action by Congress, for example, additional federal ARRA funding for cash assistance is set to expire in October 2010. Once authority for these Temporary Assistance for Needy Families Emergency Contingency Fund (TANF ECF) monies expires, the federal funding available for the state's CalWORKs program will be limited to the $3.7 billion block grant provided under the original TANF program.

Given the state's fiscal difficulties, the Legislature should consider enacting a CalWORKs grant reduction to achieve budgetary savings. But we believe it makes sense to delay making any such grant reduction until ECF monies are no longer available. Implementation of a grant reduction now would generally result in a loss of four federal dollars for every one dollar of state savings. Once ECF funding expires, however, a CalWORKs grant reduction could be achieved without any loss of federal funds because TANF is provided as a fixed block grant. For example, a grant reduction of 6 percent could result in a General Fund savings of $210 million and no loss of federal monies.

For similar reasons, the Legislature should avoid the implementation of certain types of reductions in the Medi-Cal Program until it has been determined when and if enhanced federal matching funds for the program provided under ARRA will expire or be extended. The ARRA made the additional federal funding contingent on the agreement by states to maintain the eligibility levels of their Medicaid programs. The implementation of any such reductions prior to ARRA expiration could result in a loss of a considerable amount of federal funding, resulting in a General Fund backfill of these program costs. In the end, this would cost the state more than it would save by eliminating the eligibility group. Once the enhanced Federal Medical Assistance Percentage (FMAP) is no longer available, the Legislature will have the option to reduce Medi-Cal with a smaller loss of federal funds.

Adopt Strategies to Avoid Court Injunctions

Above, we noted a number of cases in which actions by the state to reduce H&SS program costs had been enjoined by the federal courts. We note, however, that the courts have not yet issued a final ruling in these cases and the appeals process has not been exhausted. Ultimately, the state may yet achieve savings from some of these actions.

Accordingly, the prospect of court proceedings is not a reason to shy away from making reductions that the Legislature believes are warranted in H&SS programs. However, it is a reason to carefully review reductions that may be open to legal challenges and adopt them in such a way that they are more likely to be upheld in court.

For example, as we noted earlier, one reason that a reduction to IHSS intended to eliminate services for the least impaired recipients was enjoined was that the court held the state did not have a valid way of determining who was least impaired. One response would be for the Legislature to create a better measure of impairment for IHSS recipients that would address the court's concerns. The program could also be restructured to provide services to different tiers of recipients based upon their level of impairment. We discuss a number of options for restructuring the program in more detail in our January 2010 report, *Considering the State Costs and Benefits: In-Home Supportive Services Program*.

Seek Flexibility From the Voters

In order to modify budgeting constraints imposed by voters through the initiative process, the Legislature should continue to consider future opportunities to obtain additional flexibility on the use of state funding. We recognize that a recent effort to amend Propositions 10 and 63 for these purposes failed at the ballot box. We continue to believe, however, that a straightforward package of proposals seeking fiscal flexibility from the state's voters would, if approved, yield substantial benefits.

Establish a Foundation for Long-Term Structural Reform and Efficiency

A number of structural reforms are possible which could yield efficiencies or savings in H&SS programs in future years. These include streamlining county welfare automation systems, improving data collection and integration among H&SS departments, and budgeting for these programs in a way that accounts for the surge in program caseloads that tends to occur in fiscally difficult times for the state. We elaborate on these concepts below.

Streamlining County Health Welfare Automation. In the past, the state has supported four separate major automation systems that are the "backbone" of its major H&SS programs. The Legislature has consolidated the number of welfare automation consortia from four to three. We continue to recommend that the Legislature further reduce the number of consortia systems to no more than two to reduce program administrative costs and to further standardize these programs at the county level. (We discuss this issue in more detail later in this report.)

Look for Opportunities to Enhance Data Collection and Integration Across Programs. The broad range of H&SS programs administered by the state and, often, by counties presents challenges with respect to data collection and integration. Some H&SS departments do not collect basic information about the programs they administer that would assist in the optimal management and design of their programs. In addition, departments often operate in "silos" and have not set up their data systems to easily be able to provide information that cuts across programs. Many times, it is not possible to tell if an individual is receiving services from several state programs. Furthermore, counties deliver a wide variety of local services (as well as state services), but generally are not required to submit standardized data to the state on the delivery, funding, and availability of these local services. Data that do exist are generally fragmented and not easily comparable statewide.

In general, these data challenges limit the state's ability to optimally manage programs and make sound policy choices. This problem is particularly acute in times of fiscal crisis, when existing data challenges make it more difficult for the administration and the Legislature alike to analyze the impacts of proposed reductions and to prioritize reductions according to their impacts. Due to lack of data, it is often not possible to determine precisely how reductions in one program would affect other state or local programs, or even the beneficiaries themselves.

As the state procures new information and data storage systems, and upgrades its existing systems, enhanced standardization and the ability to compare data across programs and departments should be a key consideration. Eventually, standardization of data collection could lead to tighter integration of data systems across many programs. This may reduce costs over the long run by minimizing the need to upgrade large numbers of different systems, streamlining business processes, and reducing duplication of effort. During difficult fiscal times, better data collection and improved data sharing among departments would allow the Legislature to better assess the secondary effects of proposed budget reductions.

Take a Countercyclical Budget Approach. As described in the *Health and Social Services Budget Primer*, California's H&SS programs provide a safety net for citizens who cannot meet their own needs due to difficult economic circumstances. During periods of recession, the demand for programs providing income maintenance, health care, and social services increases significantly, resulting in higher caseloads and costs. Given all the many constraints we have discussed in this report on the state's ability to control the costs of such programs, the Legislature should consider setting aside reserves during better economic times so that sufficient funds would be available to pay for recession-driven increases in their caseloads and costs in the bad times.

Because federal TANF block grant funds carry over indefinitely and may only be used for limited purposes, the CalWORKs program provides the Legislature with an opportunity to build a special reserve for recession-driven caseload increases. For example, during times of full employment, the time limit on aid to adults (now five years) could be shortened and the sanctions for non-compliance with program participation requirements could be strengthened. Such changes would result in federal TANF fund savings which could be retained and used to support increased CalWORKs program costs during times of recession.

Define What Are Core Services

To address the state's structural budget deficit, the Legislature will need to adopt some combination of spending reductions in various program areas and revenue increases. Given the significant share of overall state spending that H&SS represent, some significant reductions will be required.

In order to reduce H&SS costs as part of its overall budget solution, the Legislature should determine which such services are core and therefore should be sustained even under circumstances when state resources are limited. At the same time, the Legislature should assess which H&SS, while desirable and beneficial, do not constitute a core state program and for which support should be subject to the availability of sufficient state resources.

The current H&SS system is marked by significant and illogical inconsistencies—from program to program, and in some cases even within programs—in regard to the services the state supports and who is eligible for those services. Eligibility for one component of the Medi-Cal program, for example, is generally limited to families with incomes below 133 percent of the federal poverty level (FPL). Eligibility for RC services for persons with developmental disabilities is generally not subject to limitation based on family income, although some families participate in the Parental Fee Program and the Family Cost Participation Program. Meanwhile, CalWORKs cash assistance effectively provide income maintenance equivalent to 78 percent of the FPL.

Some decisions about service levels and eligibility are constrained by the federal program requirements and other factors discussed above, but some choices are within the discretion of the Legislature. However, determining what is, and what is not, a core program or service involves complex policy and value judgments that will challenge the Legislature to set its priorities in these areas. In order to help distinguish between core and non-core programs, the Legislature may wish to focus on the following questions:

- ***Income.*** Below what income level should an individual or a family qualify to receive state-supported health care services or cash assistance? At what level of income should the state expect some form of cost sharing by the individual or family as a condition of their participation?

- ***Age.*** Should certain age groups—such as children or the aged—be prioritized for state support of their services over other adults?

- ***Availability of Alternatives.*** Are other services or forms of assistance available from private charities or other levels of government that could be relied upon in lieu of state-supported programs? What level of assistance from these alternative providers should the state assume in determining the extent of its own program support?

- ***Personal and Family Responsibility.*** How much control did an individual have over the circumstances that resulted in their need for state-supported heath or social services? To what extent should the family of a needy individual—potentially including adults—be responsible for assisting them?

- ***Time Limits.*** For how long should the state be obligated to provide benefits? What are reasonable expectations for persons who are receiving assistance from the state to become self-sufficient?

- ***Consequences.*** What happens to the individuals if services or benefits are no longer provided?

Reasonable people will answer these types of questions differently. However, by attempting to answer them, the Legislature can help to appropriately frame future discussions about which H&SS programs will be sustained in a challenging fiscal environment. Thinking through answers to these questions could prove especially important if Congress enacts pending proposals for a broad restructuring of the health care system, or, in the absence of such legislation, as the Legislature considers its own efforts at health care reform. These questions could also be relevant in the context of adjusting to the reauthorization of federal welfare programs or any future efforts by the Legislature to realign state H&SS programs and funding to counties.

ASSESSING THE GOVERNOR'S BUDGET PROPOSALS

California once again faces a mammoth budget problem. The administration's January budget plan was based on an estimate that, absent other actions, the state faces a $6.6 billion General Fund deficit at the end of the current year and an additional $12.3 billion operating deficit in the budget year. One of the main components of the administration's plan to balance the budget is to obtain federal relief and increased federal flexibility in the operation of its major programs. Of the $7.7 billion in federal funds the administration seeks to obtain in the budget year, about $5.8 billion would be in H&SS. The administration also proposes expenditure solutions in H&SS such as program reductions and eliminations.

Below, in this analysis, we discuss: (1) our criteria for evaluating the 2010-11 budget proposals, (2) the status of proposals considered during the recently completed special session, (3) so-called trigger reductions that the administration proposes go into effect automatically if the state did not receive a certain amount of additional federal assistance in the budget year, and (4) our comments on other budget proposals.

LAO Criteria for Evaluating Potential Budget Solutions in H&SS

As discussed earlier in this report, the Legislature has relatively limited options for achieving savings in the short run in H&SS programs. The Governor's budget identifies potential reductions in some programs in which the state clearly has considerable flexibility to achieve savings. Other proposed budget reductions may not be possible absent changes in federal laws and regulations or actions by the courts to resolve or overturn pending legal decisions that could hinder their implementation.

Given this complicated and restrictive environment for balancing the state budget, we evaluated the Governor's 2010-11 H&SS-related budget proposals based on the following criteria:

- ***What Are the Potential Cost Shifts?*** We tended to support proposals which minimized cost shifts to other state programs or other levels of government.

- ***What Is the Likelihood of Achieving the Savings?*** We tended to support proposals where we found it likely that the savings could be achieved. Typically, we did not favor proposals in areas where the state has already been enjoined from making similar reductions.

- ***Will a Core Service Be Eliminated?*** We tended to favor benefit reductions rather than outright eliminations of major programs. In cases where the Governor proposed the elimination of a particular program, we were sometimes able to propose more targeted service or eligibility restrictions.

- ***What Is the Impact on Receipt of Federal Funds?*** Although some loss in federal funding is inevitable for most H&SS budget reduction proposals, we tended to support proposals for which the federal fund loss could be minimized. We recommended that some proposals be postponed until enhanced federal ARRA funding streams expire.

- ***What Is the Income of the Affected Population?*** Although this was not always possible, we tended to support those proposals which primarily affected individuals with greater resources.

In analyzing the Governor's proposals, it was not always possible to be completely consistent with these criteria. Sometimes the ability to achieve savings without substantial legal risk, for example, outweighed other considerations—such as the income of the affected population or the potential loss of federal funds. Thus, these criteria should be viewed by the Legislature as general guidelines in making a complex set of decisions on the prioritization of state resources.

Special Session Proposals

Health

As discussed in our recent report, *How the Special Session Actions Would Affect Health Programs*, the Governor's January budget plan proposed $1.4 billion in expenditure reductions and about $445 million in fund shifts in the current year and the budget year. Figure 4 (see next page) lists the proposals, the estimated direct savings, and the estimated loss in federal funds.

As displayed on the next page, the savings estimates reflect our adjustments to include an assumption that ARRA is extended to temporarily provide the state with additional federal funding. However, our estimates exclude an assumption in the Governor's budget plan that the state would also receive a permanent 7 percent increase in FMAP, the amount of federal matching funds received by states for certain H&SS programs. That is because, while we believe that it is reasonable to assume that the state will receive an extension of the enhanced FMAP provided under ARRA, we believe it is unlikely that the state will be given a 7 percent increase in its base FMAP.

During the special session, the Legislature acted to: (1) extend a 3 percent provider payment reduction for the RCs that had been enacted in a prior year, (2) delay the checkwrite for certain Medi-Cal providers, and (3) adopt savings from Medi-Cal antifraud efforts. These actions would have resulted in a total of $145 million in net savings in the current year and budget year. However, the Governor vetoed a bill containing the provision on antifraud savings. It is still feasible to implement the Governor's remaining special session proposals. However, for many of these proposals, delay results in an erosion of the savings level shown in Figure 4. Furthermore, based upon our initial review, the recently enacted federal health care reform significantly limits the state's options for

Figure 4

Governor's Proposed Special Session Solutions

(In Millions)

Program/Description	General Fund Savings 2009-10	General Fund Savings 2010-11	Federal Funds Loss[a]
Program Expenditure Reductions			
Medi–Cal			
Implement a variety of cost-containment strategies	—	$917.1	$1,470.7
Eliminate Adult Day Health Care	$1.9	134.7	218.5
Eliminate full-scope Medi-Cal benefits for certain immigrants	1.2	118.0	—
Expand antifraud activities	—	21.7	NA
Roll back rate increases for family planning services	0.1	15.4	73.4
Defer institutional provider payments	94.3	-38.5	NA
California Children's Services			
Reduce eligibility	—	$4.1	$21.6
Healthy Families Program			
Reduce eligibility from 250 percent FPL to 200 percent FPL	$10.5	$63.9	$191.3
Increase premiums and eliminate vision benefit	—	21.7	42.8
Regional Centers Program			
Extend 3 percent provider payment reduction	—	$60.9	Likely tens of millions
Funding Shifts			
Proposition 63			
Ballot initiative to amend the Mental Health Services Act	—	$452.0	Unknown
Regional Centers			
Budget impact of program reductions in other areas	—	-$50.0	Unknown
Totals	**$108.0**	**$1,721.0**	**$2,018.4**

[a] Federal funds loss assumes the extension of the enhanced Federal Medical Assistance Percentages (FMAP) provided under the American Recovery and Reinvestment Act until June 2011 but excludes the Governor's proposed 7 percent increase in the FMAP base.

FPL = federal poverty level.

reducing eligibility in HFP and Medi-Cal and potentially in other programs too.

LAO Recommendations and Alternatives. As described more fully in *How the Special Session Actions Would Affect Health Programs*, we recommend that the Legislature adopt $385 million in savings and $402 million in funding shifts. We also propose some alternatives to the Governor's proposals. For example, we recommended that the Legislature consider the Governor's proposal to reduce eligibility for HFP from 250 percent of FPL to 200 percent. However, if the Legislature wishes to reject the Governor's proposal and maintain current eligibility levels, we proposed that the Legislature increase premiums for children in families earning from 200 percent to 250 percent of the FPL, in order to achieve a portion of the proposed savings. Similarly, we recommended the Legislature eliminate full-scope Medi-Cal benefits for certain immigrants. However if the Legislature wishes to reject the Governor's proposal, as an alternative, full-scope benefits could be retained for immigrants who are currently enrolled and the benefits could be eliminated prospectively to achieve some savings in this area.

Social Services

As discussed in our report, *How the Special Session Actions Would Affect Social Services*, the Governor proposes $1.6 billion in expenditure reductions and $1.1 billion in fund shifts. Figure 5 (see next page) lists the proposals, the estimated direct savings, and the estimated loss in federal funds.

During the special session, the Legislature adopted the proposal to ask the federal government for increased funding for Foster Care cases. The adopted changes are estimated to save $6 million in 2009-10 and $70 million in 2010-11 contingent on changes in federal law.

LAO Recommendations. As described more fully in the report, we tended to support proposals which minimized the loss in federal funds, avoided cost shifts to other state programs or counties, and/or had limited risk. Specifically, we recommend adopting: (1) the reduction in state support for IHSS wages ($272 million in 2010-11), (2) the SSI/SSP grant reduction ($178 million), and (3) asking voters to redirect Proposition 10 revenues to core H&SS state programs for children ($550 million). We also recommended more targeted reductions in programs for legal noncitizens with a goal of saving about $80 million.

Governor's Trigger Proposals

The Governor's budget plan proposes a series of trigger reductions that would go into effect if $6.9 billion in additional federal funds sought by the administration was not obtained by the state by July 15. In this event, the Governor's proposal would trigger various specified expenditure reductions and revenue increases.

Federal Funding Assumptions. The administration has identified $4.7 billion in requests for federal funds related to H&SS programs that could be counted toward the trigger amount. The requested actions would:

- ***Increase Federal Funding Ratio for Medi-Cal ($1.8 Billion).*** This proposal assumes that the state would save $1.8 billion in Medi-Cal costs in 2010-11 through a permanent increase in California's FMAP. The proposal counts on the state-federal percentage match increasing from 50-50 to 43-57 percent.

- ***Extend Federal Stimulus Provisions for Medi-Cal FMAP ($1.2 Billion).*** The increased FMAP the state is now receiving under ARRA expires December 2010. The Governor wants the federal government to extend the enhanced FMAP through June 2011, for $1.2 billion in savings to the state.

- ***Recover Medicare Services and Prescription Drug Costs ($1 Billion).*** The budget assumes about $1 billion in Medi-Cal relief from various federal monies the administration believes are owed to California. These funds include reimbursement to the state for Medi-Cal's payment of health costs for disabled individuals who were actually eligible for

Figure 5

Governor's Proposed Special Session Solutions

(In Millions)

Program/Description	General Fund Savings 2009–10	General Fund Savings 2010–11	Federal Funds Loss[a]
Program Expenditure Reductions			
In–Home Supportive Services[b]			
Limit services to most severely impaired	$56.6	$650.8	$2,400.0
Reduce state wage and benefit support to $8.60/hour	21.3	271.8	—
SSI/SSP			
Reduce grants (1.8 percent) to the federal minimum	$13.7	$177.8	—
CalWORKs			
Reduce grants by 15.7 percent[c]	$9.4	$120.6	$468.9
Reduce maximum child care reimbursement rates	—	54.8	—
Eliminate Programs for Legal Noncitizens			
Cash Assistance Program for Immigrants	$8.1	$107.3	—
California Food Assistance Program	3.8	56.2	—
CalWORKs grants and services	0.7	21.8	$33.6
Subtotals	($113.6)	($1,461.1)	($2,902.5)
Funding Shifts			
Proposition 10			
Redirect reserves and revenues to offset General Fund	—	$550.0	—
County Funding			
Redirect county savings to children's programs	—	$505.5	—
Foster Care			
Increased federal eligibility for Foster Care	$7.5	$86.9	—
Subtotals	($7.5)	($1,142.4)	—
Totals	**$121.1**	**$2,603.5**	**$2,902.5**

[a] Federal fund loss assumes the impact of extending American Recovery and Reinvestment Act through June 2011.

[b] General Fund savings are overstated because figures include about $200 million in savings that would be achieved under current state law, but have been enjoined in federal court. The federal fund loss is also overstated for the same reason.

[c] These amounts reflect the total CalWORKs program savings. Some of these General Fund savings are through fund shifts to other departments.

Medicare ($700 million), and changes to the required level of state contribution for prescription drug costs for beneficiaries who are eligible for Medi-Cal and Medicare ($325 million).

- ***Assume Additional Funding for Social Services ($700 Million).*** The budget assumes extension of the TANF ECF and an additional federal participation in Foster Care and related costs.

The state is likely to receive some, but not all, of these requested federal funds. For example, the state will receive at least some of the funding the administration believes the state is owed for Medicare costs. In February 2010, the federal government granted states fiscal relief from some Medicare prescription drug liabilities by applying the increased FMAP provided under ARRA to these payments for the ARRA recovery period. As a result, California is expected to save about $680 million from this federal action. Furthermore, the President's 2010-11 budget proposal would extend the enhanced FMAP another six months through June 2011. Similarly, the President's budget proposes to extend the TANF ECF through September 2011, making receipt of these funds more likely. However, we believe it is unlikely the federal government will increase the state's FMAP to 57 percent or that the federal government will increase participation in Foster Care and related costs.

Trigger Cuts in H&SS Programs. Under the administration's budget proposal, if the federal funds sought by the administration are not obtained by July 15, 2010, certain specific reductions in H&SS programs would automatically be triggered. Figure 6 summarizes these proposed trigger cuts and the assumed savings from these proposed actions.

Assessing the Governor's Trigger Proposals

The Governor's trigger proposal would make reductions to core H&SS programs that provide such basic benefits as medical services to low-income children and adults. As we pointed out earlier in this report, recently enacted federal health care reform limit's the state's options to reduce eligibility in Medi-Cal and HFP and some of the Governor's trigger proposals are likely no longer feasible. In some cases, the programs proposed for elimination are those for which the state has the most flexibility to act on without running

Figure 6

Health and Social Services Trigger Solutions

(2010-11 General Fund Savings, in Millions)

Social Services	
Eliminate CalWORKs	$1,044
Eliminate IHSS program	495
Eliminate funding for housing programs for foster youth	36
Subtotal	($1,575)
Health	
Reduce Medi-Cal eligibility to federal minimum and eliminate some optional benefits	$532
Eliminate Healthy Families Program	126
Eliminate various Proposition 99 programs	115
Subtotal	($773)
Total	**$2,348**

afoul of the courts or federal program requirements. However, a number of these trigger reductions are problematic in both the short term and the long term for other reasons. In general, we recommend that the Legislature not approve the trigger cut proposals, such as those that would entirely eliminate CalWORKs, IHSS, and HFP or certain Medi-Cal eligibility categories. This is based primarily on our concerns that:

- The combined impact of the reductions would be great in that they would eliminate core programs that each serve hundreds of thousands of recipients in the state's H&SS safety net. Taken altogether, these changes would have severe long-term negative consequences for many program recipients.

- Some of the reductions would result in massive and disruptive shifts of costs to other state and local programs. For example, the elimination of CalWORKs would result in a large shift of the poor to county General Assistance programs. The reductions in Medi-Cal eligibility and the proposed elimination of HFP would similarly result in a sudden and large-scale shift of medical beneficiaries to county indigent care systems.

- The elimination of IHSS would likely be fiscally counterproductive, resulting in increases in state costs for long-term institutional care that would likely exceed the direct savings from the elimination of the program.

- Adoption of these proposals would result in a substantial loss of federal funds, in some cases monies that are drawn down from the federal government through a federal/state match of two to one or higher.

As we advised the Legislature in January, absent the receipt of the significant infusion of federal funds sought by the Governor, major solutions will be necessary. For these reasons, our office recommended approval of a number of the special session proposals relating to H&SS that would achieve substantial General Fund savings. We further recommend that, in a number of cases, that the Legislature consider more targeted reductions than the Governor's proposed list of trigger cuts.

It is important that the Legislature consider all available options to reduce state costs. We have outlined a number of such proposals in our past budget reports to the Legislature, as well as in a summary of our 2010-11 budget recommendations that is available on our Web site. For example, we have identified about $105 million in savings that we believe could be achieved by correcting for technical overbudgeting of various H&SS caseload-driven programs. We also address some additional proposals to achieve savings later in this analysis.

Other Budget Issues

RC Family Cost Participation Program Could Be Expanded

The Lanterman Developmental Disabilities Act establishes the state's responsibility for ensuring that persons with developmental disabilities, regardless of age or degree of disability, have access to services that sufficiently meet their needs and goals in the least restrictive setting. The state Department of Developmental Services (DDS) contracts with 21 RCs to provide and/or coordinate more than 100 different services for developmentally disabled consumers—including diagnosis and eligibility assessments, counseling, health care, day programs, transportation, and respite care.

Two Cost-Sharing Programs for Certain RC Services. Currently, there are two cost-sharing programs—the Parental Fee Programs (PFP) and the Family Cost Participation Program (FCPP)—that apply to families with children up to age 18 who meet certain requirements. (These programs are mutually exclusive—a child cannot be enrolled in both programs at the same time.) Except for the services included under PFP and FCPP (which we describe below), RC services are generally provided to consumers without their families having to bear a share of the cost.

PFP for Children in 24-Hour Facilities. The PFP requirement applies to families with children up to age 18 who live in a 24-hour care facility such as a state developmental center, a community care facility, or a medical facility. Parents of children residing in such facilities are assessed a monthly fee that is based on their ability to pay and is adjusted based on family size, family income, and the consumer's age. The DDS collects these fees, which are generally used for expanding and initiating new programs. These fees are estimated to generate approximately $1.9 million in 2009-10, with about 670 families participating in the program.

Family Cost Participation for Certain Community Services. The FCPP requires certain families with incomes at or above 400 percent of the FPL (about $73,000 for a family of three in 2010) to share in the cost of providing some services such as respite. This applies to families with developmentally disabled children up to age 18, living at home, and ineligible for Medi-Cal. These families are assessed a share of cost, called the cost participation level, based on a family's size and income using a sliding scale that currently varies from 10 percent to 100 percent of the cost of the services provided. The maximum amount of cost participation is capped and varies by the consumer's age. Unlike the PFP, the FCPP does not involve any payment to the state. Instead, the RC informs the family of the financial responsibility the family will bear for payments it must make to the provider. The cost avoidance generated from this program is estimated at about $3.9 million General Fund annually, with over 7,200 consumers currently participating in the program.

The RC caseload is estimated to grow to about 242,500 consumers in 2009-10. However, only a small percentage of these consumers would be included under an expanded FCPP. There are several reasons for this. First, roughly one-half of RC consumers are 18 years of age or older and are therefore ineligible. Similarly, more than one-half of all RC consumers are eligible for Medi-Cal and are therefore ineligible for FCPP. Finally, many families have incomes above the 100 percent to 200 percent of the FPL that makes them eligible for Medi-Cal but below the 400 percent of the FPL floor for participation in FCPP.

Fiscal Effects of Expanding the FCPP. Based on our analysis, we estimate that the expansion of the FCPP to all RC services (excluding RC operations and 24-hour care) when fully implemented after about three years could yield net annual General Fund savings ranging between about $11 million and $19 million depending on the number of participating consumers. We note, however, that our savings estimate could vary by several million dollars, due to a variety of factors.

Analysts Recommendation. We recommend that the Legislature expand the FCPP to include most other RC services (excluding RC operations and 24-hour care). We further recommend that the Legislature assume $11 million in savings, the low end of our range, given the potential interactions with other cost-saving actions taken last year for this program. For a more detailed discussion of our recommendations related to FCPP, please see our prior report on this subject that is available on our Web site.

Relative Guardianship Program: Examining the Federal Funding Stream Options

California's Kinship Guardianship Assistance Payment (Kin-GAP) program was implemented in 2000 to enhance family preservation and stability by placing foster children in long-term placements with relative caregivers. Under Kin-GAP, a dependent child who has been living with a relative for at least 12 months in Foster Care may receive a monthly grant if the relative assumes guardianship and the dependency case is dismissed. The grant is identical to the one the child received while in Foster Care. California currently operates Kin-GAP with state and county funds only, with the state paying roughly 80 percent of the costs. The Kin-GAP is part of the CalWORKs program, and its state and county expenditures count towards the MOE requirement imposed on the state as a condition of receiving federal funds for its CalWORKs program.

Recent Federal Legislation Provides Federal Funding Stream Options For Kin-GAP

Recent federal legislation—the Fostering Connections to Success and Increasing Adoptions Act of 2008 (Public Law 110-351) and ARRA of 2009 (Public Law 111-5)—have provided new federal funding options for the Kin-GAP program. Below, we describe these federal funding streams and how they impact Kin-GAP.

Federal Title IV-E Funding Now Available for Relative Guardianship Grants. As we described in our January 2009 report, *The 2009-10 Budget Analysis Series: Social Services*, the Fostering Connections to Success and Increasing Adoptions Act includes an option for states to provide subsidized relative guardianship payments with federal financial participation (FFP) through Title IV-E funds. The Title IV-E program, which has been in existence since 1980, provides support to states for 50 percent of the costs of eligible children placed in foster homes or other types of out-of-home care under a court order or in other situations.

To obtain FFP for new and existing Kin-GAP cases, the Legislature must create a new guardianship program which meets federal requirements. Once established, the state may enroll new relative guardian cases directly into this new program and receive federal funding for eligible cases. The federal government initially released a program instruction letter in December 2008 that indicated that the existing 14,300 Kin-GAP cases would not be eligible for Title IV-E FFP. Recently, however, the federal government rescinded this program instruction letter. This reversal in policy interpretation should allow California, once it creates a new guardianship program, to receive FFP for both existing Kin-GAP cases and new relative guardianship cases that meet federal eligibility requirements.

Federal Stimulus Package Provides Additional Federal Funds for Kin-GAP. The ARRA created a new federal funding stream called

TANF ECF, for the 2008-09 and 2009-10 federal fiscal years (FFYs). The ECF temporarily provides 80 percent FFP to offset costs for various components of the CalWORKs program to the extent they exceed the corresponding costs during FFY 2006-07. Because Kin-GAP is currently part of the CalWORKs program, the state is eligible for this additional ECF funding. In addition, ARRA temporarily increased the federal Title IV-E match from 50 percent to 56.2 percent for the period of October 2008 through December 2010. Both of these ARRA provisions result in significant General Fund savings, as we described in our March 2009 report, *Federal Economic Stimulus Package: Fiscal Effect on California*.

We note that the recently introduced President's budget for FFY 2010-11 proposes an extension of the enhanced Title IV-E federal match of 56.2 percent through June 2011. In addition, the President's budget provides funding for a new ECF for FFY 2010-11, which would again provide 80 percent FFP for certain CalWORKs costs through September 30, 2011. At this point, it is not clear whether Congress will approve either of these federal budget proposals.

Governor's Proposal for New Subsidized Relative Guardianship (SRG) Program

As part of his 2009-10 May Revision, the Governor proposed a new SRG program to obtain FFP for relative guardianship grants through the Title IV-E program. However, because Kin-GAP is currently part of the CalWORKs program, the ECF available through ARRA provides a better federal match of 80 percent versus the 56.2 percent federal match available through the ARRA-enhanced Title IV-E program. Therefore, the Legislature took action to delay implementation of SRG under Title IV-E until the ECF federal funding stream expires.

Governor's 2010-11 Budget Again Proposes SRG. The Governor's 2010-11 budget once again proposes to implement a new SRG program with FFP through the Title IV-E program beginning on October 1, 2010. Under this new SRG program, the state would pay 60 percent of nonfederal costs, while the counties would pay the remaining 40 percent. This would be a policy change from the existing Kin-GAP program, in which the state pays for roughly 80 percent of the program. The administration estimates that this proposal would result in net General Fund savings of $1.3 million in 2010-11. We note that these estimates only reflect savings from FFP in prospective relative guardianship cases. It did not take into account the potential shift of existing Kin-GAP cases because the restrictive federal program instruction letter, which we described above, was still in place when the Governor's budget was being prepared. Because of the recent reversal in federal policy regarding Title IV-E FFP in existing Kin-GAP cases, net General Fund savings would likely be greater in the budget year under this proposal than assumed in the Governor's January budget plan.

We estimate that once the SRG program is fully implemented under Title IV-E—including the complete transition of all existing Kin-GAP cases into the new program—General Fund savings would likely be about $48 million per year under the Governor's proposed 60-40 state/county sharing ratios. If the existing 80-20 state/county sharing ratios were maintained, General Fund savings would likely be about $35 million per year once the SRG program is fully implemented.

Analyst's Recommendation

As we recommended last year, the Legislature should delay implementation of SRG until the ECF federal funding stream expires—either as of September 30, 2010 under current law, or as of September 30, 2011 if the President's budget proposal is adopted—since the federal match for relative guardian grants is greater than the one provided under Title IV-E. We also recommend that the Legislature begin work on developing a new relative guardianship program that meets the federal requirements for Title IV-E FFP and consider the adoption of language that would automatically and immediately implement this new relative guardianship program once the ECF funding option expires. As we outlined in our January 2009 report, there are several important policy and implementation issues for the Legislature to consider in crafting a new SRG program—such as the state/county sharing ratios for nonfederal costs, the time frame in which to transition existing Kin-GAP cases to the new program, and program requirements that could impact grant levels. All of these choices could have significant fiscal impacts on the state and counties. These are issues that the Legislature could begin working on with stakeholders in the near future, so that the transition to a new relative guardianship program with Title IV-E FFP is smooth and maximizes state savings.

Reconsidering the Approach to Los Angeles Welfare Automation

The Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) system is one of four county-led consortia that make up the statewide automated welfare system (SAWS). The LEADER system is near the end of its useful life and the administration is procuring a vendor to build a replacement system. Estimated costs for the new system are about $530 million (from all fund sources), and the estimated start date for system development is January 2011. Given the state's difficult financial condition, this is a key moment for the Legislature to consider whether the state can afford a new system and the merits of reducing the number of consortia systems in order to minimize immediate and future costs to the state. We discuss these issues below.

Background

County Consortia. The four county consortia support eligibility and benefit determination, case maintenance, and statistical reporting, among other functions for various H&SS programs. The Legislature originally approved the development of four consortia systems in the *1995-96 Budget Act* after the state had attempted for several years to design and build a single statewide system. In 2006, the Legislature expressed a preference for reducing the number of consortia when it decided to migrate 35 counties from an older system called Interim Statewide Automated Welfare System (ISAWS) to an existing system called Consortia IV (commonly known as C-IV) rather than replace ISAWS. This migration project will be completed in June 2010. At that time, the state will have three consortia systems—C-IV (serving 39 counties), CalWORKs Information Network (CalWIN) (serving 18 counties), and LEADER (serving Los Angeles County).

Each consortium cost several hundred million dollars to develop and the annual maintenance and operations cost of the four consortia is currently about $150 million from all fund sources (about $80 million General Fund). See Figure 7 for further details.

LEADER. As stated above, LEADER is one of the four consortia systems. It is currently near the end of a procurement for a replacement system. The Legislature originally approved a new LEADER replacement system in the *2007-08 Budget Act* after Los Angeles County declared that the existing systems would not meet their program and business needs. However, in the *2009-10 Budget Act,* the Legislature delayed the LEADER replacement project by six months (from January 2010 to July 2010) due to the state's financial condition. The administration has proposed delaying the project another six months to further defer costs.

To date, $5 million (all funds) has been spent on planning and procurement activities for the LEADER replacement project. The total LEADER replacement project is estimated to cost $530 million (all funds) over five years.

Four bid proposals from vendors were received during the procurement process. Upon scoring these proposals, project managers selected one vendor and planned to award a contract to begin development work in January 2010. Due to proposed delays noted above, contract signing is planned for spring 2010 with vendor work beginning in January 2011.

A significant portion of the proposed information technology (IT) solution for LEADER would rely on the same computer code now be-

Figure 7

The Statewide Automated Welfare System

(General Fund [a], in Millions)

	Maintenance and Operation Costs	
	2009-10	**2010-11**
Interim Statewide Automated Welfare System (ISAWS) operates in 35 smaller counties. These counties are currently migrating to Consortium IV (C-IV). The four-year migration costs are estimated to be $250 million, all funds.	$12.7	$12.9
Los Angeles Eligibility Automated Determination, Evaluation, and Reporting System (LEADER) serves Los Angeles County (one-third of the state's caseload) and is currently in a procurement for a replacement system. The LEADER project plans to award a contract to a vendor at the beginning of 2011. The LEADER replacement project is estimated to cost $530 million, all funds.	6.4	6.4
CalWORKs Information Network (CalWIN) operates in 18 counties (about one-third of the state's caseload) and costs almost $600 million, all funds, to develop. Its current contract for maintenance and operation will end in 2013. Project staff are planning a competitive procurement for continued maintenance and operations services beyond the life of the current contract.	36.6	38.8
Consortium IV serves four counties and costs over $300 million, all funds, to develop. After all ISAWS counties migrate to C-IV, it will serve 39 counties, about one-third of the state's caseload. Implemented in 2004, C-IV is the only consortia with a web portal, allowing customers to submit online Food Stamp applications. The C-IV project is planning to re-procure its maintenance and operations services in late 2011.	24.5	24.6
Totals[b]	**$80.2**	**$82.7**

[a] Includes federal Temporary Assistance for Needy Families block grant funds which are fungible to the General Fund.

[b] Total costs do not include associated automation systems such as Welfare Data Tracking Implementation Project, Electronic Benefit Transfer, or Statewide Fingerprint Imaging System.

ing used for the C-IV system. Coincidentally, the winning vendor for LEADER is also the vendor who developed and is now maintaining the C-IV system. This means that the business rules for the two systems would be similar. These similarities are a strength of the proposed approach to developing LEADER. Because the selected vendor for LEADER would not have to create an entirely new system, it would reduce the risks that are often inherent in building a new automation system. It would also potentially allow the two systems to communicate with one another in the future.

Centralized Eligibility. Budget legislation for 2009-10, specifically Chapter 7, Statutes of 2009 (ABX4 7, Evans), directed the Department of Health Care Services and the Department of Social Services to implement a statewide eligibility and enrollment determination process for the CalWORKs, Food Stamp, and Medi-Cal programs. Recognizing that the eligibility determination process for these programs involved multiple automation systems, one goal of Chapter 7 included minimizing the total number of technology systems.

Governor's Budget Proposal

2010-11 Budget Request. The Governor's 2010-11 budget includes a total of $45 million ($23 million General Fund) to continue with the LEADER replacement project. Additionally, the administration proposes delaying the replacement project by yet another six months to defer some of the development costs out of the budget year. This essentially cut the 2010-11 budget request in half compared to a full year of development.

New LEADER System Costs Will Be Significant. Currently, the LEADER project is in the relatively early planning stages. However, once the selected vendor begins building the system in early 2011, there will be significant costs, estimated to begin at $50 million (all funds) in the first year of development, followed by four years at about $100 million per year. Total project development costs, as noted earlier, are currently estimated to be $530 million. Once the system is completed, annual maintenance costs are estimated to be about $70 million (all funds).

Issues for Legislative Consideration

A decision to commence vendor work on the new LEADER system represents a pivotal moment for the project, in that the costs to the state will rise dramatically for several years as a result of such a commitment. As such, this also marks a key decision-making point for the Legislature as it considers how best to contain costs not only for LEADER but for the entire welfare consortia as well. Below, we discuss some of the fiscal and policy questions now facing the Legislature relating to these matters.

The Proposed Cost of the New LEADER System. One important question before the Legislature is whether the state is getting a good deal on the proposed LEADER system. If the new system is largely modeled on an existing system already owned by the state, what accounts for the high costs? Are there certain functionalities included in the proposed system that are not essential to program delivery that can be eliminated to reduce costs? We are currently investigating the justification behind these estimated costs with project managers and county staff to better understand what the state will receive in enhanced program delivery and efficiency in exchange for such a large investment in a replacement system.

In the meantime, the Legislature may also want to consider what alternatives exist to procuring a new system. Does it make sense to migrate Los Angeles County to an existing consortia? The migration of 35 counties to C-IV is under way at an estimated cost of about $250 million. Such an approach could result in substantial savings depending on Los Angeles County's specific needs.

Even if it determines that the costs were reasonable, the Legislature should consider whether the state can still afford to pay for a new consortia system right now, particularly given the currently estimated price tag for a LEADER replacement system. Once development work begins, costs will rise significantly and remain high for several years as the state pays for developing a new system *and* maintaining an old system until the new one is functional.

What Alternatives Exist? If the Legislature decides a new system is more than the state can afford at this time, it could further delay development of the LEADER system. However, this choice would only defer the inevitable, as the current system does need to be replaced. Further delays could also eventually increase project costs. An alternative path the Legislature may wish to consider to address Los Angeles County's need for an updated system would be to migrate Los Angeles County to an existing consortia.

The Future of the Consortia. The current consortia arrangement is costly. Every five to seven years, each vendor contract for the maintenance and operation of each system expires and a new one must be competitively procured. These procurements are expensive and involve a significant amount of time and effort from many staff. When each system nears the end of its useful life, there is the need to build a new system, as is currently the case with LEADER. This requires even more time and is significantly more costly. Additionally, programmatic changes due to federal or state mandates mean that the state must pay for IT system changes to three separate systems.

Reducing the number of consortia systems to two or one would reduce all of these costs. The Legislature's decision on LEADER could influence the future of the consortia. By June 2010, there will be three consortia systems. Depending on the Legislature's decision on LEADER, the state could begin a move to two consortia.

LEADER and Chapter 7. The Legislature should also contemplate LEADER's future in light of Chapter 7, which calls for standardization of eligibility determination processes for various H&SS programs and states the goal of minimizing the number of technological systems involved in the delivery of these programs. A more modern LEADER system could potentially become the technological platform to which one or both of the other consortia systems could migrate in the future should the Legislature decide to reduce the total number of consortia systems. If this were the case, the investment in a new LEADER system could be a sound one. The Legislature would need, however, to ensure that the new system is adaptable enough to eventually handle statewide needs and requirements for multiple programs and counties.

Options for Los Angeles County Automation

As discussed above, we see two primary options for moving ahead with Los Angeles County automation: (1) building a new LEADER system, and (2) a LEADER migration to an existing consortia system. Below we discuss the main advantages and disadvantages of these two approaches.

Option 1: Build a New LEADER System. A new LEADER system would enable Los Angeles County to continue to administer its H&SS programs in a manner to which local officials are accustomed. Though it would be necessary for county staff to learn how to manage H&SS programs using a new system, it would be a system tailored to the county's specific needs. This means there would be greater buy-in by Los Angeles County to the system, which could mean that staff would be more motivated to use the system as an effective program management tool. Additionally, under this option, a new modern system could serve as the future technological platform to which one or both of the other consortia systems could migrate, eventually leading to a reduction in the total number of consortia and accomplishing an important goal of Chapter 7. On the other hand, proceeding with the system would obligate the state to significant costs during a financially dire time.

Option 2: A LEADER Migration to C-IV or CalWIN. Migrating LEADER to an existing consortia could potentially be much less costly than building a new system. This option would reduce the number of consortia to two more quickly than the above option, resulting in a more immediate reduction in future development and maintenance costs for the current aged system. In addition, a majority of the state would now utilize the same system which would enable counties to begin standardizing their business practices. The disadvantages of a migration are that Los Angeles would need to adjust to a new system that would be less flexible in regard to handling the county's existing business processes. Program managers in some cases might have to change their business procedures. Additionally, LEADER project managers would have to start over with a new procurement process. This would take time, effort, and money. Nevertheless, a migration process could potentially be completed more quickly at a lower cost than the development of a new LEADER system. Further analysis would be necessary to confirm if this was the case.

Analyst's Recommendation

Reduce to Two Systems. In our *Analysis of the 2008-09 Budget Bill* (please see page C-158), we concluded that a reduction in the number of consortia to two systems would reduce system maintenance and support costs as well as avoid future development and procurement costs for new systems. This would also be consistent with the Legislature's stated intentions in Chapter 7 to move toward fewer technology systems for H&SS programs. We continue to see two or fewer systems as an advantage to the state. In addition to savings and cost avoidance, fewer systems will allow the state to begin standardizing its welfare operations at the county level.

Consolidation does have some drawbacks, as mentioned above. Reducing the number of consortia systems means that some counties would be required to adapt their business practices to a new IT system. Without county buy-in and cooperation, there is the risk that the implementation of a new system could lead to some inefficiencies in the administration of H&SS programs and the disruption of services.

In our view, the advantages outweigh the disadvantages of such a consolidation of consortia. We therefore continue to recommend that the Legislature set a goal of two or fewer systems.

Routes to Two Systems. Migrating Los Angeles County to an existing consortia would be the quickest route to two systems. The second longer-term route would be to build the new LEADER system. Under this approach, the Legislature and counties would have two choices in the future. First, CalWIN counties could join the new LEADER system or C-IV. Second, C-IV counties could join the new LEADER system or CalWIN. Should the Legislature decide to pursue the second option and proceed with LEADER development, it should first ensure that the new LEADER replacement system will be flexible enough to allow the other systems to seamlessly work and communicate among one another *and* allow for a relatively easy consolidation of counties in the future. We believe both routes have merit and that the Legislature should choose one of these two routes.

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