

MAJOR ISSUES

Health and Social Services

- ☑ **Governor Proposes to Redesign the AFDC/TANF Program**
 - The Governor proposes: benefit reductions according to specified time limits; a combined work/education/training requirement; a modified grant structure that results in lower grants to working recipients and an increased incentive to move from part-time to full-time work; increased funding for employment services; and paternity establishment requirements. The time-limited benefit reductions would increase the financial incentives for families to work and would result in state and county savings; however, the policy would result in a significant loss of income to families if the parents do not obtain employment. We review the proposals and provide a comparison to our Welfare-to-Work approach. (See page C-84.)

 - ☑ **Governor Proposes to Eliminate County Mandate to Provide General Assistance**
 - The Governor proposes to eliminate the requirement that counties provide these benefits. If some counties reduce or eliminate those benefits, it could lead to migration of recipients to other counties, which would increase the financial incentive for these counties to reduce benefits. (See page C-95.)

 - ☑ **\$484 Million in State Savings Depends on Federal Action**
 - The Governor's Budget includes significant General Fund savings that would require federal legislation: grant reductions in the SSI/SSP Program (\$268 million in net savings) and the assumption of federal funds to offset state costs of providing emergency Medi-Cal services to illegal immigrants
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(\$216 million savings). If such legislation is not forthcoming, there will be a budgetary shortfall. (See page C-13.)

Budget Proposes to Make Temporary Grant Reductions and Cost-of-Living Adjustment Suspensions Permanent

- The budget proposes to make permanent the AFDC/TANF and SSI/SSP grant reductions adopted in 1995-96 (4.9 percent statewide), and the cost-of-living adjustment suspension that was implemented in 1991-92, which are scheduled to be restored in 1997-98. This proposal would result in a General Fund cost avoidance of \$457 million. (See pages C-79 and C-104.)

Caseloads Lower Than Projected in Budget

- We estimate that the AFDC/TANF and Medi-Cal caseloads will be less than budgeted, for a General Fund savings of \$155 million in 1996-97 and \$232 million in 1997-98 (See pages C-35 and C-78.)

Budget Reflects Savings from Federal Welfare Reform Provision Denying Noncitizens' Eligibility for SSI/SSP Benefits

- The budget includes General Fund savings of \$153 million from this provision. This assumes that approximately two-thirds of the noncitizens currently receiving benefits will become citizens prior to September 1997 and therefore retain eligibility for the program. We offer alternative approaches for the Legislature's consideration. (See page C-106.)

Budget Proposes to Eliminate State-Only Medi-Cal Program for Prenatal Services for Undocumented Women

- The recently-enacted federal welfare reform legislation prohibits states from providing many types of benefits to undocumented persons. Pursuant to this provision, the budget proposes to eliminate the state-only program that provides prenatal services for these persons. This would result in General Fund savings of \$80 million. (See page C-38.)
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OVERVIEW

Health and Social Services

General Fund expenditures for health and social services programs are proposed to decrease by about 2 percent in the budget year. Most of this reduction is due to certain welfare grant reductions and shifting state costs to the federal government.

EXPENDITURE PROPOSAL AND TRENDS

The budget proposes General Fund expenditures of \$14.5 billion for health and social services programs in 1997-98, which is 29 percent of total proposed General Fund expenditures. The budget proposal represents a reduction of \$355 million, or 2.4 percent, from estimated expenditures in the current year.

Figure 1 (see next page) shows that General Fund expenditures for health and social services programs are projected to increase by \$1.2 billion, or 8.7 percent, between 1990-91 and 1997-98. This represents an average annual increase of 1.2 percent.

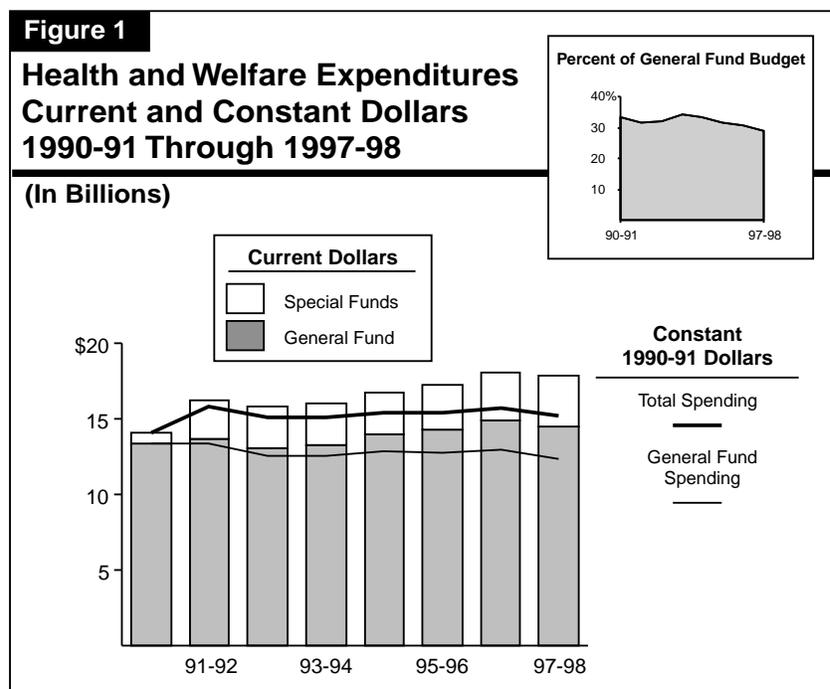
In 1991-92, realignment legislation shifted \$2 billion of health and social services program costs from the General Fund to the Local Revenue Fund, which is funded through state sales taxes and vehicle license fees. This shift in funding accounts for the significant increase in special funds starting in 1991-92, as shown in Figure 1. General Fund spending declined in 1992-93, due to various program reductions (the largest being welfare grant reductions). The following years reflect an upward trend in spending until 1997-98, when a reduction is proposed.

Combined General Fund and special funds spending is projected to increase by 27 percent between 1990-91 and 1997-98. This represents an average annual increase of 3.4 percent.

Figure 1 also displays the spending for these programs adjusted for inflation. On this basis, General Fund expenditures are estimated to decrease by 7.5 percent between 1990-91 and 1997-98. Combined General

Fund and special funds expenditures are estimated, however, to increase by 7.9 percent during the same period, on a constant dollar basis. This is an average annual increase of 1.1 percent.

As noted previously, the 1991 realignment legislation significantly altered the financing of health and social services programs by transferring funding for all or part of several mental health, public health, and social services programs to the counties. The sales tax and vehicle license fee revenues dedicated to realignment amounted to \$2 billion in 1991-92, which was \$239 million short of the amount that was initially estimated. The budget estimates that realignment revenues will be \$2.7 billion in 1997-98.



CASELOAD TRENDS

Figures 2 and 3 illustrate the caseload trends for the largest health and welfare programs. Figure 2 shows Medi-Cal caseload trends over the last decade, divided into four groups. Families and children (primarily recipients of Aid to Families with Dependent Children—AFDC), the aged and the disabled (primarily recipients of Supplemental Security Income/State Supplementary Program—SSI/SSP), and refugees and illegal immigrants.

(Pursuant to the 1996 federal welfare reform legislation, AFDC is also referred to as Temporary Assistance for Needy Families, or TANF.)

Medi-Cal caseloads increased by 81 percent over the last decade. As Figure 2 shows, most of this growth occurred during the period from 1989-90 through 1994-95. The growth in the number of families and children receiving Medi-Cal during this period reflects the rapid growth in AFDC caseloads during this time as well as the expansion of Medi-Cal to cover additional women and children with incomes too high to qualify for cash aid in the welfare programs. Coverage of refugees and illegal immigrants also increased caseloads significantly during this period. Since 1994-95, overall Medi-Cal caseloads have grown much more slowly, due primarily to a slight decline in AFDC caseloads.

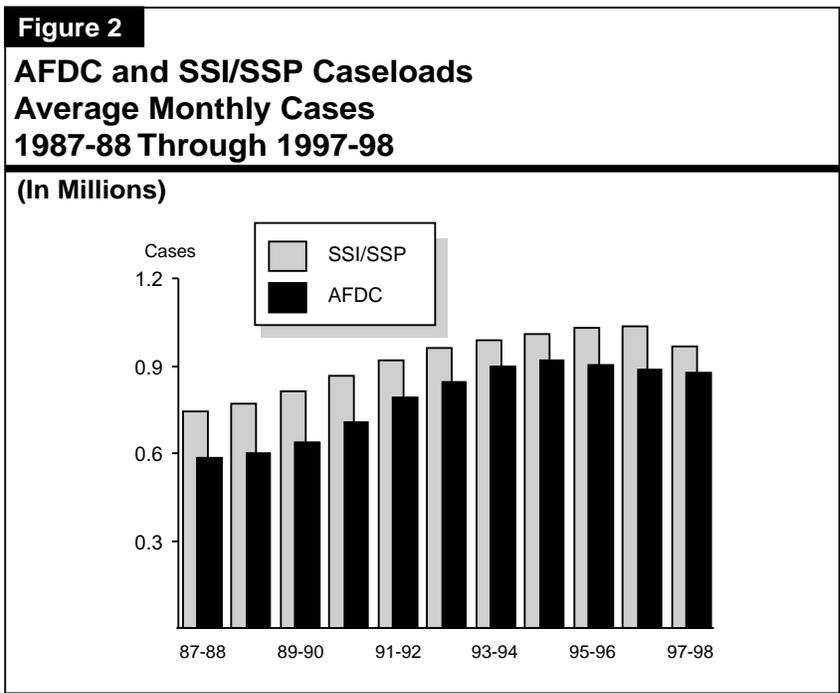


Figure 3 shows the caseload trend for the AFDC (Family Group and Unemployed Parent components) and SSI/SSP programs. While the number of cases in SSI/SSP is greater than in the AFDC Program, there are more persons in the AFDC Program—about 2.6 million compared to about 1 million for SSI/SSP. (The SSI/SSP cases are reported as individual persons, while AFDC cases are primarily families.)

Caseload growth in these two programs is due, in large part, to the growth of the eligible target populations. The increase in the rate of growth in the AFDC caseloads in 1990-91 and 1991-92 was partly due to the effect of the recession. During the next two years, the caseload continued to increase but at a slower rate of growth. This slowdown, according to the Department of Finance, was due partly to (1) certain population changes, including lower migration from other states; and (2) a lower rate of increase in “child-only” cases (including citizen children of undocumented and newly legalized persons), which was the fastest growing segment of the caseload until 1993-94. (For a discussion of other factors affecting the AFDC caseload during this period, please see our report on the program in *The 1991-92 Budget: Perspectives and Issues*, page 189.)

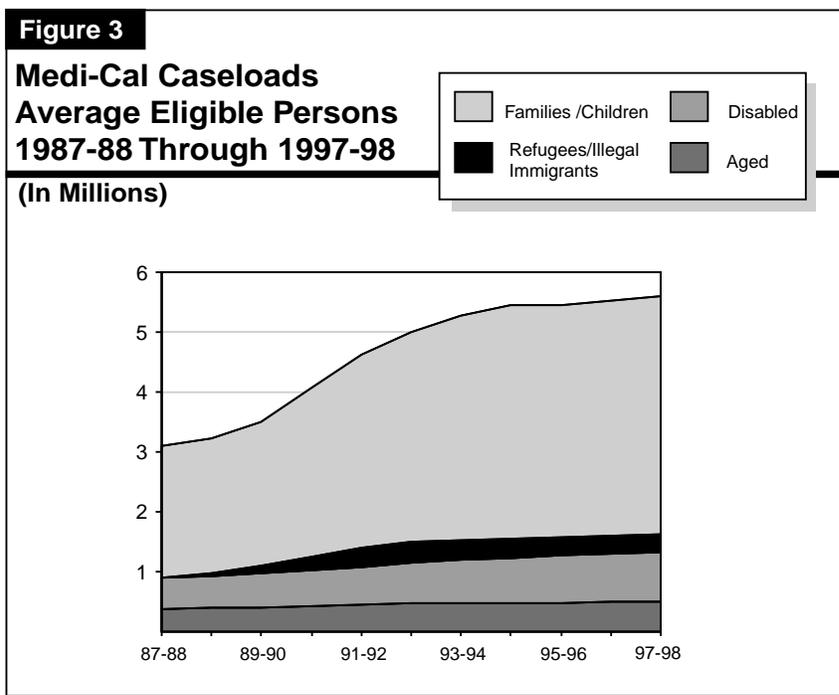


Figure 3 also shows that since 1994-95, AFDC caseloads have declined. As we discuss in our report, *California's Fiscal Outlook* (November 1996), we believe that this trend is due largely to various factors affecting welfare caseloads, including the improving economy, lower birth rates for young women, and a decline in legal immigration to California.

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. This compo-

ment of the caseload accounts for about one-third of the total. The larger component—the disabled caseload—has been growing faster than the rate of increase in the eligible population group (primarily ages 18 to 64). This is due to several factors, including (1) the increasing incidence of AIDS-related disabilities, (2) changes in federal policy that liberalized the criteria for establishing a disability, (3) a decline in the rate at which recipients leave the program (perhaps due to increases in life expectancy), and (4) expanded state and federal outreach efforts in the program.

As the figure shows, the budget projects a significant reduction (6.8 percent) in the SSI/SSP caseload in 1997-98. This is due to the provision in the federal welfare reform legislation of 1996 which makes legal noncitizens ineligible for the program.

SPENDING BY MAJOR PROGRAMS

Figure 4 (see page 10) shows expenditures for the major health and social services programs in 1995-96 and 1996-97, and as proposed for 1997-98. As shown in the figure, the three major benefit payment programs—Medi-Cal, AFDC, and SSI/SSP—account for a large share of total spending in the health and social services area.

MAJOR BUDGET CHANGES

Figures 5 and 6 (see pages 11, 12) illustrate the major budget changes proposed for health and social services programs in 1997-98. (For technical reasons related to the change from a matching arrangement to a block grant for federal funds, our figures for the AFDC/TANF program components are larger than the amounts indicated in the Governor's budget.) Generally, the major changes can be grouped into the following categories:

1. **The Budget Proposes to Fund Basic Caseload Changes.** This includes funding for a projected caseload increase of 0.5 percent in the Medi-Cal Program, a decrease of about 1 percent in the AFDC Program, and an increase of 1.8 percent (before adjusting for policy changes) in SSI/SSP.

2. **The Budget Reflects a Significant Shift of State Costs to the Federal Government.** This would be accomplished by the following actions:

- Assume enactment of legislation appropriating federal funds to reimburse the state's Medi-Cal costs of providing emergency health care services to undocumented immigrants (\$216 million in 1997-98).

Figure 4**Major Health and Welfare Programs Budget Summary^a
1995-96 Through 1997-98****(Dollars in Millions)**

	Actual 1995-96	Estimated 1996-97	Proposed 1997-98	Change From 1996-97	
				Amount	Percent
Medi-Cal					
General Fund	\$6,252.9	\$6,908.4	\$6,943.1	\$34.7	0.5%
All funds	16,479.1	18,411.5	18,394.2	-17.3	-0.1
AFDC (FG&U)					
General Fund	\$2,712.4	\$2,228.7	\$1,965.7	-\$263.0	-11.8%
All funds	5,607.2	5,165.8	4,620.1	-545.7	-10.6
AFDC (FC)					
General Fund	\$293.2	\$336.3	\$353.8	\$17.5	5.2%
All funds	1,176.7	1,190.7	1,408.3	217.6	18.3
SSI/SSP					
General Fund	\$2,050.6	\$2,069.9	\$1,660.3	-\$409.6	-19.8%
All funds	5,586.3	5,731.1	5,066.1	-665.0	-11.6
County welfare administration					
General Fund	\$477.4	\$491.8	\$560.3	\$68.5	13.9%
All funds	1,833.7	1,993.8	2,049.3	55.5	2.8
In-Home Supportive Services					
General Fund	\$254.1	\$331.3	\$375.3	\$44.0	13.3%
All funds	924.6	1,061.0	1,167.6	106.6	10.0
Regional centers/ community services					
General Fund	\$395.6	\$453.1	\$488.9	\$35.8	7.9%
All funds	943.0	1,045.0	1,151.7	106.7	10.2
Developmental centers					
General Fund	\$30.7	\$31.2	\$33.4	\$2.2	7.1%
All funds	567.2	532.7	442.4	-90.3	-17.0
Child welfare services					
General Fund	\$318.0	\$333.3	\$349.7	\$16.4	4.9%
All funds	967.6	1,061.2	1,064.9	3.7	0.3
State hospitals					
General Fund	\$199.6	\$215.1	\$247.3	\$32.2	15.0%
All funds	435.1	464.0	456.1	-7.9	-1.7

^a Excludes departmental support.

Figure 5

Health Services Programs Proposed Major Changes for 1997-98 General Fund

Medi-Cal	Requested: \$6.9 billion	
	Increase: \$35 million	(+0.5%)
<ul style="list-style-type: none"> + \$93 million for caseload increase + \$376 million due to higher utilization of services and other cost increases + \$50 million for increased costs to reimburse certain hospitals for their capital project debt + \$43 million (including \$23 million transferred from the Office of Family Planning) for the full-year costs and expansion of the family planning program + \$25 million for a new drug—human growth hormone—for the treatment of AIDS <hr style="width: 20%; margin: 10px auto;"/> <ul style="list-style-type: none"> - \$216 million by assuming federal reimbursement for emergency services for undocumented persons - \$112 million from an increase in the federal cost-sharing ratio - \$80 million by eliminating the state-only program for prenatal care for undocumented persons 		
Public Health	Requested: \$308 million	
	Decrease: \$12 million	(-3.7%)
<ul style="list-style-type: none"> + \$16 million due to increased caseload and costs for the AIDS Drug Assistance Program 		

- Reflect estimated state savings of \$274 million in 1996-97 and \$288 million in 1997-98 due to the implementation of federal block grants pursuant to federal welfare reform legislation. (The savings are due to the state receiving more federal funds under the block grant than it would receive under prior law, assuming adoption of the Governor's proposals for the AFDC/TANF program.)

Figure 6

**Social Services Programs
Proposed Major Changes for 1997-98
General Fund**

AFDC/TANF and Employment Services	Requested: \$2.1 billion Decrease: \$237 million (-10%)
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- + \$80 million for employment services (CalTAP proposal)

- \$245 million (cost avoidance) by not restoring the statewide 4.9 percent grant reduction and the cost-of-living adjustment
- \$156 million by revising the grant structure (CalTAP proposal)
- \$74 million due to a decline in basic caseloads

County Welfare Administration	Requested: \$560 million Increase: \$68 million (+14%)
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- + \$93 million to train caseworkers and pay for increased data processing costs for the proposed CalTAP.

SSI/SSP	Requested: \$1.7 billion Decrease: \$410 million (-20%)
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- \$153 million to reflect federal provision eliminating most legal noncitizens from SSI/SSP
- \$66 million by assuming federal legislation to implement the regional 4.9 percent grant reduction (current state law)
- \$213 million by assuming federal legislation to implement state-wide 4.9 percent grant reduction.

In-Home Supportive Services	Requested: \$375 million Increase: \$44 million (+13%)
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- + \$90 million (and \$37 million in current year) due to increases in the minimum wage

- \$22 million due to legal noncitizens' loss of eligibility resulting from federal welfare reform provisions for SSI/SSP

3. The Budget Reflects Savings From federal welfare reform Provisions Making Noncitizens Ineligible for Certain Health and Welfare Programs:

- Eliminate legal noncitizens from eligibility for SSI/SSP benefits, for a General Fund savings of \$153 million.
- Eliminate legal noncitizens from eligibility for In-Home Supportive Services (IHSS) benefits (which results from the federal act's provisions related to SSI/SSP eligibility), for a General Fund savings of \$22 million.
- Eliminate the state-only Medi-Cal program that provides prenatal care for undocumented immigrants, for a General Fund savings of \$80 million.

4. The Budget Proposes to Make Permanent Certain Grant Reductions and Cost-of-Living Adjustment (COLA) Suspensions in the AFDC and SSI/SSP Programs:

- Make permanent the 4.9 percent statewide grant reductions in AFDC and SSI/SSP enacted in the current year (\$366 million cost avoidance).
- Make permanent the suspension of the statutory COLAs (\$91 million cost avoidance).

Savings Would Require Federal Action

The budget proposes significant changes in the health and social services area that depend on federal legislation. As Figures 5 and 6 show, this includes: \$216 million in General Fund savings by assuming federal funds to reimburse the state for Medi-Cal emergency services for undocumented persons; and net General Fund savings of \$268 million (\$279 million in the Department of Social Services, offset by \$11 million in costs in other departments) from SSI/SSP grant reductions.

Welfare Reform

The Governor proposes legislation to redesign the AFDC Program, effective January 1, 1998. Figure 7 summarizes the key features of the Governor's proposal—the California Temporary Assistance Program (CalTAP). The proposal is estimated to result in a net General Fund savings of \$3 million in 1997-98. This consists of costs of \$172 million for employment services and county administration, and savings of \$175 million due to changes in the grant structure (which results in lower grants to recipients with earned or unearned income) and a requirement that new applicants establish paternity for their children before qualifying for the full amount of the grant.

Our office has released a report that offers a different approach to redesigning the welfare system. (Please see *Welfare Reform in California: A Welfare-to-Work Approach*, January 23, 1997.) We discuss the Governor's proposal and our approach in detail in our analysis of the AFDC/TANF Program.

Figure 7

Governor's Proposal to Reform Welfare

- Grant Reduction After Six Months.** Beginning January 1, 1998, Temporary Assistance for Needy Families recipients on aid for more than six months will receive a grant reduction of 15 percent.
- Time Limits:**
 - **For those on aid prior to January 1, 1998,** recipients are limited to two years of cash assistance in any three-year period. After the two years, benefits are reduced by roughly 15 percent (the portion of the grant for the adult) and this aid is provided in the form of noncash benefits (state-funded) such as vouchers.
 - **For those coming on aid as of January 1, 1998,** their cash assistance is limited to one year in any two-year period. After the one year, benefits are reduced as noted above.
 - **Recipients who go off aid (grant and voucher) for one year** would be eligible to return at the same level of cash benefits as new applicants.
 - **Lifetime receipt of cash assistance is limited to five years.** After this period, benefits are available, but limited to noncash assistance as noted above.
- Participation Mandate.** To receive assistance, recipients must participate for 32 hours per week (35 hours for two-parent families) in work or county-approved education or training activities.
- Grant Structure.** Families with income (including earnings) will have lower grants (roughly 30 percent) than under current law as a result of reducing the amount of income that is excluded when calculating the grant.
- Services.** Provides additional funding for automation, employment services, and training for county caseworkers.

CROSSCUTTING ISSUES

Health and Social Services

INFANT HEALTH AND PROTECTION INITIATIVE

The budget proposes \$35 million (\$22.2 million General Fund) to establish the Infant Health and Protection Initiative. The purpose of the initiative is to protect children from abuse and neglect by substance-abusing parents. The program would consist of four components:

- ***Drug Assessment Protocol/Child Welfare Services Intervention.*** Current law requires hospitals to apply an existing drug assessment protocol when a child is born, in order to detect signs of substance abuse by the parents and to initiate a referral, if appropriate, to the county Child Welfare Services (CWS) program. Because surveys indicate that the protocol is not used consistently by a large number of hospitals, the budget proposes to make compliance with this procedure a condition of licensing.
 - ***Uniform Child-Risk Assessment.*** A uniform child risk assessment tool would be developed to assist county caseworkers in determining the risk of leaving a child in a potentially abusive environment.
 - ***Home Visiting Pilot Project.*** The budget proposes to implement a pilot project that provides home visitation services and substance abuse treatment to families identified by the drug assessment protocol, and to contract for an evaluation of the program.
 - ***Substance Abuse Treatment.*** Funding would be provided for additional drug and alcohol treatment resulting from the anticipated increase in referrals pursuant to the drug assessment protocol.
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- The proposed funding would be allocated as follows:
- \$23.5 million (\$17.2 million General Fund) for the Department of Social Services (DSS) to develop the risk assessment tool and implement the home visiting pilot project, and for the anticipated increased costs in CWS, foster care, and adoptions.
- \$11.5 million (\$5 million General Fund) for the Department of Alcohol and Drug Programs (DADP) for the anticipated increase in drug and alcohol treatment.

Proposed Budget for the Initiative Is Excessive

We recommend that the appropriation for the Home Visiting Pilot Project be reduced by \$6 million from the General Fund because the budget exceeds the amount needed to fund the project as proposed. (Reduce Item 5180-151-0001 by \$5,970,000.)

We recommend that 4.5 of the 11.5 positions proposed for administration of the Infant Health and Protection Initiative by the Department of Social Services be deleted, for a savings of \$306,000 (\$153,000 General Fund), because of insufficient justification. (Reduce Item 5180-001-0001 by \$153,000 and reduce Item 5180-001-0890 by \$153,000.)

Finally, we recommend reducing the amount proposed for the Department of Alcohol and Drug Programs to provide substance abuse treatment by \$500,000 from the General Fund, because the budget exceeds the amount required to provide services under the proposed initiative. (Reduce Item 4200-102-0001 by \$500,000.)

Home Visiting Pilot Project. The budget proposes \$10 million from the General Fund to support the costs of implementing the home visiting pilot project in five sites in the state. This consists of \$5.5 million for the home visitation services and \$4.5 million for perinatal drug treatment services. According to the DSS, each site would serve 500 families, at an average cost of \$2,200 per family per year for the home visitation services. We note that the pilot project sites would be selected through an award of contracts pursuant to a review of requests for proposals (RFPs). According to the department's schedule, this process will require six months. Consequently, the pilot projects will be operational for only the last six months of the budget year, and should therefore require only about half of the annual cost of \$5.5 million (General Fund), or \$2,750,000. Accordingly, we recommend deletion of this excess funding from the proposed appropriation.

Our analysis also indicates that the amount proposed for drug treatment services in the Home Visiting Pilot Project exceeds the amount that

will be required. Based on data provided by the Department of Alcohol and Drug Programs, the cost of these services for the 2,500 families in the pilot project will be \$2,560,000 for a full year. Thus, the amount required for the six months in which the project will be implemented during the budget year will be \$1,280,000. This is \$3,220,000 below the \$4.5 million (General Fund) proposed in the budget. Accordingly, we recommend that these funds be deleted from the budget.

DSS State Administration. The budget proposes \$1.7 million (\$872,000 General Fund and \$872,000 federal funds) for the DSS to administer the CWS component of the initiative in 1997-98. This consists of \$769,000 for 11.5 new positions, \$125,000 for the first year of a three-year contract to develop a curriculum for the home visiting pilot project; \$350,000 for the first year of a three-year contract to develop the child-risk assessment tool; and \$500,000 for the first year of a three-year contract to evaluate the pilot project.

Our analysis of the proposal for departmental administration indicates that the number of positions requested is five more than needed, for the following reasons:

- **Risk Assessment Model Development.** The budget proposes to establish several committees and groups—consisting primarily of representatives of state and county departments—to assist in the development of the statewide risk assessment model: a project executive committee, a project review committee, a project work group and a DSS work group. Some staff time (of the proposed positions) would be allocated to each group. The majority of this time is allocated to the project work group, which would consist of 21 state and county program representatives in conjunction with the vendor. Specifically, five of the proposed new consultants would attend meetings and help coordinate the group's activities (the equivalent of one full-year position) and the same five consultants would work two days per week for nine months (the equivalent of 1.6 positions) to help the group conduct research and development activities related to the creation of the risk assessment model, and five days per month to coordinate, monitor, and review the activities of the vendor.

In our judgment, one consultant, rather than five, would be adequate to serve as staff to the various committees and groups. This should be sufficient to attend meetings and act as a coordinator. Similarly, we believe that one consultant is sufficient to coordinate, monitor, and review the activities of the vendor. We find no need to add departmental consultants to conduct research and develop-

ment, since this would be the task of the vendor. Accordingly, we recommend reducing the budget proposal by 3.5 positions.

- **Managers.** The budget proposes two managerial positions to supervise the 9.5 positions proposed for the risk assessment and pilot project components of the initiative. We believe that it would be reasonable to expect one manager to supervise the program staff, whether this staff is approved at a level of 9.5 positions or the 5.5 that we recommend.

Thus, we recommend that the number of proposed new positions be reduced by 4.5 positions, for a savings of \$306,000 (\$153,000 General Fund).

DADP Substance Abuse Treatment. As indicated above, the budget proposes \$11.5 million (\$5 million General Fund) for the DADP for substance abuse treatment of individuals identified through the hospital protocols as requiring these services (excluding those persons in the Home Visiting Pilot Project). Based on information provided by the DADP, we find that the budget proposal does not fully account for the estimated number of persons needing treatment who will pay for this treatment themselves or pay through private health insurance. After making this adjustment, we estimate that the budget proposal exceeds the amount needed by \$500,000 from the General Fund. Accordingly, we recommend deleting these funds from the budget.

Fiscal Summary of Recommendation. In total, adoption of our recommendations would result in a General Fund savings of \$6.6 million in 1997-98.



THE SEXUALLY VIOLENT PREDATOR PROGRAM

The Sexually Violent Predator (SVP) program was established by Chapter 762, Statutes of 1995 (SB 1143, Mountjoy) and Chapter 763, Statutes of 1995 (AB 888, Rogan). The SVP program provides for the civil commitment of individuals who have been convicted of a specified sexually violent offense against two or more victims, and who have a diagnosed mental disorder that makes it likely that they will engage in sexually violent criminal behavior.

The civil commitment process begins with the California Department of Corrections (CDC) and the Board of Prison Terms (BPT) screening for inmates who qualify as potential SVPs. The CDC and BPT screen for cases in which all of the following criteria apply: (1) the inmate has been convicted of a specified sexually violent offense such as rape or child molestation; (2) the inmate's crime involved two or more victims; and (3) the inmate's criminal acts involved efforts to promote a relationship with, and then victimize, a stranger or casual acquaintance. The CDC refers all potential SVP cases to the Department of Mental Health (DMH) for further assessment and clinical evaluation.

The DMH reviews the CDC assessment and also determines if the individual has a diagnosed mental disorder that will predispose him or her to engage in sexually violent criminal behavior upon release from prison. Once the DMH determines that an individual is an SVP, the case is referred to the county counsel or district attorney. If the county counsel or district attorney concurs with the DMH, a petition for commitment is filed in the county's superior court. The superior court determines if there is probable cause that the individual is likely to engage in sexually violent predatory criminal behavior upon his or her release. If probable cause is found, the case is sent to trial. Persons found by the court or jury to be SVPs are civilly committed to the custody of the DMH for two years in a secure facility, subject to annual review, and extension of the civil commitment if it is determined that the mental disorder and danger to the community persist.

The budget proposes \$20.7 million from the General Fund (\$16.6 million for the DMH, \$3.5 million for the CDC, and \$0.6 million for the BPT) for the SVP program in 1997-98. This does not include county costs, which are estimated to be roughly \$10 million.

Court Case Will Have Major Impact on the SVP Program

A US Supreme Court decision is anticipated on the constitutionality of the Sexually Violent Predator (SVP) program in Kansas. Depending on the decision, this case could either lead to a challenge of the program in California or alleviate existing delays in moving SVP cases through the program's process.

Kansas Program Before the US Supreme Court. The state of Kansas operates an SVP program that is similar to the one in California. A lawsuit challenging the constitutionality of the Kansas program is currently before the US Supreme Court. The Kansas State Supreme Court ruled the program was unconstitutional, and the case has been appealed to the US Supreme Court. A decision by the Supreme Court is expected to be announced in June of this year.

This Supreme Court decision could have important consequences for the SVP program in California. If the Kansas program is held to be unconstitutional, it could affect pending court challenges to the program in California. On the other hand, if the Kansas program is upheld, it could alleviate existing delays in moving cases through the process in the California program, as we discuss below.

Delays in Processing Cases. The SVP program in California has been in operation since January 1996. As previously indicated, the SVP commitment process includes several stages. So far, the time required to move cases through the system has been much longer than initially anticipated.

In the first 12 months of implementation (January through December 1996), 991 potential SVPs were referred to the DMH by the CDC for evaluation. By the end of December, 410 cases were still pending at various stages of the process, and only 10 had been civilly committed. If this trend continues, the number of civil commitments will fall far short of the 138 assumed in the 1996-97 budget.

The small number of civil commitments is due to unanticipated delays in the processing time for SVP cases. According to the DMH, this is primarily because of a slowdown in the judicial component of the process while participants in that process await the verdict in the Kansas case. Defense attorneys, for example, have an incentive to make maximum use

of the allowable time for program components such as the probable cause hearings, in anticipation of the possibility that the court will strike down the Kansas program. Thus, the DMH believes that if the Supreme Court upholds the Kansas program, the civil commitment process in the California program will begin to move much more expeditiously.

Figure 8 (see page 22) displays the status and disposition of all the SVP cases in 1996, and shows the large number of cases (410) that are still pending.

Uncertainty in Projecting Budget-Year Commitments. The number of cases that result in civil commitments in 1997-98 will depend in large part on the degree to which there are changes in the processing time for the cases (the caseload flow through the system). Based on data from 1996, we estimate that of those persons who are evaluated by the DMH as having a mental disorder that predisposes them to re-offend (287 in Figure 9 on page 23), about 44 percent will ultimately be civilly committed under the SVP process. This is illustrated in the caseload flow model in Figure 9. We further estimate that if the system operates within the time frames that were *initially anticipated* for processing cases, there will be 126 new civil commitments in 1997-98. Conversely, if the processing time remains unchanged, we estimate that about 30 cases will be civilly committed in the budget year. Thus, there is considerable uncertainty in projecting this program outcome. The department indicates that it will review the caseloads in the program and revise its proposal at the time of the May Revision.

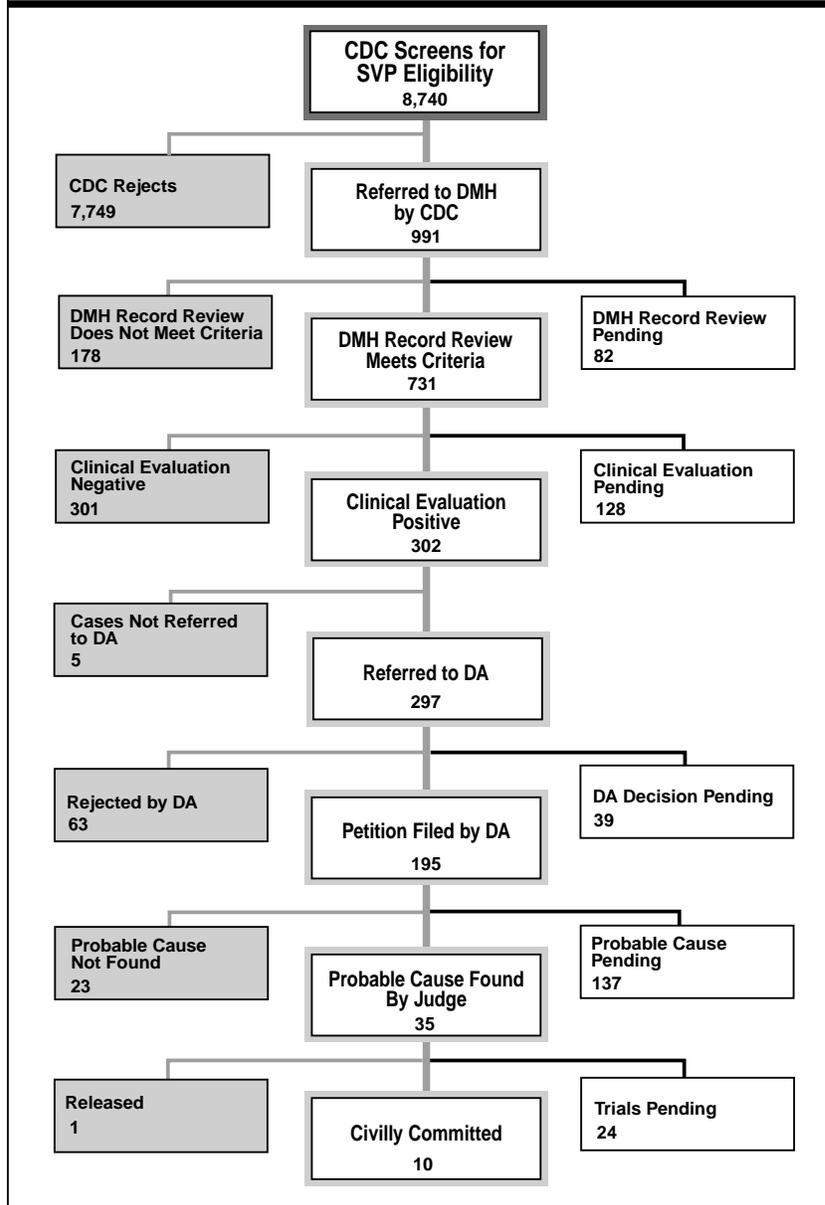
State Program Costs Could Increase Significantly

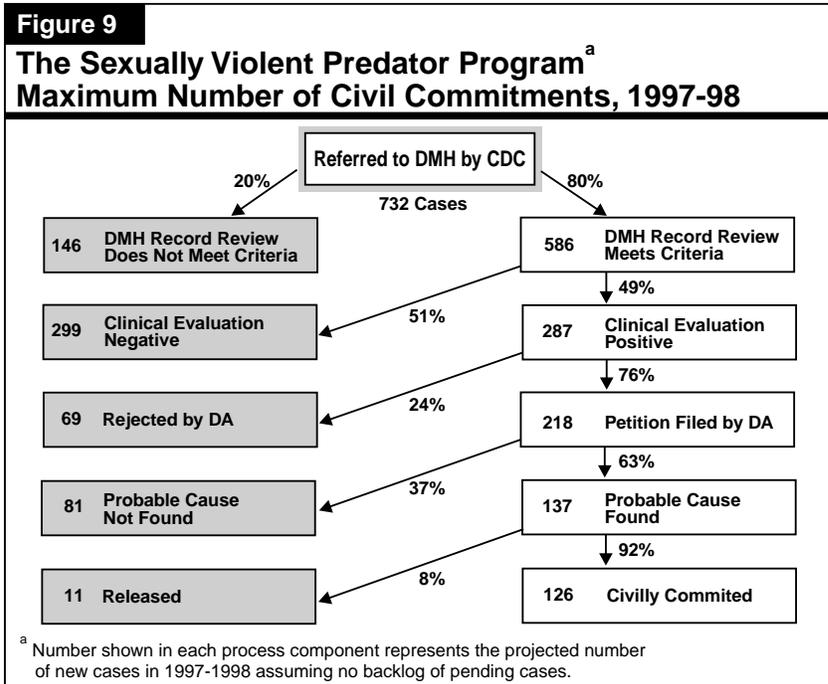
State costs for the Sexually Violent Predator program could increase significantly in the future because of (1) the possibility that county costs will be determined to be a state reimbursable mandate; (2) the buildup of caseload due to the length of time required for treatment; and (3) the costs associated with the community placement of SVPs.

As previously indicated, the budget proposes \$20.7 million from the General Fund to support the SVP program in 1997-98. Our analysis indicates, however, that the state costs could increase significantly in the budget and subsequent years because of (1) the possibility that county costs will be determined to be a state reimbursable mandate; (2) the buildup of caseload due to the length of time required for treatment; and (3) the costs associated with community placement of SVPs. Each of these costs is discussed in detail below.

Figure 8

**The Sexually Violent Predator Program
1996**





County Costs May Be a State Reimbursable Mandate. Once the DMH refers an SVP to the county counsel or district attorney, the costs associated with the civil proceedings are the responsibility of the counties. We estimate the county costs for the SVP civil commitment proceedings to be roughly \$10 million in 1997-98. This estimate includes the costs of prosecuting, defending, and incarcerating SVPs.

In May of 1996, Los Angeles County filed a claim with the Commission on State Mandates asserting that the county costs under the SVP civil commitment proceedings represent a state reimbursable mandate. The Commission is tentatively scheduled to make a decision on the matter in late March 1997. We note that the Attorney General has issued an opinion supporting the county's claim.

Caseload Increases. Caseloads in the SVP program could increase significantly in the coming years because the time required for treatment is likely to lead to an increasing number of ongoing cases. The initial treatment period is two years. The program, however, requires the confinement and treatment of SVPs until it is determined that they no longer present a threat to society. Thus, treatment could be extended well beyond the two-year period. We note, in this respect, that SVPs are referred to DMH without regard to whether they are considered "amenable to treatment."

We also note that these ongoing cases will result in costs other than the costs of treatment. This is because extensions of the confinement period require hearings to determine if the SVP is still a danger to society. As a point of reference, the state of Washington's SVP program incurred an average cost of \$30,000 per extended commitment hearing. Moreover, to the extent that accommodating SVPs increases the total population in the state hospital system, additional facilities may eventually be required to increase the capacity of the system.

Community Placement Costs. The SVPs regarded by the court to no longer be a danger to others may be released unconditionally or may be placed in a conditional release program. The SVP community placement costs are unknown at this time because the DMH and the Conditional Release Program (CONREP) providers are in the initial stages of developing the most appropriate community placement program. As an indication of the potential costs, we note that mentally disordered offenders (who are different from SVPs) are placed in highly supervised community settings at an annual cost of about \$21,000 per person.

Law Change Required To Hold SVPs at State Hospitals

We recommend the enactment of legislation authorizing the housing and treatment of Sexually Violent Predators at state hospitals instead of state prisons, to be consistent with current practice and the budget proposal.

The legislation creating the SVP program specifies that offenders who are to be released on parole, and who receive civil court commitments as SVPs, are to be confined "...in a secure facility designated by the Department of Mental Health" that also "...shall be located on the grounds of an institution under the jurisdiction of the Department of Corrections."

Last year, we advised the Legislature that the Governor's budget proposal to provide funding to house SVPs at Atascadero State Hospital (ASH) was inconsistent with state law. The Legislature adopted Chapter 197, Statutes of 1996 (AB 3493, Friedman) stating *legislative intent* that SVPs be held at ASH during 1996-97. We have been advised by the Office of the Legislative Counsel, however, that this statement of legislative intent did not alter the original statutory requirement that SVPs be held at a state prison.

Another legislative measure, Chapter 462, Statutes of 1996 (AB 3130, Boland) initially contained language eliminating the requirement that SVPs be housed in state prison. That language was removed from the bill

prior to its enactment. Nonetheless, at the time of this *Analysis*, 13 SVPs had already been transferred to ASH.

Governor's Budget Inconsistent With State Law. The Governor's budget again requests funding to house and treat SVPs at ASH in 1997-98. The administration, however, has not submitted the trailer bill legislation that would be required to amend current law to authorize this practice.

We believe that a state hospital such as ASH is a more appropriate placement for SVPs than the state prison system for several reasons.

We are advised by the California Department of Corrections (CDC) that the placement of persons with a civil commitment (rather than a prison sentence) into a prison setting creates legal, procedural, and management problems for the state. Placing the SVPs in the same facilities as prison inmates is complicated by the fact that SVPs have broader legal rights.

In the event that state law is not changed to place SVPs at ASH, the CDC has indicated that the prison facility most likely to receive these individuals would be the California Medical Facility (CMF) at Vacaville in Solano County, where an acute psychiatric care unit is located. We are concerned about the potential impact of sending SVPs to CMF at this time because of ongoing and active federal district court litigation over the medical care being provided there for mentally disordered prison inmates.

Finally, in our view, sending SVPs to state hospitals is consistent with the legal arguments in defense of the constitutionality of the SVP law. In ongoing litigation over the constitutionality of California's SVP law, the state contends that civil commitments do not constitute an illegal further punishment of offenders beyond their original prison sentence, but rather a measure taken under civil law to protect the public by subjecting high-risk parolees to appropriate mental health treatment.

Analyst's Recommendation. For these reasons, we recommend the enactment of legislation removing the requirement that SVP civil commitments be housed at state prisons.



DEPARTMENTAL ISSUES

Health and Social Services

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (4260)

In California, the federal Medicaid Program is administered by the state as the California Medical Assistance (Medi-Cal) Program. This program provides health care services to welfare recipients and other qualified low-income persons (primarily families with children and the aged, blind, and disabled). Expenditures for medical benefits are shared about equally by the General Fund and by federal funds. The Medi-Cal budget also includes additional federal funding for (1) payments to hospitals that serve a disproportionate number of Medi-Cal or other low-income patients disproportionate share (DSH) hospitals and (2) matching funds for state funds that are budgeted in other related programs.

At the state level, the Department of Health Services (DHS) administers the Medi-Cal Program. Other state agencies, including the California Medical Assistance Commission (CMAC) and the Departments of Social Services (DSS), Mental Health, Developmental Services, and Alcohol and Drug programs perform Medi-Cal functions under agreements with the DHS. At the local level, county welfare departments determine the eligibility of applicants for Medi-Cal and are reimbursed for those activities. The federal Health Care Financing Administration (HCFA) oversees the program to ensure compliance with federal law.

The budget proposes Medi-Cal expenditures totaling \$18.4 billion in 1997-98. The General Fund portion of this spending (\$6.9 billion) is essentially unchanged from estimated General Fund spending in the current

year. The spending total for the Medi-Cal budget also includes an estimated \$2.2 billion (federal funds and local matching funds) for payments to DSH hospitals, and about \$1 billion of additional federal funds to match state and local funds budgeted elsewhere for programs operated by other departments.

What Benefits Does Medi-Cal Provide?

Federal law requires the Medi-Cal Program to provide a core of basic services, including hospital inpatient and outpatient care, skilled nursing care, doctor visits, laboratory tests and X-rays, family planning, and regular examinations for children under the age of 21. California also has chosen to offer 32 optional services, such as outpatient drugs and dental care, for which the federal government provides matching funds. Certain Medi-Cal services—such as hospitalization in many circumstances—require prior authorization from DHS as medically necessary in order to qualify for payment.

How Medi-Cal Works

Generally, after applicants have been determined eligible for Medi-Cal benefits, they receive a Medi-Cal card, which they may use to obtain services from providers who agree to accept Medi-Cal patients. Medi-Cal uses two basic types of arrangements for health care—fee-for-service and managed care.

Fee-for-Service. This is the traditional arrangement for health care in which providers are paid for each examination, procedure, or other service that they furnish. Beneficiaries may obtain services from any provider who has agreed to accept Medi-Cal payments. The Medi-Cal Program uses a variety of “utilization control” techniques (such as requiring prior authorization for some services) in order to avoid paying for medically unnecessary or duplicative services.

Managed Care. Prepaid health plans generally provide managed care. These plans receive monthly “capitation” payments from the Medi-Cal Program for each enrollee in return for providing all of the care needed by those enrollees. These plans are similar to health plans offered by many public and private employers. The DHS expects to have more than half of all Medi-Cal beneficiaries enrolled in managed care plans by the end of 1997-98. Beneficiaries in managed care choose a plan and then must use providers in that plan. Since payments to plans do not vary with the amount of service provided, there is much less need for utilization control. Instead, plans must be monitored to ensure that they provide adequate care to enrollees.

CASELOADS AND EXPENDITURES

Who Is Currently Eligible for Medi-Cal?

Most persons who are eligible for Medi-Cal fall into the following broad categories, as shown in Figure 10 (see page 30).

Categorically Linked Eligibles. Roughly four-fifths of the total number of Medi-Cal beneficiaries are in one of the two major cash-grant welfare programs: The Aid to Families with Dependent Children (AFDC) program, which assists low-income single-parent or unemployed families with children; and the Supplemental Security Income/State Supplementary program (SSI/SSP), which assists low-income aged, blind, and disabled persons. Anyone receiving a cash grant under either of these programs is automatically enrolled in Medi-Cal. (This automatic linkage changes under welfare reform, which replaces the AFDC program with the new Temporary Assistance for Needy Families—TANF—program, as we discuss later in this analysis.)

Categorically Related Eligibles (Medically Needy). The Medically Needy eligibility category provides Medi-Cal benefits to families and individuals who meet all of the requirements for either AFDC or SSI/SSP, but who do not apply for a grant or whose income disqualifies them from receiving a grant. Qualifying persons with incomes up to 133 percent of the June 1991 AFDC payment level receive benefits without having any share of cost. Qualifying persons with higher incomes may receive benefits in any month that their medical expenses cause them to “spend down” to the maximum income level.

Long-Term Care. This group includes persons in long-term care (for periods exceeding 30 days), other than categorically-linked persons. Technically, long-term care is not a separate eligibility category; most persons included in this group are Medically Needy. However, special eligibility and income rules apply to some long-term care beneficiaries. We note that this group has large costs in proportion to its size.

Other Women and Children. Medi-Cal coverage also is available to many children and pregnant women not covered under the categorical eligibility groups. Pregnant women (for pregnancy-related services only) and infants are covered up to family incomes of 200 percent of the federal poverty level. Children through age six are eligible for Medi-Cal coverage in families with incomes up to 133 percent of the poverty level, and children through age 13 are covered in families with incomes at or below the poverty level (this age limit increases by one year annually until it reaches age 18). Older children and pregnant women (for all services) are eligible for coverage in the Medically Indigent category if their family income meets the test for the Medically Needy category.

Figure 10

Who Is Eligible for Medi-Cal? Major Eligibility Categories 1996-97

(Dollars in Millions)

Category	Enrollees ^b (Thousands)	Benefit Costs ^c
Categorically Linked Persons		
Low-Income Families with Children Must meet the July 16, 1996 AFDC eligibility criteria— single-parent families and unemployed two-parent families.	2,920	\$3,115
SSI/SSP Recipients Low-income aged, blind, or disabled persons.	1,136	5,407
Categorically Related Persons		
Medically Needy Persons (\$1,190)^a Must meet AFDC or SSI/SSP requirements except for income, which may be up to 133 percent of June 1991 AFDC payment level. Persons with higher income may “spend down” to this level.	545	\$1,577
Long-Term Care Persons in long-term care (other than those on SSI/SSP or AFDC), primarily persons qualifying as Medically Needy (but not included in Medically Needy amounts above).	69	2,207
Other Women and Children		
200 percent of Poverty (\$2,690)^a Pregnant women (pregnancy services only) and infants.	128	\$340
133 percent of Poverty (\$1,819)^a Children ages 1 through 6.	93	55
100 percent of Poverty (\$1,390)^a Children ages 6 through 13.	32	13
Medically Indigent (\$1,190)^a Children 14 through 20 and pregnant women (all services)—same income as Medically Needy.	305	508
Undocumented Persons		
Illegal Immigrants May qualify in any eligibility group, except those that are categorically linked. Services are limited to emergency, prenatal, and long-term care.	290	\$642

^a Maximum monthly income (no share of cost) for a family of four. Includes \$90 work expense disregard. Qualifying child care expenses would increase allowable monthly income by up to \$350 for two children.

^b Average monthly totals.

^c Budget estimate, includes both state and federal funds.

Illegal Immigrants. Undocumented immigrants (and nonimmigrant aliens) may receive emergency services (including labor and delivery), prenatal care, and long-term care, provided that they meet the other requirements of any Medi-Cal eligibility category.

Other Categories. Medi-Cal also covers some additional categories of persons, such as low-income adults in nursing facilities and low-income Medicare beneficiaries (for costs not covered by Medicare).

1996-97 Medi-Cal Deficiency

The Governor's budget estimates that there will be a \$429 million deficiency in the 1996-97 General Fund appropriation for Medi-Cal benefits. About half of the deficiency (\$216 million) results from the failure to obtain federal funding to reimburse the state for the costs of emergency Medi-Cal services to illegal immigrants—funding that the *1996-97 Budget Act* had assumed. The remainder of the deficiency results from higher-than-anticipated provider claim costs, approval of new drugs, shortfalls in assumed savings, and a court decision that requires Medi-Cal to pay higher rates for Medi-Cal beneficiaries who also have Medicare coverage.

Funding Shifts and Savings Proposals Keep 1997-98 General Fund Spending Flat

Total proposed General Fund spending in 1997-98 for Medi-Cal remains at \$6.9 billion, essentially unchanged from the current-year amount (an increase of \$35 million or 0.5 percent). Projected Medi-Cal caseload increases by 72,000 eligibles (1.3 percent) in 1997-98. After excluding increased spending for county administration and hospital construction, the budget projects that the General Fund cost of Medi-Cal benefits will decline slightly (by \$48 million). The underlying trend of benefit costs continues upward, however. New funding shifts and policy proposals result in \$446 million of General Fund savings in 1997-98. Absent these changes, General Fund Medi-Cal benefit costs would increase by \$398 million, or 6.1 percent, in 1997-98.

Funding Shifts Reduce General Fund Costs. Funding shifts assumed in the budget reduce General Fund spending by a net total of \$316 million in 1997-98, primarily due to the following two major changes:

- **Federal Reimbursements for Illegal Immigrant Costs (\$216 million).** The budget assumes that the federal government will provide \$216 million in 1997-98 to partially offset the state's share of cost for providing emergency Medi-Cal services to illegal immigrants. This is the same amount that was assumed (but not

received) in the current year. The President's 1998 federal budget proposal does not include any funds for this purpose.

- **Federal Medical Assistance Percentage (FMAP) Increase (\$112 million).** The FMAP is the percentage share of Medi-Cal benefit costs paid by the federal government. The FMAP for California is scheduled to increase from its current level of 50.23 percent to 51.23 percent, starting October 1, 1997, which will result in a General Fund savings of \$112 million in the Medi-Cal Program in 1997-98.

Budget Savings Proposals. The budget includes the following savings proposals, which reduce General Fund spending in 1997-98 by a combined total of \$132 million:

- **Eliminate Prenatal Care for Illegal Immigrant Women (\$79.9 million).** The federal welfare reform legislation prohibits the state and local governments from providing many types of benefits to illegal immigrants absent enactment of a new state law to authorize these benefits. The budget assumes implementation of proposed regulations to eliminate state-only prenatal care for illegal immigrant women as of July 1, 1997.
 - **Increase In-Home Medical Care for Pediatric Patients (\$13.2 million).** The budget proposes to add 37 positions (at a General Fund cost of \$778,000) to coordinate and facilitate the provision of medical services at home to severely disabled and equipment-dependent pediatric patients who otherwise would remain in more expensive hospital inpatient settings.
 - **Reduce Payments for Drug Ingredient Costs (\$9.7 million).** The budget proposes to revise the basis for reimbursing pharmacists for drug ingredient costs.
 - **Sanction Providers for Overutilization of Certain Tests (\$8.4 million).** The budget proposes to sanction doctors who appear to bill for unnecessarily frequent use of certain noninvasive diagnostic tests. These providers would have to seek prior approval from DHS in order to receive Medi-Cal payment for those tests for a two-year period.
 - **Spending Limits for Laboratory Services, Durable Medical Equipment, and Medical Supplies (\$9.3 million).** The budget proposes to establish monthly or quarterly limits on spending per beneficiary for these services and items. Prior authorization from DHS would be needed in order to exceed the limits.
-

- Nursing Facility Proposals (\$10.1 million).** The budget proposes to require hospitals to seek nursing home placements for patients on weekends (rather than weekdays only) and to reduce weekend payment rates to hospitals for patients who require only nursing care (\$5.4 million). The budget would eliminate most “bed-hold” payments, which guarantee that patients who temporarily leave a nursing home will be able to return to the same facility (\$3.2 million), and place a moratorium on the expansion of hospital “distinct-part” nursing facilities (\$1.5 million).

MEDI-CAL PROGRAM GROWTH

As shown in Figure 11, General Fund spending for the Medi-Cal Program has increased from \$4.8 billion in 1991-92 to an estimated \$6.9 billion in 1996-97, an average annual growth rate of 7.5 percent. Total funding for the program has grown more rapidly—increasing at an average annual rate of 9.6 percent over the period, largely due to the growth of the “SB 855” and “SB 1255” programs. These programs provide additional financial assistance to DSH hospitals—those that serve large numbers of Medi-Cal and indigent patients. These DSH payments consist of funds transferred to the state by local entities—counties and hospitals—and then allocated back to DSH hospitals along with federal matching funds. The state also retains \$230 million of DSH funds to help offset General Fund Medi-Cal costs. From 1991-92 through 1996-97, DSH funds (the combined local and federal funds) have grown from \$1 billion to \$1.8 billion.

Figure 11							
Medi-Cal Expenditures							
1991-92 Through 1996-97							
(Dollars in Billions)							
	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	Average Annual Increase
General Fund	\$4.8	\$5.4	\$5.5	\$6.0	\$6.3	\$6.9	7.5%
All funds	11.6	13.9	16.9	16.5	16.5	18.4	9.6

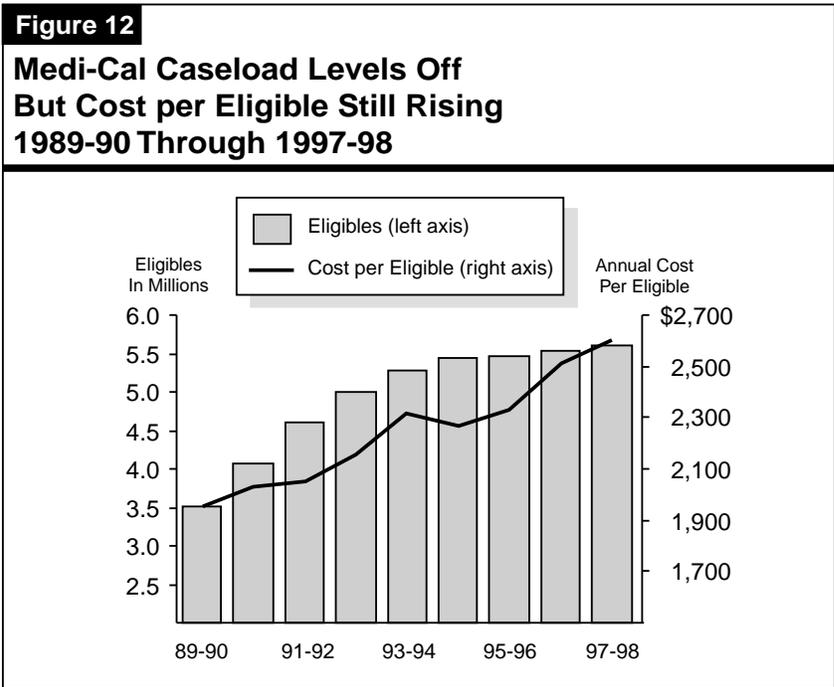
Medi-Cal spending totals also include several other recently-established programs that contributed to the increase in spending of federal funds, matched by local funds:

- **Targeted Case Management Program.** This program reimburses counties for case management activities they perform for specific Medi-Cal beneficiaries (\$40 million). Local education agencies receive reimbursements for health services and case management that they provide to Medi-Cal beneficiaries (\$40 million).
- **Administrative Activities Program.** This program reimburses local administrative costs related to Medi-Cal, but outside of the regular administrative costs of Medi-Cal (\$20 million).

In addition, the Medi-Cal Program has expanded to cover personal care services and now provides more than \$300 million of federal matching funds for the In-Home Supportive Services (IHSS) program, administered by the DSS.

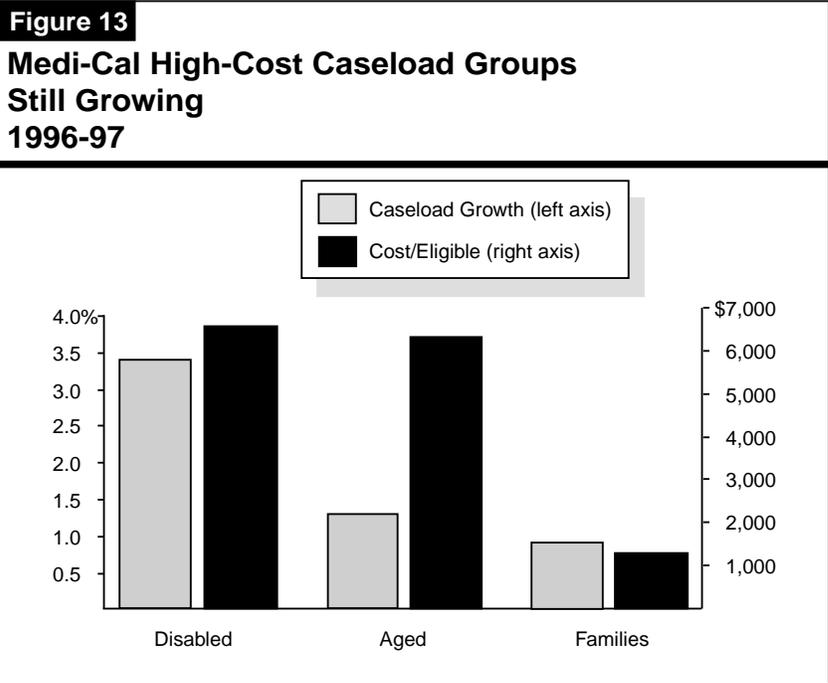
Factors Behind General Fund Spending Growth

From 1991-92 through 1994-95, as shown in Figure 12, rapid increases in both caseloads and costs per eligible contributed to rising Medi-Cal benefit costs—the General Fund portion of those costs increased by 25 percent during that period. Since 1994-95, the total number of Medi-Cal eligibles has grown very little, but the cost per eligible has continued



to grow by an average of 5.2 percent annually, so that benefit costs continue to increase despite the leveling off of caseload.

Reasons for Growing Cost Per Eligible. Most of the growth in cost per eligible is due to increases in medical care costs caused by inflation, new and more expensive technologies and drugs, and increased use of services. Some additional growth in the cost per eligible is due to a gradual shift to a more expensive “mix” of eligibles. Specifically, while the AFDC-linked caseload has been declining recently, the number of aged and disabled eligibles continues to grow. Figure 13 illustrates that eligibles in these growing segments of the caseload have an average annual benefit cost that is about five times higher than for AFDC recipients and other family eligibility groups.

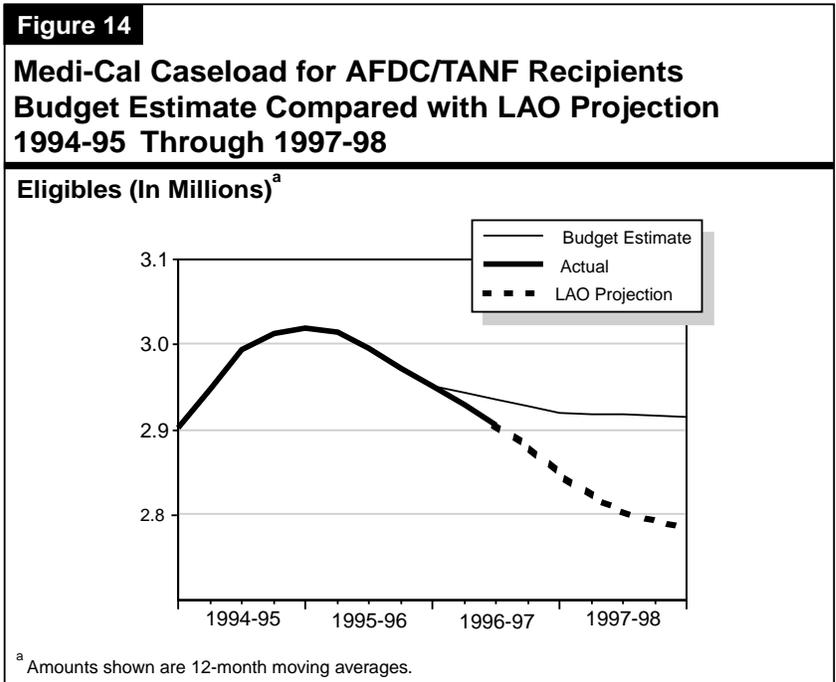


Budget Overestimates Medi-Cal Caseload for AFDC/TANF Recipients

We recommend reducing the proposed General Fund appropriation for the Medi-Cal Program by \$37.6 million in 1996-97 and \$70.6 million in 1997-98 because we project that Medi-Cal caseloads for AFDC-linked eligibles will be lower than the budget estimates. (Reduce 1996-97 deficiency appropriation by \$37.6 million and Item 4260-101-0001 by \$70.6 million.)

The largest group of persons on Medi-Cal (eligibles) consists of families and children who are linked to Medi-Cal because they receive public assistance grants under the AFDC/TANF program. This group comprises just over half of all Medi-Cal eligibles. The budget estimates that the average monthly number of Medi-Cal eligibles in this group will be 2.92 million in 1996-97 and will remain essentially unchanged in 1997-98. The number of AFDC-linked eligibles peaked at slightly over three million in 1994-95 and has been declining since then in line with reductions in the AFDC caseload (please see our analysis of the AFDC/TANF program for a discussion of AFDC caseload trends).

Caseload Currently Below Estimate and Likely to Decline Further. Current caseload data and our own projection of the AFDC-linked Medi-Cal caseload indicate that the budget's caseload estimate for the current year is too high and that the AFDC-linked caseload is likely to decline further in 1997-98, rather than remain constant as the budget projects. Figure 14 shows *actual* caseloads for this group from 1994-95 through December 1996, together with a comparison of the budget projections and our projections for 1996-97 and 1997-98. As shown in the figure, as of December 1996 the average annual number of AFDC-linked eligibles had declined to 2.90 million, which is about 30,000 eligibles below the level



estimated by the budget. Furthermore, caseloads are likely to continue to decline due to continuation of the economic recovery and continuation of certain demographic trends (particularly slow growth in the number of women in their childbearing years and a moderation of unwed births to teens). Based on these factors, our caseload projections shown in Figure 14 indicate a continued decline in the number of AFDC-linked Medi-Cal eligibles through 1996-97 and 1997-98.

Compared with the budget estimate, our projection of the AFDC-linked Medi-Cal caseload is lower by 71,000 in the current year and by 128,000 in 1997-98 (in terms of average monthly eligibles). Based on the budget's estimated cost per eligible in this group, the total savings over the two years is \$219.4 million, of which the General Fund share is \$108.2 million (\$37.6 million in 1996-97 and \$70.6 million in 1997-98). Accordingly, we recommend that the budget proposal be reduced to reflect our caseload projections, which are based on more recent caseload information.

FEDERAL WELFARE REFORM

The federal welfare reform legislation has a limited effect on the Medi-Cal Program. It does not make broad changes to Medi-Cal eligibility, benefits, or funding. Most of the welfare reform changes affecting Medi-Cal are related to provisions that restrict, or allow states to restrict, benefits and services to immigrants. Figure 15 summarizes the proposed Medi-Cal budget changes that are related to federal welfare reform.

Figure 15

**Medi-Cal Budget Proposals
Related to Welfare Reform
1997-98**

(Dollars in Millions)

Proposal	General Fund Fiscal Effect
Eliminate prenatal care for illegal immigrants	-\$79.9
Phase out long-term care for illegal immigrants	—
Restrict Medi-Cal for new legal immigrants to emergency services	-2.3
Redetermine eligibility for legal immigrants losing SSI/SSP benefits	17.0
Redetermine eligibility for children losing SSI/SSP disability coverage	0.6

Immigrant Restrictions Affecting Medi-Cal

The welfare reform law imposes a number of restrictions on benefits to immigrants who have not become citizens, and it allows states to further restrict some immigrant benefits. Generally, these restrictions exempt refugees and asylees, veterans, and legal immigrants who have 40 quarters (ten years) of work which qualify for Social Security credit.

Restrictions Do Not Affect Emergency Medical Care. None of the immigrant restrictions in welfare reform affect emergency medical care. Consequently all immigrants who meet the general eligibility requirements for Medi-Cal will continue to be eligible, at a minimum, for emergency Medi-Cal services (plus public health vaccinations and other services related to the control or treatment of communicable diseases), and the state will continue to receive federal Medicaid matching funds for these services.

Illegal Immigrants—Prenatal, Long-Term, and County Indigent Care Potentially Restricted. Generally, the welfare reform law prohibits most federal, state, or local public benefits to *illegal* immigrants. However, the law allows states to provide such benefits to illegal immigrants (without federal funding) by enacting new laws. (Proposition 187, adopted by the voters in November 1994, also would prohibit nonemergency health care and other services for illegal immigrants, but that measure is enjoined by the courts pending the outcome of legal challenges.)

Based on the welfare reform law, DHS has issued proposed regulations eliminating nonemergency prenatal care and long-term care for illegal immigrants, which are existing Medi-Cal benefits funded entirely by the state. The budget assumes that the regulations eliminating prenatal care become effective July 1, 1997 and result in a General Fund savings of \$79.9 million in 1997-98. The budget does not assume any savings from the elimination of long-term care services in 1997-98 (current cost of this program is \$10.3 million annually). This is because the budget proposes legislation which would supersede the pending regulations and phase out the program by limiting it to persons already receiving care. We note that federal welfare reform also prohibits the provision of nonemergency health services to illegal immigrants by county indigent health programs.

Option to Restrict Current Legal Immigrants to Emergency Medi-Cal. The welfare reform law allows states to limit Medicaid benefits to emergency care for most current legal immigrants (those who entered the United States prior to August 22, 1996). The budget, however, does not propose that the state exercise this option. As a result, current legal immigrants will continue to be eligible for full-scope Medi-Cal services. In particular, this will allow continued Medi-Cal coverage for legal immigrants who will lose their eligibility for SSI/SSP grants this summer

under welfare reform (unless they become citizens). These persons now receive Medi-Cal benefits automatically as SSI/SSP recipients. Although their SSI/SSP benefits and automatic Medi-Cal coverage will end, these individuals will be eligible to continue their Medi-Cal coverage as “medically needy” beneficiaries.

New Legal Immigrants Restricted to Emergency Services. Federally funded Medicaid benefits for most legal immigrants entering the country on or after August 22, 1996 will be restricted to emergency medical services for the first five years of residence. The budget proposes to revise state law to conform state Medi-Cal eligibility to this provision for a General Fund savings of \$2.3 million in 1997-98. We discuss this proposal in more detail below.

Relatively Little Savings From Restricting New Immigrants to Emergency Services

The budget proposes to limit Medi-Cal benefits for new legal immigrants to emergency services in order to conform with Medicaid restrictions in the federal welfare reform legislation. The savings from this restriction are relatively small. If the Legislature were to retain full-scope benefits for this group, the state cost would depend on the federal government’s policy regarding how much it reimburses the state for emergency services.

The Governor’s budget proposes legislation to limit Medi-Cal benefits to emergency services for most new legal immigrants who arrive in the United States on or after August 22, 1996. This proposal conforms with the provisions of the federal welfare reform law that limit new immigrants’ eligibility for federally funded Medicaid benefits to emergency services. The budget estimates that this proposal will result in savings of \$4.6 million (\$2.3 million General Fund) in 1997-98.

Legislative Analyst’s Office Savings Estimate Is \$4.0 Million. The budget savings estimate is based on a monthly cost reduction of \$8 per person and 3,340 new immigrants (other than refugees and asylees) enrolling in Medi-Cal each month. Based on more recent immigration data, however, we estimate that the monthly number of new immigrants will be about 25 percent less than the budget assumes. Our analysis of the department’s cost information indicates that the per-person monthly savings will be slightly higher than the budget estimate—\$9 versus \$8. The net effect of these two adjustments is to reduce the savings associated with the budget proposal to \$4.0 million (\$1.9 million General Fund).

New Immigrants Currently Receiving Full-Scope Benefits. The DHS indicates that it believes that existing state law requires the state to pro-

vide full-scope Medi-Cal coverage to otherwise qualified legal immigrants without any distinction as to their date of entry. Consequently, DHS has not restricted benefits to new legal immigrants, and the state currently continues to claim federal matching funds for these expenses. It is not clear whether the federal government will ultimately allow these claims.

Savings from Emergency Services Restriction Is Relatively Small. The savings resulting from limiting Medi-Cal benefits to emergency services is equivalent to about 8 percent of the estimated cost of full-scope Medi-Cal benefits for new immigrants. Put another way, the cost of emergency services is about 92 percent of the cost of full-scope services. These estimates are based on the cost data for providing *emergency* services to *illegal* immigrants, the only group currently restricted to emergency services. These costs were then compared with the cost of providing *full-scope* services to recent *legal* immigrants (as approximated by cost data for providing full-scope Medi-Cal services to beneficiaries whose primary language is not English) and adjusted for demographic differences between the two groups.

There are several reasons why the cost of emergency Medi-Cal services is roughly comparable to the cost of full-scope services:

- **Emergency Services Are Broadly Defined.** Under federal law, emergency services include labor and delivery and the treatment of any acute condition (including severe pain) that threatens to seriously jeopardize a person's health or the proper function of any organ or part of the body. Thus, this definition is broad enough to include many types of routine care.
 - **Emergency Care Is Costly to Provide.** Emergency care tends to be delivered in relatively costly settings, such as hospital emergency rooms. Since emergency benefits generally do not include preventive care or ongoing medication to control chronic conditions, services may be less frequent but more intensive than for full-scope beneficiaries. For example, Medi-Cal spending on hospital inpatient care for the immigrants restricted to emergency services is about 45 percent greater per eligible than for comparable eligibles receiving full-scope benefits.
 - **California Provides Ongoing Access.** In California, beneficiaries who are eligible only for emergency services are given a Medi-Cal card (coded for restricted benefits) that they can use whenever they need emergency services. This may encourage the use of these services in comparison to more restrictive arrangements, such as
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the practice in Texas, which limits each authorization for emergency services to the duration of the immediate medical problem.

Cost of Continuing Full-Scope Benefits Depends on Federal Policy. Although the General Fund savings from restricting benefits to new legal immigrants in 1997-98 is only \$1.9 million (after our adjustments), the General Fund augmentation needed to continue full-scope services under existing state and federal laws could range from \$4 million up to roughly \$15 million, as shown in Figure 16. The amount will depend on how the federal government decides to reimburse states that choose to provide full-scope services. The \$4 million cost assumes that the federal government uses a “cost neutrality” approach in which it will pay an amount that is equal to what it would have paid for emergency-only services—that is, the cost of emergency services when only those services are provided. These costs tend to be high because they often are provided in more expensive hospital settings. In this case, the state would incur an additional \$4 million net cost (both the state share and the federal share)

Figure 16			
Cost of Maintaining Full-Scope Medi-Cal for New Immigrants Depends on Federal Funding Policy 1997-98			
(Dollars in Millions)			
	Total	Federal	State
Full scope			
Assuming federal funding based on cost neutrality ^a	\$50.5	\$23.8	\$26.7
Budget proposal			
Emergency services only ^b	46.5	23.8	22.7
Additional state cost			\$4.0
Full scope			
Assuming federal funds limited to emergency services ^c	\$50.5	\$12.9	\$37.6
Budget proposal			
Emergency services only ^b	46.5	23.8	22.7
Additional state cost			\$14.9
^a Federal funding equals the equivalent federal match for providing emergency-only services. ^b Legislative Analyst's estimate based on budget proposal. ^c Federal match provided only for the actual cost of emergency services with no credit for savings due to the reduced cost of providing care in a full-scope setting or savings due to preventive and other care that reduces the need for emergency services. Assumes that the cost of qualifying emergency services equals half of the overall cost of full-scope services.			

of providing full-scope services. We estimate that, as more immigrants arrive in future years, costs would increase by roughly \$1.8 million annually.

The potential high-end state cost of \$15 million assumes that the federal government limits its funding to the actual federal share of the cost of individual emergency services. (To estimate those costs, we assume that the emergency services would account for half of the total cost of full-scope benefits.) The actual costs of emergency services are less than the “equivalent” costs (emergency-only scenario) for various reasons. For example, persons with full-scope coverage are more likely to have a regular doctor and to receive their care in their doctor’s office or clinic, whereas persons restricted to emergency services tend to use more costly hospital emergency rooms more often. In this case, the state would have to pay all costs for all nonemergency services—including preventive care and maintenance care that reduce the need for emergency services. We estimate that in subsequent years, state costs would grow by roughly \$6.7 million annually.

At the time that this analysis was prepared, the federal Health Care Financing Administration had not yet determined its funding policy in cases where states choose to continue providing full-scope benefits to new legal immigrants.

“Premium Deeming” Would Provide Full-Scope Coverage and Savings

We recommend that the Legislature and the administration seek federal legislation to authorize California to implement a Medi-Cal “premium deeming” program that would require sponsors of new legal immigrants to pay a monthly premium that would cover a share of the cost of providing Medi-Cal benefits to these immigrants. This could preserve access to full-scope Medi-Cal benefits for new immigrants and generate significant state savings.

Congressional intent in limiting federal Medicaid benefits to emergency services for most new legal immigrants appears to have been twofold. One objective was to hold immigrants and their sponsors responsible for meeting their commitment that the immigrant will not become a public charge. A second, related, objective was to generate savings to help finance the overall welfare reform legislation. In California, neither of these objectives is likely to be achieved.

As discussed above, restricting Medi-Cal benefits to new immigrants will reduce costs by a relatively small amount—about 8 percent—saving the state and federal governments a total of \$4 million during 1997-98.

Moreover, restricting services is unlikely to shift any significant financial responsibility for immigrants' healthcare from the taxpayers to sponsors. This is because most sponsors are unlikely to pay for the health care of a low-income sponsored immigrant (either out-of-pocket or by purchasing health insurance) when emergency Medi-Cal will cover basic health needs at no cost.

The likely result of restricting services, therefore, will be limited and less effective health care for many low-income new immigrants since they will not receive preventive services or regular dental or vision care. And, there will be only a modest savings to the state and federal governments. Maintaining full-scope benefits for new immigrants, however, could be *relatively* costly to the state (ranging from \$4 million to about \$15 million in 1997-98, as noted above) because the state would have to backfill federal funding for a potentially significant share of the cost.

Deeming As An Alternative to Restricting Benefits. Sponsor deeming means including a sponsor's income and resources in the calculations that determine eligibility of a sponsored immigrant for means-tested programs. The SSI/SSP and the AFDC welfare grant programs both have had sponsor deeming requirements. Deeming in these programs imposes a limited financial requirement on sponsors. Applying the same type of deeming requirement to Medi-Cal costs, however, would have a much greater potential financial effect on sponsors. Deeming would require sponsors with moderate incomes to impoverish themselves (by meeting "spend-down" requirements) before Medi-Cal would contribute to major medical costs for a sponsored immigrant. Moreover, health insurance may not be available—or available only at a prohibitive cost—for many new immigrants.

The federal welfare reform legislation requires deeming, but only for full-scope Medicaid, which would become available to sponsored noncitizen immigrants after they have been in the country for five years. (Emergency Medicaid services are exempt from deeming.) We expect this deeming requirement to have little effect since many immigrants probably will become citizens as soon as they meet the five-year residence requirement. Furthermore, noncitizen sponsored immigrants probably would choose to continue receiving restricted emergency Medicaid benefits in order to avoid the deeming requirement.

"Premium Deeming" Could Impose A Reasonable Requirement on Sponsors. We believe that a modified form of sponsor "deeming" for Medicaid could achieve a significant reduction in state and federal costs, place a reasonable level of financial responsibility on sponsors, and make full-scope benefits and preventive health care available to low-income new immigrants. Our deeming approach would require sponsors to pay

a monthly premium that would cover a portion of the cost of providing Medi-Cal services to new sponsored immigrants. Premiums would be set on a sliding scale according to the sponsor's family income. Implementation of such a deeming program, however, requires enactment of legislation by Congress as well as by the Legislature.

An effective deeming requirement must be both reasonable and enforceable. In our view, a deeming requirement with the following features would meet this two-pronged test:

- **Sponsor Premium Obligation.** Sponsors would be required to contribute a monthly "premium" amount up to the full average cost per eligible of providing full-scope Medi-Cal benefits. Sponsors' premium obligations would be computed on a sliding scale according to their family income and resources.
- **Sponsor Liability for Failure to Pay Premiums.** Immigrants and their sponsors could circumvent the premium requirement by enrolling and paying premiums only when services are needed. To prevent this, sponsors would be liable for the cost of any Medi-Cal services (including emergency services) provided to eligible sponsored immigrants who had not been enrolled in Medi-Cal.

The deeming requirement outlined above imposes a reasonable financial requirement on sponsors. Federal law now requires sponsors to have incomes of at least 125 percent of the poverty level (currently \$19,500 for a family of four), and many sponsors have significantly higher incomes. Sponsor families with middle-class incomes could pay a significant share of the full Medi-Cal cost (about \$115 per month per person). Unlike income deeming for eligibility determination, premium deeming would still enable low-income immigrants to obtain Medi-Cal coverage, receive full-scope benefits, and also limit sponsor's financial risk for health care costs to the monthly premium amount.

Assuming that the sliding scale of sponsor premiums was set to recover half of the full cost of Medi-Cal benefits to new immigrants, the General Fund savings in 1997-98 would be about \$12 million (on a full-year basis), with equivalent savings to the federal government. These General Fund savings would grow by about \$5 million annually.

The premium deeming program that we have described could facilitate the retention of full-scope Medi-Cal benefits for new immigrants and generate significant state savings. Accordingly, we recommend that the Legislature and the administration, working with the state's Congressional delegation, seek federal legislation to authorize California to implement a Medi-Cal premium deeming program for new sponsored legal immigrants.

Streamlining Medi-Cal Eligibility for Immigrants Losing SSI/SSP Benefits

We recommend reducing the General Fund appropriation for Medi-Cal county administration by \$2.3 million to recognize savings that can be achieved by streamlining procedures to continue Medi-Cal eligibility for legal immigrants who lose their SSI/SSP eligibility due to federal welfare reform. (Reduce Item 4260-101-0001 by \$2,250,000 and reduce Item 4260-101-0890 by \$2,250,000.)

As discussed above, the federal welfare reform law makes legal immigrants ineligible for SSI/SSP benefits. The federal Social Security Administration (SSA), which administers the SSI/SSP, will notify SSI/SSP recipients who may be affected by the cutoff over the next few months. The SSA expects to complete the redetermination process by August 1997, when benefits will end for all immigrants who are not in an exempt group or have not attained citizenship. Immigrants who lose their SSI/SSP grants also will lose their automatic linkage to Medi-Cal. However, the budget anticipates that essentially all of these individuals will be able to reestablish their Medi-Cal eligibility as a medically needy or medically indigent person. The budget includes \$34 million (\$17 million General Fund) for the cost to county welfare departments of conducting these eligibility determinations.

Eligibility Determination Should be Less Costly. The budget assumes that reestablishing the Medi-Cal eligibility of these existing immigrants will cost the *same* as other Medi-Cal eligibility determinations. However, we believe that they should be significantly *less* costly. These immigrants already have been determined by SSA to be aged, blind, or disabled. Most have incomes that are very low and often fixed and which SSA has previously documented over time. Furthermore, the federal administration has issued a regulation giving states up to 120 days to redetermine eligibility for these immigrants, during which time immigrants will retain their Medi-Cal benefits. Given these circumstances, a streamlined eligibility process would be prudent and should be feasible.

Streamlined Process. Under a streamlined process, SSA would transfer the relevant records for these immigrants directly to DHS or the county welfare offices. Using these records, county welfare departments would be able to continue eligibility until the next regular redetermination period. There would be some initial costs imposed on DHS to accomplish the data transfer, but in most cases there should not be any significant additional redetermination cost. A streamlined process also would minimize burdens on these aged, blind, and disabled individuals and help ensure their continuity of coverage and care. We believe that savings of about half the average intake cost should be achievable by using a

streamlined intake process. Thus, intake costs could be reduced by \$4.5 million (\$2.25 million General Fund)—from \$9.1 million to \$4.6 million.

Recommendation. In summary, we recommend a reduction of \$4.5 million (\$2.3 million General Fund) to recognize savings that we believe are achievable by streamlining the eligibility Medi-Cal process for immigrants who will lose their SSI/SSP benefits. We will revise our recommendation, if necessary, prior to budget hearings, based on any additional information provided by the department for streamlining the intake process.

AFDC Eligibility Rules Remain in Place for Medicaid

Prior to enactment of the federal welfare reform law, recipients of cash grants under the AFDC program or the SSI/SSP were “categorically” eligible for Medicaid—that is, they received automatic Medicaid coverage. The welfare reform law breaks this categorical linkage for the new TANF program, which replaces the former AFDC program. (SSI/SSP recipients, however, retain their categorical linkage to Medicaid.)

“De-Linking” Has Little Practical Effect on Eligibility. While this “de-linking” represents a basic change in policy, its practical effect is likely to be very small in the near future. This is because the welfare reform legislation continues the AFDC eligibility rules (as they existed in each state on July 16, 1996) for the purpose of determining Medicaid eligibility. That is, families meeting the AFDC requirements that were in effect on July 16, 1996 will qualify for Medicaid benefits regardless of whether they were receiving AFDC benefits on that date or whether they were eligible for AFDC on that date. There are a few exceptions—states may choose to deny Medicaid benefits to parents who refuse to comply with any TANF work requirements, and the immigrant restrictions discussed above also apply.

In states that choose to limit their TANF programs to exclude some families who would have received AFDC grants, those excluded families still will be eligible for Medicaid coverage. On the other hand, families in states that expand TANF eligibility beyond that of AFDC will have to qualify in a medically needy or indigent category in order to receive Medicaid benefits.

States Given Flexibility Over Income and Asset Limits for Medicaid Eligibility. The welfare reform law allows states considerable flexibility to vary from their July 16, 1996 AFDC eligibility rules for the purpose of determining Medicaid eligibility. States may lower their income stan-

dards as far as their May 1, 1988 level, or increase their income and resource standards for inflation (measured by the U.S. Consumer Price Index) that has occurred since July 16, 1996. More significantly, states also may adopt more liberal methods of computing income and resources. This means that states can adopt income or asset “disregards” that effectively increase the amount of income or assets that qualifying families may have and still be eligible for Medicaid coverage.

Expanded Eligibility For Unemployed Families

The federal welfare reform legislation expands Medi-Cal eligibility for unemployed two-parent families by including families with parents who have been unemployed for long periods or who have no work history. The budget does not recognize the costs of this federal change.

Prior to the enactment of welfare reform, families qualifying for AFDC had to have low income and meet a “deprivation” test. Generally, this meant that for two-parent families the primary earner must be working less than 100 hours per month and must have a “workforce attachment”—meaning a recent work history. Specifically, the workforce attachment rule generally requires that a parent has worked in at least six quarters out of the last 13 quarters.

The welfare reform legislation removes the workforce attachment requirement for the purpose of Medicaid eligibility. Therefore, two-parent families with parents who have been unemployed for long periods, or who have no work history, would now qualify for Medi-Cal benefits. Young children (and pregnant women) in low-income two-parent families currently are eligible for Medi-Cal coverage either as a medically indigent person or in one of the poverty-level eligibility categories. Consequently, the practical effect of the federal law change will be to extend Medi-Cal coverage to more parents and some older children in certain unemployed two-parent families.

The budget estimate of the AFDC/TANF-linked Medi-Cal caseload in 1997-98 does not include an augmentation for the expansion of eligibility for unemployed families that is mandated by the federal welfare reform law. We do not have an estimate of the costs of this provision. The department should be prepared to provide an estimate during budget hearings.

Additional Federal Funds for Administrative Costs Could Result in State Savings

We recommend that the department report during budget hearings on the amount of additional federal funds that the state can anticipate in 1997-98 for Medi-Cal administrative costs, as authorized by the federal welfare reform legislation.

The welfare reform legislation provides a mechanism whereby up to \$500 million may be allocated to the states for the costs of revising Medicaid eligibility procedures in order to determine eligibility under the former AFDC rules. This funding is to be allocated to the states as a temporary increase in the federal matching rate during the first three years of their TANF programs. At the time that this analysis was prepared, the federal administration had not issued guidelines or regulations on the allocation of these funds, but we anticipate such an announcement soon. Accordingly, we recommend that the department report during the budget hearings on the availability of additional federal funds and the potential for any state savings.

Reallocation of Administrative Costs Could Result in Significant State Savings

We recommend that the department report during budget hearings on the potential for state and county savings by reallocating a portion of eligibility determination costs from the AFDC/TANF program (now funded by a federal block grant) to the Medi-Cal Program, which receives federal matching funds.

The budget continues the past practice of allocating county costs for determining Medi-Cal eligibility for AFDC/TANF applicants to the AFDC/TANF program. Since the AFDC and Medi-Cal programs were categorically linked and both received federal matching funds at the same rate, this practice simplified cost accounting without affecting the amount of federal funds the state received. Under the block grant approach in the new welfare reform law, however, the state receives a fixed amount of federal funds for the TANF program, while the federal government continues to pay for Medi-Cal administrative costs on a 50-50 basis. Consequently, reallocating Medi-Cal eligibility determination costs from AFDC/TANF back to the Medi-Cal Program could result in significant additional federal matching funds and state savings.

Currently, the federal government is considering cost allocation guidelines to address this issue. Given the potential for significant state savings, we recommend that DHS and the DSS report on this issue during

budget hearings. (Please see our analysis of the AFDC/TANF program in the DSS for a more detailed discussion of this issue).

HOSPITALS AND NURSING FACILITIES

Hospital Construction Program Overbudgeted

We recommend a reduction of \$84 million (\$41 million General Fund) in the amount budgeted for debt-service payments to hospitals under the Construction/Renovation Reimbursement Program because (1) payments for several major new projects will not be needed in 1997-98, based on anticipated project completion dates, and (2) payments for other projects will be less than the amounts budgeted. (Reduce Item 4260-102-0001 by \$41 million and Item 4260-102-0890 by \$43 million.)

The budget proposes a total of \$133.9 million (\$65.6 million General Fund) for the SB 1732 Construction/Renovation Reimbursement Program in 1997-98—an increase of \$103.3 million (339 percent) over estimated spending of \$30.5 million in the current year. Under the SB 1732 Program, the Medi-Cal Program makes payments to qualifying DSH hospitals to cover a portion of their debt-service costs for constructing or renovating inpatient facilities. Payments commence *after* project completion and certification for occupancy by the Office of Statewide Health Planning and Development (OSHPD). The proposed tripling of spending primarily reflects the budget's assumption that a number of major hospital construction projects will be completed in 1997-98.

Our review of the current status of several major projects indicates that they will not be completed in time to require SB 1732 funding in 1997-98. For example, projects at the Santa Clara Valley Medical Center and at the Valley Children's Hospital in Fresno (with budgeted SB 1732 payments totaling \$42.8 million in 1997-98) are not scheduled for completion until June 1998. Large, complex projects, such as hospitals, generally have some construction delays. Furthermore, final inspections often identify some problems that must be resolved prior to OSHPD certification. Consequently, the initial payments for these projects probably will be pushed into 1998-99. Hospital financial staff also indicate that payments for a number of completed projects will be less than the budgeted amounts. Based on our review, we estimate that the amount needed for payments in 1997-98 probably will be \$84 million (\$41 million General Fund) less than the amount budgeted. Accordingly we recommend a reduction of that amount.

Federal Savings Available for SB 1255 Program. We note that the savings in federal matching funds from our recommended reduction

(\$43 million) will remain available to help support county hospitals and other DSH hospitals in the state. This is because federal savings in the SB 1732 program can be used by the CMAC to make allocations under the SB 1255 program, which provides a federal match to voluntary hospital contributions. The federal match for the SB 1255 program is limited by the Medi-Cal savings generated by CMAC's hospital contracting program, and costs for the SB 1732 program are counted against those savings. Therefore, a spending reduction in one program allows greater spending in the other.

Alternative for Limiting the Use Of "Distinct Part" Nursing Facilities

We recommend enactment of legislation requiring Department of Health Services to contract for regional clearinghouses of nursing facility beds to facilitate the transfer of Medi-Cal patients needing only nursing care from hospitals to less costly freestanding nursing facilities and to limit the use of more costly hospital "distinct part" nursing facilities.

Freestanding Nursing Facilities Less Expensive Than Hospital-Based "distinct part" (DP) Facilities. Nursing care may be provided either in a DP nursing facility, which is part of an acute-care hospital, or in a freestanding nursing facility. The daily Medi-Cal rate for a DP bed averages about \$187, whereas the daily rate in a freestanding facility averages less than half as much—about \$81. The higher DP rate reflects the higher cost of a hospital environment. During the time that patients continue to occupy an acute-care bed pending transfer to either type of nursing facility, hospitals receive the Medi-Cal "administrative day" rate of about \$215.

To encourage the transfer of Medi-Cal patients to freestanding nursing facilities, existing law requires hospitals to seek placements by contacting nursing homes located within a 30-minute drive of a patient's home (or the home of the most frequently visiting immediate family member). Patients may be transferred to a hospital's DP nursing facility only if appropriate freestanding facilities are unable or unwilling to take the patient. However, hospitals currently are not required to contact nursing homes on weekends or holidays and may automatically receive the administrative day rate for those days.

Growth of DP Bed Capacity Increases Cost of Nursing Care. The number of DP beds has more than doubled since 1986, while the number of beds in freestanding nursing facilities has grown very little (although beds in freestanding facilities are about ten times more numerous than DP beds). The higher payment rate for DP nursing beds in combination with the existing oversupply of acute-care hospital beds in California

almost certainly explains some of this growth. From a hospital's perspective, converting some beds to DP nursing facilities can serve two purposes. It generates income from otherwise vacant beds (although even the DP rates are much lower than acute-care rates), and it provides continuity and convenience of care for patients who are transitioning from acute care to nursing care, particularly for patients who need only a brief period of nursing care. Because of their higher rates, however, the growth of DP beds increases the cost to Medi-Cal of providing nursing care.

Budget Proposals. The budget includes the following two proposals for legislation to encourage greater use of freestanding nursing facilities and limit the use of DP facilities:

- **Lower Weekend Rates for Hospitals.** The budget proposes to (1) end the weekend and holiday exception for contacting freestanding nursing facilities and (2) reduce reimbursement rates to hospitals to the same rate paid to freestanding nursing facilities (instead of the administrative day rate) for patients who are waiting for nursing facility placement during weekends and holidays, in order to encourage transfer of these patients. The department estimates savings of \$10.8 million (\$5.4 million General Fund) from this proposal in 1997-98.
- **Moratorium on Expansion of Medi-Cal DP Nursing Facilities.** The budget proposes to place a temporary moratorium on the Medi-Cal certification of additional beds in hospital DP nursing facilities, effective January 1, 1998. The department estimates that the moratorium would result in an estimated savings of \$3.1 million (\$1.5 million General Fund) as it begins to affect bed capacity in 1997-98, and that ongoing annual savings would be \$10.6 million (\$5.3 million General Fund). The savings result from the assumption that the moratorium will prevent certification of 625 additional DP beds annually, and thereby shift the anticipated Medi-Cal occupancy of those DP beds to less-costly freestanding nursing facilities.

Savings Are Likely to Be Much Less Than Budgeted. The weekend rate proposal may not be feasible without Congressional action to repeal the "Boren Amendment" provision of federal Medicaid law. This provision requires states to pay hospitals and nursing facilities rates that are "reasonably sufficient to cover the costs of an efficiently and economically operated facility." Current rates for hospital administrative days and for DP facility days are based on the department's audits of actual hospital costs. Thus, reducing the rates for weekend days could appear to be arbitrary and therefore in conflict with the Boren Amendment. Without the proposed rate reductions, eliminating the weekend and holiday ex-

ception for contacting nursing facilities probably will be less effective than assumed in the budget.

Savings from the moratorium on DP facility expansions also appear overstated because the estimate assumes that *all* of the patient days for the beds subject to the moratorium will be shifted to freestanding nursing facilities. However, existing DP facilities have unused capacity, so that some portion of the patient days from the moratorium beds will be shifted to other DP beds rather than to freestanding facilities.

Regional Bed Clearinghouses Are a Better Alternative. We agree that reducing unnecessary use of expensive DP beds is important but, for the reasons explained above, the budget proposals are not likely to be very successful at accomplishing that goal. Instead, we suggest enactment of legislation to establish a more cooperative and structured working arrangement between hospitals, nursing facilities, and the state through the use of regional nursing bed clearinghouses. Under this approach, DHS would contract for operation of the clearinghouses in urbanized areas of the state, financed either through Medi-Cal savings from reducing nursing facility administrative costs (as explained below) or by charging user fees. The clearinghouses would monitor the current availability of nursing beds in both freestanding and DP facilities in their region on a daily basis. Hospitals would be required to contact their regional clearinghouse for information about the availability of nursing beds (with no weekend or holiday exception). The Medi-Cal Program would authorize additional hospital administrative days or placement in a DP facility only if the regional clearinghouse could not identify an appropriate available bed in a freestanding facility.

Regional clearinghouses would address several problems inherent in the current process. They would eliminate the need for hospitals to contact multiple nursing facilities and maintain records of these contacts. The clearinghouses also would prevent hospitals from selectively contacting those nursing facilities that are unlikely to have space or be able to accommodate a patient's needs. Furthermore, the clearinghouses would act as a neutral buffer between freestanding nursing facilities and hospitals. Under the current process, nursing facilities may be reluctant to take patients that hospitals would prefer to keep in their own facilities. This is because, while freestanding nursing facilities compete for patients with hospital DP facilities, the freestanding facilities also depend on those hospitals (and their associated physicians) to supply most of their patients. We also note that regional clearinghouses could be expanded to provide centralized information on long-term care resources for consumers.

For these reasons, we recommend enactment of legislation to establish regional nursing bed clearinghouses and require their use in the Medi-Cal Program as an alternative to the budget proposals for lower weekend rates and a moratorium on DP facility expansions.

LEGISLATIVE OVERSIGHT

Reports Not Yet Provided

At the time that this analysis was prepared, the department had not yet provided three reports to the Legislature that were due in January 1997.

At the time that this analysis was prepared the department had not submitted three reports required by law or previously requested by the Legislature. These reports would provide information which would permit the Legislature to better evaluate the fiscal implications of the department's programs.

- **Cost Effectiveness of Medi-Cal Drug Contracting Program.** Welfare and Institutions Code Section 14105.42(e) requires DHS to report to the Legislature, through the annual budget process, on the cost effectiveness of its drug contracting program. Under this program, the department negotiates contracts with manufacturers who agree to provide additional rebates to the state in return for having their drug included on the Medi-Cal drug formulary. Budget information provided by the department does not address the cost-effectiveness of the program, or identify the amount of additional drug rebates that the program generates.
- **Improvements in Collecting Drug Rebates.** Provision 15 of Item 4260-101-0001 of the *1996-97 Budget Act* requires DHS to report to the Legislature's fiscal committees by January 1, 1997 on administrative changes made to calculate, monitor, track, and collect drug rebates more effectively. The department indicates that it currently is preparing this report.
- **Expansion of the "Assisted Living" Model.** The *Supplemental Report of the 1996-97 Budget Act* directs DHS to report to the Legislature by January 1, 1997 on the feasibility of expanding the assisted living mode of service delivery as an alternative to institutional long-term care for Medi-Cal beneficiaries. The department indicates that it currently is preparing this report.



PUBLIC HEALTH

The Department of Health Services administers a broad range of public health programs. Some of these programs complement and support the activities of local health agencies in controlling environmental hazards, preventing and controlling disease, and providing health services to populations who have special needs. Other programs are solely state-operated programs such as those which license health facilities.

The Governor's budget proposes \$1.7 billion (all funds) for public health local assistance. This represents an increase of \$95 million, or 6 percent, over estimated current-year expenditures. The budget proposes \$314 million from the General Fund, which is 3.8 percent below estimated current-year expenditures.

Proposal for Childhood Lead Poisoning Prevention Program Is Internally Inconsistent

We recommend appropriating \$9.5 million from the Childhood Lead Poisoning Prevention (CLPP) Fund and reducing the budget by the same amount from the General Fund, to reflect the Governor's proposed legislation to permit the use of fee revenues to support the CLPP Program. (Reduce Item 4260-111-0001 by \$6,712,000 and Item 4260-001-0001 by \$2,800,000 and Increase Item 4260-111-0080 by \$6,712,000 and Item 4260-001-0080 by \$2,800,000.)

The CLPP Program identifies lead poisoned children and provides case management to ensure that these children receive the services that they need.

Until 1996-97, the CLPP Program was partially funded by fees assessed on manufacturers of lead products. However, in the case of *Sinclair Paints v. The State Board of Equalization*, the California courts of appeal ruled that the assessment on lead product manufacturers constituted a tax rather than a fee; and therefore, the assessment requires legislation authorizing such a tax. The state has appealed the case and has continued to collect fees which are held in reserve in the CLPP Fund.

As a result of the court case, the *1996-97 Budget Act* appropriated \$9.5 million from the General Fund to support the program in the current year. The Governor's budget proposes to continue the \$9.5 million from the General Fund (\$6.7 million in local assistance and \$2.8 million in state operations) in 1997-98, and does not propose to spend any of the CLPP Fund revenues. However, the administration is also proposing budget trailer bill legislation which would permit the use of the fee assessment revenues in the CLPP Fund by deeming the assessment a special tax rather than a fee. In addition, the budget estimates that the assessment will generate \$12 million in new revenues in 1997-98. Given this, we believe that it would be consistent with the proposed trailer bill legislation to appropriate these revenues in the budget year for the CLPP Program, rather than use General Fund monies. Accordingly, we recommend amending the budget bill to reflect this action, for a General Fund savings of \$9.5 million.

New HIV/AIDS Testing Program Shifts Cost to State

We recommend deleting the proposed \$3.8 million General Fund appropriation to make an HIV viral load test available to city and county health providers, because these local governments currently pay for this test and can continue to pay for it with federal funds. (Reduce Item 4260-111-0001 by \$3,800,000.)

The viral load test is a relatively new method for detecting the development of HIV in infected patients. Research shows that viral load testing predicts the risk of HIV disease progression better than another method that is used—the CD 4 test.

The Governor's budget requests \$3.8 million from the General Fund to establish the new viral load test program within the Office of AIDS, and provide the test to about 10,000 clients in the AIDS Drug Assistance Program (ADAP) three times a year.

Proposal Shifts Costs From Counties to State. Under the proposal, the state would pay for the cost of the new test and would make the test available to localities at no cost. The viral load test, however, is currently funded by cities and counties using federal Ryan White Care Act Title I funds (and in some cases Title II funds). Thus, the budget proposal generally represents a cost shift from local governments to the state.

We believe that it would be reasonable to expect counties to continue to pay for the cost of viral load testing. The total cost of the proposal represents about 3 percent of the counties' estimated 1997-98 federal Title I funds. These funds are used for a variety of activities such as dental care, mental health counseling, and transportation.

Proposal Overestimates Cost. The estimated total cost of this proposal is based on a projected cost of \$120 per viral load test. However, based on our discussions with providers, we find that \$95 per test more accurately reflects the cost that providers will pay. Using \$95 per test as the basis, we estimate that the cost of providing the test to 10,000 ADAP patients will be approximately \$3 million rather than the \$3.8 million requested. Accordingly, we recommend deletion of \$800,000 if the Legislature adopts the proposal to use state funds to pay for the test.

Recommendation. In summary, we recommend deleting the proposed appropriation for the new test. Adoption of our recommendation would result in a General Fund savings of \$3.8 million. However, if the Legislature should decide to fund this program, we recommend reducing the amount by \$800,000, because the budget overestimates the cost of the test.

Housing Program for Homeless Tuberculosis Patients is Overbudgeted

We recommend a General Fund reduction of \$698,000 in the proposed tuberculosis patient housing program, because the proposal is overbudgeted. (Reduce Item 4260-111-0001 by \$698,000.)

Background. Tuberculosis (TB) is a contagious disease which is transmitted from one person to another by infectious airborne particles expelled when a person with TB coughs or talks. Research shows that *homeless* TB patients who begin a course of treatment are much less likely to complete treatment than other patients. Consequently, these individuals are at risk of developing a multi-drug resistant strain of TB, which requires complex and costly treatment and which can be passed on to others.

Budget Proposal. The budget proposes \$2.9 million from the General Fund (\$2,799,000 in local assistance, and \$67,000 in state operations) to provide grants to localities to house homeless TB patients and to detain patients who refuse to take medication. One new position is requested to administer the grants and provide technical assistance to grantees. Under the proposal:

- 390 homeless TB patients would be housed in a variety of settings, such as motels, single room occupancy hotels, and rooming houses.
- 96 TB patients who refuse to take their medication would be housed in secured facilities, such as hospitals or nursing facilities with security guards, but only after TB “controllers” have made efforts to provide treatment to these individuals in a less restrictive

setting. Current law prohibits forcing a person to take medication. However, the budget assumes that most of these patients will take their medications voluntarily after a period of detention. We note that this proposal only provides for the housing and detention of TB patients. Treatment will be provided through other sources.

Currently, homeless TB patients are often treated in acute care hospital settings. By avoiding expensive hospitalization, this proposal is designed to produce savings for both the state and counties. The budget includes Medi-Cal savings of approximately \$1.5 million from the General Fund in 1997-98 as a result of the proposed program. There is no estimate of county savings in the county-operated indigent health programs.

Findings and Recommendations. We make the following findings and recommendations related to the proposal:

Duration of Housing for Homeless Patients is Overestimated. The budget estimate for housing homeless TB patients assumes that these patients will need housing for a period of six months. This is based on the average time for treatment for TB. We note, however, that not all homeless patients will require a full six months of housing. Some may not become homeless until later in their therapy. Others may find housing during therapy. Based on our discussions with providers in a TB patient housing program currently operating in Los Angeles, we believe that four months is a more likely estimate of the actual duration of housing. This corresponds to the average time needed for housing in the Los Angeles program. Using a four-month housing period as the basis, we recommend a General Fund reduction of \$468,000 in the amount proposed for this component of the program.

Detention Costs for Patients Who Refuse to Take Medication is Overbudgeted. The department indicates that, due to the newness of this program, they have no data on which to base an estimate of the cost of detaining individuals who refuse to take their medication. In the absence of such information, the budget for this component of the program is based on an average daily rate of \$82 per patient—the rate for a “level B” skilled nursing facility. Our analysis, however, indicates that individuals who are placed in “level B” skilled nursing facilities generally require a higher level of health care services than most TB patients. Therefore, we believe that a “level A” skilled nursing facility, which provides less intensive care than the “level B” facilities, would be a more appropriate yardstick for this proposal. The “level A” facilities provide intermittent nursing care for individuals who generally are capable of taking care of themselves. The average daily rate for the “level A” facilities is \$62 per patient. Using the \$62 rate as the basis, we recommend a General Fund reduction

of \$230,000 in the amount budgeted for detention of TB patients who refuse to take their medication.

Summary. Adoption of our recommendations would result in a total General Fund savings of \$698,000 in 1997-98.

Excess Special Fund Revenues Should Be Transferred to the General Fund

We recommend the adoption of budget bill language to transfer the unexpended balance from the Local Health Capital Expenditure Account to the General Fund, because the revenues are not needed to support the local capital expenditures program and it is appropriate to consider these revenues as fungible with the General Fund. (Increase General Fund revenues by \$1,200,000.)

The Local Health Capital Expenditure Account (of the County Health Services Fund) was established by Chapter 1351 of the Statutes of 1980 (AB 3245, Berman) to provide grants or loans to counties for capital improvements of county health facilities or to purchase equipment. Initial revenues were derived by a transfer of monies from the General Fund.

This program has been inactive for a number of years. No funds have been granted to the counties from the account since 1988-89. We also note that the budget acts of 1991-92 and 1993-94 transferred the unencumbered balances in the account to the General Fund.

The account currently has a balance of \$1.2 million, which is the result of loan repayments that have been made since 1993-94 from the single outstanding loan in the program. The budget proposes expenditures of \$17,000 from the account to pay for the minor administrative expenses of the department, related to monitoring previously funded capital projects. The department indicates that they do not anticipate providing any additional grants or loans in the future.

Given that the program is essentially dormant and that the account derived its revenues initially from the General Fund, we believe that it would be appropriate to take an action similar to the one taken by the Legislature in 1993-94—transfer the account balances to the General Fund. This would add \$1.2 million to General Fund revenues, freeing up these monies for expenditure according to the Legislature's priorities.

Accordingly, we recommend that the Legislature adopt budget bill language to transfer to the General Fund all Local Health Capital Expenditure Account balances in excess of \$17,000.

Our recommendation could be implemented by adoption of the following language in a new budget bill item (4260-011-0900):

For transfer by the State Controller from the Local Health Capital Expenditures Account to the General Fund, the amount of the unencumbered balance of the Local Health Capital Expenditures Account in excess of \$17,000 as of July 1, 1997, and any unencumbered balance in excess of \$17,000 as of June 30, 1998.

**Adolescent Family Life Program:
Positions Not Justified**

We recommend rejection of the proposed shift of \$147,000 from local assistance to state operations for the support of two positions in the Adolescent Family Life Program (AFLP), because the positions are not justified on a workload basis. (Reduce Item 4260-001-0001 by \$147,000 and increase Item 4260-111-0001 by \$147,000.)

The AFLP provides case management and counseling services for pregnant and parenting teens age 17 and under. The program has been shown to be effective in reducing the incidence of low birth weight babies and reducing the school drop-out rate among pregnant and parenting adolescents.

The 1996-97 Budget Act included a \$10 million augmentation for (1) the expansion of the AFLP (\$7 million) and (2) the development of a new program component geared toward the siblings of teenage parents (\$3 million). This augmentation brought the total funding for the program to \$19.3 million. This expansion has resulted in 13 new AFLP providers, bringing the total to 48 providers.

The Governor's budget proposes to shift \$147,000 from General Fund local assistance to state operations to fund two new positions to provide technical assistance to new AFLP providers, as well as to design and develop program standards for the AFLP siblings program. We agree that it would be reasonable to provide technical assistance to providers. We note, however, that the budget includes \$250,000 per year in the current and budget years to contract for training and technical assistance services for the 48 AFLP providers.

We also note that most AFLP providers have been administering the program for more than five years. As a result, these providers generally require less technical assistance. Therefore, the department should be able to redirect staff to handle any new workload demand that is not covered under the department's contract for training and technical assistance.

Based on these findings, we believe that it would be more productive to retain the \$147,000 in local assistance where the funds would provide direct services, rather than in state operations for additional technical assistance. Consequently, we recommend rejection of the budget proposal.

Reauthorization of Proposition 99 Funding

The Governor proposes legislation to reauthorize Proposition 99 funding and further proposes to appropriate Proposition 99 funds for various programs in the 1997-98 budget bill. We identify some issues regarding the reauthorization legislation.

Background. Proposition 99, the Tobacco Tax and Health Protection Act of 1988, established a surtax on cigarettes and tobacco products. The proposition provides that the revenues from the surtax are to be distributed to six accounts within the Cigarette and Tobacco Products Surtax Fund (C&T Fund) according to specified percentages, and further provides that expenditures from each account must be for specific kinds of activities. The administration proposes to allocate Proposition 99 funds to the accounts in accordance with the provisions of the proposition, as shown in Figure 17.

Chapter 195, Statutes of 1994 (AB 816, Isenberg), appropriated some of the funds from the Health Education Account (HEA) and the Research Account (RA), to pay for the delivery of health services. In December 1994, the Sacramento Superior Court ruled, in *American Lung Association v. Wilson*, that the use of tobacco tax monies from the HEA and RA for these health services, violated the terms of the proposition.

In 1995-96, the Legislature enacted Chapter 194/95 (SB 493, Maddy) to permit the allocation of funds for health services programs as reflected in Chapter 195. This was accomplished by allocating funds to the various Proposition 99 accounts according to percentages that were different than specified in the proposition, pursuant to a provision in Proposition 99 that permits the Legislature—with a four-fifths vote—to make changes to the proposition under certain conditions. However, the superior court enjoined the implementation of Chapter 194.

The state appealed both superior court decisions; and the California courts of appeal recently ruled on these appeals.

Courts of Appeal Ruling. In December 1996, the California courts of appeal ruled on the two cases related to Proposition 99—one challenging AB 816, the other SB 493.

Figure 17

**Proposition 99 Programs
Proposed Distribution of Revenue
Governor's Budget**

(Dollars in Millions)

Account	1997-98 Estimated Revenues ^a	Percent of Total Revenues	Use of Revenue by Account
Health Education	\$90.3	20%	Programs to prevent and reduce tobacco use.
Hospital Services	158.1	35	Payments to hospitals for patients who cannot afford treatment.
Physician Services	45.2	10	Payments to physicians for patients who cannot afford treatment.
Research	22.5	5	Tobacco-related disease research.
Public Resources	22.5	5	Equal amounts for (1) wildlife habitat programs and (2) recreation resources.
Unallocated	112.9	25	Any of the uses identified above.
Totals	\$451.5	100%	

^a Excludes \$1.3 million allocated to the State Board of Equalization.

In the case of AB 816, the courts of appeal upheld the Sacramento Superior Court ruling that the use of tobacco tax monies from the HEA and the RA for health care services violated the terms of the proposition. Basically, the court's rationale for this ruling is that the funds in the HEA and the RA were intended to be used for specific purposes—health education programs and tobacco-related research—which do not include health care services as AB 816 provided.

In the case of SB 493, the courts of appeal reversed the lower court's ruling. The appeals court ruled that it is permissible for the Legislature (through a four-fifths vote) to change the percentages of funding allocated to the various accounts. It is not known, at this time, whether these rulings will be appealed to the state Supreme Court.

Budget Proposal. The Governor's budget proposes expenditures of \$510 million from the C&T Fund in 1997-98, which represents a reduction of 4.8 percent from the estimated current-year expenditure level. This decrease is due to a projected reduction in C&T Fund revenues. As in the

current year, the administration proposes to appropriate Proposition 99 funds through the budget act.

Although the Governor's budget proposes to allocate Proposition 99 funds to the six accounts in accordance with the provisions of the proposition, the budget does propose changes in the distribution of these funds for particular programs. The proposed changes are:

- \$25 million increase for Child Health and Disability Prevention (CHDP) screens. This program provides medical examinations to children.
- \$10 million increase for the Managed Risk Medical Insurance Program (MRMIP). This program provides health insurance to individuals who are unable to obtain coverage due to preexisting medical conditions.
- \$5 million increase for the Access for Infants and Mothers (AIM) Program. This program provides insurance coverage for low-income women (200 to 300 percent of poverty) seeking pregnancy-related and neonatal medical care.
- \$16 million decrease for health education programs. This is due to one-time expenditures for these programs, from the HEA reserves, in the current year.
- \$7.6 million decrease for the state Department of Education for health education programs. This is due to one-time expenditures for these programs, from the HEA reserves, in the current year.
- \$35.7 million decrease in the University of California tobacco-related research programs. This is due to one-time expenditures for these programs, from the RA reserves, in the current year.

Figure 18 summarizes the proposed changes in expenditures.

Proposed Reauthorization Legislation. The administration's proposal includes the following features:

- **Pro Rata Reductions and Protected Programs.** Under the 1996 reauthorization bill for Proposition 99—Chapter 199, Statutes of 1996 (AB 3487, Katz and Pringle), the Director of the Department of Finance (DOF) is required to reduce program funding on a pro rata basis if revenues are insufficient, except for the following five "protected" programs: (1) the Anti-smoking Media Campaign, (2) the AIM Program, (3) the Medi-Cal Perinatal Program, (4) the CHDP Program, and (5) the County Medical Services Program (CMSP). The administration proposes continuation of the provi-
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sions on pro rata reductions and protected programs. In addition, the Governor proposes to add a sixth program to the list of protected programs—the MRMIP, which had been a protected program prior to enactment of Chapter 199.

Figure 18

**Proposition 99 Expenditures
Governor's Budget
1997-98**

(Dollars in Thousands)

	1996-97	Governor's Proposal 1997-98	Change	
			Amount	Percent
Department of Health Services				
Health Services	\$47,483	\$70,977	\$23,494	49.5%
County Health Services	184,302	185,218	916	0.5
Health Education	87,752	71,637	-16,115	-18.4
Department of Education	43,044	35,407	-7,637	-17.7
University of California	60,422	24,699	-35,723	-59.1
Resources Agency Departments	21,027	20,431	-596	-2.8
Managed Risk Medical Insurance Board	69,500	84,500	15,000	21.6
Office of Statewide Health Planning and Development	5,000	—	-5,000	-100.0
Board of Equalization	949	1,264	315	33.2
Habitat Conservation Fund	15,398	15,024	-374	-2.4
Pro Rata charges	808	921	113	14.0
Totals	\$535,685	\$510,078	-\$25,607	-4.8%

- **Permanently Authorizes Program.** Rather than establish a sunset date for the legislation authorizing Proposition 99 funds—as has been done since the enactment of Proposition 99—the Governor's proposal would enact, on a permanent basis, the provisions governing how these funds are to be distributed.

Issues for the Legislature

- **Should the Authorizing Legislation Have a Sunset Date?** Under the Governor's proposal, spending would be subject to annual budget act appropriations. Therefore, the Legislature would continue to have an opportunity to review expenditures on an annual

basis. As indicated, the Governor also proposes to discontinue the past practice of reauthorizing the Proposition 99 program for limited periods through the use of a sunset date. We note that this does not preclude the Legislature from enacting another bill to make statutory changes if it is determined that such changes are needed. Adding a sunset date, on the other hand, would provide a mechanism that facilitates periodic review of the statutory provisions governing the distribution of Proposition 99 funds. If Proposition 99 revenues continue to decline, for example, a review of the effects of the “protected programs” provision might be warranted. On balance, we think that the budget proposal is reasonable because the Legislature (1) will determine funding for the programs through the annual budget act appropriations and (2) can revise the statutory provision regarding the revenue shortfall contingencies on an “as needed” basis.

- ***Should Certain Programs Be Protected?*** As mentioned earlier, when there is a revenue shortfall the DOF makes pro rata reductions on all Proposition 99-funded programs, except for those with protected status. Protected status under Proposition 99 essentially ensures that these programs get priority in the allocation of tobacco surtax funds when revenues are less than anticipated, in that the remaining programs must absorb the funding reduction. We note that the protected programs are state programs where shortfalls could create pressure for General Fund support.

Child Health and Disability Prevention Program: Department Not Enforcing Treatment Requirement

We recommend that the Legislature adopt budget bill language directing the department to develop and implement regulations to enforce the statutory requirement that, as a condition of receiving Proposition 99 funds, counties provide treatment prescribed pursuant to Child Health and Disability Prevention Program health examinations.

The Child Health and Disability Prevention (CHDP) Program provides medical examinations to children. If a medical condition requires treatment identified during the screen, the patient is advised of this, and the county is obligated to provide such treatment if the patient seeks it. These medical conditions cover a wide range of problems, such as dental cavities, ear infections, and more serious conditions such as cancer. As a condition of receiving Proposition 99 funding, counties are required to provide medically necessary treatment, or follow-up treatment, for uninsured children who have a condition detected as part of a CHDP health examination.

Background. Between 1990-91 and 1994-95, the number of children referred for CHDP follow-up treatment increased 46 percent—from 114,190 to 167,000. Data are not available on the number of children treated. County expenditures for follow-up treatment have grown from \$8 million in 1991-92 to over \$16 million in 1993-94 (the latest year for which data are available). However, despite growth in expenditures, our discussions with state and local program administrators suggest that many children still do not receive treatment that is prescribed as a result of the health screen—generally because their parents do not make the necessary appointments—or receive treatment, but not on a timely basis.

Almost all counties use Proposition 99 funds to pay for CHDP follow-up treatment. Some also use local general funds.

Data Not Collected. The department is responsible for monitoring county compliance with the statutory treatment requirement and has the authority to recover funds from counties that do not comply. However, the department does not collect sufficient data to determine the level of compliance with this requirement and, accordingly, has not enforced it.

What Data Are Available? Under provisions of current law, counties that receive Proposition 99 funds are required to submit cost and utilization data for inpatient/outpatient care, physician services, dental care, and emergency services. These data are insufficient for purposes of monitoring the CHDP treatment requirement for three reasons. First, the department collects information on the number of children referred for treatment, but cannot relate this to the data collected on treatment that is provided. This is because the treatment data are reported as visits and discharges rather than on a per-child basis. Thus, the department cannot distinguish between one child that has three visits to treat a problem related to one referral, and three children who each make one visit, for a total of three visits. Second, the data are specific to Proposition 99 funding. Therefore, treatment services which are paid for with other funds, such as local general funds, are not reported. Third, the data are incomplete because the counties do not report on CHDP treatment provided in all settings. For example, if a child is treated in a county hospital which does not submit a reimbursement claim for CHDP treatment, then neither the treatment nor the expense is linked to CHDP.

What Data Are Needed? In order to determine the extent to which counties are complying with the requirement to provide treatment, counties should be required to submit data on the number of children screened, referred, and treated. They should also submit an explanation for why all children were not treated, if that is the case.

We note that some children may receive treatment in non-county facilities. Thus, the department should direct counties to develop the necessary reporting arrangements with these private providers.

How Should Compliance Be Defined? In enforcing the treatment requirement, the department will need to determine whether the conditions of compliance are met. For example, should counties be expected to provide treatment within a particular time frame? This is an issue the department should consider in developing regulations to enforce the treatment requirement.

Similarly, the department should consider what should be expected of counties with respect to facilitating the provision of treatment. For example, should the counties be required to conduct outreach activities, or set up appointments for treatment after the examinations?

Potential Effects of Enforcing the CHDP Treatment Requirement. Under current law, the state may recover Proposition 99 funds from any county that fails to comply with the treatment requirement. Since this issue deals with enforcement of this provision, it is important to consider the potential effects of such enforcement.

One of the possible effects is that counties may decide to forgo Proposition 99 funds. Due to factors such as regional demographics, some counties may experience a relatively large number of children referred for follow-up treatment; and as a result, the county may find it difficult to meet the costs of treatment. The cost of treating all children could exceed the amount that a county receives in Proposition 99 revenues. This raises the possibility that counties could decide to forgo their Proposition 99 funds rather than meet the requirement. The result, in other words, could be counter to the intent of the provision—to act as an incentive for counties to allocate funds for this purpose.

Thus, while we recommend that the department take steps to enforce the CHDP treatment requirement because it is a provision of current law, we also suggest that the Legislature consider the potential ramifications of doing so. Should the Legislature decide to continue the treatment requirement, we recommend adoption of the following budget bill language in Item 4260-001-0001:

The department shall develop and implement regulations and procedures designed to monitor and enforce compliance with the statutory requirement that counties, as a condition of receiving Proposition 99 funds, provide treatment prescribed pursuant to health examinations in the Child Health and Disability Prevention Program.”

DEPARTMENT OF MENTAL HEALTH (4440)

The Department of Mental Health (DMH) directs and coordinates statewide efforts for the treatment of mental disabilities. The department's primary responsibilities are to (1) administer the Bronzan-McCorquodale and Lanterman-Petris-Short Acts, which provide for the delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled, (2) operate four state hospitals and the Acute Psychiatric Program at the California Medical Facility at Vacaville, and (3) administer community programs directed at specific populations.

The state hospitals provide inpatient treatment services for mentally disabled county clients, judicially committed clients, and mentally disordered offenders and mentally disabled clients transferred from the California Department of Corrections (CDC) and the California Youth Authority.

The budget proposes \$1.2 billion from all funds for support of DMH programs in 1997-98, which is an increase of 5 percent over estimated current-year expenditures. The budget proposes \$544.7 million from the General Fund in 1997-98, which is an increase of \$62.2 million, or 13 percent, above estimated current-year expenditures from this funding source. This increase is primarily due to four budget adjustments: an increase in the Judicially Committed/Penal Code patient population in the state hospitals (\$10.7 million); a transfer of administrative responsibility for specialty mental health professional and nursing facility services from the Department of Health Services to the counties, through the DMH (\$27.1 million); an increase in funding for managed care to reflect changes in the number of beneficiaries and increased costs (\$12.9 million); and expansion of a coordinated service delivery system for children's mental health services (\$9.9 million).

New Proposition 98 Funds Should Be Allocated According to Local Education Agency Priorities

We recommend deleting the proposed General Fund augmentation of \$3,068,000 (\$3 million Proposition 98) for the Early Mental Health Initiative (EMHI) so that Proposition-98 funds can be made available for expenditure according to the priorities of local education agencies. (Reduce Item 4440-102-0001 by \$3,000,000 and Item 4440-001-0001 by \$68,000.)

We withhold recommendation on the remaining \$12 million budgeted to continue the EMHI, pending submission of the statutorily required program evaluation.

The EMHI awards three-year grants to local education agencies for projects that provide school-based early mental health intervention and prevention services for pupils in grades K-3 who are experiencing mild to moderate school adjustment problems. Examples of these problems are "acting-out," withdrawal from school activities, and inattentiveness. The program was established by Chapter 757, Statutes of 1991 (AB 1650, Hansen). It is funded by \$12 million from the General Fund (Proposition 98 funds) in the current year to support 217 programs in the schools. The budget proposes a \$3 million increase in local assistance from Proposition 98 funds and an increase of \$68,000 for state administration in 1997-98 to support an additional 57 programs.

Augmentation from Proposition 98 Funds. In the K-12 education chapter of this *Analysis*, we recommend that the Legislature delete funds for most new and expanded K-12 categorical programs that do not address a problem that requires state intervention. Giving schools flexibility to meet local educational priorities should take precedence over most increases in state-directed programs. Accordingly, we recommend that the proposed \$3 million (Proposition 98) augmentation for expansion of the EMHI Program and the associated administrative costs (\$68,000 non-Proposition 98) be deleted from the department's budget. Because the Proposition 98 funds will remain available for expenditure, this will result in a General Fund savings of \$68,000.

Program Evaluation. The EMHI's enabling legislation (AB 1650) required an evaluation of the effectiveness of the EMHI grants by June 1994. The act further specifies that the evaluation is to be based on a comparison between the EMHI pupils and a group that does not participate in the program. The evaluation has not been submitted to the Legislature, but the DMH indicates that the report has been completed by the evaluator and is currently being reviewed by the department. We therefore withhold recommendation on the \$12 million budgeted to continue the EMHI in 1997-98, pending submission of the program evaluation.

Security Plan for Napa State Hospital Is Needed

We withhold recommendation on \$1.4 million requested for 31 additional peace officer positions at Napa State Hospital, pending submission of a security plan that justifies the need for these positions.

The budget proposes \$1.4 million from the General Fund in 1997-98 to fund 31 peace officers and related operating expenses, including four patrol cars, at Napa State Hospital (NSH). These staff are to provide security for a projected increase in Judicially Committed/Penal Code (JC/PC) patients. In the past, the JC/PC patients at NSH have been classified as minimum security patients. However, the additional 251 JC/PC patients are expected to be primarily higher security patients. As a result, the department indicates that it will have to upgrade the level of security at NSH. To accomplish this, the DMH proposes to add the additional peace officers and build a high security perimeter fence and other security infrastructure, which would be completed in 1998-99 (please see the Capital Outlay chapter of this *Analysis*).

While we agree that additional security is necessary at NSH, we note that the request for 31 peace officers is not based on an analysis of the level of security needed to accommodate the increase in the number of JC/PC patients in the budget year. Instead, the department's request is based on half the number of positions needed to staff the 11 guard towers that are proposed to be built and completed in 1998-99. (The department indicates that it will request another 56 peace officer positions in 1998-99.)

We have requested the DMH to provide a security plan that would indicate how the proposed new positions would be used in 1997-98 and how this would be related to the security needs of the hospital during this period when there will be no fence or guard towers. We note that in our analysis of the department's capital outlay budget, we are recommending approval of the fence but not the guard towers. We are also recommending a way to accelerate construction of the fence, although completion of the project still would not occur until after 1997-98. Thus, there is a need for a security plan indicating how peace officers will be deployed during 1997-98, irrespective of the action that is taken on the construction of the fence or, more specifically, the guard towers.

Because we had not received the department's security plan at the time this analysis was prepared, we withhold recommendation on the \$1.4 million requested for the 31 additional peace officers.



EMPLOYMENT DEVELOPMENT DEPARTMENT (5100)

The Employment Development Department (EDD) is responsible for administering the Employment Services (ES), the Unemployment Insurance (UI), and the Disability Insurance (DI) Programs. The ES Program (1) refers qualified applicants to potential employers; (2) places job-ready applicants in jobs; and (3) helps youth, welfare recipients, and economically disadvantaged persons find jobs or prepare themselves for employment by participating in employment and training programs.

In addition, the department collects taxes and pays benefits under the UI and DI Programs. The department collects from employers (1) their UI contributions, (2) the Employment Training Tax, and (3) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The budget proposes expenditures totaling \$5.8 billion from various funds for support of the EDD in 1997-98. This is a decrease of \$165 million, or 2.8 percent, from estimated current-year expenditures, primarily due to a decrease in projected UI and DI benefits. The budget proposes \$23.6 million from the General Fund in 1997-98, which represents the same level of funding as in the current year.

Federal School-to-Work Grant Should Be Included in Budget

We recommend that the \$43.8 million in federal funds that the state expects to receive from the School-to-Work Program implementation grant in 1997-98 be included in the budget, in order to more accurately reflect spending in the budget year. The department should be prepared to discuss the plan during the budget hearings.

School-to-Work is a federally funded program in which states are awarded grants to prepare students to enter the workforce. The department was notified in November 1996 that California will receive \$21.9 million in the current year, \$43.8 million in the budget year, and

additional funds in subsequent years (for a total of \$131.4 million) to implement the program. Most of these funds will be allocated to local entities, through a competitive bid process, for school-to-work projects such as activities that link school-based and work-based learning.

The budget includes the \$21.9 million in the current year but not the \$43.8 million that is anticipated for 1997-98. In order to more accurately reflect spending in 1997-98, we recommend that the budget be amended accordingly.

We also note that these funds will be expended in accordance with a state plan that has been approved by the federal administration. While this places some limitations on the Legislature's discretion in terms of modifying the department's specific plan for allocating these funds, it is important for the Legislature to be apprized of how these funds might be used and how the School-to-Work projects interact with other vocational and job training programs and issues such as welfare reform. The department should therefore be prepared to discuss this during budget hearings.



**AID TO FAMILIES WITH
DEPENDENT CHILDREN/
TEMPORARY ASSISTANCE FOR
NEEDY FAMILIES
(5180)**

The Aid to Families with Dependent Children (AFDC) program provides cash grants to families and children whose incomes are not adequate to meet their basic needs. Families are eligible for the AFDC-Family Group (AFDC-FG) program if they have a child who is financially needy due to the death, incapacity, or continued absence of one or both parents. Families are eligible for grants under the AFDC-Unemployed Parent (AFDC-U) program if they have a child who is financially needy due to the unemployment of one or both parents. Under federal welfare reform, the AFDC (FG&U) program is referred to as Temporary Assistance for Needy Families, or TANF.

Children are eligible for grants under the AFDC-Foster Care (AFDC-FC) program if they are living with a foster care provider under a court order or a voluntary agreement between the child's parent and a county welfare or probation department.

The budget proposes expenditures of \$6.6 billion (\$2.5 billion General Fund, \$0.8 billion county funds, and \$3.3 billion federal funds) for the AFDC program in 1997-98. This is a decrease of 5.5 percent (8.3 percent General Fund) from estimated expenditures for the current year. This decrease is due primarily to proposed grant reductions, proposed changes in the grant structure, and the enactment of federal welfare reform.

FEDERAL WELFARE REFORM

Federal Legislation Makes Major Changes to Welfare Programs

Federal welfare reform repeals and amends several major public assistance programs in California. We summarize the key features of this legislation.

On August 22, 1996 the President signed into law H.R. 3734—The Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The act consists of nine titles, and we summarize the major provisions.

Title I: Temporary Assistance For Needy Families. Title I of the act eliminates federal requirements in the (1) Aid to Families with Dependent Children (AFDC) program (Family Group and Unemployed Parent components), (2) Job Opportunities and Basic Skills program (the GAIN program in California), and (3) Emergency Assistance Program. Federal funding for these programs is consolidated into a TANF block grant. Major provisions include the following:

- **Block Grant and Maintenance of Effort.** The previous entitlement program is replaced with a TANF block grant, which would be fixed at federal fiscal year (FFY) 1995 spending levels (federal funds of \$3.73 billion annually for California) from FFY 97 through FFY 02. To receive the block grant, states must meet a maintenance-of-effort (MOE) requirement that state spending on welfare for needy families be at least 80 percent of the FFY 94 level, which is \$2.9 billion for California (75 percent, if the state meets the federal work participation requirement discussed below).
 - **Elimination of Entitlement.** By eliminating AFDC as a federal entitlement, states will have the flexibility to redesign their welfare systems, thereby determining who is eligible for benefits, the duration of benefits (with certain limits on federal funding), and the amount of benefits. The previous MOE on individual grant levels is eliminated.
 - **Work Requirements.** The act requires that states have an increasing percentage of their TANF caseload (families with an adult receiving aid and children over age one) engaged in work or some other type of work-related education, job training, or job search activity. The overall caseload requirement is 25 percent in FFY 97, increasing to 50 percent by FFY 02. For two-parent families, the requirement is 75 percent in FFY 97 and 98, increasing to 90 percent in FFY 99. States must reduce grants for recipients who refuse to engage in work (as defined by the state). Failure to meet the work
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requirements subjects a state to a penalty of up to 5 percent of its block grant (increasing 2 percent per year for consecutive failures, with a cap of 21 percent).

- **Time Limits.** The federal welfare reform legislation sets a five-year lifetime limit on any family's use of federal block grant funds. The law also permits states to exempt up to 20 percent of its cases for reasons of hardship. It is important to note that the federal act places no time limits on the use of state funds. As a result, the state does not necessarily have to impose any time limits on recipients' eligibility for aid. Those on aid for more than five years could be funded entirely with state funds, and the federal funds that otherwise supported these recipients would, in effect, be shifted to other recipients.

Title II: SSI/SSP. Benefits for certain relatively less disabled children are eliminated. Previously, children could be eligible on the basis that an impairment exists that precludes them from performing age-appropriate activities. In California, approximately 10,500 children are likely to lose benefits due to this provision; however, about 75 percent of these children are expected to qualify for AFDC/TANF. (Provisions affecting noncitizens' eligibility for the program are summarized in Title IV.)

Title III: Child Support Enforcement. Title III of the Act includes numerous provisions related to child support enforcement. Major provisions include:

- **Case Registry and New Hire Directory.** States must develop a centralized registry of child support cases and, by October 1998, a centralized system of disbursement and collection payments. States must also develop a new hire directory for all occupations, designed to assist in locating noncustodial parents. We note that California currently requires a directory for *some* occupations.
 - **\$50 Disregard and Arrearage Payments.** The legislation eliminates the requirement that the first \$50 of monthly collections for needy families (known as the disregard) be distributed to the custodial parent. (Instead the \$50 would offset government grant expenditures.) States are permitted to continue the disregard, but must pay the entire cost because federal financial participation has been eliminated. The legislation also requires that collections on arrearages in specified cases be paid to the custodial parent rather than used to offset governmental expenditures for cash grants.
 - **Federal Incentive Payments to States.** A new incentive payment system, based on performance measures to be developed by the Secretary of Health and Human Services, will replace the current
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collections-based system by October 1999. The new system will be “revenue neutral” with respect to total federal expenditures.

- **Paternity Establishment Requirements.** The federal legislation expands the requirement on states for meeting specified paternity establishment rates. (States that do not meet specified rates of improvement may be penalized.) States must deduct a minimum of 25 percent from a family’s cash grant if the recipient does not cooperate with paternity establishment.

Title IV: Restricting Benefits for Noncitizens. Title IV makes immigrants that arrived before August 22, 1996 (with exceptions for refugees, veterans, asylees and those who have worked for ten years) ineligible for SSI and Food Stamps. States can elect to deny TANF and Social Services Block Grant (Title XX) benefits and non-emergency Medicaid services to such immigrants. Immigrants arriving in the United States after August 22, 1996 (with essentially the same exceptions) are ineligible for all means-tested federal benefits for five years, except for emergency medical services and certain child nutrition and education programs. Figure 19 (see page 76) summarizes the major provisions affecting legal and illegal immigrants.

Title V: Child Protection. Title V extends the period for allowing states to receive enhanced federal matching funds for the development of state-wide automated child welfare information systems. This title also requires states to consider giving preference for kinship placements, provided that the relative meets state standards for child protection.

Title VI: Child Care. Title VI reauthorizes the Child Care and Development Block Grant (CCDBG) and consolidates previous AFDC child care programs (AFDC/JOBS Child Care, At-Risk Child Care, and Transitional Child Care) into an expanded CCDBG. Major provisions include:

- States must use at least 70 percent of certain child care funds on recipients of cash assistance, those attempting to transition off assistance, and those at risk of needing assistance.
- States must use at least 4 percent of all child care block grant funds on activities designed to improve the quality of child care.
- The act sets a state administrative cap of 5 percent on all child care block grant funds.

Title VII: Child Nutrition Programs. Title VII reforms the reimbursement rate structure of the family day care home component of the Child and Adult Care Food Program in order to target benefits to low-income children and to achieve savings. Additionally, it gives the state the option to deny certain child nutrition programs to illegal immigrants and elimi-

Figure 19

**Federal Welfare Reform (H.R. 3734)
Title IV: Restricting Benefits for Noncitizens
Major Provisions**

Restrictions on Federally Funded Programs

Legal noncitizens in U.S. prior to enactment

- Ineligible (except as noted below) for SSI and Food Stamps.
- States have the option to deny benefits under the TANF program (formerly AFDC), the Title XX Social Services Block Grant, and nonemergency Medicaid.

Legal noncitizens arriving after enactment

- Ineligible for all federal means-tested federal benefits for five years. (Certain child nutrition and education programs are excepted from this ban as well as the exceptions noted below.)

Illegal immigrants

- Ineligible for all federal benefits, except as noted below.

Restrictions on State- and Local-Only Funded Programs

Legal noncitizens

- States are authorized to deny state-only funded public benefits to legal noncitizens (except as noted below).

Illegal immigrants

- Ineligible (except as noted below) for all state and local benefits.
- States may elect to provide eligibility for illegal immigrants through state laws enacted after enactment of H.R. 3734.

Exceptions to Restrictions

Individuals

- Those serving in the armed forces, veterans, and their respective dependents.
- Refugees and asylees within the first five years of U.S. residency.
- Those who have worked 40 quarters.

Programs

- Emergency medical services, emergency noncash disaster relief, treatment for communicable disease, immunizations, certain housing programs, and other programs specified by the US Attorney General that provide basic in-kind services without a means test, such as soup kitchens.

Sponsorship for Immigrants Arriving After Enactment of H.R. 3734

Sponsorship provisions

- Extends period of time for deeming sponsor's income until noncitizen has worked 40 quarters or obtained citizenship.
- Extends deeming provisions to all federal means-tested programs.
- Eliminates certain deemed income exemptions.
- Makes sponsorship a legally binding requirement.
- Authorizes government agencies to recoup from sponsors most governmental benefits paid to immigrants.

nates start-up and expansion grants for school breakfast and summer food service programs.

Title VIII: Food Stamps and Commodity Distribution. This title reduces Food Stamp benefits, places limitations on the receipt of Food Stamps for most able-bodied recipients who have no children, and modifies regulations concerning electronic benefit transfer programs. More specifically, the major provisions include:

- **Work Requirement.** Able-bodied recipients age 18 to 50 without dependents may receive benefits for a maximum of three months out of any three-year period, unless they are working or participating in an employment/training program for at least 20 hours per week. Recipients who lose their jobs may be eligible for one additional three-month period. The Secretary of Agriculture may waive this work requirement if the unemployment rate exceeds 10 percent or if there are not enough jobs to provide employment for the individuals subject to the requirement.
- **Electronic Benefit Transfer (EBT).** Requires all states to implement EBT by October 1, 2002.
- **Benefit Reduction.** Reduces maximum Food Stamp benefits by about 3 percent and modifies the way Food Stamp benefits are determined, resulting in further reductions.

Title IX: Miscellaneous. This title reduces the Social Services Block Grant (Title XX) by about 15 percent. During 1996-97, California is using its Social Services Block Grant funds primarily to support (1) regional centers, administered by the Department of Developmental Services; and (2) the In-Home Supportive Services program, administered by the Department of Social Services.

CURRENT-YEAR UPDATE OF AFDC/TANF PROGRAM

Major Changes in 1996-97

Grant Reductions. The 1996 Budget Act assumed General Fund savings of \$137 million from implementation, in October 1996, of the previously enacted 4.9 percent statewide grant reduction and the 4.9 percent regional grant reduction (in the low-cost counties). Implementation of these reductions required either a waiver of federal regulations or a change in federal law providing relief from the federal maintenance-of-effort (MOE) requirement. Federal welfare reform provided the necessary MOE relief, upon federal approval of California's Temporary Assistance For Needy Families state plan. The state plan was approved in November

1996, permitting implementation of the 4.9 percent grant reductions in January 1997. The Governor's budget reflects a revised savings of \$83 million in 1996-97 from the statewide and regional 4.9 percent grant reductions.

Budget legislation provides that the statewide 4.9 percent reduction sunsets on October 31, 1997.

Cost-of-Living Adjustment (COLA). Budget legislation extends the suspension of the statutory COLA for AFDC/TANF grants through October 1997. This results in estimated General Fund savings of \$10.1 million in 1996-97.

Pregnancy Benefits. Budget legislation limits eligibility for the state-only AFDC/TANF pregnancy benefits to recipients who are eligible for the Cal Learn program (teen parents who have not graduated from high school.) This results in estimated General Fund savings of \$10.5 million in 1996-97 and \$13.3 million in 1997-98.

1997-98 BUDGET ISSUES

Caseload Projection is Overstated

We recommend reducing the General Fund amount budgeted for AFDC/TANF grants by \$117 million in 1996-97 and \$161 million in 1997-98 because the caseload is overstated. (Reduce Item 5180-101-0001 by \$160,905,000.)

The Governor's budget assumes that caseloads will decline by 1.9 percent in 1996-97 and 0.9 percent in 1997-98. In making its projections of the AFDC/TANF caseload in 1996-97 and 1997-98, the department reviewed the trend of actual caseloads through June 1996. We note that during the first five months of 1996-97 (beginning in July 1996), the AFDC/TANF caseload was 3.8 percent below the same period during 1995-96. The downturn in welfare caseloads is due to several factors including an improving economy with lower unemployment, lower birthrates for young women, and a decline in legal immigration to California. Based on this recent information, and using our model for projecting AFDC/TANF caseloads, we estimate that the caseload will decline by 4.2 percent in 1996-97 and 2.1 percent in 1997-98. Based on these projections, we estimate that General Fund expenditures for AFDC/TANF grants are overstated in the budget by \$117 million in the current year and \$161 million in 1997-98. Accordingly, we recommend that the budget be reduced to reflect these estimates.

Budget Proposes To Continue Past Reductions And Eliminate Grant Reduction Exemptions

The Governor proposes to (1) make permanent the statewide 4.9 percent grant reduction; (2) delete the statutory cost-of-living adjustment' and (3) eliminate exemptions for certain persons from previously enacted grant reductions, resulting in General Fund savings or cost avoidance of \$294 million. We review the Governor's proposals and comment on them.

The budget contains three separate proposals that would have the effect of reducing AFDC/TANF grants below the levels required by current state law. These proposals are to (1) make permanent the statewide 4.9 percent grant reduction enacted in 1995-96 and subsequently extended through October 1997; (2) delete the requirement to resume the statutory COLA, which has been suspended since 1991-92; and (3) eliminate exemptions for certain persons from previously enacted grant reductions. As Figure 20 shows, these changes result in combined General Fund savings and cost avoidance of \$294 million.

Figure 20	
Governor's AFDC/TANF Grant Proposals General Fund Savings 1997-98	
(Dollars in Millions)	
Proposal	Amount
Make permanent the statewide 4.9 percent grant reduction	\$160
Delete the requirement to restore the statutory COLA	85
Eliminate grant reduction exemptions:	
Statutory exemptions	11
Additional exemptions imposed by DHHS waiver process	38
Total	\$294

Budget Proposes to Make Temporary Reduction Permanent. Budget trailer bill legislation for 1996-97 (SB 1780, Committee on Budget and Fiscal Review) extended the 4.9 percent statewide grant reduction (enacted in 1995) through October 1997. The Governor proposes to make this reduction permanent, for a General Fund cost avoidance of \$160 million in 1997-98.

Budget Proposes Deleting Requirement to Resume Statutory COLA. SB 1780 also extended the suspension of the statutory COLA through October 1997. Deleting the requirement to restore the COLA (estimated at 2.6 percent for 1997-98) would result in a General Fund cost avoidance of \$85 million in 1997-98.

Budget Proposes Eliminating All Exemptions to Certain Previously Enacted Grant Reductions. In 1992-93, 1993-94, and 1994-95, budget legislation reduced AFDC grants by 5.8, 2.7, and 2.3 percent respectively. There are two types of exemptions to these grant reductions. First, there are statutory exemptions pursuant to Chapter 307, Statutes of 1995 (AB 908, Brulte). The AB 908 exemptions are for cases in which *each* adult caretaker is (1) receiving Supplemental Security Income (SSI) or In-Home Supportive Services (IHSS); (2) a non-needy caretaker relative; or (3) disabled and receiving State Disability Insurance, or Workers' Compensation Temporary Disability benefits. The Governor proposes to eliminate these exemptions (about 7 percent of AFDC/FG cases) on January 1, 1998, resulting in General Fund savings of \$11 million in 1997-98.

Second, there are additional exemptions that were imposed on California by the federal Department of Health and Human Services in order to obtain federal approval of a waiver request by the state. These expanded exemptions are (1) teen parents in high school, (2) cases in which each adult caretaker has been determined to be temporarily incapacitated, and (3) cases in which the adult caretaker stays home to care for other household members who are ill or incapacitated. Elimination of these exemptions (about 18 percent of AFDC cases) on January 1, 1998 would result in General Fund savings of \$38 million in 1997-98.

Comments on the Governor's Proposals. As indicated, the Governor's proposals will result in significant savings. To assist the Legislature in evaluating these proposals, we offer the following comments and findings on how the proposals would affect the income of nonworking families and how they would affect the financial work incentives for AFDC/TANF recipients.

Impact on Families. Figure 21 shows how both current law provisions and the Governor's proposals would affect monthly grants for a family of three (assuming the family is not exempt from past grant reductions). As the figure shows, the proposed maximum grant in Region 1 (counties with high rental costs) is \$565, or \$45 below the level required by current law in 1997-98. Under the Governor's proposal, the combined maximum monthly grant and food stamp allowance is \$826 (76 percent of the poverty level), or \$31 below the level required by current law (\$857, 79 percent of poverty). In Region 2, the proposed grant level is \$538, or \$42 below the level required by current law. When combined with food

stamps, total benefits under the Governor's proposal are \$807 (75 percent of poverty), which is \$29 less than the level required by current law (\$836, 77 percent of poverty).

Figure 21			
AFDC/TANF Maximum Monthly Grant and Food Stamps Family of Three Current Law and Governor's Proposal 1997-98			
	Current Law	Governor's Proposal	Change From Current Law
Region 1: High-cost counties			
January 1, 1997 actual grant	\$565		
1997-98 grant assuming:			
Make 4.9 percent statewide reduction permanent and delete statutory COLA	—	\$565	
Restore 4.9 percent statewide grant reduction 11-1-97	594	—	
Restore COLA (2.56 percent) 11-1-97	610	—	
Food Stamps	247	261	
Totals	\$857	\$826	-\$31
Region 2: Low-cost counties			
January 1, 1997 actual grant	\$538		
1997-98 grant assuming:			
Make 4.9 percent statewide reduction permanent and delete statutory COLA	—	\$538	
Restore 4.9 percent statewide grant reduction 11-1-97	565	—	
Restore COLA (2.56 percent) 11-1-97	580	—	
Food Stamps	256	269	
Totals	\$836	\$807	-\$29

Figure 22 (see page 82) summarizes how both current law and the Governor's proposal would affect monthly grants for a family of three

that is *exempt* from previously enacted grant cuts. Under the Governor's proposal, the combined maximum monthly grant and food stamp allowance would be \$80 less than under current law in Region 1 and \$77 less than under current law in Region 2. Under the Governor's proposal, recipients would be at about 75 percent of the poverty level. Under current law, recipients would be at about 83 percent of poverty.

Figure 22			
AFDC/TANF Monthly Grant and Food Stamps Family of Three Exempt from Previous Grant Reductions 1997-98			
	Current Law	Governor's Proposal	Change From Current Law
Region 1: High-cost counties			
January 1, 1997 actual grant	\$631		
1997-98 grant assuming:			
Eliminate exempt status 1-1-98	—	\$565	
Restore 4.9 percent statewide grant reduction 11-1-97	663	—	
Restore COLA (2.56 percent) 11-1-97	680	—	
Food Stamps	226	261	
Totals	\$906	\$826	-\$80
Region 2: Low-cost counties			
January 1, 1997 actual grant	\$601		
1997-98 grant assuming:			
Eliminate exempt status 1-1-98	—	\$538	
Restore 4.9 percent statewide grant reduction 11-1-97	631	—	
Restore COLA (2.56 percent) 11-1-97	648	—	
Food Stamps	236	269	
Totals	\$884	\$807	-\$77

Impact on the Work Incentive. Under current law, there are two work incentives in the AFDC (FG) grant structure: (1) "fill the gap" and (2) the

“\$30 and one-third disregard.” Under “fill the gap,” the difference between the need standard (the benchmark for calculating grants) and the maximum grant represents an amount that recipients can earn without these earnings reducing their grant. For a family of three, this gap is \$170 per month (need standard of \$735 less the maximum grant of \$565). Under the “\$30 and one-third disregard” the first \$30 of earned income plus one-third of remaining earnings are not counted as offsets to the grant.

Using the 1996-97 grants as the reference point, the effect of current law would be to increase maximum grants. Raising maximum grants could reduce the work incentive because it reduces the “gap.” We note, however, that the interim evaluation of the work incentive provisions enacted in 1991-92—a combination of grant *reductions* and expansion of the \$30 and one-third disregard—indicates that these changes in work incentives had no significant impact on the percent of AFDC (FG) parents who worked. Thus, it could be argued that these preliminary results suggest that raising grants (pursuant to current law) may not significantly reduce the percent of AFDC/TANF parents who are working.

Elimination of Statutory Exemptions to Grant Reductions—Budget Internally Inconsistent

We recommend a technical adjustment to reduce proposed General Fund expenditures for AFDC/TANF grants by \$10.8 million because the budget does not reflect the savings from the Governor’s proposal to eliminate the statutory exemptions from previously enacted grant reductions. We also comment on the proposal. (Reduce Item 5180-101-0001 by \$10,822,000.)

As discussed above there are two types of exemptions to previously enacted grant reductions: (1) the *statutory* exemptions pursuant to AB 908, and (2) the additional exemptions imposed by the federal government in granting a state waiver. In the current year, an exempt family of three receives a monthly grant of \$631, compared to \$565 for a non-exempt family of three (in the high-cost counties).

The administration proposes to eliminate all exemptions effective January 1, 1998. The budget, however, *includes* funding for the *statutory* exemptions for all of 1997-98. Without regard to the merits of this proposal, we recommend that the amount proposed for AFDC/TANF grants be reduced by \$10.8 million (General Fund) in order to make the budget consistent with its own assumptions.

Whether to eliminate the statutory exemptions and/or the additional exemptions imposed by the federal government is a policy issue for the

Legislature. The principal rationale for the exemptions is that these cases face substantial barriers to employment and probably would not be able to compensate for grant reductions by working. An assessment of this proposal will involve balancing the benefits of budgetary savings against the adverse effects of lower grants for families who face substantial barriers to employment.

GOVERNOR'S WELFARE REFORM INITIATIVE

Governor Proposes to Redesign the AFDC/TANF Program

The Governor proposes to redesign the AFDC/TANF program in California, effective January 1, 1998. The proposal includes: benefit reductions according to specified time limits; a work/education/training requirement; modifications to the grant determination criteria; and paternity establishment requirements and penalties. We review the Governor's proposal and comment on it.

The Governor proposes legislation to replace the existing AFDC/TANF program with the California Temporary Assistance program (CalTAP), effective January 1, 1998, midway through the budget year. Key program changes include:

- **Time Limits.** Recipients on aid prior to January 1, 1998 would be limited to two years of cash assistance in any three-year period. New recipients (on or after January 1, 1998) would be limited to one year of cash assistance in any two-year period. Recipients removed from cash assistance pursuant to these time limits may return to cash assistance after staying off of aid (both cash assistance *and* the noncash assistance safety net program described below) for one year. All recipients face a five-year lifetime limit on receipt of cash assistance; however, noncash assistance pursuant to the safety net program has no time limit. Families with non-needy caretaker relatives, minor parents, and families with severely disabled parents or children are exempt from the time limits.
 - **Grant Reduction After Six Months.** Beginning January 1, 1998, CalTAP recipients on aid for more than six months would receive a grant reduction of 15 percent.
 - **Safety Net.** Families reaching the time limits described above would be eligible for a state-funded "safety net" program, under which noncash benefits are provided. The noncash benefits are roughly 15 percent below the cash benefit, having been reduced by the portion of the grant that is attributed to the adult. All safety net
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benefits would be paid in the form of vouchers. The state would provide 100 percent of the funding. No additional funding would be provided for county administration, but the counties would be permitted to use funds provided for the safety net program for administration.

- **Participation Mandate.** To receive the full amount of the cash grant, recipients must participate for 32 hours per week (35 hours for two-parent families) in work and/or county-approved education or training activities. After conducting an assessment, counties would determine how recipients will fulfill their participation requirement through various allowable activities, such as limited job search, employment training (for up to one year), education, community service/work experience, and nonsubsidized employment. Families unable to meet their participation requirement would have their grants reduced proportionally, based on the number of hours they fail to participate. Families with less than 16 hours of participation per week would lose their entire grant, and would not be eligible for the safety net program. Weekly hours of required participation for families in the *safety net* program, if any, would be determined by each county, pursuant to its state-approved county Cal-TAP plan. (No state funding would be provided for employment preparation activities in the safety net program.)
- **Modification to Grant Structure.** Families with earnings would have lower grant payments (roughly 30 percent) than under current law as a result of reducing the amount of income that is excluded when calculating the grant.
- **Paternity Establishment Requirements and Penalties.** For cases coming on aid after January 1, 1998, a family's grant would be reduced by the portion for the adult (between 10 and 39 percent, depending on family size) until paternity is established. Failure by the custodial parent to cooperate completely on all child support issues would result in aid being denied to the entire family. Under current law, failure to cooperate results in a grant reduction.
- **Eligibility Conditioned Upon Child Immunizations and School Attendance.** In order to be eligible for CalTAP, applicants must provide proof of certain childhood immunizations and school enrollment (no outstanding truancies).

Program Flow. Following eligibility determination, counties would have the flexibility to meet temporary emergency needs of families (such as rent, car repairs, relocation expenses, or referrals to other assistance

programs) for the purpose of diverting a family from aid. (Under current law, qualified applicants are eligible for Medi-Cal and child care benefits if they choose not to go on AFDC/TANF.) Families that go on aid would proceed to job club/job search for approximately three weeks. Adults unable to find employment would be assessed for employment readiness. An individual participation plan would be developed, which specifies how the 32-hour or 35-hour participation requirement would be met. After six months on aid, recipients who are not employed would have their grants reduced by 15 percent. These recipients would continue to receive the reduced grant for six months (eighteen months for those on aid prior to January 1, 1998), at which time they would be transferred to the safety net program.

Benefit Levels. Figure 23 shows the maximum monthly grant and food stamps allowance for a family of three in Region 1 (high rental-cost counties) and Region 2 (low rental-cost counties). For example, in Region 1, recipients (with no earnings) would have their total benefits reduced by \$60 after six months and an additional \$64 when they reach their time limit and transition to the safety net. The full safety net benefit—if counties do not reduce benefits to fund their administrative costs—would be approximately 65 percent of poverty in Region 1 and 63 percent of poverty in Region 2.

Support Services. To the extent funding is available, child care, transportation, and other work expenses would be provided to recipients to complete their participation plan. The child care “disregard” (which accounts for child care costs in the grant structure) would be replaced by a system of direct child care payments.

Program Administration. The state would set basic program elements such as eligibility, time limits, and maximum grant levels. Counties would administer the program pursuant to county plans that are subject to state review and approval. Counties would have the option of contracting with private firms for administration of the program but would remain responsible for their share of costs. Beginning in 1998-99, counties would receive funds for administration and employment/training services in the form of a block grant, if they satisfy unspecified maintenance-of-effort (MOE) requirements for local expenditures. Counties would continue to pay their share (5 percent) of non-federal costs for grants. Counties would be able to share in up to 25 percent of program savings. If the federal government assesses a penalty for noncompliance with federal requirements, the penalties would be passed on proportionally to counties that failed to meet the requirement, unless the state concludes that the failure was beyond the county’s control.

Figure 23

**California Temporary Assistance Program
Maximum Grants and Food Stamps
Family of Three**

Region	First 6 Months on Aid ^a	After 6 Months ^a	1-Year/2-Year Safety Net ^{b c}
Region 1: High-cost counties			
Grant	\$565	\$480	\$388
Food Stamps	261	286	314
Totals	\$826	\$766	\$702
Percent of Poverty	76%	71%	65%
Region 2: Low-cost counties			
Grant	\$538	\$457	\$369
Food Stamps	269	293	315
Totals	\$807	\$750	\$684
Percent of Poverty	75%	69%	63%

^a Assumes families meet their 32-hour or 35-hour participation mandate.
^b Safety net benefit is paid in vouchers. Amounts shown assume that counties do not reduce benefits to cover administrative costs.
^c Families on aid prior to January 1, 1998 move on to the safety net after two years on aid. Families coming on aid after January 1, 1998 move to safety net after one year on aid.

Entitlement Status. The administration indicates that the individual entitlement to benefits would be eliminated; however, it is not clear whether any provision would be made to appropriate additional funds in years when the caseload is higher than budgeted.

Fiscal Effects. Figure 24 (see page 88) summarizes the estimated General Fund fiscal effects of the CalTAP components. We note that the department has not provided any fiscal and caseload impact projections beyond the budget year.

Comments on the Governor's CalTAP Proposal

The CalTAP welfare reform initiative would implement time-limited reductions in benefit levels. This would increase the financial incentives for families to work and would result in state and county savings; however, it would appreciably reduce the income of needy families unless they are able to obtain employment within the time limits.

Figure 24	
Governor's Proposed California Temporary Assistance Program General Fund Costs and Savings 1997-98	
(Dollars in Millions)	
Program Component	Amount
Modified grant structure	-\$156
Expanded paternity establishment requirements and penalties	-19
County training	79
Computer reprogramming	13
Employment services (GAIN) augmentation	80
Total	-\$3

Any welfare reform proposal must address at least three competing goals: provide support for children, establish incentives for parents to work, and control public costs. There are few easy answers in resolving the conflicts among these goals. In January 1997, we presented our approach to welfare reform in our policy brief, *Welfare Reform in California: A Welfare-to-Work Approach* (reprinted in *The 1997-98 Budget: Perspectives and Issues*). In the following discussion we describe the Governor's proposal in comparison to our approach and current law, and comment on the CalTAP proposal. Figure 25 summarizes the CalTAP proposal and our approach as they apply to AFDC/TANF recipients (families with children).

Time Limits. Time limits are an important component in both CalTAP and our Welfare-to-Work approach. In both cases, reaching the time limits result in benefit reductions rather than termination of aid; however the time limits are much shorter in the Governor's proposal.

Time limits will result in savings to the government, but these savings may be the result of actions that increase family income (that is, from obtaining employment) or decrease family income (that is, grant reductions from reaching the time limits). A consideration of time limits therefore involves balancing the potential advantages of the behavioral effects of these limits in bringing about increased employment against the potential adverse effects of reducing grants when recipients do not obtain jobs. In this respect, it is important to consider how many recipients might be subject to these time limits. According to the department's October 1995 AFDC Characteristics Survey, about 85 percent of recipients were on aid

for more than one year, 70 percent for more than two years, and 35 percent for more than five years. Other studies have estimated that over 40 percent of persons receiving AFDC will eventually accumulate five years on aid.

Figure 25

California Temporary Assistance Program (CalTAP), Legislative Analyst's Office Approach, and Current Law AFDC/TANF Recipients (Families with Children)

Current Law	CalTAP	LAO Welfare-to-Work
Time Limits		
<ul style="list-style-type: none"> No limit on eligibility. After two years from commencing GAIN program, recipients must accept work slot (if offered) or their grant is reduced. 	<ul style="list-style-type: none"> One year out of any two-year period for recipients entering after January 1, 1998. Two years out of any three-year period for current recipients. Five-year lifetime limit for cash assistance. After time limit, recipients are eligible for noncash safety net described below. <p>Exemptions from Limit:</p> <ul style="list-style-type: none"> Non-needy caretaker relatives, minor parents, families with severely disabled parent or child. 	<ul style="list-style-type: none"> Work requirement after two years on aid (see "services" below). Five-year limit followed by safety net (described below). Time is not counted when recipient is working 20 hours per week in a non-subsidized job. <p>Exemptions from Limit:</p> <ul style="list-style-type: none"> Families with relative or disabled caretaker, adult caretaker is disabled. <p>Extension when limit reached:</p> <ul style="list-style-type: none"> If jobs not available or medically verified illness or disability.
Safety Net		
<ul style="list-style-type: none"> Not applicable. 	<ul style="list-style-type: none"> Amount varies with family size—\$388 for a family of three (Region 1). Will be less if counties fund administration from safety net allocation, or county plan calls for lower amount. Non-cash (vouchers). State will fund 100 percent of benefits equivalent to child-only case. Counties may pay for administration from these funds. 	<ul style="list-style-type: none"> \$300 for family of 2, \$375 for family of 3, \$450 for family of 4 or more. Cash benefits. Grant costs will be shared 75/25 state/ county. Administrative costs 85/15 state/county.

Continued

Current Law	CalTAP	LAO Welfare-to-Work
Employment Preparation/Services		
<ul style="list-style-type: none"> • Only GAIN participants are required to engage in work-related activities. 	<ul style="list-style-type: none"> • Recipients must participate in 32 hours (35 hours for two-parent families) of work and/or county-approved education and training activities. • Proportional sanction for participation at less than required hours. • Family loses entire grant if participation is below 16 hours. 	<ul style="list-style-type: none"> • For first two years, required to participate in job search, training, education, treatment pursuant to case plan. • After two years, recipients must work 20 hours per week. Community service job provided if needed—increases to 25 hours in fourth year and 30 hours in fifth year. • Proportional sanction for participation at less than required hours.
Paternity Establishment		
<ul style="list-style-type: none"> • Recipients must provide all known information to assist in paternity establishment or their grant can be reduced by the portion for the adult. • Specific information is not required if applicants attest they do not have it. 	<ul style="list-style-type: none"> • Paternity must be established before adult can be included in the family's grant. • Failure to cooperate with paternity establishment (without good cause) results in ineligibility for entire family. 	<ul style="list-style-type: none"> • Same as current law.
Grant Structure		
<ul style="list-style-type: none"> • Families with earnings may "fill the gap" between the need standard and the maximum grant with no grant reduction. • About one-third of earnings are disregarded in calculating grants ("\$30 and one-third disregard"). 	<ul style="list-style-type: none"> • Eliminates all existing disregards, and replaces it with a new grant structure (lower grant for working recipients but increased incentive to move from part-time to full-time work). 	<ul style="list-style-type: none"> • Retains "fill the gap", but phases out "\$30 and one-third disregard" within first two years of recipient's time in employment.

We note that these estimates assume a continuation of the AFDC program as it has operated in past years. It is important to keep in mind that welfare reform interventions—such as the GAIN program, community service jobs, and the time limits themselves—are designed with the intent of increasing the number of participants who obtain employment, thereby reducing the number of recipients who actually reach the time limit.

While several states are beginning to implement various forms of time-limited aid, no evaluations have been completed on such provisions. An

interim report on Florida's time-limited welfare program should be available soon, but the findings will be preliminary.

After adjusting for the number of families that would be exempt from the time limits, we estimate that about 600,000 families potentially could be affected by a one-year limit, 500,000 by a two-year limit, and 250,000 by a five-year limit. The number that would actually reach these limits in the future depends on the success of the various welfare reform provisions in increasing the level of employment among recipients.

Several factors affect a recipient's prospects of obtaining a job. One of these is job availability. By the end of 1999, approximately 600,000 cases *could* reach their CalTAP time limit. We estimate that the California economy will create approximately 330,000 new jobs per year for the next three years. Based on the current pattern of job creation, less than half of these jobs (each year) would be at a skill level where most welfare recipients could realistically expect to compete. These data suggest that there will be considerable competition for these and other job openings, and that we cannot expect all existing welfare recipients to obtain jobs without some job loss on the part of others (in other words, an increase in the unemployment rate).

Safety Net. Families reaching the time limit would be eligible for the state-funded, county-administered safety net. Under CalTAP, safety net benefits must be paid in the form of vouchers or other types of non-cash assistance. The state would provide funding equivalent to a child-only case, but would not provide any additional funding for administration. Pursuant to their state-approved CalTAP plan, counties would have the flexibility to set (1) benefit levels lower than the equivalent of the child-only case, (2) income disregards (for working recipients), and (3) participation requirements. We note that by not providing separate funding for administration of the safety net, counties would have a fiscal incentive to reduce the level of aid to recipients in order to cover their administrative costs.

Eliminating *cash* benefits in the safety net program has two potential advantages. First, it makes the benefit package less attractive to recipients, thus increasing their incentive to work. Second, in cases where parents may have difficulty managing money, it may help to assure that most of the benefit will go toward meeting basic needs such as food and housing. We note, however, that providing benefits in voucher form results in additional administrative costs; and, as noted above, the counties would have a fiscal incentive to further reduce benefits in order to cover these additional administrative costs. We also note that inability to obtain employment within one or two years cannot be equated with

inability to manage aid in the form of cash. We believe that most AFDC/TANF recipients are probably capable of handling cash.

The voucher proposal may stem from a concern that adult recipients with substance abuse or other personal problems may not use the grant to benefit their children. In this respect, we note that an alternative approach would be to give case managers the flexibility to provide aid in the form of vouchers in those cases where they believe it is in the best interest of the children.

Modified Grant Structure. The existing grant structure contains the following work incentives: (1) the \$30 and one-third disregard, whereby about one-third of work earnings are disregarded in determining the amount of a recipient's income that offsets his or her grant and (2) the "fill-the-gap" grant structure, whereby recipients can earn the "gap" between their grant (\$565, family of three) and the need standard (\$735, family of three) without having their grant reduced. The Governor proposes to eliminate the current system of disregards and replace them with a single "work incentive." Working recipients would keep 54 percent of every dollar that they earn until they reach an income of \$996 per month (full time work at the minimum wage). Earnings above \$996 would reduce the grant payment on a dollar for dollar basis.

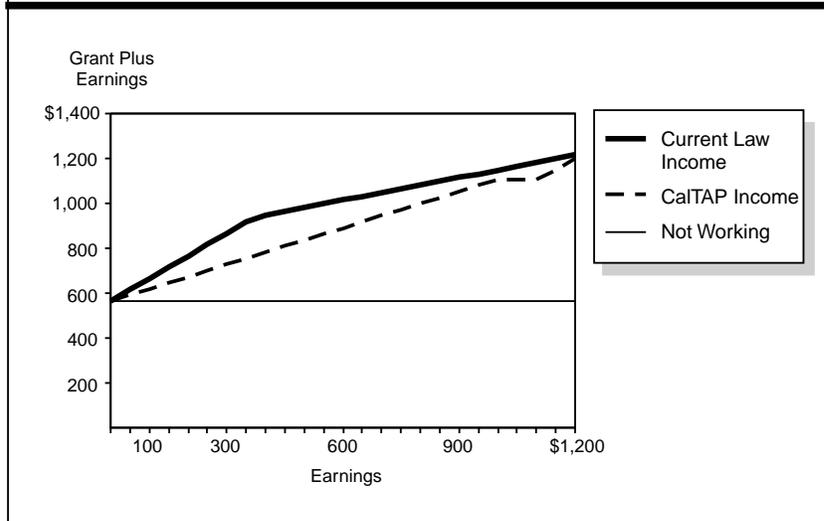
Compared to current law, the CalTAP provision results in lower levels of family income (grant plus earnings) for working recipients and others with income, regardless of the amount of income. As shown in Figure 26, combined grant and earnings under current law are always greater than under CalTAP. Thus, for welfare recipients who are *not working*, the CalTAP reduces the work incentive in comparison to current law. However, for recipients *who are earning* over about \$400 per month, the CalTAP provides a greater incentive to earn more money because recipients retain 54 percent of additional earnings, compared to retaining about 33 percent under current law. Thus, for the policy objective of moving recipients into the work force, current law provides the stronger work incentive. However, if the policy objective is to motivate those with half-time earnings to increase hours toward full-time work, then CalTAP has the stronger work incentive for this segment of the caseload. We note, however, that in the latest survey (October 1995), only about 13 percent of AFDC cases reported earned income, and this includes full-time as well as part-time workers.

Services and Participation Requirements. As noted above, CalTAP would require able-bodied adults to participate for 32 hours per week (35 hours for one member of a two-parent family) in some combination of work and/or county-approved education and training activities.

County administrators would determine how this 32-hour or 35-hour requirement breaks down between the number of hours that recipients would be required to work, and the hours required in employment preparation activities. We note that the administration has proposed no guidelines for determining the mix of required work and employment preparation activity in meeting the work component of the requirement. Consequently, counties may vary considerably in how they determine

Figure 26

**Combined Grant and Earnings
For AFDC/TANF Recipients, Current Law and CalTAP
Family of Three, High-Cost County**



this requirement. The combination of a fixed 32-hour or 35-hour participation requirement and a block grant allocation for services could lead to a situation where the work requirement is primarily a function of the amount of funds a county receives for services, rather than a function of an assessment of the recipient's prospects of obtaining and keeping a job. This could have significant consequences for the recipients, who will be sanctioned for not meeting the 32-hour (or 35-hour) requirement.

In this respect we note that the Governor's budget includes about \$140 million in additional funds for employment preparation services in 1997-98, and earmarks \$53 million for education of welfare recipients in the community colleges. This would not be sufficient to provide 32 hours of job search and training activities to all eligible recipients, if such activities were provided at a service level comparable to the GAIN program.

Paternity Establishment Provisions. For cases coming on aid after January 1, 1998, paternity must be established before the custodial parent is included in the household for purposes of calculating the family's grant. For a family consisting of a mother and one child, this represents a sanction of approximately 39 percent. For larger families, the sanction is between 10 and 20 percent.

The Department of Social Services estimates that each month 8,800 CalTAP applicants will need paternity establishment and will become subject to this sanction. The department assumes that paternity will be established in an average of seven months in 95 percent of the cases. For the remaining 5 percent, the department assumes that paternity will never be established. The department does not know the comparable rate of paternity establishment currently, but in our judgement 95 percent would be a very significant increase.

We make the following observations regarding this proposal:

- There is no analytical basis for projecting the 95 percent rate. It rests, in large part, on the assumption that in almost all of the cases where paternity is not established, it is due to a lack of cooperation by the custodial parent in identifying and locating the noncustodial parent. (Establishing paternity generally requires that the noncustodial parent be located.) We note, in this respect, that according to a national survey of 46 state child support enforcement directors conducted in 1994, about two-thirds indicated that AFDC applicants are usually willing to cooperate in establishing paternity, and will provide complete and correct information to the best of their ability. To the extent respondents perceived noncooperation as a problem, they most often viewed this as "passive" noncooperation (in other words, applicants volunteer no more information than directly asked or are vague in their response), rather than overt noncompliance (clients deliberately providing false information).
- The sanctions (reduced grants) would be imposed on those parents who are cooperating as well as those who are not cooperating. The sanctions would take effect immediately; whereas the department assumes that it would take seven months, on average, to establish paternity in those cases where the parent is "cooperating."

In summary, an assessment of this proposal will involve balancing the benefits of budgetary savings against the adverse effects of the sanctions on families, including those that are fully cooperating with paternity establishment requirements.

As an alternative to this policy, the Legislature could provide case managers with greater authority to make sanctions in cases where they have reason to conclude that the custodial parent is not cooperating.

Program Administration. As noted previously, counties would benefit by sharing in program savings, as measured in terms of reduced expenditures. We note that this mechanism rewards counties equally from savings that result from sanctions or time limited grant reductions and savings that result from increased employment.

General Assistance

The Governor proposes to relieve counties of their current obligation to provide General Assistance benefits to indigent persons ineligible for other welfare programs.

Under current law, counties are required to provide General Assistance benefits to indigents who lack an adequate means of support. These are persons not eligible for assistance under the AFDC/TANF program or the Supplemental Security Income/State Supplementary Program (SSI/SSP). Counties pay the entire cost of General Assistance benefits (about \$360 million, plus administrative costs). The Governor proposes to relieve counties of this responsibility by eliminating the mandate to provide this aid.

Currently, General Assistance maximum monthly benefits range from about \$175 to \$345, depending on each county's policy. The Governor's proposals could result in further variation in grant levels. This, in turn, could cause migration effects whereby recipients move from lower paying counties (or counties with no benefits) to counties that offer higher levels of General Assistance. Thus, although this proposal is intended to offer fiscal relief for the counties, it could result in increased costs to some counties from migration of recipients if other counties reduce or eliminate GA. If this occurs, it would give counties a greater incentive to reduce or eliminate the program.

Governor Proposes Augmentation for County Training

The Governor's budget proposes \$73 million to provide training for county welfare workers so that one worker will be able to perform both eligibility determination and case management functions.

Currently, most counties maintain separate staffs to (1) determine eligibility and (2) provide welfare-to-work case management in the Greater Avenues for Independence (GAIN) program. As part of CalTAP, the Governor proposes to consolidate these functions so that a recipient's

primary contact with the welfare department is through just one worker. In order to implement this approach, the Governor's budget includes one-time funding of \$73 million (\$69 million General Fund) to provide two weeks of training for each eligibility worker and each GAIN worker.

In evaluating this proposal, we note that there is no analytical basis to assess whether the benefits of the "one-worker" system outweigh the proposed costs for the training. Maintaining the eligibility and case management activities as separate, specialized functions presumably would free up the \$73 million for other purposes, such as job search, education, and job training for additional recipients.

CHILD SUPPORT ENFORCEMENT PROGRAM

The Child Support Enforcement program provides services such as locating absent parents, establishing paternity, obtaining and enforcing child support orders, and collecting payments pursuant to the orders. These services are provided to custodial parents receiving AFDC and, on request, to non-AFDC parents. Child support payments that are collected on behalf of AFDC recipients are used to offset the state, county, and federal costs of the AFDC grants. Collections made on behalf of non-AFDC parents are distributed directly to the parents. The child support enforcement program is administered by the 58 county district attorneys under the supervision of the DSS.

Compliance/Performance Review Process Needs Revision

We recommend that the department develop, prior to the budget hearings, an alternative to its current process for reviewing county performance in child support enforcement because (1) the compliance review component of the process is invalid due to a flaw in the methodology and (2) the performance review component of the process does not show a significant relationship to program outcomes. We present some options for consideration in developing this alternative.

Chapter 1062, Statutes of 1996 (AB 1832, Speier), requires the Legislative Analyst's Office to conduct a study of the child support enforcement program performance and compliance review process—referred to as the Performance Standards Model. Our findings and recommendations are discussed below.

Incentive Payment System. The state allocates federal and state child support incentive payments to the counties in order to encourage better program performance. The amount of the incentive payments allocated

to each county is based on a specified percentage of its child support collections, with the percentage depending on the county's rating according to the department's Performance Standards Model.

The Performance Standards Model. The Performance Standards Model was established in 1992 by DSS pursuant to guidelines enacted by Chapter 1647, Statutes of 1990 (AB 1033, Wright). The model is based on a two-tiered incentive payment system. Tier I consists of "base" and "compliance" incentive rates. All counties qualify for the base rate, which currently is set at 6 percent. The compliance rate is an additional 5 percent incentive rate for counties that meet all federal and state mandated activities and achieve a passing score in the department's compliance review. This review looks at whether the county meets particular criteria with respect to various procedures for child support enforcement (for example, meeting specified time lines in the case intake process). Counties that pass the compliance review receive the 5 percent compliance rate; counties that do not pass receive nothing beyond the "base" rate.

Counties that meet all Tier I compliance criteria are eligible for incentive payments under Tier II of the Performance Standards Model. The Tier II incentive rate is based on county performance in two of the components of the child support process—paternity and support order establishment—with an additional small bonus for child support collections above the statewide average. The Tier II incentive rate ranges from 0 to 3 percent. Figure 27 shows the combined Tier I and Tier II incentive payment system.

Figure 27

**Child Support Program
Incentive Payments to Counties**

Tier I		Tier II	
Base Rate	Compliance Rate	Performance Rate	Total ^a
6%	0 or 5%	0 to 3%	6 to 14%

^a Applied to total child support collections in the county.

The Tier I Compliance Review Methodology Is Flawed. In order to determine whether a county is in compliance with the various child support procedures, the department reviews a sample of the county's child support cases. Our analysis indicates that the results of the depart-

ment's compliance review are invalid. This is because the sample of cases used by the department to determine county compliance is too small to yield results that are reliable from a statistical standpoint. In fact, the sample of cases typically falls far short of the number required. For example, the sample of cases drawn for the noncustodial parent locate process in Los Angeles County was 117 in the 1994-95 review, whereas the sample required for statistically reliable results would probably be 287 (the exact sample size would require information not available to us at this time). In other words, the results from the compliance review cannot be used to draw any inferences, or conclusions, about the total county case-load for any of the procedures that are reviewed.

In order to draw an appropriate sample for each of the compliance review procedures, the department would have to identify whether each case is applicable to the particular procedure that is being reviewed. Currently, this can only be accomplished on a manual basis, requiring an examination and sorting of each case. As a result, drawing an adequate sample for each of the compliance review procedures would be impractical from the standpoint of administrative costs. We note that this problem will be resolved once the Statewide Automated Child Support System (SACSS) is implemented in each county, which is expected in 1998. In the interim, the department will have to develop an alternative method of distributing incentive payments to the counties. We discuss this later in our analysis of this issue.

The Tier II Performance Review Appears to Have a Weak Relationship to Program Outcomes. In order to assess the Tier II process, we conducted a statistical analysis to determine the strength of the relationship between county performance in the two primary Tier II components—paternity and support order establishment—and child support program outcomes. We used child support collections as our measure of program outcomes. Using both a longitudinal (time-series) and a point-in-time regression analysis, we found little or no correlation between both paternity and support order establishment and total collections. These findings call into question the department's emphasis on paternity and support order establishment as the focal points of performance in determining the amount of incentive payments for the counties.

We recognize that paternity and support order establishment are necessary steps for achieving the ultimate goal of child support enforcement—collecting child support payments. Consequently, it is not clear why county performance in these two components of the process do not show a stronger relationship to collections. In examining this issue, one needs to bear in mind that paternity and support establishment are just two of several activities that comprise the child support enforcement process. For example, once paternity is established and a support order

obtained, the support order must be enforced and payments must be collected. Thus, performance in any one single element may not show a strong relationship to the overall program outcome—namely, collections. It is possible that such a relationship would only be evident when all of the program components are viewed in combination with each other.

The issue is whether the counties should be left to determine how to allocate their resources among the various components of the process, or whether the state should intervene to give the counties an incentive to allocate more of their resources to two particular components. The Tier II model encourages counties to allocate more of their limited resources to paternity and support order establishment than they might otherwise do. We find no empirical basis for structuring incentive payments in this manner. While our analysis is not conclusive, we believe that it warrants a review of the Tier II process adopted by the department.

Department Should Develop Alternatives. At a minimum, the department must find an alternative to the compliance review component of the process until the statewide automation system is fully implemented. We also believe that the department should explore alternatives to its current performance review process, given the absence of any clear relationship between how well counties perform in paternity and support order establishment and how well they do in collecting child support. Accordingly, we recommend that the department develop such alternatives and report its recommendations during the budget hearings.

In order to facilitate this review, we present two options for consideration by the department and the Legislature. Both of these options focus on the principal program outcome in the child support enforcement process—collections.

- **Calculate Incentive Payments as a Fixed Percentage of Each County's Total Collections.** This is a relatively simple approach, and is similar to the method used to distribute incentive payments prior to 1992. In effect, it extends the “base” payment in the current process to all incentive payments. Based on the amount proposed for incentive payments in the budget for 1997-98, this would amount to a formula allocation to the counties of 12.5 percent of total collections.
- **Base Incentive Payments on a New Measure of County Performance.** For example, county performance could be measured according to the following variables: AFDC recoupment rate (AFDC child support collections as a percent of AFDC grant expenditures), non-AFDC child support collections per case, and “administrative effort” (administrative expenditures per case) with each

variable weighted equally. The recoupment rate reflects county performance in child support collections for AFDC cases as well as benefits to the government from AFDC child support collections (which act as an offset to AFDC grants). Administrative effort reflects the amount that the counties allocate toward their child support enforcement program. In a previous statistical analysis, we found a high correlation between administrative effort and child support collections.

The Department Can Continue to Conduct Compliance Reviews. We note that the methodological problem in the department's compliance review process does not mean that the reviews have no benefit in terms of assisting the counties to improve their procedures. The department points out that the compliance reviews help counties identify procedural problems and implement corrective action plans. Thus, the department could continue to conduct compliance reviews, but without rating the counties for purposes of distributing incentive payments.

Conclusion. In summary, we find that the department will have to revise its procedures for the compliance review process because of the methodological problems that we described. With regard to the performance review process, we find no analytical basis for concluding that the system devised by the department will lead to an improvement in program outcomes.

Need Additional Information on Child Support Commissioner Proposal

We withhold recommendation on \$38.7 million (\$13.2 million General Fund) proposed for support of the new statewide commissioner-based child support court system, pending receipt of caseload standards to be developed by the Judicial Council.

Currently, most child support cases referred to the courts are heard by judges. In some counties, however, court commissioners hear some of the cases. Chapter 957, Statutes of 1996 (AB 1058, Speier) established a statewide system in which court commissioners are dedicated specifically to the establishment of child support paternity and support orders. When implemented, the new system will include streamlined procedures, support staff, automation, and information and guidance for parents in the system. Chapter 957 requires that the commissioners be in place by July 1, 1997. The 1996-97 budget includes \$7.6 million to begin implementation of the system.

The budget proposes \$38.7 million (\$13.2 million General Fund) in 1997-98 for DSS to fully implement the program, assuming funding for

50 commissioners (including support staff) and 58 information centers that provide education, information, and assistance to parents with child support issues. The budget also proposes \$472,000 for the Judicial Council for five positions at the council.

The estimate of 50 commissioners is based on a workload survey conducted in 1994. Chapter 957, however, requires the Judicial Council to establish caseload, case processing, and staffing standards for the child support commissioners on or before April 1, 1997. These standards should provide better information on the number of commissioners needed and the projected costs per commissioner. Thus, we withhold recommendation on the \$38.7 million for the commissioner system, pending receipt of the caseload standards.

Elimination of \$50 Child Support Disregard—Budget Internally Inconsistent

We recommend a technical adjustment to reduce proposed General Fund expenditures for AFDC/TANF grants by \$20.9 million because the budget does not reflect the savings from the Governor's proposal to eliminate the \$50 child support disregard on January 1, 1998. We also comment on the proposal. (Reduce Item 5180-101-0001 by \$20,941,000.)

Under current law, a custodial parent on AFDC/TANF receives the first \$50 of monthly child support collections, without any reduction in the family's grant. Collections above the \$50 threshold are used to offset government costs of AFDC/TANF grants. The enactment of federal welfare reform ended federal financial participation for this child support disregard, effective October 1, 1996. States may retain the disregard, but must pay the entire cost.

The administration proposes to eliminate the child support disregard, effective January 1, 1998. The budget, however, includes funding for the disregard for all of 1997-98. Without regard to the merits of this proposal, we recommend that the amount proposed for AFDC/TANF grants be reduced by \$20.9 million (General Fund) in order to make the budget consistent with its own assumptions.

The administration also proposes to change the way child support is distributed to the parent. As indicated, currently the parent receives the first \$50, and the remainder is retained to offset AFDC/TANF grant expenditures. The grant itself is not changed. The administration proposes to transfer all child support collections directly to the custodial parent, and reduce the grant by a corresponding amount.

Whether to eliminate the \$50 child support disregard is a policy issue for the Legislature. Ending the disregard results in state savings because the state will offset the grant costs by the \$50 payments; however, these savings will be offset (by an unknown amount) due to increased costs for administration (the need to adjust the AFDC/TANF grant each month to reflect the child support payments) and a potential decline in child support collections because of the reduced incentive for the noncustodial parent to pay child support. The incentive is reduced because under current law, the \$50 is a direct benefit to the AFDC/TANF custodial parent and child, whereas under the Governor's proposal, the entire payment is used to offset the grant.

AFDC—FOSTER CARE

Budget Proposes Funds for County Juvenile Probation Facilities

The budget proposes to provide \$141 million in TANF federal block grant funds for county juvenile probation facilities.

Prior to 1996, counties used federal Emergency Assistance funds to support juvenile probation placement costs. The federal Department of Health and Human Services ended this practice on January 1, 1996. Emergency Assistance funds that had been allocated for juvenile probation costs, however, were included in the calculation of California's TANF block grant.

The Governor's budget proposes to allocate \$140.9 million in TANF block grant funds to the counties for their juvenile probation facilities. In effect, these funds would replace the federal Emergency Assistance funds that counties received prior to 1996. (For a discussion of a related issue, please see the Department of the Youth Authority in the Judiciary and Criminal Justice Section of this *Analysis*.)

The issue of whether to spend TANF block grant funds on juvenile probation facilities, rather than in the AFDC/TANF program for needy families with children, is a policy decision for the Legislature. (We also note in this respect, that the Governor's proposal to use General Fund savings that result from increased federal TANF block grant funds—\$288 million in 1997-98—to support other General Fund needs represents a similar policy decision.)



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 \$1.7 billion from the General Fund for the state's share of SSI/SSP in 1997-98. This is a decrease of \$410 million, or 20 percent, from estimated current-year expenditures. This decrease is due primarily to grant reductions and the elimination of SSI/SSP benefits for noncitizens pursuant to recently enacted federal welfare reform legislation.

In December 1996, there were 330,832 aged, 21,631 blind, and 684,409 disabled SSI/SSP recipients.

Assumed Federal Law Change Creates a General Fund Risk

The budget proposes General Fund savings of \$279 million in the SSI/SSP that are dependent on federal legislation to eliminate the maintenance-of-effort requirement.

Federal law allows states the discretion to set the level of the SSP grant (the state-funded component of SSI/SSP) as long as the payment remains at or above the federally mandated maintenance-of-effort (MOE) level. The MOE level is the SSP grant level in effect in July 1983.

Budget trailer bill legislation for 1995-96—Chapter 307, Statutes of 1995 (AB 908, Brulte)—reduced payment standards by 4.9 percent statewide, with an additional 4.9 percent reduction for persons living in low-cost counties. The statewide reduction was scheduled to terminate on June 30, 1996 and the additional reduction to recipients in low-cost counties was to be ongoing. Budget legislation for 1996-97—Chapter 206, Statutes of 1996 (SB 1780, Committee on Budget and Fiscal Review)—extended the statewide 4.9 percent grant reduction through October 31, 1997. This statute would reduce the grants for most recipients below the federally

mandated MOE, but federal legislation permitting this reduction has not been enacted.

Figure 28 provides detail on the savings proposed for 1997-98 that are dependent on federal legislation. As the figure shows, \$279 million in General Fund savings are at risk. This consists of savings from provisions in current law and from new proposals by the Governor. Previous budget actions which (1) reduced grants statewide by 4.9 percent through October 31, 1997; and (2) permanently reduced grants by 4.9 percent in low-cost counties, result in savings of \$90 million in the budget year. The Governor's proposal to make permanent the statewide 4.9 percent grant reduction results in additional savings of \$189 million.

Figure 28	
State Savings Dependent on Federal Legislation	
SSI/SSP	
1997-98	
(Dollars in Millions)	
Budget Proposal	Amount
Previous Budget Actions:	
Reduce grants 4.9 percent in low-cost counties	\$66
Extend statewide 4.9 percent grant reduction through 10-31-97	24
Subtotal	\$90
New Proposals:	
Make statewide 4.9 percent grant reduction permanent	\$189
Total	\$279^a

^a Excludes offsetting costs of \$11 million in other departments.

Budget Proposes to Make Temporary Reductions Permanent

By proposing to make past grant reductions permanent and to delete the requirement to restore the statutory state cost-of-living adjustment, the budget would achieve a General Fund cost avoidance of \$212 million in 1997-98.

Chapter 206, Statutes of 1996 (SB 1780), extended the 4.9 percent statewide grant reduction through October 31, 1997 and extended the suspension of the state cost-of-living adjustment (COLA) through December 31, 1997. Restoring the 4.9 percent grant reduction on November 1, 1997 would result in General Fund costs of \$205 million. Restoring

the state COLA on January 1, 1998 would result in additional costs of approximately \$7 million. Restoring the COLA results in relatively modest costs for technical reasons related to the interaction between the state and federal COLAs in 1997-98. We also note that the Governor proposes to “pass through” the federal COLA to recipients, resulting in grant increases of \$16 per individual and \$24 per couple in January 1998.

Figure 29 shows SSI/SSP grants on January 1, 1998 for individuals and couples in Region 1 (high-cost counties) and Region 2 (low-cost counties) under both current law and the Governor’s proposal. Grants under the Governor’s proposal would be roughly 5 percent less than under current law. As a point of reference, we note that the federal poverty guideline in 1996 is \$645 per month for an individual and \$863 per month for a couple. Thus, under the Governor’s proposal the grant for an individual would be below the poverty guideline (97 percent of the poverty level in the high-cost counties and 93 percent of poverty in the low-cost counties). Under current law the grant for an individual would be just above the poverty line (102 percent) in high-cost counties and just below the poverty line (97 percent) in the low-cost counties. Under both current law and the Governor’s proposal, grants for couples are above the poverty guideline by approximately 20 to 30 percent.

Figure 29			
SSI/SSP Maximum Monthly Grants			
Current Law and Governor’s Proposal			
January 1, 1998			
Region and Recipient Category	Current Law^a	Governor’s Proposal^b	Difference
Region 1: High-cost counties			
Individuals	\$657	\$626	-\$31
Couples	1,170	1,111	-59
Region 2: Low-cost counties			
Individuals	\$627	\$598	-\$29
Couples	1,117	1,059	-58
^a Includes federal SSI COLA of \$16 per individual and \$24 per couple and application of the state COLA (about \$1 for individuals and \$5 for couples in the high-cost counties).			
^b Includes federal SSI COLA of \$16 per individual and \$24 per couple.			

Need Additional Information on Noncitizens Ineligible for SSI/SSP

Pursuant to federal welfare reform, legal noncitizens (with certain exceptions) are ineligible for SSI/SSP. The budget assumes that two-thirds of the legal noncitizens who do not meet any of the exception criteria will attain citizenship prior to September 1997. Because additional information regarding citizenship may be available in the spring, we withhold recommendation.

Background. Federal welfare reform makes most legal noncitizens ineligible for SSI/SSP (with exceptions for refugees and asylees in their first five years of residence, veterans and their dependents, and those who have worked for ten years). Noncitizens arriving after August 22, 1996 are immediately ineligible. In July 1996, there were approximately 330,000 legal noncitizens receiving SSI/SSP in California. This represents about 40 percent of all noncitizens in the United States that are receiving SSI. The Department of Social Services (DSS) estimates that 243,700, or 74 percent, of these recipients are unlikely to meet any of the exception criteria noted above and will become ineligible by September 1997 unless they are able to naturalize (that is, attain citizenship).

Naturalization Process. In order to apply for citizenship, noncitizens generally must be a lawful permanent resident for five years. According to DSS, over 90 percent of immigrants receiving SSI benefits in California have been in the United States for five years or more, generally making them eligible to apply for citizenship immediately.

Obtaining citizenship usually requires passing tests in English competency and civics (and clearing a Federal Bureau of Investigation [FBI] background check). However, exemptions are available. For example, about one-third of immigrants on SSI have been in the U.S. for more than 15 years, which would qualify those who are 55 years or older for an exemption from the English test. Furthermore, exemptions from both tests are available for immigrants with certain disabilities that would make them unable to pass the test. Immigrants also must be competent to take an oath of allegiance. Currently there are no waivers from this requirement.

During 1996, the Immigration and Naturalization Service (INS) reduced the processing time for citizenship from over one year to about six months. More recently, the processing time in the southern California area has increased from six to nine months, primarily due to changes in INS procedures pertaining to completion of FBI background checks. (We do not have recent information for the northern California area.)

How Many Noncitizens Will Naturalize? The department assumes that about two-thirds of these 243,700 noncitizens will become citizens before September 1997, leaving approximately 83,000 subject to benefit termination. Based on these assumptions, the DSS projects SSP savings of \$153 million from the General Fund in 1997-98. Because noncitizens would be eligible for county General Assistance, the costs to counties are likely to increase by roughly the same amount.

We note that in our November report on the state's fiscal outlook, we assumed a slower rate of naturalization of noncitizens than does the Governor's budget. Specifically, we assumed that 40 percent of the noncitizens would naturalize (or had already become citizens) prior to September 1997, and that an additional 30 percent would naturalize by March 1999. Based on our assumptions, SSP savings in 1997-98 would be approximately \$250 million, or \$100 million more than the budget assumes. Similarly, county cost increases would rise accordingly. Due to data limitations, however, there is considerable uncertainty in making these projections.

During February and March of 1997, the Social Security Administration will be notifying noncitizens that they may be ineligible for SSI/SSP. As recipients respond to these notices, better information on citizenship status and applications for citizenship is likely to be available. We also note that in February, the INS is expected to issue new citizenship regulations specifying criteria for certain disabled applicants to be exempted from the requirements, noted earlier, to demonstrate proficiency in the English language and fundamental knowledge of United States government and history.

Accordingly, we withhold recommendation until we have an opportunity to review this information.

Alternatives to the Budget Proposal for Noncitizens

The Legislature has the option of adopting policies to assist noncitizens who would lose SSI eligibility under federal welfare reform. We identify some of these options.

As a result of enactment of federal welfare reform legislation, noncitizens who are legally residing in the state are no longer eligible for SSI/SSP benefits. There are exceptions to this restriction—those individuals serving in the armed forces, veterans, refugees, asylees, and those who have worked ten years. In addition, noncitizens who subsequently become citizens would be eligible for benefits at that time.

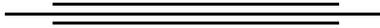
The budget estimates that about 87,000 noncitizens will not attain citizenship status during 1997-98 and will therefore lose SSI/SSP benefits. This consists of about 48,000 aged persons and 39,000 disabled persons. These individuals would be eligible for county-funded General Assistance (GA) benefits. Currently, GA grants vary among the counties, averaging about \$215 per person. The budget, however, also proposes legislation to eliminate the state mandate that counties provide GA benefits. Thus, it is not clear to what extent benefits will be available to these noncitizens.

To facilitate legislative consideration of this issue, we identify some alternatives for providing assistance below:

- **Continue full SSI/SSP benefits.** The General Fund cost of adopting this option would be \$507 million (plus administrative costs) above the Governor's Budget in 1997-98. (See Figure 2 for the grant levels authorized by current law.) Under this option, the state would continue to fund the state component of the grant (SSP) as well as backfill for the federally-funded component (SSI).
 - **Continue grants for a limited period.** The rationale for this policy would be to provide assistance for a period of time that would be sufficient to enable recipients to satisfy the requirements of citizenship. As with the first option, the state would fund both the SSI and SSP components of the grant. The General Fund cost of this option would depend on the length of time that aid is provided, with one month costing about \$50 million (plus administrative costs).
 - **Reimburse counties for the GA grant costs of aiding these noncitizens.** This would result in a county cost avoidance of about \$190 million, based on the budget's caseload estimates and assuming that all of the noncitizens who lose SSI/SSP benefits would apply for GA. (Costs could be higher or lower, depending on the extent to which noncitizens become citizens, compared to the budget assumptions.)
 - **Supplement county GA benefits with state grants equal to the current SSP component of the SSI/SSP grant.** This would provide for maximum supplemental grants of \$156 per month for individuals and \$396 for couples, at a General Fund cost of \$153 million over the Governor's Budget.
 - **Adopt Policies to Facilitate the Citizenship Process.** This could include, for example, policies to ensure that the noncitizens have access to citizenship classes offered by the public education institutions and outreach programs informing noncitizens about how to
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attain citizenship and how to obtain allowable test exemptions. We note that some counties have recently implemented or expanded programs to assist noncitizens in attaining citizenship.

Whether to adopt such measures to assist these noncitizens when they lose SSI/SSP benefits will depend on the Legislature's priorities in allocating state funds.



COUNTY ADMINISTRATION OF WELFARE PROGRAMS

The budget appropriates funds for the state and federal share of the costs incurred by the counties for administering the following programs: (1) Aid to Families With Dependent Children (AFDC) (or Temporary Assistance for Needy Families [TANF], pursuant to federal welfare reform); (2) Food Stamps; (3) Child Support Enforcement; (4) Special Adults, including emergency assistance for aged, blind, and disabled persons; (5) Refugee Cash Assistance; and (6) Adoptions Assistance.

The budget proposes an appropriation of \$560.3 million from the General Fund for county administration of welfare programs in 1997-98. This represents an increase of \$68.5 million, or 14 percent, over estimated current-year expenditures.

Budget Does Not Reflect Savings From Projected Caseload Decline

We recommend that the proposed General Fund expenditure for county administration be reduced by \$10.6 million because it does not account for savings from projected caseload declines. (Reduce Item 5180-141-0001 by \$10,630,000.)

Typically, the methodology used to budget for county administration is based on the amount counties actually spent in the past year, adjusted for projected changes in caseload and inflation in the budget year. This amount is also adjusted for policy changes. The budget for county administration, however, does not reflect the 0.9 percent caseload reduction that the Department of Social Services projects for the AFDC Program in 1997-98. Making this adjustment to the budget for county administration would result in General Fund savings of \$4.6 million.

Furthermore, as we discussed previously in our analysis of the AFDC Program, we project that the AFDC caseload will decline by 2.1 percent in 1997-98 rather than the 0.9 percent reduction in the budget. In order to account for this larger caseload decline, we recommend reducing General

Fund support for county administration by an additional \$6 million. In total, adoption of our recommendations would result in a General Fund savings of \$10.6 million in 1997-98.

Reallocation of Administrative Costs Could Result in Significant Savings

We recommend that the Department of Social Services and the Department of Health Services report during the budget hearings on the potential for state and county savings by allocating certain Aid to Families With Dependent Children/Temporary Assistance for Needy Families administrative costs to the Medi-Cal and Food Stamps programs, which receive federal matching funds.

Prior to federal welfare reform, the federal government paid for 50 percent of the administrative costs for the AFDC Program. Under the block grant approach in the new federal law, however, the state receives a fixed amount of federal funds. In the Food Stamps and Medi-Cal programs, the federal government continues to pay for 50 percent of the administrative costs.

The AFDC recipients are eligible for Medi-Cal and food stamps as a result of qualifying for AFDC. In the past, the costs for county administration associated with eligibility determination were allocated primarily to the AFDC Program for purposes of claiming federal matching funds. The budget proposes to continue this practice in 1997-98. We note, however that some of these costs (for example, eligibility determination) could be allocated to the Medi-Cal and Food Stamps programs. By doing so, it might be possible to claim federal matching funds for these costs, without affecting the block grant. These additional federal funds would reduce state and county costs for AFDC administration. For example, reallocating \$50 million in AFDC eligibility determination costs to Medi-Cal would result in General Fund savings of \$11.5 million and county savings of \$13.5 million.

Currently, there is considerable uncertainty concerning how these costs can be allocated. The federal Department of Health and Human Services and the Office of Management and Budget are considering this issue and may provide cost allocation guidelines in the next few months. Given the potential for substantial state savings, we recommend that the Department of Social Services (DSS) and the Department of Health Services (DHS) report on this issue during the budget hearings.

Additional Information Needed On Welfare Automation Projects

We withhold recommendation on proposed funding for the Statewide Automated Welfare System and the Statewide Automated Child Support System (including \$29.2 million from the General Fund for the Department of Social Services), pending receipt of additional information from the Health and Welfare Data Center.

The responsibility of developing the Statewide Automated Welfare System (SAWS) and the Statewide Automated Child Support System (SACSS) was moved from the DSS to the Health and Welfare Data Center (HWDC) in 1995. A brief summary of these projects is provided below. For a more complete description of these programs and our recommendations, please see our review of the HWDC in the General Government section of this *Analysis*.

SAWS. The budget proposes \$118.6 million (\$47.9 million federal funds, \$55.3 million General Fund, \$5.7 million county funds, and \$9.6 million in reimbursements) for the DSS and HWDC to continue the development and implementation of SAWS. Pursuant to the *1995-96 Budget Act*, the DSS is pursuing a multiple county consortium strategy for implementing SAWS. Under this approach, counties have joined together into four consortia.

In our analysis of the HWDC, we withhold recommendation on the development of the Welfare Case Data System (WCDS) consortium (one of the four SAWS consortia), the reprogramming of SAWS for the Governor's proposed CalTAP welfare reform initiative, and consortia planning and management, pending receipt of additional information from the HWDC. Accordingly, we withhold recommendation on the \$18 million (\$9.1 million General Fund) for WCDS, the \$13.3 million (\$6.7 million General Fund) for CalTAP reprogramming, and \$18 million (\$9.1 million General Fund) for consortia planning and management in the DSS budget for these projects.

SACSS. The budget proposes \$38.2 million (\$28.3 federal funds, \$4.3 million General Fund and \$5.6 million county funds) for the DSS to implement, operate, and maintain the SACSS in 1997-98. As of December 1996, 22 counties had implemented SACSS. Statewide implementation is scheduled to be completed by October 1997.

Although recent delays in implementation in Fresno and other counties have put the project behind schedule, the budget does not reflect these delays or the increased costs for meeting revised county child support needs. In our analysis of the HWDC, we discuss this and other issues

pertaining to the SACSS project and we withhold recommendation pending receipt of additional information from the data center. Accordingly, we withhold recommendation on the \$38.2 million (\$4.3 million General Fund) in the DSS budget for the project in 1997-98.

Statewide Fingerprint Imaging System Needs Feasibility Study

We recommend that funding for the Statewide Fingerprint Imaging System be deleted and that the Legislature adopt budget bill language providing that the funding be made contingent upon completion of a required feasibility study report. (Reduce Item 5180-141-0001 by \$3,843,000 and reduce Item 5180-141-0890 by \$3,844,000.)

The budget proposes \$7.7 million (\$3.8 million General Fund) for implementation of the Statewide Fingerprint Imaging System (SFIS), which is modeled on an existing fraud detection program in Los Angeles County. The HWDC is responsible for developing and procuring the statewide system. The DSS will provide the data center with \$6 million (\$3 million General Fund) for development and procurement costs. The remaining funds (\$1.7 million, of which \$0.8 million is General Fund) will be used for county administration of the program. According to the current schedule, counties will phase-in the system beginning in February 1998. Partial-year AFDC/TANF grant savings are estimated to be \$3.8 million General Fund and \$0.1 million county funds in 1997-98. When the system is fully operational, the program is estimated to provide annual net savings of about \$60 million (\$57 million General Fund).

In our analysis of the HWDC (please see the General Government section of this *Analysis*), we note that a required feasibility study report (FSR) has not been prepared for the SFIS. In that analysis, we recommend that funding authority for this project be deleted and that budget bill language be adopted to augment the budget and appropriate these funds upon completion of the FSR and subsequent contract award for system implementation. Specifically we recommend that the Legislature adopt the following budget bill language in Item 5180-141-0001:

In augmentation of the funds appropriated by this item, an additional sum of up to \$3,843,000 is hereby appropriated for continued development and implementation of the Statewide Fingerprint Imaging System (SFIS), subject to the review and approval by the Department of Finance (DOF) and the Department of Information Technology of a feasibility study report in accordance with the State Administrative Manual, and the award of a contract for implementation of the SFIS. In the event that the contract award is not made prior to July 1, 1997, the funds appropriated shall be made available consistent with the amount approved by the DOF based on

its review of the feasibility study report. In the event that a feasibility study report is not approved prior to July 1, 1997, the funds appropriated shall be made available by the DOF in an amount sufficient to ensure completion of a feasibility study report, and in an amount consistent with a subsequent contract award.

Identical language should be adopted in Item 5180-141-0890, but the amount of the augmentation should be \$3,844,000.



CHILD WELFARE SERVICES

The Child Welfare Services (CWS) Program provides services to abused and neglected children and children in foster care and their families. The CWS Program provides:

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

INFANT HEALTH AND PROTECTION INITIATIVE

The budget proposes \$35 million (\$22.2 million General Fund) to establish the Infant Health and Protection Initiative. The purpose of the initiative is to protect children from abuse and neglect by substance-abusing parents. For our analysis of the initiative, please see the section on “Crosscutting Issues” immediately following the overview of health and social services programs.

Proposed Changes for Child Welfare Services Case Management System Not Justified

We recommend a reduction of \$10 million (\$4.8 million General Fund) in the amount proposed for the Child Welfare Services Case Management System because these expenditures are not justified or should be funded by the counties. (Reduce Item 5180-151-0001 by \$4,820,000 and reduce Item 5180-151-0890 by \$5,160,000.)

For a discussion of this issue, please see our review of the Health and Welfare Data Center in the State Administration section of this *Analysis*.

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such assistance. While this implies that the program prevents institutionalization, eligibility for the program is not based on the individual's risk of institutionalization. Instead, an individual is eligible for IHSS if he or she lives in his or her own home—or is capable of safely doing so if IHSS is provided—and meets specific criteria related to eligibility for the Supplemental Security Income/State Supplementary Program (SSI/SSP) for the aged, blind, and disabled.

The IHSS Personal Care Services Program (PCSP) includes personal care services as a federally reimbursable service under the Medicaid Program. The PCSP limits eligibility to categorically eligible Medi-Cal recipients (Aid to Families with Dependent Children and SSI/SSP recipients) who satisfy a “disabling condition” requirement. Personal care services include activities such as (1) assisting with the administration of medications and (2) providing needed assistance with basic personal hygiene, eating, grooming, and toileting.

Noncitizens Will Lose Eligibility for IHSS As a Result of Federal Welfare Reform

We recommend the enactment of legislation to restore eligibility for In-Home Supportive Services (IHSS) for noncitizens who will lose eligibility because of the federal welfare reform act's provisions regarding the Supplemental Security Income (SSI) program. Restoration of IHSS eligibility for these persons would be consistent with the intent and prior actions of the Legislature. (Increase Item 5180-151-0001 by \$23,762,000.)

As discussed in our analysis of the SSI/SSP program, the federal welfare reform legislation of 1996 made most noncitizens ineligible for SSI benefits. The federal act does not address the IHSS program, but one of the indirect effects of the act is that noncitizens who lose SSI/SSP eligibility will no longer be eligible for IHSS benefits because, under current

state law, these benefits are limited to persons who meet the SSI/SSP eligibility requirements.

The Governor's budget does not propose legislation to restore IHSS eligibility for these noncitizens, thereby assuming General Fund savings of \$112,000 in 1996-97 and \$23.8 million in 1997-98, and county savings of \$61,000 in 1996-97 and \$12.1 million in 1997-98. This is based on an estimate of about 11,800 noncitizens losing benefits.

As indicated, the effect of the federal legislation on the IHSS program is a by-product of the policy changes made to the SSI/SSP program rather than a stated intent of Congress. We further note that the IHSS program is designed to provide assistance to persons who are unable to remain in their homes without such assistance. Thus, while the cost-effectiveness of the program may not be proven, we can expect some long-term savings from these services to the extent they prevent more costly institutionalized care.

For these reasons, we recommend the enactment of legislation to restore IHSS eligibility for needy noncitizens. This will result in a General Fund cost of \$23.8 million in 1997-98.

We note that a bill has been introduced (AB 67, Escutia) that would implement this recommendation.

Federal Funds Increase Not Budgeted

We recommend that federal funds budgeted for the In-Home Supportive Services program be increased by \$13.5 million, and General Fund support be reduced by the same amount, to reflect additional federal Social Services Block Grant funds that the state will receive, but which are not included in the budget. (Increase Item 5180-151-0890 by \$13,500,000 and reduce Item 5180-151-0001 by \$13,500,000.)

Federal Title XX Social Services Block Grant funds are allocated to the states and can be used for a variety of purposes in social service programs, with no state maintenance-of-effort requirement. The budget assumes that California will receive approximately \$285 million in Title XX funds annually in 1996-97 and 1997-98. This projection, however, does not reflect an increase in the amount appropriated to the states for federal fiscal year 1997 (October 1996 through September 1997). Pursuant to this increase, California will receive an additional \$13.5 million over the current and budget years.

These additional federal funds can be used to offset state General Fund expenditures. Consequently, we recommend that the additional funds be budgeted for the In-Home Supportive Services program, in lieu of Gen-

eral Fund support. This is consistent with how most of the Title XX funds allocated to the department are budgeted, and will not result in a reduction in the level of services provided under the program. We also note that the federal funds can be carried over from the current year to the budget year. Consequently, our recommendation assumes that the \$13.5 million will be expended in the budget year, permitting a corresponding reduction in proposed General Fund spending in 1997-98.



FINDINGS AND RECOMMENDATIONS

Health and Social Services

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Crosscutting Issues

Infant Health and Protection Initiative

1. **Proposed Budget for the Initiative Is Excessive. (Reduce Item 5180-151-0001 by \$5,970,000, reduce Item 5180-001-0001 by \$153,000, reduce Item 5180-001-0890 by \$153,000, and reduce Item 4200-102-0001 by \$500,000.)** The amount proposed for local assistance and state administration exceeds the amount justified by \$6.6 million from the General Fund. C-16

The Sexually Violent Predator Program

2. **Court Case Will Have Major Impact on the Sexually Violent Predator Program.** A US Supreme Court decision is anticipated on the constitutionality of the Sexually Violent Predator (SVP) Program in Kansas. Depending on the decision, this case could either lead to a challenge of the program in California or alleviate existing delays in moving SVP cases through the program's process. C-20
 3. **State Program Costs Could Increase Significantly.** State costs for the SVP program could increase in the future because of (1) the possibility that county costs will be determined to be a state reimbursable mandate; (2) the buildup of caseload due to the length of time required for treatment; and (3) the costs associated with the community placement of SVPs. C-21
 4. **Housing SVPs at State Hospitals Inconsistent with State Law.** Recommend enactment of legislation authorizing the housing and treatment of SVPs at state hospitals instead of state prisons, to be consistent with current practice and the budget proposal. C-24
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California Medical Assistance Program

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| 5. | Budget Overestimates Medi-Cal Caseload for AFDC/TANF Recipients. Reduce Item 4260-101-0001 by \$70.6 Million. | C-35 |
| Recommend total General Fund reduction of \$108.2 million (including \$37.6 million in 1996-97) based on our projection that Medi-Cal caseloads for AFDC/TANF eligibles will be lower than the budget estimates in both the current year and in 1997-98. | | |
| 6. | Restricting New Immigrants to Emergency Services Results in Relatively Little Savings. | C-39 |
| The budget proposes to limit Medi-Cal benefits for new legal immigrants to emergency services in order to conform with Medicaid restrictions in the federal welfare reform legislation. The savings from this restriction are relatively small. If the Legislature were to retain full-scope benefits for this group, the state cost would depend on federal policy regarding reimbursement for emergency services. | | |
| 7. | Premium Deeming Would Provide Full-Scope Coverage and Savings. | C-42 |
| Recommend that the Legislature and the administration seek federal legislation to authorize a Medi-Cal "premium deeming" program requiring sponsors to pay a monthly premium that would cover a share of the cost of providing Medi-Cal benefits to new legal immigrants. This could preserve access to full-scope Medi-Cal benefits for new immigrants and generate significant state savings. | | |
| 8. | Eligibility Determination Should Be Streamlined. Reduce Item 4260-101-0001 by \$2,250,000. | C-45 |
| Recommend General Fund reduction to reflect savings achievable by streamlining the eligibility process to continue Medi-Cal enrollment for immigrants who lose their SSI/SSP benefits due to the federal welfare reform law. | | |
| 9. | Federal Welfare Reform Expands Medi-Cal Eligibility for Unemployed Families. | C-47 |
| The federal welfare reform law expands Medi-Cal eligibility to two-parent families with long periods of unemployment or without a work history. The budget does not recognize the costs of this federal change. | | |
| 10. | Additional Federal Funds for Administrative Costs Could Result in State Savings. | C-48 |
| Recommend that the department report during budget hearings on the amount of additional federal funds that the state can anticipate in 1997-98 for Medi-Cal | | |

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| administrative costs, as authorized by the federal welfare reform legislation. | |
| 11. Reallocation of Administrative Costs Could Result in Significant State Savings. Recommend that the department report during budget hearings on the potential savings from reallocating a portion of eligibility determination costs from the AFDC/TANF program to the Medi-Cal Program, which receives federal matching funds. | C-48 |
| 12. Hospital Construction Program Overbudgeted. Reduce Item 4260-102-0001 by \$41 Million. Recommend reduction because (1) payments for several major new projects will not be needed in 1997-98, based on anticipated project completion dates, and (2) payments for other projects will be less than the amounts budgeted. | C-49 |
| 13. Alternative for Limiting the Use of “Distinct Part” Nursing Facilities. Recommend enactment of legislation to establish regional clearinghouses of nursing facility beds to facilitate the transfer of Medi-Cal patients from hospitals to less costly free-standing nursing facilities and to limit the use of more costly hospital “distinct part” nursing facilities. | C-50 |
| 14. Reports Not Yet Provided. The department has not yet provided three reports to the Legislature (concerning the Medi-Cal drug contracting program and alternatives to long-term institutional care) that were due in January 1997. | C-53 |

Public Health

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| 15. Proposal for Childhood Lead Poisoning Prevention (CLPP) Program is Internally Inconsistent. Reduce Item 4260-111-0001 by \$6,712,000 and Item 4260-001-0001 by \$2,800,000 and Increase Item 4260-111-0080 by \$6,712,000 and Item 4260-001-0080 by \$2,800,000. Recommend appropriating \$9.5 million from the CLPP Fund and reducing the budget by the same amount from the General Fund, to reflect the Governor’s proposed legislation to permit the use of fee revenues to support the CLPP Program. | C-54 |
| 16. Viral Load Test for HIV/AIDS Patients Shifts Cost to State. Reduce Item 4260-111-0001 by \$3,800,000. Recommend deletion of the proposed \$3.8 million General Fund appropriation to make an HIV viral load test available to county and city health | C-55 |

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providers, because these local governments currently pay for the test and can continue to pay for it with federal funds.	
17. Housing Program for Homeless Tuberculosis Patients is Overbudgeted. Reduce Item 4260-111-0001 by \$698,000. Recommend a General Fund reduction of \$698,000 in the proposed tuberculosis housing program, because the proposal is overbudgeted.	C-56
18. Excess Special Fund Revenues Should Be Transferred to the General Fund. Increase General Fund revenues by \$1,200,000. Recommend budget bill language to transfer unexpended balances from the Local Health Capital Expenditure Account to the General Fund, because the revenues are not needed to support the local capital expenditures program and it is appropriate to consider these revenues as fungible with the General Fund.	C-58
19. Adolescent Family Life Program (AFLP): Positions Not Justified. Reduce Item 4260-001-0001 by \$147,000, increase Item 4260-111-0001 by \$147,000. Recommend rejection of the proposed shift of \$147,000 from local assistance to state operations for the support of two positions in the AFLP, because the positions are not justified on a workload basis.	C-59
20. Statutory Authority for Allocating Proposition 99 Funds Expires June 30, 1997. We identify some issues for the Legislature in considering the Governor's proposed reauthorization bill.	C-60
21. Department Does Not Enforce Child Health and Disability Prevention Treatment Requirement. Recommend adoption of budget bill language directing the department to develop and implement regulations to enforce the statutory requirement that, as a condition of receiving Proposition 99 funds, counties provide treatment prescribed pursuant to Child Health and Disability Prevention program health examinations.	C-64

Department of Mental Health

22. New Funds for Proposition 98 Activities. Reduce Item 4440-102-0001 by \$3,000,000 and Item 4440-001-0001 by \$68,000. Recommend deleting the proposed General Fund augmentation of \$3,068,000 (\$3 million Proposition 98) for the Early Mental Health Initiative so the Proposition 98 funds can be made available for expenditure according to the priorities of local education agencies.	C-68
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| 23. Statutorily Required Evaluation Should Be Released. Withhold recommendation on the \$12 million budgeted to continue the Early Mental Health Initiative, pending submission of the program evaluation. | C-68 |
| 24. Security Plan for Napa State Hospital Is Needed. Withhold recommendation on \$1.4 million requested for 31 additional peace officer positions at Napa State Hospital, pending submission of a security plan that justifies the need for these positions. | C-69 |

Employment Development Department

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| 25. Federal School-to-Work Grant Should Be Included in Budget. Recommend that the \$43.8 million in federal funds that the state expects to receive from the School-to-Work Program implementation grant be included in the budget, in order to more accurately reflect spending in the budget year. | C-70 |
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Aid to Families with Dependent Children

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| 26. Federal Welfare Reform Amends or Repeals Several Major Public Assistance Programs. We summarize the key features of the legislation. | C-73 |
| 27. AFDC Caseload Projection Is Overstated. Reduce Item 5180-101-0001 by \$160,905,000. Recommend reducing the General Fund amount proposed for AFDC/TANF grants by \$117 million in 1996-97 and \$161 million in 1997-98 because the caseload is overstated. | C-78 |
| 28. The Governor Proposes to Continue Past Grant Reductions and Eliminate Grant Reduction Exemptions. These changes result in combined General Fund savings and cost avoidance of \$294 million. We review the Governor's proposals and comment on them. | C-79 |
| 29. Elimination of Statutory Exemptions to Grant Reductions—Budget Internally Inconsistent. Reduce Item 5180-101-0001 by \$10,822,000. Recommend a technical adjustment to reduce proposed General Fund expenditures for AFDC/TANF grants by \$10.8 million because the budget does not reflect the savings from the Governor's proposal to eliminate the statutory exemptions from previously enacted grant reductions. We also comment on the proposal. | C-83 |

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30. Governor Proposes to Redesign the AFDC/TANF Program. The Governor proposes to redesign the AFDC/TANF program in California, effective January 1, 1998. The proposal includes: benefit reductions according to specified time limits; a work/education/training requirement; modifications to the grant determination criteria; and paternity establishment requirements and penalties. We review the Governor's proposal and comment on it.	C-84
31. Comments on the Governor's CalTAP Proposal. The CalTAP welfare reform initiative would implement time-limited reductions in benefit levels. This would increase the financial incentives for families to work and would result in state and county savings; however, it would appreciably reduce the income of impact needy families unless they are able to obtain employment within the time limits.	C-87
32. Governor Proposes to Eliminate General Assistance Mandate. The Governor proposes to relieve counties of their current obligation to provide General Assistance benefits to indigent persons ineligible for other welfare programs.	C-95
33. Governor Proposes Augmentation for County Training. The Governor's budget proposes \$73 million to provide training for county welfare workers so that one worker will be able to perform both eligibility determination and case management functions.	C-95
34. Compliance/Performance Review Process Needs Revision. Recommend that the department develop, prior to the budget hearings, an alternative to its current process for reviewing county performance in child support enforcement because (1) the compliance review component of the process is invalid due to a flaw in the methodology and (2) the performance review component of the process does not show a significant relationship to program outcomes.	C-96
35. Need Additional Information on Child Support Commissioner Proposal. Withhold recommendation on \$38.7 million (\$13.2 million General Fund) proposed for support of the commissioner-based child support court system, pending receipt of caseload standards to be developed by the Judicial Council.	C-100
36. Elimination of \$50 Child Support Disregard—Budget Internally Inconsistent. Reduce Item 5180-101-0001 by \$20,941,000.	C-101

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Recommend a technical adjustment to reduce proposed General Fund expenditures for AFDC/TANF grants by \$20.9 million because the budget does not reflect the savings from the Governor's proposal to eliminate the \$50 child support disregard on January 1, 1998. We also comment on this proposal.

AFDC—Foster Care

37. **Budget Proposes Funds for County Juvenile Probation Facilities.** The budget proposes to allocate \$141 million in federal TANF block grant funds for the counties. For a discussion of a related issue, please see the Department of the Youth Authority in the Judiciary and Criminal Justice Section of this Analysis. C-102

**Supplemental Security Income/
State Supplementary Program**

38. **Assumed Federal Law Change Creates a General Fund Risk.** The budget proposes General Fund savings in SSI/SSP of \$279 million in 1997-98 that are dependent on federal action to eliminate the maintenance-of-effort requirement. C-103
39. **Budget Proposes to Make Temporary Reductions Permanent.** By proposing to make past grant reductions permanent and deleting the requirement to restore the statutory cost-of-living adjustment, the budget would achieve a General Fund cost avoidance of \$212 million. C-104
40. **Uncertainty in Estimating Savings from Noncitizens Losing SSI/SSP Eligibility.** Withhold recommendation pending receipt of additional information. C-106
41. **Alternatives to the Budget Proposal for Noncitizens.** The Legislature has the option of adopting policies to assist noncitizens who would lose SSI eligibility under federal welfare reform. We identify some of these options. C-107

County Administration of Welfare Programs

42. **Budget Does Not Reflect Savings From Projected Caseload Decline. Reduce Item 5180-141-0001 by \$10,630,000.** Recommend proposed expenditures for county administration be reduced by \$10.6 million from the General Fund to account for savings related to the projected caseload decline. C-110

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| 43. Reallocation of Administrative Costs Could Result in Significant Savings. Recommend that the Department of Social Services and the Department of Health Services report at budget hearings on the potential for securing additional federal matching funds that would result in state and county savings for welfare administration. | C-111 |
| 44. Additional Information Needed on Welfare Automation Projects. Withhold recommendation, to correspond with our analysis of the Health and Welfare Data Center's budget. | C-112 |
| 45. Statewide Fingerprint Imaging System Needs Feasibility Study. Reduce Item 5180-141-0001 by \$3,843,000 and Item 5180-041-0890 by \$3,844,000. Please refer to our analysis in the Health and Welfare Data Center's budget in the General Government section of this volume. | C-113 |

Child Welfare Services

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| 46. Proposed Changes for CWS Case Management System Not Justified. Reduce Item 5180-151-0001 by \$4,820,000 and Reduce Item 5180-151-0890 by \$5,160,000. Recommend a \$10 million reduction because these expenditures are not justified or should be funded by the counties. | C-115 |
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In-Home Supportive Services

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| 47. Noncitizens Will Lose Eligibility for IHSS as a Result of Federal Welfare Reform. Increase Item 5180-151-001 by \$23,762,000. Recommend legislation to restore eligibility for In-Home Supportive Services (IHSS) for noncitizens who will lose eligibility because of the federal welfare reform act's provisions regarding the Supplemental Security Income (SSI) program. Restoration of IHSS eligibility for these persons would be consistent with the intent and prior actions of the Legislature. | C-116 |
| 48. Federal Funds Increase Not Budgeted. Increase Item 5180-151-0890 by \$13,500,000 and reduce Item 5180-151-0001 by \$13,500,000. Recommend that federal funds budgeted for the IHSS program be increased by \$13.5 million, and General Fund support be reduced by the same amount, to reflect additional federal Social Services Block Grant funds that the state will receive. | C-117 |
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