MAJOR ISSUES

Health and Social Services

CalWORKs Employment Services Budget Significantly Exceeds the Amount Needed to Fully Fund the Program

- We estimate that the budget proposal is more than $700 million in excess of the amount needed to fully fund CalWORKs employment services.
- We recommend deleting $95 million (General Fund) proposed as the state match for the new federal Welfare-to-Work block grant because it can be deferred to future years when the match could be provided from within baseline expenditures for CalWORKs.
- We recommend reducing the budget for employment services by $209 million in federal TANF block grant funds. In conjunction with separate recommendations to reduce county welfare administration by $43 million, this would free up $252 million in federal TANF block grant funds. We recommend redirecting at least half of the savings ($126 million) to a reserve for future-year CalWORKs expenditures, and we identify options for the Legislature to consider in redirecting the remaining amount. (See pages C-118 and C-120 .)

Budget Proposes to Make Permanent the CalWORKs Grant Reduction and COLA Suspension

- The budget proposes to make permanent the 4.9 percent statewide grant reduction and the COLA suspension, for a General Fund cost avoidance of $248 million in 1998-99. Under current law, the grant reduction and COLA will be restored November 1, 1998. (See page C-116.)

Budget Proposes to Make Permanent the State COLA Suspension for the SSI/SSP

- The budget proposal would result in a General Fund cost avoidance of $39 million in 1998-99. (See page C-148.)

SSI/SSP Caseload Growth Is Overestimated

- We estimate that the General Fund amount needed to fund the program is $113 million less than in the budget. (See page C-147.)

Over $200 Million of Budgeted Medi-Cal Savings Appear Arbitrary

- In addition to specific adjustments made as a result of the transition to managed care, the Medi-Cal budget includes General Fund savings of $110 million in the current year and $133 million in 1998-99 as a result of "uncertainty adjustments" in the department's cost forecasting model. These global adjustments appear to be arbitrary. (See page C-50.)

Changes to the New Healthy Families Program Could Provide Better Coverage and Result in Savings

- We recommend legislation to require children in the California Children's Services program to enroll, if eligible, in the Healthy Families program. This would provide more comprehensive health care coverage and result in an increase in federal funds and a $6.2 million reduction in state costs.
- We also recommend that the administration report on the feasibility of including, as a benefit under the Healthy Families program, services provided by the regional centers for developmentally disabled children. (See page C-20.)

State Plan Amendment Would Result in General Fund Savings in the In-Home Supportive Services (IHSS) Program

- Certain IHSS recipients could be made eligible for federal funds by amending our State Medicaid Plan. We recommend such an amendment, and estimate that this would result in General Fund savings of $35 million. (See page C-150.)

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OVERVIEW

Health and Social Services

General Fund expenditures for health and social services programs are proposed to increase by 2.5 percent in the budget year. This increase is due primarily to a variety of workload and cost increases, full-year funding of a new health insurance program implemented in the current year, and the provision of state matching funds for the new federal Welfare-to-Work block grant. Also, state costs will increase because of a reduction in federal social services block grant funds (and a corresponding increase in General Fund expenditures), and increases due to certain program enhancements.

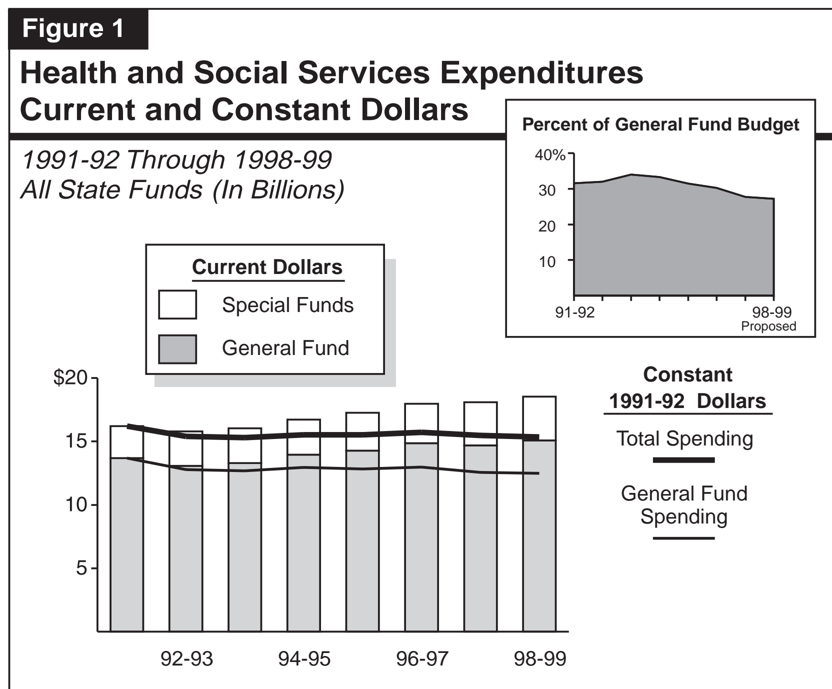
EXPENDITURE PROPOSAL AND TRENDS

The budget proposes General Fund expenditures of $15.1 billion for health and social services programs in 1998-99, which is 27 percent of total proposed General Fund expenditures. The health and social services share of the budget has been declining since 1993-94. The budget proposal represents an increase of $373 million, or 2.5 percent, over estimated expenditures in the current year.

Figure 1 (see next page) shows that General Fund expenditures (current dollars) for health and social services programs are projected to increase by $1.4 billion, or 10 percent, between 1991-92 and 1998-99. This represents an average annual increase of 1.4 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 accounted for a significant increase in special funds starting in 1991-92. 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, except for a slight reduction in 1997-98, due primarily to a decline in California Work

Opportunity and Responsibility to Kids (CalWORKs, formerly Aid to Families with Dependent Children [AFDC]) program caseloads.



Combined General Fund and special funds spending is projected to increase by 14 percent between 1991-92 and 1998-99. This represents an average annual increase of 1.9 percent.

Figure 1 also displays the spending for these programs adjusted for inflation (constant dollars). On this basis, General Fund expenditures are estimated to decrease by 8.7 percent between 1991-92 and 1998-99. Combined General Fund and special funds expenditures are estimated to decrease by 5.2 percent during the same period. This is an average annual decrease of less than 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. This shortfall was primarily due to the effects of the recession. The budget estimates that realignment revenues will be $2.8 billion in 1998-99.

CASELOAD TRENDS

Figures 2 and 3 (see next page) 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 Temporary Assistance for Needy Families, or TANF—formerly AFDC), the aged and the disabled (primarily recipients of Supplemental Security Income/State Supplementary Program—SSI/SSP), refugees, and illegal immigrants. (Pursuant to California's 1997 welfare reform legislation, TANF is implemented at the state level as the CalWORKs program.)

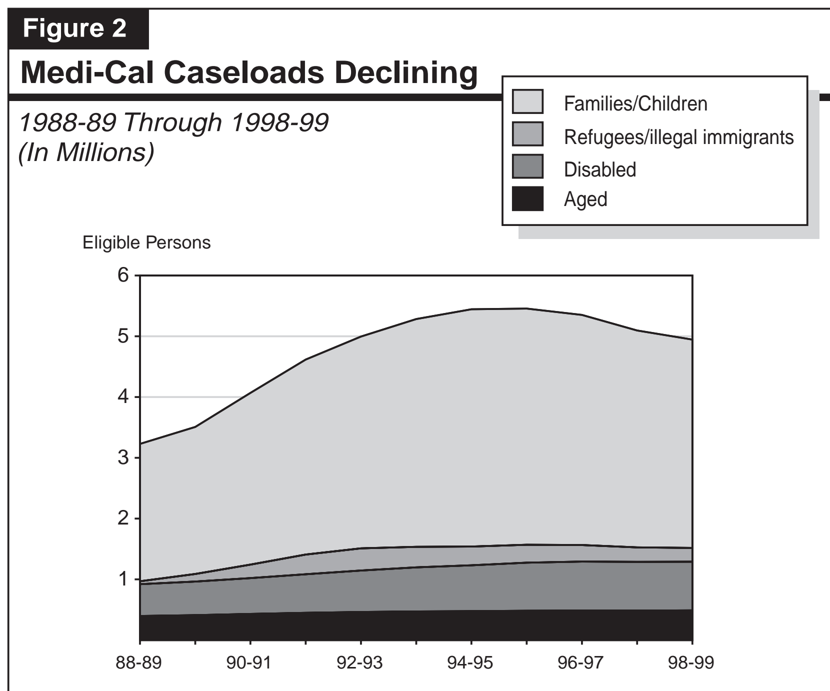


Figure 2

Medi-Cal Caseloads Declining

1988-89 Through 1998-99
(In Millions)

Medi-Cal caseloads increased by 53 percent over the ten-year period shown in Figure 2. As the figure 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, Medi-Cal caseloads have declined, including an estimated reduction of 4.8 percent in the current year and 2.9 percent in 1998-99, due primarily to a decline in AFDC/CalWORKs caseloads.

Figure 3 shows the caseload trend for the CalWORKs and SSI/SSP programs. While the number of *cases* in SSI/SSP is greater than in the CalWORKs program, there are more *persons* in the CalWORKs program—about 2 million compared to about 1 million for SSI/SSP. (The SSI/SSP cases are reported as individual persons, while CalWORKs cases are primarily families.)

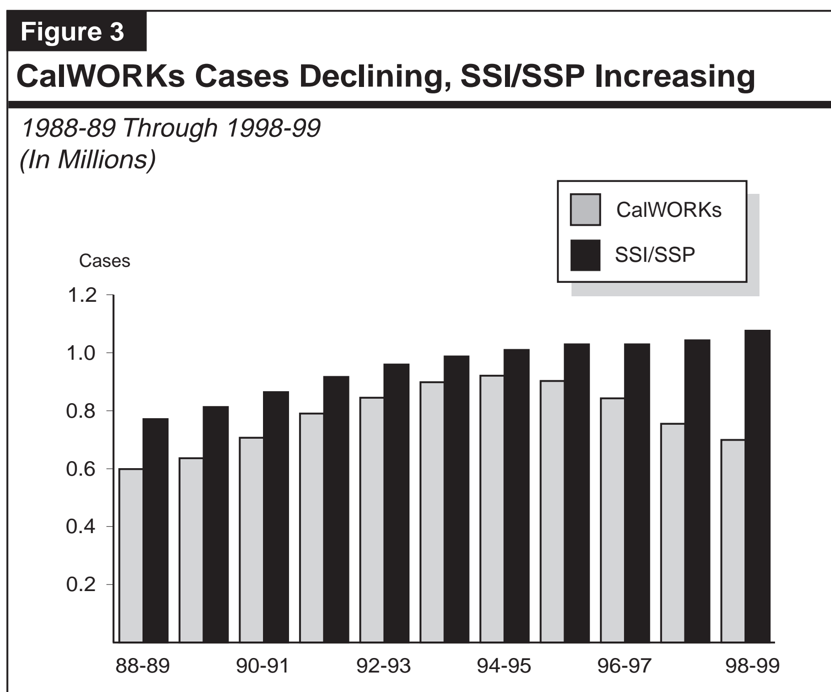


Figure 3

CalWORKs Cases Declining, SSI/SSP Increasing

1988-89 Through 1998-99
(In Millions)

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/CalWORKs 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/CalWORKs caseloads have declined. As we discuss in our report, *California's Fiscal Outlook* (November 1997), we believe that this trend is due largely to various factors affecting welfare caseloads, including the improving economy, lower birth rates for young women, a decline in legal immigration to California, and behavioral changes in anticipation of federal and state welfare reform.

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 component accounts for about one-third of the total caseload. 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. We note, however, that in recent years the growth of the disabled caseload has slowed.

Total SSI/SSP caseload growth has also moderated in recent years. This is partly attributable to federal policy changes that (1) eliminated drug or alcohol addiction as a qualifying disability, (2) made aged noncitizens in the U.S. prior to August 1996 (but not yet on SSI/SSP) ineligible for assistance, and (3) added restrictions on the eligibility of disabled children.

SPENDING BY MAJOR PROGRAM

Figure 4 (see next page) shows expenditures for the major health and social services programs in 1996-97 and 1997-98, and as proposed for 1998-99. As shown in the figure, the three major benefit payment programs—Medi-Cal, CalWORKs, and SSI/SSP—account for a large share of total spending in the health and social services area.

Figure 4

Major Health and Welfare Programs Budget Summary[a]

1996-97 Through 1998-99
(Dollars in Millions)

	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Change from 1997-98	
				Amount	Percent
Medi-Cal					
General Fund	$6,838.3	$6,780.2	$6,819.7	$39.5	0.6%
All Funds	18,370.2	18,175.8	18,523.2	347.4	1.9
CalWORKs (Grants and Services)					
General Fund	$2,833.8	$2,076.2	$1,988.4	-$87.8	-4.2%
All Funds	5,995.0	5,619.1	5,925.9	306.8	5.5
AFDC (Foster Care)					
General Fund	$307.0	$375.4	$399.7	$24.3	6.5%
All Funds	1,178.5	1,373.1	1,501.7	128.6	9.4
SSI/SSP					
General Fund	$2,012.7	$2,063.0	$2,159.1	$96.1	4.7%
All Funds	5,608.0	5,806.2	6,142.1	335.9	5.8
In-Home Supportive Services					
General Fund	$311.7	$385.4	$485.4	$100.0	25.9%
All Funds	1,084.1	1,238.6	1,365.2	126.6	10.2
Regional Centers/Community Services					
General Fund	$458.0	$487.8	$578.5	$90.7	18.6%
All Funds	1,046.0	1,162.0	1,328.2	166.2	14.3
Developmental Centers					
General Fund	$28.5	$35.8	$32.0	-$3.8	-10.6%
All Funds	522.8	464.5	474.1	9.6	2.1
Child Welfare Services					
General Fund	$350.0	$448.8	$448.5	-$0.3	-0.1%
All Funds	1,124.0	1,186.0	1,216.8	30.8	2.6
State Hospitals					
General Fund	$240.4	$270.3	$299.0	$28.7	10.6%
All Funds	479.4	477.4	484.8	7.4	1.6

[a] Excludes departmental support, except for state hospitals.

MAJOR BUDGET CHANGES

Figures 5 and 6 (see pages 12 and 13) illustrate the major budget changes proposed for health and social services programs in 1998-99. (We include the federal funds for CalWORKs because, as a block grant, they are essentially interchangeable with state funds within the program.) Generally, the major changes can be grouped into the following categories:

1. ***The Budget Proposes to Fund Basic Caseload Growth in SSI/SSP and Reflects Savings From Basic Caseload Reductions in Medi-Cal and CalWORKs.*** This includes a projected caseload reduction of 2.9 percent in the Medi-Cal Program, a decrease of 5.6 percent in the CalWORKs program, and an increase of 2.1 percent in SSI/SSP (before adjusting for policy changes).

2. ***The Budget Proposes to Make Permanent Certain Grant Reductions and Suspension of Statutory Cost-of-Living Adjustments (COLAs).*** Specifically, it:

- Makes permanent the 4.9 percent statewide grant reduction in CalWORKs enacted in 1996-97 ($151 million cost avoidance).
- Makes permanent the suspension of the statutory COLAs in CalWORKs ($97 million cost avoidance) and SSI/SSP ($39 million cost avoidance). (The federal SSI COLA would be provided to the recipients as scheduled in January 1999.)

3. ***The Budget Funds the Full-Year Implementation Costs of the Major New Health and Welfare Programs Enacted in the Current Year.***

- The budget proposes to increase spending for CalWORKs by $307 million in total funds, including an $88 million *reduction* from the General Fund. The increase is essentially funded by a large carry-over of unexpended federal TANF block grant funds from the current and prior years. The amount proposed for employment services includes $95 million from the General Fund to serve as part of the state match for the new federal Welfare-to-Work block grant, which will provide about $360 million in federal funds for local agencies (primarily Private Industry Councils) over the current and budget years.

Figure 5

Health Services Programs Proposed Major Changes for 1998-99 General Fund

Medi-Cal	**Requested:**	**$6.8 billion**	
	Increase:	**$40 million**	**(+0.6%)**

- ✚ $165 million due to higher utilization of services and other cost increases

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- ▬ $102 million due to a caseload reduction
- ▬ $66 million due to increases in the federal cost-sharing ratio
- ▬ $44 million from full-year effect of eliminating prenatal care for undocumented persons

Healthy Families Program	**Requested:**	**$64 million**	
	Increase:	**$59 million**	**(+1,164%)**

- ✚ $59 million for first full year of program implementation (includes Medi-Cal Program costs)

Public Health	**Requested:**	**$332 million**	
	Increase:	**$1.9 million**	**(+0.6%)**

- ✚ $23 million to expand the Cancer Research Program
- ✚ $16 million due to increased caseload and costs for the AIDS Drug Assistance Program

Mental Health	**Requested:**	**$570 million**	
	Increase:	**$17 million**	**(+3.1%)**

- ✚ 18 million for caseload growth in the state hospitals

Figure 6

Social Services Programs
Proposed Major Changes for 1998-99
General Fund

CalWORKs	**Requested:**	**$2 billion**	
	Decrease:	**$88 million**	**(-4.2%)**

- + $1.1 billion ($79 million General Fund and $1 billion federal block grant funds) for employment services and child care

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- − $248 million cost avoidance by not restoring the 4.9 percent statewide grant reduction and cost-of-living adjustment (COLA)
- − $241 million ($117 million General Fund and $124 million federal funds) from increased earnings and program exits
- − $179 million ($88 million General Fund and $91 million federal funds) due to a projected basic caseload decline

SSI/SSP	**Requested:**	**$2.2 billion**	
	Increase:	**$96 million**	**(+4.7%)**

- + $40 million for basic caseload growth
- + $37 million for growth in eligible disabled noncitizen caseload

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- − $39 million cost avoidance by not providing the state COLA

In-Home Supportive Services	**Requested:**	**$485 million**	
	Increase:	**$100 million**	**(+26%)**

- + $47 million due to reduction in federal Title XX funds
- + $30 million for full-year costs of minimum wage increase

Regional Centers	**Requested:**	**$579 million**	
	Increase:	**$91 million**	**(+19%)**

- + $74 million for caseload and cost increases
- + $10 million to reduce case management ratio and improve vendor services

- The budget proposes to increase total funding for the new Healthy Families Program from $21.1 million in the current year ($5.1 million General Fund) to $201 million in the budget year ($64.5 million General Fund). The budget-year amount includes $97.9 million ($33.3 million General Fund) for the Managed Risk Medical Insurance Board to implement a health insurance program for children in families that are not eligible for Medi-Cal, and whose incomes are up to 200 percent of the federal poverty level. Most of the remaining General Fund monies proposed for the Healthy Families Program are to expand eligibility in the Medi-Cal Program.

4. ***The Budget Proposes to Fund Caseload Increases and Enhanced Services for Developmentally Disabled Persons.*** This includes $114.9 million ($94.5 million General Fund, including Medi-Cal reimbursements) for caseload and cost increases, $50.9 million ($35.2 million General Fund, including reimbursements) to enhance services for regional center clients placed in the community, and $31.1 million ($16.1 million General Fund, including reimbursements) for the first year of a four-year expansion of staffing for the developmental centers.

CROSSCUTTING ISSUES

Health and Social Services

HEALTHY FAMILIES PROGRAM

The Healthy Families Program is a new state program to expand health insurance coverage for low-income children.

NEW PROGRAM TO EXPAND HEALTH COVERAGE FOR CHILDREN

Federal Legislation Provides New Funding

The federal *Balanced Budget Act of 1997* created a new Children's Health Insurance Program (CHIP). This new program provides federal funds to states on a matching basis to finance health care coverage for children (through age 18) in families with incomes that generally are less than 200 percent of the federal poverty level (FPL)—currently $32,100 for a family of four—but are too high to qualify for Medicaid (Medi-Cal in California). The federal legislation appropriates a total of $20.3 billion nationwide for the first five years of the program (beginning October 1997) and authorizes an additional $19.4 billion for the subsequent five-year period. Each state is entitled to an allotment of CHIP funds based primarily on its share of the national total of uninsured children in families with incomes under 200 percent of FPL. California's initial allotment for the federal fiscal year ending September 30, 1998 (federal fiscal year 1998) is $854.9 million, with similar amounts available in the subsequent two years.

Enhanced Federal Match Rate. For California, the federal government will pay about two-thirds of qualifying program costs compared with a federal share of about half in the Medi-Cal Program. In order to use all of the federal funds allotted to the state, California would have to spend an annual total of about $1.3 billion, including $443 million of state or local matching funds. Unused federal funds can be carried over for up to three years.

Choice of Separate Insurance Program or Medicaid Expansion. To be eligible for the new federal funds, states can choose to expand their Medicaid programs to cover additional children at higher income levels, or they can establish a separate insurance program. The separate insurance programs may offer a more limited benefit package than Medicaid, and may require families to pay a portion of the cost of coverage. States also can use a combination of the two approaches. States receive funding at the enhanced federal match rate for the additional children that they cover through either approach.

California's Healthy Families Program Enacted

Soon after the federal legislation was approved, the Legislature enacted and the Governor signed legislation to implement the new federal program in California known as the "Healthy Families Program." The legislation creates a new insurance program for children, separate from Medi-Cal, but it also incorporates a number of enhancements of Medi-Cal coverage for children. The legislation encompassed the following package of four bills:

Chapter 623, Statutes of 1997 (AB 1126, Villaraigosa) Establishes the Healthy Families Insurance Program. The new insurance program, which is separate from Medi-Cal, will help low-income families purchase health coverage for their children starting July 1, 1998. It is administered by the Managed Risk Medical Insurance Board (MRMIB), which has been responsible for operating the state's health insurance purchasing pool for small businesses and several smaller subsidized health insurance programs. The new insurance program has the following major features:

- ***Eligibility.*** Qualifying family income levels will be between 133 percent and 200 percent of FPL for children ages 1 through 5, and between 100 percent and 200 percent of FPL for children ages 6 through 18. Children at lower income levels (and infants up to 200 percent of FPL) are eligible for Medi-Cal coverage. Subsidized health coverage for infants up to 300 percent of FPL will continue to be available through MRMIB's existing Access for Infants and Mothers (AIM) Program. Generally, children must not have been

covered by employer-sponsored insurance for at least three months to qualify. Families will purchase coverage directly through MRMIB or receive purchasing credits from MRMIB to participate in employer-sponsored coverage, if available.

- ***Benefits.*** The program will provide comprehensive benefits equivalent to state employee health coverage, including vision, dental, and mental health coverage.
- ***Premiums and Copayments.*** Monthly premiums paid by families for the lowest cost plans will be $7 per child (up to 150 percent of FPL) or $9 per child (up to 200 percent of FPL), with family maximums of $14 and $27, respectively. Families who choose higher cost plans would pay the difference, and families who choose the plan with the greatest participation of traditional Medi-Cal and safety net providers would receive a $3-per-child premium discount. Copayments for most outpatient services will be $5, excluding preventive care, with an annual cap of $250.

Chapters 624 and 626, Statutes of 1997 (SB 903, Lee and AB 217, Figueroa) Broaden and Simplify Medi-Cal Eligibility for Poor Children. Children ages 14 through 18 in families up to 100 percent of FPL will be eligible for coverage now, rather than being phased in a year at a time as under prior law. These measures also generally eliminate asset limits for Medi-Cal coverage of children, require the Department of Health Services (DHS) to allow enrollment of children through a simplified mail-in form, and allow one month of continuing eligibility to enable children losing Medi-Cal time to enroll in Healthy Families.

Chapter 625, Statutes of 1997 (AB 1572, Villaraigosa) Provided Initial Funding. This measure appropriated $4.9 million ($1.8 million General Fund, $3.1 million federal funds) to MRMIB and DHS for start-up costs and outreach efforts for the Healthy Families Program.

THE BUDGET REQUEST

Governor's Budget Proposes Net Spending Total of $197 million in 1998-99

The 1998-99 budget request for Healthy Families includes funding for both MRMIB and DHS as shown in Figure 7 (see next page). The total net funding request is $197.2 million, consisting of $62.6 million from the General Fund and $134.6 million of federal funds. About half of total spending ($97.9 million) is for health plan payments and administration at MRMIB, and about 40 percent of spending is in the Medi-Cal Program

(net of offsetting savings). The Healthy Families budget also includes a total of $20.7 million of spending in existing health programs for children who will enroll in Healthy Families. By including these existing programs among Healthy Families benefits, the state will be able to obtain federal matching funds that will offset $14.6 million of state or local funding.

Figure 7

Healthy Families Program Funding Governor's Budget Proposal

1998-99
(In Thousands)

	General Fund	Federal Funds	Total
New Programs/Activities			
Children's Health Insurance Program			
Managed Risk Medical Insurance Board (MRMIB)			
Administration	$767	$1,491	$2,258
Health plan payments	32,488	63,150	95,638
Totals (MRMIB)	$33,255	$64,641	$97,896
Medi-Cal Program Expansion:			
Department of Health Services (DHS)			
Administration	$497	$1,152	$1,649
Eligibility expansions	21,984	42,409	64,393
Outreach	4,997	16,003	21,000
Offsetting savings[a]	-4,208	-4,208	-8,416
Totals (DHS/Medi-Cal)	$23,270	$55,356	$78,626
Totals (new programs/activities)	**$56,525**	**$119,997**	**$176,522**
Existing Programs			
Access for Infants and Mothers—MRMIB	$1,660	$3,228	$4,888
Child Health and Disability Prevention—DHS	2,883	5,605	8,488
California Children's Services—DHS	1,497	5,806	7,303
Totals (existing programs)	**$6,040**	**$14,639**	**$20,679**
Grand totals	**$62,565**	**$134,636**	**$197,201**[b]

[a] Savings consist of $4.6 million from using mail-in applications and $3.8 million of avoided costs for children in Healthy Families who incur large medical bills and would otherwise use Medi-Cal on a share-of-cost basis.

[b] The *Governor's Budget Summary* (page 121) indicates total cost of $201 million, but omits savings ($3.8 million) from the shift of share-of-cost children from Medi-Cal to Healthy Families.

ANALYSIS AND RECOMMENDATIONS

$1.4 Billion of Federal Funds Will Roll Forward

Under the budget plan, about $1.4 billion of California's federal allocation through June 1999 will remain unspent and will roll forward into 1999-00. It is likely that most, if not all, of these funds will remain unspent.

The budget proposes to spend $135 million of federal funds for the Healthy Families Program in 1998-99. This will result in a rollover of about $1.4 billion of unspent federal allocations. (As indicated above, unspent federal funds can be carried over for three years.) One reason for the large rollover is that the budget estimates that enrollment at the end of 1998-99 will be only 40 percent of the eligible children. However, even at full enrollment, the administration estimates that the state would use only about $320 million of federal funds annually, which is about $500 million *less* than the state's current annual allotment. Consequently, under the administration's projections, the Healthy Families Program will not be able to spend most of the federal funding allotted to California.

One explanation for the discrepancy between the state's federal funds allotment and planned spending is the federal allotments are based on the total number of low-income uninsured children. Most of these uninsured children, however, are in families with incomes low enough to qualify for Medi-Cal, and therefore they are not eligible for the new federal program. Absent Congressional action to expand the use of these federal funds, it appears likely that the state will not be able to spend a significant portion of its allotments.

Federal Approval of Continuing Eligibility in Doubt

We withhold recommendation on $27 million ($9.2 million General Fund) requested in the Department of Health Services' Medi-Cal budget to provide one-month continuing eligibility for children, pending resolution of federal objections to this proposal.

The Medi-Cal budget request includes (in Item 4260-101-0001) a total of $27,034,000 ($9,183,500 General Fund) in 1998-99 and $2,253,000 ($769,000 General Fund) in the current year to provide one month of continuing Medi-Cal eligibility to children who otherwise would lose their eligibility for Medi-Cal without a share of cost, as required by SB 903. The purpose of providing continuing eligibility is to avoid gaps in coverage for children in families whose income rises above the limit for no-cost Medi-Cal coverage of the child. The additional month of Medi-Cal coverage would allow time for the family to enroll the child in the

Healthy Families Program.

Transitional Coverage Available for Most Medi-Cal Children. The budget request proposes to provide one-month continuing coverage to all Medi-Cal children who are not in CalWORKs families (about 750,000 children). About two-thirds of the children covered by Medi-Cal are in CalWORKs families. CalWORKs families would not need the one-month continuing coverage because currently they are eligible for up to one year of "transitional" Medi-Cal coverage after their income increases above the CalWORKs limit due to employment, child support payments, or marriage.

About half of the children in non-CalWORKs families, however, are in the Medically Needy category and most (if not all) of them will be eligible for transitional Medi-Cal coverage as "Section 1931(b)" eligibles under the federal welfare reform law. (Please see our discussion of Section 1931(b) Medi-Cal eligibility in our analysis of the Medi-Cal Program.) Thus, the number of children who potentially might use the additional month of continuing coverage is about half the number assumed in the budget request. We estimate that providing one-month continuing coverage to this smaller number of children (at the regular federal match) would cost the General Fund $2.6 million less than the budget requests.

Federal Approval in Doubt. The requirements of SB 903 are contingent on the approval of federal matching funds. Such approval currently appears doubtful. Federal law authorizes states to provide up to 12 months of continuous eligibility to children when they *enroll* for Medicaid, or at their annual redetermination, with federal funding at the regular Medicaid matching rate (about 51 percent). The budget proposal, however, calls for extending children's Medi-Cal eligibility for one month *after* they have otherwise become ineligible, and assumes federal funding at the enhanced CHIP rate (about 66 percent). At this time, staff in the federal Health Care Financing Administration indicate that they doubt that the state's proposal for one-month continuing eligibility will be approved. Pending a final federal decision, we withhold recommendation on this request.

Requiring Children in the CCS Program to Enroll in The Healthy Families Program Would Result in Savings

We recommend enactment of legislation to require qualifying participants in the California Children's Services (CCS) Program to enroll in the Healthy Families Program in order to provide more comprehensive health care services to CCS children at a net General Fund and county savings of $6.2 million each in 1998-99 compared with the Governor's budget.

(Reduce Item 4260-111-0001 by $9,118,000 and Increase Item 4280-101-0001 by $2,972,000.)

The California Children's Services (CCS) Program provides diagnostic and treatment services, medical case management, and medical and occupational therapy services to children under 21 years of age who have eligible medical conditions, such as severe genetic diseases, chronic health problems, or major traumatic injuries. The Medi-Cal Program pays for eligible CCS services for those children who are in Medi-Cal. Other costs attributed to the CCS Program are shared equally by the state General Fund and county funds.

Healthy Families Includes CCS Services. The Healthy Families Program includes CCS services as a benefit. Therefore, for those CCS children who also are enrolled in Healthy Families, federal funds will cover two-thirds of the cost of their CCS services, which otherwise would be borne entirely by the state and the counties. Currently, however, there is no requirement that CCS children enroll in Healthy Families if they are eligible.

The budget assumes that CCS-eligible families will decide to enroll in Healthy Families at about the same pace as other families, so that about one-third of the eligible CCS children would be enrolled in Healthy Families by the end of 1998-99. The budget also estimates that CCS children enrolled in Healthy Families will receive a total of $8.8 million of CCS services in 1998-99. As a covered benefit, about two-thirds of this cost will be paid by federal funds, resulting in a state General Fund savings of $2.9 million (and equivalent county savings).

Enrollment of Eligible CCS Children in Healthy Families Would Result in Net Savings. Enrolling all eligible CCS children in Healthy Families would provide more comprehensive health coverage to CCS children while also reducing state and county costs. Healthy Families provides a full scope of health care services, plus dental and vision care, whereas the CCS Program only covers services that address a child's CCS-eligible condition. Enactment of legislation requiring families that participate in CCS to also enroll in Healthy Families would ensure that all eligible CCS children have full health coverage without losing any existing CCS benefits. It also would allow the CCS Program to draw down additional federal funds at the two-thirds match rate for the Healthy Families Program.

We estimate that full enrollment of eligible CCS children in Healthy Families would result in a net General Fund savings of $6.2 million in 1998-99, assuming that the sign-up requirement is effective starting October 1998. (General Fund CCS costs would decrease by $9.1 million, but increased General Fund costs for the Healthy Families Program would

offset almost $3 million of these savings.) Counties would experience a similar net savings in their share of CCS costs. Our savings estimate assumes that the families of CCS children would pay the Healthy Families monthly premium. Waiving premiums for families of CCS children would reduce the net state savings to about $6 million in 1998-99.

Including Regional Center Services As a Healthy Families Benefit Should Be Explored

We recommend that the Department of Health Services, the Department of Developmental Services and the Managed Risk Medical Insurance Board report during the budget hearings on (1) the feasibility of including regional center services as a Healthy Families benefit and (2) the potential state savings that would result.

The Governor's budget proposes $558 million from the General Fund in the budget of the Department of Developmental Services (DDS) to support the regional centers, which provide community-based services to developmentally disabled clients. Many of these clients are children, some of whom are not eligible for Medi-Cal, but whose family incomes would qualify them for the Healthy Families Program.

The regional centers provide a wide range of services to enable clients to live in the community. The federal CHIP legislation authorizes states to include "home and community-based health care services and related supportive services" as benefits under their children's health insurance plans.

The Healthy Families Program currently does not include regional center services as a covered benefit. We believe, however, that it may be feasible to include many of these services in the package of benefits provided by the Healthy Families Program. Requiring enrollment in Healthy Families for eligible children who use regional center services would ensure broad health coverage for these children and would enable the state to maximize General Fund savings by using federal funds to offset a portion of the costs. Accordingly, we recommend that DHS, DDS, and MRMIB report during the budget hearings on (1) the feasibility of including regional center services as a Healthy Families benefit and (2) the potential state savings that would result.

DEPARTMENTAL ISSUES

Health and Social Services

DEPARTMENT OF AGING (4170)

The California Department of Aging (CDA) administers funds allocated to California under the federal Older Americans Act. These funds are used to provide services to the elderly including supportive services, nutrition programs, employment services, preventive health services, and the elder abuse prevention program. In addition, the CDA administers a range of programs, supported by state and federal funds, that provide noninstitutional services for older Californians and functionally impaired adults, including the Multipurpose Senior Services Program, Linkages, Adult Day Health Care, and the Alzheimer's Day Care Resource Centers. Finally, the CDA administers the Foster Grandparent, Senior Companion, Respite Purchase of Services, Respite Registry, and Brown Bag programs.

The budget proposes expenditures of $156.3 million ($41.5 million General Fund) for the CDA in 1998-99. This represents a 28 percent increase in General Fund expenditures over the current year, due to the proposed expansion of several programs.

Proposed Expansion Would Not Allocate Funds According to Need

We withhold recommendation on $12.2 million ($9.1 million General Fund) requested to expand several California Department of Aging programs because the funds would not be allocated according to the need for services.

Background. The CDA's programs are carried out at the local level by the Area Agencies on Aging (AAA). There is one AAA for each Planning and Service Area (PSA). The budget proposes to expand the following programs administered by the CDA into PSAs where they do not currently exist:

- Multipurpose Senior Services Program (MSSP).
- Adult Day Health Care program.
- Alzheimer's Day Care Resource Center.
- Foster Grandparent program.
- Senior Companion program.
- Respite Purchase of Services.
- Respite Registry.
- Brown Bag program.

Figure 8 shows the additional sites necessary to provide each PSA with at least one site for each program.

Figure 8

California Department of Aging Proposed Program Expansion

Planning and Service Area	Programs Proposed to Be Expanded[a]								
	ADCRC	L	FG	SC	RR	RPOS	BB	MSSP	ADHC
Del Norte, Humboldt			X	X		X			
Lassen, Modoc, Shasta, Siskiyou, Trinity	X	X		X	X	X		X	
Butte, Colusa, Glenn, Plumas, Tehama		X	X	X	X	X			
Nevada, Placer, Sacramento, Sierra, Sutter, Yolo, Yuba		X			X	X			
Marin		X	X	X		X		X	
San Francisco									
Contra Costa		X	X	X	X	X		X	
San Mateo			X	X	X				
Alameda			X		X				
Santa Clara		X		X	X	X			

Continued

Planning and Service Area	Programs Proposed to Be Expanded[a]								
	ADCRC	L	FG	SC	RR	RPOS	BB	MSSP	ADHC
San Joaquin	X			X	X				
Alpine, Amador, Calaveras, Mariposa, Tuolumne		X	X	X	X	X		X	
San Benito, Santa Cruz		X				X			
Fresno, Madera	X	X			X	X			
Kings, Tulare	X	X	X	X	X	X		X	X
Inyo, Mono	X	X	X	X	X	X	X	X	X
San Luis Obispo, Santa Barbara		X	X	X	X	X			X
Ventura	X	X	X	X	X	X		X	X
Los Angeles County					X				
San Bernardino		X		X	X	X			
Riverside		X	X	X	X	X		X	
Orange		X	X	X	X	X			
San Diego			X	X		X			
Imperial	X	X	X	X	X	X		X	
Los Angeles City				X	X				
Lake, Mendocino				X	X				
Sonoma		X	X	X	X	X			
Napa, Solano	X	X	X	X	X	X		X	X
El Dorado	X	X	X	X	X	X		X	X
Stanislaus		X	X	X	X	X			X
Merced	X	X	X	X	X	X		X	X
Monterey					X			X	X
Kern		X	X	X	X	X		X	
Totals	**10**	**23**	**21**	**26**	**28**	**25**	**1**	**13**	**9**

[a] ADCRC—Alzheimer's Day Care Resource Center; L—Linkages; FG—Foster Grandparent; SC—Senior Companion; RR—Respite Registry; RPOS—Respite Purchase of Services; BB—Brown Bag; MSSP—Multipurpose Senior Services Program; and ADHC—Adult Day Health Care.

The budget proposes expenditures of $12.2 million ($9.1 million General Fund) to expand these programs in 1998-99, including $3.3 million ($2.7 million General Fund) in one-time start-up costs. The budget assumes that the expansion would begin in February 1999. The full-year expansion costs in 1999-00 are estimated to be $20.5 million ($14.4 million General Fund).

Proposed MSSP Expansion. The largest component of the budget proposal is the expansion of the MSSP—$5.8 million in 1998-99, including $2.8 million General Fund. The MSSP provides case management services

to frail elderly clients in order to prevent or delay institutionalization. Clients must be at least 65 years of age, Medi-Cal eligible, and certifiable as appropriate for nursing facility placement. Currently, there are 6,000 full-time equivalent "slots" in 19 PSAs, serving about 8,000 people statewide each year.

The department has estimated the need for MSSP services based on the size of the disabled elderly population in each PSA. Figure 9 shows for each PSA (1) the department's estimate of potential MSSP clients, (2) the current distribution of MSSP slots, and (3) the department's proposed distribution of new slots.

The figure indicates that the proposed expansion would not distribute new MSSP slots according to the estimated need for MSSP services. For example, the expansion would create a new 600-slot site in the Riverside PSA, but would leave the neighboring San Bernardino and Orange PSAs—which have a higher projected level of need—with only their existing 200 slots. The expansion would also create a new 400-slot site in the Kings-Tulare PSA, but would leave the neighboring Fresno-Madera PSA, which is projected to have twice the level of need, with half the number of slots. Clearly, the proposed MSSP expansion would not match the distribution of MSSP slots with the projected need for these services.

Proposed Expansion of Other Programs. The department does not have specific indicators of need for the other programs. Based on our discussions with the department, however, we believe that the size of the age 60-plus population is a reasonable proxy for the level of need for the services provided by these programs. However, the budget proposes to expand most of these programs by replicating the size of an "average existing site" in the PSAs that are currently without a site. This plan is unlikely to match the distribution of service capacity with the need for services for two reasons. First, the PSAs without existing program sites tend to have smaller age 60-plus populations, and therefore have a lower level of need for services than PSAs with existing sites. Second, although PSAs without existing sites vary in terms of the size of their age 60-plus populations, the proposal would establish sites of equal size in each new PSA.

Figure 10 (see page 28) illustrates these two problems by describing the proposed expansion of the Linkages program—the second largest component of the budget proposal ($3 million General Fund in 1998-99). The Linkages program provides case management services to about 2,000 functionally impaired adults and frail elderly each year who are at risk of institionalization, but who need not be Medi-Cal eligible. Figure 10 re-

Figure 9

Proposed Expansion of MSSP Potential Clients and Full-Time Service Slots

Planning and Service Area	Potential Clients	Current Slots	Proposed New Slots
Del Norte, Humboldt	138	130	—
Lassen, Modoc, Shasta, Siskiyou, Trinity	296	—	200
Butte, Colusa, Glenn, Plumas, Tehama	371	200	—
Nevada, Placer, Sacramento, Sierra, Sutter, Yolo, Yuba	1,907	200	—
Marin[a]	103	200	100
San Francisco	2,548	400	—
Contra Costa	760	—	300
San Mateo	742	200	—
Alameda	1,927	410	—
Santa Clara	2,127	200	—
San Joaquin	760	200	—
Alpine, Amador, Calaveras, Mariposa, Tuolumne[b]	98	—	200
San Benito, Santa Cruz	234	250	—
Fresno, Madera	1,505	200	—
Kings, Tulare	822	—	400
Inyo, Mono[b]	24	—	—
San Luis Obispo, Santa Barbara	468	200	—
Ventura	599	—	300
Los Angeles County[c]	17,197	1,810	—
San Bernardino	1,617	200	—
Riverside	1,407	—	600
Orange	2,500	200	—
San Diego	3,133	500	—
Imperial	466	—	200
Los Angeles City[c]	—	—	—
Lake, Mendocino	180	300	—
Sonoma[a]	268	—	—
Napa, Solano	426	—	200
El Dorado[b]	73	—	—
Stanislaus	607	200	—
Merced	332	—	200
Monterey	373	—	200
Kern	830	—	400

[a] PSAs currently share a 200-slot MSSP site. The proposed expansion would serve 100 additional clients in the Marin PSA.
[b] PSAs would share a 200-slot MSSP site.
[c] Figures for the Los Angeles County PSA include data for the Los Angeles City PSA.

Figure 10

Proposed Expansion of Linkages Program Current and Proposed Full-time Service Slots

Planning and Service Area	60-Plus Population	Current Slots	Proposed New Slots
Del Norte, Humboldt	28,036	120	—
Lassen, Modoc, Shasta, Siskiyou, Trinity	56,192	—	151
Butte, Colusa, Glenn, Plumas, Tehama	73,601	—	151
Nevada, Placer, Sacramento, Sierra, Sutter, Yolo, Yuba	297,630	—	151
Marin	43,909	—	151
San Francisco	143,907	110	—
Contra Costa	150,067	—	151
San Mateo	115,361	109	—
Alameda	199,086	266	—
Santa Clara	222,315	—	151
San Joaquin	84,789	123	—
Alpine, Amador, Calaveras, Mariposa, Tuolumne	38,376	—	151
San Benito, Santa Cruz	40,851	—	151
Fresno, Madera	132,748	—	151
Kings, Tulare	65,288	—	151
Inyo, Mono	5,890	—	151
San Luis Obispo, Santa Barbara	113,427	—	151
Ventura	101,761	—	151
Los Angeles County	747,310	481	—
San Bernardino	205,743	—	151
Riverside	241,246	—	151
Orange	376,659	—	151
San Diego	412,207	138	—
Imperial	18,409	—	151
Los Angeles City	498,206	318	—
Lake, Mendocino	33,630	158	—
Sonoma	72,997	—	151
Napa, Solano	74,934	—	151
El Dorado	26,850	—	151
Stanislaus	63,963	—	151
Merced	26,477	—	151
Monterey	50,442	135	—
Kern	92,194	—	151

ports for each PSA (1) the size of the age 60-plus population, (2) the current distribution of Linkages slots, and (3) the proposed distribution of new slots.

The figure shows that replicating the average existing site in new PSAs would give the tiny Inyo-Mono PSA a larger service capacity (that is, more Linkages slots) than more populated PSAs with existing Linkages sites, such as San Diego, San Mateo, and San Francisco. In addition, the figure shows that Inyo-Mono would have the same service capacity as larger PSAs receiving new Linkages sites, such as Orange, Fresno-Madera, and Santa Clara. Consequently, the proposed expansion of the Linkages Program would not match the distribution of service capacity with the need for services.

Recommendation. Because the proposed expansion of CDA programs would not allocate new service capacity according to the need for services, we withhold recommendation on the budget proposal. Further, we recommend that the department develop, prior to the budget hearings, an allocation plan that would better align new service capacity with the need for services.

Budget Does Not Reflect Savings From an Increase in Federal Funds

We recommend a General Fund reduction of $125,000 in the amount proposed for the Multipurpose Senior Services Program because the budget does not reflect additional federal funds that the state will receive due to an increase in the federal share of costs of this program. (Reduce Item 4170-101-0001 by $125,000 and increase Item 4170-101-0890 by $125,000.)

The Federal Medical Assistance Percentage (FMAP) determines the federal share of costs in the Medicaid Program (Medi-Cal in California) as well as certain other programs. The FMAP will increase from 51.23 percent to 51.55 percent beginning October 1, 1998.

The federal share of costs in the MSSP program is based on the FMAP. The budget, however, does not reflect the change in the federal share of costs. We estimate that the additional federal funds would result in General Fund savings of $125,000 in 1998-99. Accordingly, we recommend that the budget be amended to reflect these anticipated savings.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS (4200)

The Department of Alcohol and Drug Programs (DADP) directs and coordinates the state's efforts to prevent or minimize the effects of alcohol-related problems, narcotic addiction, and drug abuse. The department also serves as the coordinating agency for the California Mentor Initiative.

The budget proposes $352 million from all funds for support of DADP programs in 1998-99, which is a decrease of 9.3 percent from estimated current-year expenditures. The budget proposes $82 million from the General Fund in 1998-99, which is a decrease of $6 million, or 7.4 percent, below estimated current-year expenditures. The decrease is primarily due to a one-time carryover of $25 million ($6 million General Fund) from 1996-97 to 1997-98.

Budget Does Not Reflect Increase In Federal Medi-Cal Sharing Ratio

We recommend a General Fund reduction of $317,000 in the Drug Medi-Cal program because the Department of Alcohol and Drug Programs budget does not reflect the increased federal sharing ratio for Medi-Cal expenditures effective October 1, 1998. (Reduce Item 4200-101-0001 by $280,000 and Item 4200-102-0001 by $37,000.)

The DADP administers the Drug Medi-Cal (D/MC) program, an optional benefit under the state Medi-Cal program. The Governor's budget proposes expenditures of $64.7 million ($31.7 million from the General Fund for this program in 1998-99). However, the proposal does not take into account the increased federal sharing ratio for Medi-Cal services, from 51.23 to 51.55 percent, effective October 1, 1998. The effect of this change is to increase the amount of federal funds and reduce the amount of General Fund. Accordingly, we recommend that the budget be adjusted to reflect the increase in federal funds. If this change is taken into

account, General Fund expenditures would decrease by $317,000.

Department of Health Services State Operations (4260)

The Department of Health Services (DHS) has four major responsibilities. First, it provides access to health care for low-income persons through the Medi-Cal Program. Second, it administers a broad range of public health programs in cooperation with local health agencies. Third, it licenses hospitals and certain other health facilities. Fourth, it functions as the state's central agency for vital statistics.

The budget proposes $666 million from all funds ($201 million from the General Fund) and 5,033 personnel-years of staff for DHS state operations in 1998-99. Proposed General Fund spending represents an increase of 19 percent compared with estimated General Fund spending in the current year. Excluding a proposed new allocation of $25 million for ovarian and prostate cancer research, the budgeted growth in DHS state operations is 4.4 percent.

Armed and Over Budget

We recommend a General Fund reduction of $193,000 in the amount requested for the California Zero Fraud Tolerance Initiative because (1) large travel allotments are unnecessary, (2) additional border inspectors should be budgeted at the entry-level position classification, and (3) armed officers are not required to conduct eligibility verifications in hospitals, or computer database checks of aliens. (Reduce Item 4260-001-0001 by $193,000.)

The budget requests a total of $1,725,000 ($863,000 from the General Fund) to add 19 new positions and make permanent three limited-term positions for the California Zero Fraud Tolerance Initiative. The proposal would add 12 new fraud investigators located at ports of entry along the Mexican Border and at major airports. These investigators work with the U.S. Immigration and Naturalization Service (INS) to identify aliens seeking to enter the state who are nonresidents and have fraudulently

used Medi-Cal services in the past. Aliens who are so identified are referred to the INS for possible exclusion.

The budget also proposes to add seven new investigators to screen visa applicants for prior Medi-Cal use, verify residence of hospital patients, and consult in cases of document fraud. The budget also assumes that the new positions will result in $2.2 million of General Fund savings in 1998-99 (and indicates that the savings could potentially be greater) by preventing fraud.

Proposed Investigator Positions. The budget request seeks to make three current limited-term airport investigator positions permanent and add the following new positions:

- Twelve positions (two supervisors and ten investigators) to provide 24-hour coverage at two border crossings and enhance coverage at four other crossings.
- Three limited-term positions to check the Medi-Cal eligibility database for past use of benefits by aliens applying for visas at U.S. embassies and consulates abroad.
- Three limited-term positions to be located at hospitals to verify residency of patients seeking care.
- One position to work with the department's Office of Vital Records to handle fraudulent document referrals from the INS and other agencies.

High Travel Needs Not Justified. The budget request includes a total of $208,000 ($104,000 General Fund) for travel, budgeted at the department's "heavy" travel allotment of almost $11,000 annually for each of the new positions. The need for heavy travel, however, has not been justified. The border inspectors will be working regular shifts at permanent border crossings—primarily in the San Diego metropolitan area. The new staff to handle foreign inquiries should not require any travel. Reducing travel to $2,000 per position would provide adequate funding for attending training and meetings and results in a General Fund savings of $83,000.

Investigators. The department's budget request does not justify the need to hire the new border and hospital investigators at the senior classification. Budgeting these 13 positions at the entry level, Special Investigator I class, saves $50,000 (General Fund).

Peace Officers and Guns Unnecessary For Some Tasks. All of the requested new positions are armed peace officers. The budget provides guns, ammunition, and body armor for all of the new positions. While

there may be some justification for using armed peace officers at the border crossings, where access is uncontrolled and criminal apprehensions are not uncommon, we question whether the other positions require armed peace officers. The need for armed inspectors to verify the residence of hospital patients has not been explained. Furthermore, we fail to understand what threat requires arming investigators who will be running computer checks on visa applicants who are overseas or who are consulting on document verification. Classifying these positions more appropriately as analysts saves $57,000 (General Fund), and an additional General Fund savings of $3,000 results from deleting ammunition, guns, and body armor requested for these seven positions.

Filling Positions Would Generate Savings

We recommend a General Fund augmentation of $1.1 million to fill 39.3 vacant positions in order to increase recoveries from third parties and reduce General Fund Medi-Cal costs by $4.8 million, for a net savings of $3.7 million. (Increase Item 4260-001-0001 by $1,090,000 and reduce Item 4260-101-0001 by $4,761,000.)

The budget estimate includes General Fund cost increases of $1.4 million in 1997-98 and $4.8 million in 1998-99 to offset a loss of revenue from the recovery of Medi-Cal costs from estates, insurance companies, and other third parties. The department indicates that the revenue loss results from its inability to fill 39.3 authorized, but vacant, positions due to budget constraints. The department advises that the General Fund cost of filling the positions would be $1,090,000 in 1998-99. Since filling the positions would result in a net General Fund *savings* of $3.7 million, leaving the positions vacant, rather than filling them, appears to constrain the budget. Accordingly, we recommend an augmentation in the department's state operations budget to fund the vacant positions and a reduction in the Medi-Cal local assistance budget to recognize the resulting third-party recoveries for a net savings of $3.7 million.

Phantom Positions Undermine Legislative Oversight

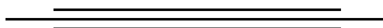
We recommend that the department present a staffing plan to the budget subcommittees that identifies and proposes to eliminate approximately 500 vacant positions that the budget does not fund in 1998-99.

The DHS budget requests 293 new authorized positions for 1998-99, raising the total number of authorized positions in the department to 5,832. The request for almost 300 new positions comes despite the fact that the department has 731 vacant positions in the current year. With the additional positions, the number of vacant positions will increase to 799

(13.7 percent of all authorized positions) in 1998-99, according to the budget, in order to meet the department's "salary savings" requirement.

All departments have some vacant positions due to normal personnel turnover and hiring delays, but generally these unavoidable vacancies are only about 5 percent of total positions (the statewide average is 4.9 percent). The high vacancy rate at DHS results from intentionally leaving positions vacant in order to live within the dollars provided in the budget. The discrepancy between positions and funding may result, in part, from the department's failure to adjust its staffing levels after unallocated funding cuts made in previous years. Instead of identifying low-priority functions and eliminating those positions, the department has absorbed funding cuts by increasing its salary savings allotment (savings from position vacancies). As a result, the department's staffing looks considerably more formidable on its organization chart than it is in reality.

Budgeting such a high vacancy rate undermines the Legislature's ability to effectively oversee the department's programs because it weakens the Legislature's oversight of the organization and staffing of the department. The programs or functions that are adversely affected by vacancies are determined by chance or by the preferences of department administrators, without giving the Legislature an effective means of reviewing these decisions. For this reason, we recommend that the department develop and present to the budget subcommittees a revised staffing plan that identifies and proposes to eliminate approximately 500 vacant positions to reduce its salary savings requirement to 5 percent and eliminate forced vacancies.



CALIFORNIA MEDICAL ASSISTANCE PROGRAM (MEDI-CAL)

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, or 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) disproportionate share hospital (DSH) payments, which provide additional funds to hospitals that serve a disproportionate number of Medi-Cal or other low-income patients and (2) matching funds for state and local funds 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), the Department of Social Services (DSS), the Department of Mental Health, the Department of Developmental Services, and the Department of Alcohol and Drug Programs receive Medi-Cal funding from DHS for eligible services that they provide to Medi-Cal beneficiaries. At the local level, county welfare departments determine the eligibility of applicants for Medi-Cal and are reimbursed by DHS for the cost of those activities. The federal Health Care Financing Administration (HCFA) oversees the program to ensure compliance with federal law.

Proposed Spending. The budget for DHS proposes Medi-Cal expenditures totaling $18.7 billion from all funds for state operations and local assistance in 1998-99. The General Fund portion of this spending ($6.9 billion) increases by a relatively small amount ($41.6 million or 0.6 percent) compared with estimated General Fund spending in the current year. The spending total for the Medi-Cal budget includes an estimated $2.8 billion (federal funds and local matching funds) for payments to DSH hospitals, and about $1.4 billion of federal funds to match

state and local funds budgeted elsewhere for programs operated by other departments, by counties, or by the University of California. Including these other state and local funds, total proposed Medicaid spending in California would be about $20.1 billion in 1998-99.

MEDI-CAL BENEFITS AND ELIGIBILITY

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

About two-thirds of the Medi-Cal caseload consists of participants in the state's two major welfare programs, which include Medi-Cal coverage in their package of benefits. These programs are (1) the California Work Opportunity and Responsibility to Kids (CalWORKs) Program, which provides assistance to families with children and replaces the former Aid to Families with Dependent Children (AFDC) Program, and (2) the Supplemental Security Income/State Supplementary Program (SSI/SSP), which assists elderly, blind, or disabled persons. Counties administer the CalWORKs Program and county welfare offices determine eligibility for CalWORKs benefits and Medi-Cal coverage concurrently. Counties also determine Medi-Cal eligibility for persons who are not eligible for (or do not wish) welfare benefits. The federal Social Security Administration determines eligibility for SSI/SSP, and the state automatically adds SSI/SSP beneficiaries to the Medi-Cal rolls.

Generally, persons who have been determined eligible for Medi-Cal benefits (Medi-Cal "eligibles") 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 pro-

vider who has agreed to accept Medi-Cal payments. The Medi-Cal Program employs a variety of "utilization control" techniques (such as requiring prior authorization for some services) designed to avoid costs for medically unnecessary or duplicative services.

Managed Care. Prepaid health plans generally provide managed care. The plans receive monthly "capitation" payments from the Medi-Cal Program for each enrollee in return for providing all of the covered care needed by those enrollees. These plans are similar to health plans offered by many public and private employers. By the end of 1998-99, DHS expects to have just over half (2.5 million) of the projected 4.9 million Medi-Cal eligibles enrolled in managed care organizations. Beneficiaries in managed care choose a plan and then must use providers in that plan for most services. Since payments to the plan do not vary with the amount of service provided, there is much less need for utilization control by the state. Instead, plans must be monitored to ensure that they provide adequate care to enrollees.

Who Is Eligible for Medi-Cal?

Almost all Medi-Cal eligibles fall into two broad groups of people. They either are aged, blind, or disabled or they are in families with children. More than two-thirds of Medi-Cal eligibles are welfare recipients. Figure 11 shows for each of the major Medi-Cal eligibility categories the maximum income limit in order to be eligible for benefits, and the estimated caseload and total benefit costs for 1997-98. The figure also indicates for each category whether an asset limit applies and whether eligible persons with incomes over the limit can participate on a "spend-down" basis. If spend-down is allowed, then Medi-Cal will pay the portion of any qualifying medical expenses that exceed the person's "share of cost," which is the amount by which that person's income exceeds the applicable Medi-Cal income limit.

Aged, Blind or Disabled Persons. About 1.3 million low-income persons who are (1) at least 65 years old or (2) disabled or blind persons of any age receive Medi-Cal coverage. Overall, the disabled make up more than half (61 percent) of this portion of the Medi-Cal caseload. Most of the aged, blind or disabled persons on Medi-Cal (85 percent) are recipients of SSI/SSP welfare benefits and receive Medi-Cal coverage automatically. The other aged, blind or disabled eligibles are in the "medically needy" category. They also have low incomes, but do not qualify for, or choose not to participate in, the SSI/SSP Program. For example, aged low-income noncitizens generally may not apply for SSI/SSP (although they may

Figure 11

Who is Eligible for Medi-Cal? Major Eligibility Categories

1997-98

	Maximum Monthly Income Or Grants[a]	Asset Limit Imposed?	Spend-Down[b] Allowed?	Enrollees (Thousands)	Annual Benefit Costs (Millions)[c]
Aged, Blind, or Disabled Persons					
• Welfare (SSI/SSP)	$1,156	✔	—	1,103	$5,417
• Medically needy	934	✔	✔	112	876
• Medically needy—long term care	Special limits	✔	✔	69	2,177
Families, Pregnant Women, Children					
Single-parent or unemployed families					
• Welfare (CalWORKs)	$1,014[d]	✔	—	2,582	$3,017
• Medically needy	1,190	✔	✔	436	724
Any women or children					
Pregnant women					
• 200 percent of poverty —pregnancy services	$2,765	—	—	92	$336
• Medically indigent— all services	1,190	✔	✔	11	95
Children					
• 200 percent of poverty—infants	$2,765	—	—	40	—[e]
• 133 percent of pov-erty—ages 1 through 5	1,869	—[f]	—	93	$56
• 100 percent poverty— ages 6 through 18[f]	1,428	—[f]	—	38	21
• Medically indigent— ages 0 through 21	$1,190	✔	✔	278	$371
Emergency-Only					
Illegal immigrants and nonimmigrant aliens who qualify in any eligibility group are limited to emergency services (including labor and delivery and long-term care).				235	$509

a Amounts are for aged or disabled couple (blind slightly more) or for a four-person family with children (including a $90 work expense disregard).
b Indicates whether persons with higher incomes may receive benefits on a share-of-costs basis.
c Combined state and federal cost.
d Income limit to apply for CalWORKs (including a $90 work expense disregard). After going on aid, the income limit increase to $1,355 (family of four) with the maximum earned income disregard.
e costs included in amount for 200 percent of poverty pregnant women group.
f Reflects changes made by Chapter 624, Statutes of 1997 (SB 903, Lee), which are scheduled to take effect in March 1998.

continue on SSI/SSP if they already were in the program as of August 22, 1996). As another example, about one-fifth of the medically needy persons in this category have incomes above the Medi-Cal limit and participate on a share-of-cost basis.

The number of Medi-Cal eligibles in long-term care is small, only 69,000 people or 1.3 percent of the total caseload; but because long-term care is very expensive, benefit costs for this group total $2.2 billion, or 16 percent of total Medi-Cal benefit costs.

About half of the aged or disabled Medi-Cal eligibles also have health coverage under the federal Medicare Program. Medi-Cal generally pays the Medicare premiums, deductibles and any co-payments for these "dual beneficiaries," and Medi-Cal pays for services not covered by Medicare, such as drugs and long-term care. Medi-Cal also provides some limited assistance to a small number of Medicare eligibles who have incomes somewhat higher than the medically needy standard.

Families. About half of all Medi-Cal eligibles are CalWORKs welfare recipients in single-parent or unemployed families, who automatically receive Medi-Cal coverage. Although CalWORKs recipients constitute the largest group of Medi-Cal eligibles by far, they account for only 22 percent of total Medi-Cal benefit costs. This is because almost all CalWORKs recipients are children or nondisabled working-age adults, who generally are relatively healthy.

Single-parent or unemployed families who are not in CalWORKs also may enroll in Medi-Cal in the medically needy family category. Medi-Cal covers both the adults and the children in these families. The income and asset limits for medically needy families are somewhat higher than for CalWORKs applicants. Qualifying families with higher incomes also may participate in the medically needy category on a share-of-cost basis.

Women and Children. Medi-Cal includes a number of additional eligibility categories for pregnant women and for children. Women and children in these categories may be in any type of family, including working, two-parent families. Medi-Cal covers all health care services for poor pregnant women in the medically indigent category, which has the same income and asset limits and spend-down provisions as apply to medically needy families. However, pregnancy-related care is covered with no share of cost for women up to 200 percent of poverty (an annual income of $33,180 for a family of four, including a $90 monthly work expense disregard).

The medically indigent category also covers children and young adults through age 20. Several special categories provide coverage without a

share of cost or an asset limit to children in families with higher incomes—200 percent of poverty for infants, 133 percent of poverty for children ages 1 through 5, and 100 percent of poverty for children ages 6 through 18. Chapter 624, Statutes of 1997 (SB 903, Lee) extends the 100-percent-of-poverty group to ages 14 through 18 and eliminates the asset limit for poverty-group children. The budget indicates that these changes will be implemented in March 1998.

Emergency-Only Medi-Cal. Noncitizens who are illegal immigrants or who are not here as immigrants (such as tourists or students) may apply for Medi-Cal coverage in any of the regular categories (except those linked to welfare). However, benefits are restricted to emergency care (including labor and delivery). Existing coverage for prenatal care (a state-only program) was scheduled to end in February 1998, according to the Governor's budget, pursuant to restrictions placed on services to nonqualified aliens as a result of the federal welfare reform legislation of 1996. However, DHS now indicates that the termination of prenatal services has been delayed until March 1998 due to litigation. Nonemergency long-term care continues to be provided "until various legal issues are resolved," according to the budget.

MEDI-CAL EXPENDITURES

Figure 12 (see next page) presents a summary of Medi-Cal General Fund expenditures in the DHS budget for the past, current, and budget years.

The budget estimates that the 1997-98 General Fund share of Medi-Cal benefit costs will be $119.4 million (1.8 percent) less than in 1996-97 and that there will be a slight additional reduction of $15.3 million in 1998-99. These reductions in General Fund benefit costs primarily result from declines in the CalWORKs-related portion of the Medi-Cal caseload and from a modest increase in the federal medical assistance percentage (FMAP) for California, which is the federal share of Medi-Cal benefit costs. Increases in the cost and utilization of health care services, however, offset some of these savings and moderate the spending decline for benefits.

The budget projects that total Medi-Cal local assistance costs from the General Fund will increase by $39.5 million (0.6 percent) in 1998-99. This is because increased costs for county administration and for debt service payments more than offset the slight decline in projected spending on benefits.

Figure 12

Medi-Cal General Fund Budget Summary Department of Health Services[a]

1996-97 Through 1998-99 (Dollars in Millions)

	Actual 1996-97	Estimated 1997-98	Proposed 1998-99	Change From 1997-98	
				Amount	Percent
Support (state operations)	$64.6	$66.2	$68.2	$2.0	3.1%
Local Assistance					
Benefits	$6,474.9	$6,355.5	$6,340.1	-$15.3	-0.2%
County administration (eligibility)	312.2	317.6	349.9	32.3	10.2
Fiscal intermediaries (claims processing)	41.5	72.5	72.2	-0.3	-0.5
Hospital construction debt service	9.6	34.6	57.5	22.8	66.0
Subtotals, local assistance	($6,838.3)	($6,780.1)	($6,819.7)	($39.5)	(0.6%)
Totals	**$6,902.9**	**$6,846.4**	**$6,887.9**	**$41.6**	**0.6%**

[a] Excludes General Fund Medi-Cal spending budgeted in other departments.

1997-98 Budget Savings

The estimated General Fund costs for Medi-Cal benefits in the current year will be $238 million less than the amount appropriated in the *1997-98 Budget Act.*

Caseload—$199 Million Savings. The major reason for the savings in the current year is that the budget's caseload estimate is 3.3 percent (173,300 eligibles) less than the amount assumed in the 1997-98 budget appropriation. The lower caseload results in estimated General Fund savings of $199.4 million. The biggest adjustment is for CalWORKs eligibles (a reduction of 75,300 from the 1997-98 budget assumption). CalWORKs-linked eligibles now are estimated to decline by 8.4 percent in the current year (a decline of 236,000 from 1996-97). The more rapid decline in CalWORKs eligibles results in about $44 million of savings compared with the budget appropriation. However, there are even larger caseload-related savings in other eligibility groups. A reduction of about 27,000 disabled eligibles (versus the 1997-98 budget assumptions) results in about $100 million of savings. There also has been a steeper than antici-

pated decline in the number of illegal immigrants on Medi-Cal, which will save about $40 million.

Rate Increases—$60.8 Million Cost. The current-year estimate includes General Fund increases of $38.3 million to increase managed-care rates by 6.4 percent (effective October 1997) and an additional $22.5 million increase in nursing home rates to include the "ripple" effect of the minimum wage increase on wages of higher-paid employees.

Prenatal Elimination Delayed—$22.4 Million Cost. The administration assumes the elimination of prenatal care for illegal immigrant women on February 1, 1998, rather than in October 1997 as the 1997-98 budget assumed. This results in increased costs of $22.4 million. Costs will increase by an additional $6.2 million, however, due to a further one-month delay resulting from recent litigation, as noted earlier in this analysis.

"Estimate Uncertainty" Adjustment—$110 Million Reduction. On a net basis, the cost increases identified above and other smaller changes offset about $72 million of the estimated caseload savings. The budget, however, includes an additional downward General Fund adjustment of $109.6 million to the Medi-Cal estimate in the current year (and $133 million in 1998-99). This adjustment represents a 2 percent reduction to the midrange cost estimate produced by the DHS Medi-Cal forecasting model. According to DHS, the adjustment is warranted by (1) more recent drops in the CalWORKs caseload that were not reflected in the data used to prepare the budget forecast and (2) potential distortions in the fee-for-service cost trends in the model that result from the current shift of eligibles to managed care. The department also notes that it believes that its Medi-Cal estimating model has a variance of plus or minus 4 percent, based on the accuracy range of other large economic models; and that the budget adjustment reduces the estimate by half of this variance range.

Budget Year

Although proposed General Fund spending for Medi-Cal stays relatively flat in 1998-99, there are a number of General Fund spending changes and assumptions within the budget.

Caseload and FMAP Savings Offset by Cost/Utilization Growth. Total Medi-Cal eligibles are projected to decline by 148,000 (2.9 percent) in 1998-99, resulting in a General Fund savings of about $102 million. An increase in the FMAP for California saves an additional $65.8 million (the FMAP will be 51.55 percent by October 1998). These savings, however, are almost entirely offset by underlying increases in the cost of health care services and in the rate of utilization of these services, which increase General Fund spending by approximately $165 million.

Uncertainty Adjustment—$133 Million Reduction. The 1998-99 budget projection includes an "estimate uncertainty" adjustment of $133 million, similar to the current-year adjustment described above.

Termination of Prenatal Benefits—$43.7 Million Savings. Full-year savings from eliminating prenatal care for illegal immigrants reduces General Fund spending by an additional $43.7 million compared with the current year.

Healthy Families—$20.6 Million Increase. The Legislature and Governor recently enacted a new Healthy Families Program, which expands health coverage for children. The Medi-Cal changes associated with this new program include (1) providing one month of continued eligibility for children who otherwise would lose Medi-Cal eligibility in order to allow for transfers to the Healthy Families insurance program, (2) extending Medi-Cal coverage to children ages 14 through 18 in families with incomes up to 100 percent of poverty, and (3) eliminating the asset limitation for children who apply for Medi-Cal. The budget increase also provides a total of $5 million from the General Fund for Medi-Cal outreach activities. Most of the Healthy Families-related General Fund spending is budgeted to receive an enhanced federal match of about 2-to-1.

Developmental Services Case Management—$17 Million Increase. Proposed Medi-Cal spending includes an additional $17 million for transfer to the Department of Developmental Services for increased case management services.

Full-Scope Benefits for New Legal Immigrants—$14.9 Million Increase. This increase reflects the full-year cost of providing full-scope Medi-Cal coverage to qualifying recently-arrived legal immigrants. The federal government will share in the costs only for emergency services. Nonemergency services are being provided on a state-only basis starting December 1997.

Hearing Screens for Newborns—$1.3 Million Increase. The budget proposes to require hearing screens for newborns as part of the Governor's Early Childhood Prevention Initiative. The budget estimates that 30 percent of Medi-Cal babies will be screened in 1998-99.

Hospital Debt Service—$22.8 Million Increase. This increase reflects the anticipated completion of several major construction projects for hospitals with a significant proportion of Medi-Cal patients, for which the state has previously agreed to share in the repayment of construction debt.

County Administration—$32.3 Million Increase. The budget includes an increase of $17.9 million in county administration costs for caseload

growth (subject to later revision for caseload trends). An additional increase of $7.8 million funds the full-year cost of administering a new Medi-Cal eligibility category that was created by the federal welfare reform legislation. Finally, allocating a portion of the cost of eligibility determinations for CalWORKs applicants to the Medi-Cal Program results in an increase of $7.7 million in the Medi-Cal budget, but results in an overall savings in state funds due to reductions reflected in the CalWORKs Program.

Some Potential Costs Not Included in the Budget. The January budget includes no funding for any rate increases for nursing homes or for managed care organizations in 1998-99. The current-year General Fund cost of these rate increases totals about $70 million (these costs usually are added in the May Revision). The budget also does not include any funding to pay San Diego County's mandate reimbursement claim for $15.2 million for health care costs for medically indigent adults. The basis for the county's claim was affirmed by the California Supreme Court, which also set aside a lower court award to the county and remanded the claim to the Commission on State Mandates to determine the amount of any reimbursement to the county. The commission expects to adjudicate the claim this summer.

MEDI-CAL SPENDING AND CASELOAD TRENDS

Medi-Cal spending and caseloads grew rapidly in the early 1990s, driven by two general trends. First, caseloads grew rapidly in response to the recession and higher unemployment, which increased dependence on public assistance programs, and because of federal eligibility expansions. Second, California (like other states at the time) was able to use the Medicaid program as a mechanism to obtain additional federal funds to offset or augment state and local spending for indigent care and other health-related programs.

Spending Trends

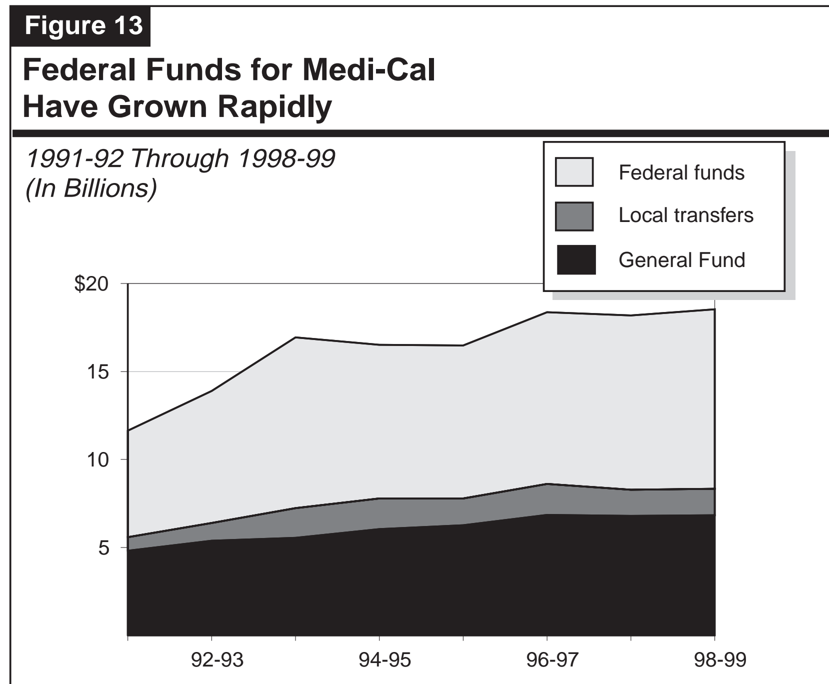
Figure 13 (see next page) shows trends in the total amount of Medi-Cal local assistance spending by DHS and the composition of that spending from 1991-92 through 1998-99 (as proposed). Total spending has increased by 59 percent over this period. The percentage increase in General Fund spending has been somewhat smaller—42 percent—while the percentage increase in federal spending has been larger—69 percent—than the average growth. As a result, the General Fund share of DHS Medi-Cal spending has declined from 41 percent in 1991-92 to 37 percent currently. This trend towards a greater use of federal funds reflects the following

factors:

Figure 13

Federal Funds for Medi-Cal Have Grown Rapidly

1991-92 Through 1998-99 (In Billions)



- ***Disproportionate Share Hospital Payments***. The "SB 855" and "SB 1255" programs have doubled in size. These programs provide additional financial assistance to DSH hospitals, which serve large numbers of Medi-Cal and indigent patients. Hospital payments under these programs consist of local funds transferred to the state by county hospitals, and then allocated back to public and non-profit DSH hospitals along with federal matching funds. The state currently retains $155 million of the local transfer funds annually to help offset General Fund Medi-Cal costs. These DSH hospital payments (including the state's offset) have grown from about $1.6 billion in 1991-92 to about $3.1 billion in the current year (approximately half local transfers and half federal funds).
- ***Federal Match for Additional State Programs.*** In 1992-93, the state amended its Medicaid Plan so as to make most of the In-Home Supportive Services (IHSS) Program (administered by the Department of Social Services) eligible for federal matching funds as Medi-Cal personal care services. The federal match for this program is included in Medi-Cal spending ($442 million in the current year), but the DSS budget contains the state funding for the pro-

gram. Medi-Cal spending in the current year and 1998-99 also includes $58 million of federal matching funds for clinical teaching support and medical education at University of California hospitals.

- ***Federal Match for Local Services.*** During the period shown in Figure 14, annual spending from federal funds has increased by about $180 million to provide matching payments to counties and school districts for their costs of administration, case management, and services to Medi-Cal eligibles in a variety of qualifying local programs. Medi-Cal spending also includes federal funding for the Los Angeles County Medicaid Demonstration Project ($147 million in the current year)—a five-year federal waiver program that provides additional federal funding to stabilize the county's health care system.

Caseload Declines Change Case "Mix"

During the five-year period from 1991-92 through 1996-97, General Fund spending for Medi-Cal local assistance increased at an average annual rate of 9.2 percent. This period of rapid growth has halted. The budget estimates that Medi-Cal General Fund spending will *decline* by $58 million, or 1 percent, in 1997-98 and projects that spending in 1998-99 will be essentially flat (an increase of 0.6 percent).

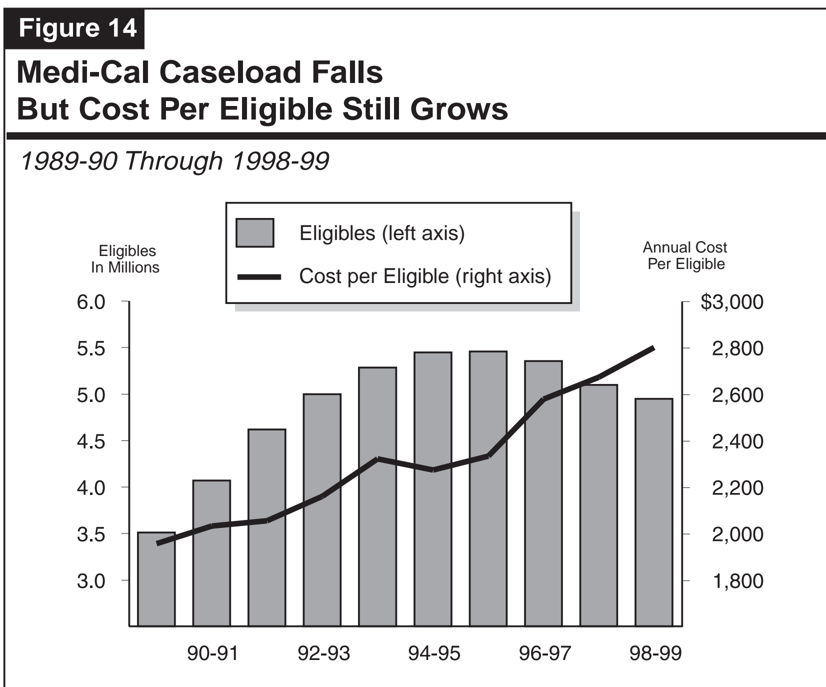
The earlier rapid growth in General Fund spending was largely driven by a rapid increase in the Medi-Cal caseload, as shown in Figure 14 (see next page). The most important reason for the end of rapid spending growth is that the Medi-Cal caseload is now declining. The budget estimates that the number of Medi-Cal eligibles will fall by 4.8 percent in the current year and projects an additional decline of 2.9 percent in 1998-99. Essentially all of this decline is due to large reductions in the CalWORKs-related portion of the Medi-Cal caseload, which the budget estimates will decline by an estimated 8.4 percent in 1997-98 and by 6.5 percent in 1998-99. The total number of Medi-Cal eligibles in other categories remains almost constant.

Figure 14 also illustrates why spending remains roughly flat, despite the significant caseload reductions in the budget. The cost of services per Medi-Cal eligible continues to rise—offsetting the caseload savings. Most of the increase in the cost per eligible results from increases in medical care costs caused by inflation, new and more expensive technologies and drugs, and increased use of services. A significant portion of the projected increase in the cost per Medi-Cal eligible, however, results from a shift to a more expensive caseload "mix," as shown in Figure 15.

Figure 14

Medi-Cal Caseload Falls But Cost Per Eligible Still Grows

1989-90 Through 1998-99



The average cost per eligible for the aged and disabled Medi-Cal caseload (including those in long-term care) is more than four-and-a-half times greater than the average cost per eligible for families and children on Medi-Cal (most of whom are CalWORKs beneficiaries). Because the number of aged and disabled Medi-Cal eligibles is holding steady, while the number of families and children on Medi-Cal declines, a gradual shift to a more expensive mix of eligibles is occurring. Figure 15 shows that the budget estimates that the average cost per eligible will grow by 4.8 percent in 1998-99, compared with the current year. We estimate that one-third of this increase is due to the change in case mix, so that the growth in the cost of Medi-Cal services with a constant case mix would be 3.2 percent.

Figure 15

Medi-Cal Program Changing Case Mix Increases Cost Per Eligible

1998-99

	Eligibles		Cost Per Eligible	
Eligibility Category	**Number (Thousands)**	**Percent Change From 1997-98**	**Amount**	**Percent Change From 1997-98**
Disabled	801	-0.6%	$ 6,980	4.0%
Aged	489	—	$ 6,497	2.3
Families and children	3,656	-6.2	$ 1,387	2.8
Totals	**4,947**	**-2.9%**	**$ 2,799**	**4.8%**
Cost per eligible—percent change with constant case mix				**3.2%**

THE MEDI-CAL ESTIMATE

Medi-Cal Estimate Includes Adjustments for Shift to Managed Care

The Medi-Cal budget estimate has been reduced by $14.9 million in 1997-98 and $93.9 million in 1998-99 (about half General Fund) in order to correct for distortions in the department's forecasting model caused by the shift to managed care. We find that these adjustments are appropriate in concept and do not seem unreasonable in size. We will review the specific methodology for these adjustments as part of our overall review of the Medi-Cal estimate for the May Revision.

Reporting Requirement. The *1997-98 Budget Act* directed our office to report on the effect of the increasing number of Medi-Cal eligibles enrolled in managed care on the DHS Medi-Cal estimating process. We also were directed to identify any methodology issues that require further study and refinement to ensure the accuracy of the Medi-Cal estimate.

In enacting the 1997-98 budget, the Legislature reduced the department's Medi-Cal cost estimate by $64 million from the General Fund. The Legislature took this action based on our finding that the ongoing shift of Medi-Cal eligibles to managed care was distorting the cost trends used in the DHS Medi-Cal estimating model, resulting in an overestimate. The reason for the department's overestimate was that the model depended primarily on fee-for-service cost trends, which were overstated because the model did not adjust for the effect of the shift of generally less costly

persons into managed care.

The DHS Has Revised Its Methodology. The Medi-Cal estimate in the *1998-99 Governor's Budget* incorporates two adjustments intended to correct the upward bias discussed above. First, the estimate budgets the cost of persons shifting to managed care at the managed care rates, rather than at projected average fee-for-service costs, which are higher. This adjustment reduces the estimate by $14.9 million and $18.9 million in 1997-98 and 1998-99, respectively (about half General Fund). The second adjustment reduces the 1998-99 estimate by an additional $75 million (about half General Fund). This adjustment reduces the cost of the remaining fee-for-service eligibles.

Legislative Analyst's Office Initial Assessment. Our preliminary review of the department's adjustments to the Medi-Cal estimating model suggests that they appear to be appropriate. They seem to correct for distortions in the model caused by the current shift to managed care. Also, the magnitude of the proposed adjustments does not appear unreasonable. However, we did not have an opportunity to review the adjustments or the methodology behind them prior to the release of the budget, and the department has not yet provided us with its calculations for the adjustments. We will evaluate them as part of our overall review of the Medi-Cal estimate for the May Revision of the budget, as discussed in our next finding.

Savings From Uncertainty Adjustments Appear Arbitrary

The Medi-Cal budget estimate includes General Fund savings of $109.6 million in 1997-98 and $133 million in 1998-99 as a result of global adjustments that reduce expenditures 2 percent below the department's mid-range estimate. These adjustments, unlike the managed care adjustments, appear arbitrary. Consequently, we recommend excluding these savings at this time, for the Legislature's budget planning purposes.

In addition to the specific adjustments for the shift to managed care discussed above, the Medi-Cal estimate also includes General Fund savings that result from global adjustments that reduce the department's mid-point cost projections for Medi-Cal benefits by 2 percent. The department believes that its Medi-Cal estimating model has a range of uncertainty of plus or minus 4 percent. The adjustments represent half of this range, on the minus side. The department indicates that the global adjustments are warranted by recent continued caseload drops and because of the uncertain impacts of the shift to managed care on cost trends for fee-for-service Medi-Cal eligibles.

Although we raised concerns about overestimates in the Medi-Cal

model last year, the current downward adjustments for uncertainty appear to be arbitrary. As we discussed in our previous finding, the budget estimate already includes two specific adjustments intended to correct trend distortions caused by the shift to managed care. Furthermore, the most recent caseload data appear to be consistent with the budget's Medi-Cal caseload projections.

At this time, we believe that the most prudent course is to exclude these adjustments from the budget estimate, which would increase estimated General Fund spending in the budget for Medi-Cal by a cumulative total of $242.6 million in 1997-98 and 1998-99. For the May Revision, we will provide the Legislature with a specific recommendation on adjustments to the updated Medi-Cal estimate, based on a more detailed evaluation of the department's methodology and using the most recent available caseload and expenditure information.

County Administration Estimate— Caseload Growth Funding Unnecessary

We recommend reducing the proposed appropriation for Medi-Cal county administration by $16.7 million from the General Fund in 1998-99, and recognizing a current-year savings of $9.4 million, because these amounts have been budgeted for caseload growth which the department's Medi-Cal estimate indicates will not occur. (Reduce Item 4260-101-0001 by $16,700,000).

The budget includes a total of $18.9 million ($9.4 million General Fund) in the current year and $35.8 million ($17.9 million General Fund) in 1998-99 for county Medi-Cal administrative functions related to caseload growth for beneficiaries who are not on welfare. (Most county administration costs for *welfare* recipients are included in the Department of Social Services' budget). The funding for caseload increases would cover administrative costs for an additional 62,806 average monthly nonwelfare Medi-Cal eligibles in 1997-98 and a further increase of 58,674 eligibles in 1998-99. The county administration estimate is based on a straight-line projection of administrative workload trends over the last five years, during which caseloads generally increased. This estimate is made *independently* from the Medi-Cal caseload estimate.

Based on our review, however, we conclude that the department's proposal is overbudgeted because it does not reflect recent and projected trends in the nonwelfare Medi-Cal caseload. Specifically, the nonwelfare portion of the Medi-Cal caseload has been essentially flat for the last year, and the Medi-Cal caseload estimate projects that the size of this group will remain almost constant through 1998-99 (while the caseload on wel-

fare declines). Because it is a linear trend, the county administration workload projection continues to assume caseload growth that is no longer occurring. There will be some additional county Medi-Cal workload as more welfare recipients find jobs and shift to transitional Medi-Cal categories that provide temporary continued coverage. However, the budget separately includes an additional $5.1 million (state and federal) for this purpose in 1998-99.

Based on the Medi-Cal caseload estimate, no caseload adjustment for county administration is necessary in the current year, and only $2.4 million ($1.2 million General Fund) will be needed in 1998-99. Accordingly, we recommend reducing the current-year General Fund spending estimate by $9.4 million and reducing the 1998-99 General Fund budget request by $16.7 million.

EXPANDING MEDI-CAL COVERAGE FOR POOR WORKING FAMILIES

Welfare reform efforts at both the state and federal levels have made moving welfare recipients off of welfare and into jobs a priority. The combination of this welfare-to-work emphasis and the opportunities provided by the strong economic and job growth that California currently is experiencing have resulted in a significant reduction in the number of families on welfare (CalWORKs). The number of families in CalWORKs (formerly AFDC) has dropped by roughly 170,000, or almost 20 percent, compared with the peak caseload in 1994-95. The decline is expected to continue through 1998-99.

Health Coverage for Families That Are Not on Welfare. Most low-income working families do not have access to affordable employer-sponsored health coverage (particularly for dependents). State and federal policies have been adopted to maintain health coverage for families that leave welfare for work, and to make it available for working poor families. These policies stem from a desire to (1) protect and improve the health of poor families—especially children—and (2) eliminate the incentive to be on welfare in order to receive health coverage. Working poor families may obtain free or subsidized health coverage in a number of Medi-Cal categories or in several other state programs, including the following:

- ***Medi-Cal Medically Needy Families.*** Single-parent or unemployed families who are not in CalWORKs, but who meet (or slightly exceed) CalWORKs entrance limits on income and assets can get Medi-Cal coverage for both parents and children at no cost, or with

a share of cost if their incomes are somewhat higher.

- ***Coverage for Children and Pregnant Women.*** The Medi-Cal medically indigent and "poverty group" programs provide no-cost coverage for pregnant women and infants up to 200 percent of the poverty level and for children in families with incomes under 133 percent of poverty (ages 1 through 5) or 100 percent of poverty (ages 6 through 18). The Access for Infants and Mothers (AIM) program offers subsidized coverage for pregnant women and infants with family incomes between 200 percent and 300 percent of poverty. This summer, the new Healthy Families Program will begin offering low-cost health coverage for children through age 18 in families with incomes up to 200 percent of poverty, but above the Medi-Cal income limits.
- ***Transitional Medi-Cal.*** Families that leave CalWORKs because of increased earnings (or child support payments or marriage) are entitled to six months of continued Medi-Cal coverage for parents and children at no cost, regardless of their income, and an additional six months of coverage if their income is below 185 percent of poverty.

These programs currently provide health coverage for almost one million Californians.

Transitional Medi-Cal

Because transitional Medi-Cal coverage directly helps those leaving welfare for work, such coverage has taken on more importance in the context of welfare reform.

1997-98 Budget Legislation Expands Transitional Medi-Cal. The 1997-98 budget trailer bill for health services (Chapter 294, Statutes of 1997 [SB 391, Solis]) includes a number of provisions to expand eligibility for, and increase participation in, transitional Medi-Cal coverage as outlined below:

- ***Waiver for Second Year of Coverage.*** The DHS must apply for a federal waiver to increase the time limit for transitional Medi-Cal benefits to two years from the current limit of one year. This extension originally was authorized by the 1996-97 budget trailer bill for health services (Chapter 197, Statutes of 1996 [AB 3483, Friedman]).

- ***Transitional Benefits for Welfare "Look-Alike" Families.*** By May 1998, families on "Medi-Cal-only"—that is, they are not on welfare but would meet the requirements for getting on aid—must be informed that they may be eligible for transitional Medi-Cal coverage, and provided with an opportunity to claim transitional benefits when their incomes increase.
- ***Outreach and Education.*** The DHS must implement community outreach and education efforts to inform families about Medi-Cal generally and to make the availability of transitional coverage known to families who are on Medi-Cal.
- ***Monitoring and Evaluation.*** The department must monitor participation rates in transitional Medi-Cal and contract for an independent evaluation to be completed by January 1, 2001.

The *1997-98 Budget Act* provided $1.5 million ($138,000 General Fund) to improve outreach and simplify the eligibility process for transitional Medi-Cal. The Governor's budget proposes to continue this funding in 1998-99.

Are Transitional Medi-Cal Participation Rates Too Low?

We recommend that the department report during budget hearings on (1) the reasons for the apparent low participation rate in Medi-Cal transitional coverage, (2) the number of eligible families that do not participate and lack other health coverage, and (3) its progress in improving the administration of the transitional Medi-Cal program and related outreach and education efforts.

Participation Rates. Relatively few of the families who leave the CalWORKs rolls participate in the transitional Medi-Cal program. Based on DHS caseload data, we estimate that less than 10 percent of those leaving the welfare rolls participate in the initial six months of transitional coverage. Of those who do enroll in the initial six-month transitional period, about 40 percent go on to participate in the second six-month period of coverage. As of September 1997, enrollment in transitional coverage was about 60,000 for the first six-month period and about 20,000 for the second six-month period. Although participation rates remain low, enrollment in the transitional categories has grown rapidly over the last year, increasing by 31 percent between September 1996 and September 1997.

Benefit Costs. Not only do relatively few of those leaving welfare use transitional coverage, but those that do participate use less expensive health services and/or use them less often. Specifically, the department

estimates that the average annual cost per eligible in the transitional coverage programs is $518, which is about half of the average annual Medi-Cal benefit cost for CalWORKs recipients.

Factors Underlying the Low Participation Rate. The apparent low participation rate in transitional coverage is somewhat misleading because many of those who leave the welfare rolls are not eligible for transitional coverage. Frequently, people are terminated from welfare because they have stopped filing required reports. And of these, some (perhaps a substantial number) have not filed due to a temporary disruption in their lives, such as moving to another county, and soon return to the welfare rolls (and automatic Medi-Cal coverage) after the disruption is over. A DSS analysis of AFDC enrollment found that about a third of those leaving welfare returned to the rolls within six months. Other persons leave the state's welfare rolls on a more permanent basis, but not because of increased earnings. For example, they may move to another state or receive help from their family so that they no longer need welfare.

Usually, county eligibility workers do not immediately know why families stop reporting, and need additional information to redetermine Medi-Cal eligibility. Pending redetermination, these families are placed in a temporary continuing Medi-Cal category (called the *Edwards v. Kizer* category, after a court decision), generally for one month. Based on the information that they provide, these families then are placed in transitional Medi-Cal or in another Medi-Cal category if they (or their children) are eligible. If, however, the family cannot be located or does not provide information, their Medi-Cal eligibility ends, and their potential eligibility for transitional coverage remains unknown.

For the reasons discussed above, the meaning of the apparent low participation rate (and low cost of care) in transitional Medi-Cal is unclear. It may indicate serious shortcomings in education and outreach or that the eligibility redetermination process needs to be changed. On the other hand, it may be that most people who go off welfare do not qualify for transitional Medi-Cal and there is no need for fundamental changes in existing practice. Likewise, the low cost of transitional benefits may indicate that beneficiaries are not able to access adequate care, or it may indicate that they need less care (because women returning to work may delay childbearing, for example).

We believe that a number of approaches could be used to gain a better understanding of participation rates for transitional Medi-Cal and determine the need for program changes. For example, DHS and DSS could analyze recent caseload data to better estimate how many of those who leave CalWORKs return to welfare or to another Medi-Cal eligibility

category in a short time; DHS and the counties could perform follow-up interviews with a sample of former welfare recipients; and DHS could survey clinics and community organizations. Accordingly, we recommend that DHS report at the time of budget hearings on the extent to which qualified families are using transitional Medi-Cal; the department's use of the funding provided in the *1997-98 Budget Act,* and progress to date in carrying out the outreach, education, and monitoring and evaluation improvements mandated in Chapter 294; and any program changes needed to improve the transitional Medi-Cal program.

Additional Year of Transitional Medi-Cal in Doubt

We withhold recommendation on $2.6 million ($1.2 million General Fund) proposed to fund extended Medi-Cal transitional benefits (up to two years) pending the outcome of discussions between the Department of Health Services and the Health Care Financing Administration to obtain a federal waiver necessary to implement the additional coverage.

The budget proposes $2,563,000 ($1,281,500 General Fund) for the cost of providing extended transitional Medi-Cal benefits in 1998-99. Under the extended benefit, the state would provide transitional Medi-Cal for up to two years, rather than the current one-year limit. Federal Medicaid law limits transitional benefits to a maximum of one year, but federal law also allows HCFA to issue waivers of many Medicaid requirements, including the one-year limit, to enable states to expand coverage. Waivers, however, require a finding of budget neutrality—that is, the waiver must not increase federal costs compared with projected spending under existing law. State law (Chapter 294) makes extended transitional coverage contingent on federal approval.

Chapter 197, which originally authorized the extension of transitional coverage, was enacted in July 1996—a month prior to passage of federal welfare reform. When Chapter 197 was enacted, the offsetting federal savings required to gain a waiver for extending transitional Medi-Cal were to have come from reduced AFDC costs that would result because continued health coverage would help low-income working families stay off welfare. California, however, did not submit a formal waiver request until after enactment of federal welfare reform in August 1996, which replaced the federal matching funds in the AFDC program with the TANF block grant. As a result of this change to a block grant, the state cannot claim federal savings from reducing the CalWORKs caseload.

The state's initial waiver request was rejected by HCFA in July 1997. The DHS currently is seeking HCFA approval for a modified waiver to allow the state to provide an additional year of transitional coverage to

determine if their subsequent use of Medi-Cal services over a five-year period is less than for families that received only one year of transitional coverage prior to the waiver. Accordingly, we withhold recommendation, pending the outcome of those discussions.

New Medi-Cal Coverage for Welfare "Look-Alikes"

The 1996 federal welfare reform legislation eliminated the previous automatic ("categorical") link between welfare and Medicaid that had existed under the former AFDC Program. Instead, families that receive welfare assistance under the new TANF Program must separately meet Medicaid eligibility criteria in order to qualify for health coverage.

Welfare Reform Created New "1931(b)" Eligibility Category. In order to ensure that health coverage would remain at least as accessible to poor families after welfare reform as it was under the former AFDC categorical linkage, Congress created a new class of Medicaid eligibles under Section 1931 of Title XIX of the Social Security Act (the Medicaid law). Section 1931(b) requires states to grant automatic (categorical) Medicaid eligibility to anyone who would have met the AFDC requirements in place in that state on July 16, 1996. This guarantees continued Medicaid eligibility to welfare "look-alikes," people who would have met the former AFDC rules, regardless of whether states choose to be more restrictive in their TANF welfare programs.

States Can Use 1931(b) Category to Retain Link Between Welfare and Medicaid. The federal welfare reform legislation gave states flexibility in Section 1931(b) to revise the July 16 requirements by adopting more liberal income or resource standards (or, alternatively, reduce the income standard down to its level on May 1, 1988). The legislation also allows states to continue Medicaid coverage expansions authorized under previously granted AFDC waivers. This flexibility generally allows states to retain automatic Medicaid coverage for TANF welfare recipients even if their TANF eligibility criteria are more liberal than their former AFDC eligibility criteria. States can do so by adopting 1931(b) criteria that are no more restrictive than their TANF requirements, so that all of their TANF welfare recipients automatically become eligible for Medicaid under Section 1931(b).

Section 1931(b) eligibility, however, is not limited to welfare recipients. Anyone who qualifies is eligible for Medi-Cal, regardless of whether they are on welfare or not.

The CalWORKs Program Linked to Medi-Cal Through 1931(b) Requirement. The legislation establishing the CalWORKs Program—

Chapter 270, Statutes of 1997 (AB 1542, Ducheny, Ashburn, Thompson, and Maddy)—requires the state to exercise its option under federal law to increase its 1931(b) income and resource standards to the new CalWORKs levels. (The maximum earned income "disregard" after going on aid and the asset limit both are higher under CalWORKs than under the state's July 1996 AFDC rules.) Increasing the 1931(b) income and asset standards to the CalWORKs amounts—"CalWORKs conformity"—ensures that all CalWORKs recipients will automatically qualify for Medi-Cal. Because of 1931(b) requirements, however, families that meet the CalWORKs requirements now are eligible for Medi-Cal regardless of whether or not they are on welfare.

Medi-Cal Eligibility for Poor Families Expands Under 1931(b). There are four ways in which Section 1931 can expand Medi-Cal eligibility beyond the current Medi-Cal Medically Needy Program for poor working families who are not on welfare:

- ***Higher Earnings Disregards.*** The state can adopt income disregards for 1931(b) eligibility that are equal to or greater than the CalWORKs maximum income levels. The medically needy income limit ($1,190 per month for a family of four) is higher than the maximum income to apply for a welfare grant ($1,014). Once on aid, however, families qualify for earned income disregards that allow them to continue on aid with monthly incomes up to $1,355. Under CalWORKs conformity, families whose incomes initially are low enough to get on welfare would remain eligible for Medi-Cal as their incomes rise, up to the maximum CalWORKs level.
- ***More Liberal Asset Limits.*** The state could choose to adopt more liberal asset limits for 1931(b) eligibles than those used in the CalWORKs Program. For example, the 1931(b) limits could incorporate the more liberal features of the Medically Needy asset limits. Combining the two asset limits or adopting more liberal limits also would simplify eligibility determination and provide more equitable treatment of similar families.
- ***Waiver of 100-Hour Rule.*** To qualify as "unemployed," the principal earner in a two-parent family may not work more than 100 hours per month. California obtained a federal waiver of this limit for families in the AFDC program (after they have initially qualified for aid) in order to encourage work participation (CalWORKs continues this policy). The Medically Needy Program, however, retained the 100-hour rule. Section 1931(d) allows states to continue former AFDC waivers for the purpose of determining Medicaid 1931(b) eligibility. The DHS has notified HCFA that the

state intends to exercise this option in order to enable unemployed two-parent families who return to work to remain on Medi-Cal (if they meet the income and asset limits).

- ***Transitional Medi-Cal.*** Previously, only families that had been on aid could qualify for extended coverage under transitional Medi-Cal (when their earning exceeded welfare limits). Under Section 1931(b), however, families that have not been on welfare also are eligible for transitional coverage.

Plan Needed for Implementing Medi-Cal Eligibility Under Section 1931(b)

We recommend that the Department of Health Services develop, prior to budget hearings, a specific proposal and cost estimate for fully implementing Section 1931(b) Medi-Cal eligibility expansion and coordinating 1931(b) eligibility with the current medically needy and transitional Medi-Cal eligibility categories. We present some issues for the Legislature to consider in evaluating this proposal.

The Governor's budget does not address the eligibility expansions authorized under Section 1931(b) that we have discussed above. For example, the Medi-Cal budget estimate does not include any additional benefit costs due to increased eligibility for transitional Medi-Cal or potentially greater earnings disregards that may result from eligibility expansions under Section 1931(b). Furthermore, the budget proposal to increase county administration funding for 1931(b) determinations (discussed in the next recommendation in this section) is fundamentally flawed. Finally, the administration does not address coordination of 1931(b) eligibility with eligibility under the existing Medically Needy category, and does not indicate how 1931(b) eligibility will be monitored and linked with transitional Medi-Cal eligibility.

Prior to budget hearings, the department should develop a specific and comprehensive proposal and cost estimate for implementing Section 1931(b) Medi-Cal eligibility. Figure 16 (see next page) summarizes issues that we have identified and that should be addressed in the plan and indicates potential options for the state.

Figure 16

Issues and Options for Implementing Section 1931(b) Medi-Cal Eligibility Comparison With Existing CalWORKs and Medi-Cal Medically Needy Programs

CalWORKs	Medi-Cal Medically Needy	Section 1931(b) Eligibility Issues/Options
Monthly Income Limit (Examples for family of four)		
• $1,014 to apply • $1,355 after entry with maximum earned income disregard	• $1,190—no difference between entry level and ongoing amount	**Options** • Allow CalWORKs earned income disregard *after* initial enrollment (minimum) • Allow CalWORKs earned income disregard at time of initial enrollment and ongoing • Increase income disregards above CalWORKs levels **Issues** • Availability of options depends on HCFA interpretation of federal law and waivers • A single income limit is easier to understand and to administer • Single limit with CalWORKs disregard eliminates need for separate Medically Needy limit (except for share-of-cost cases) • Higher income limit will increase eligibility, but also increase state costs
Asset Limits		

• $2,000 ($3,000 if over age 60)
• Home, household items, and personal effects are exempt
• Vehicles
  • Generally value of each vehicle over $4,650 counts against limit
  • Exempt if used for business or disabled persons
• After entry, $5,000 allowed in restricted account for education, home purchase, or business start-up
	• $3,300
	• Home, household items, and personal effects are exempt
	• First vehicle is exempt, equity in other vehicles counts against limit
		Options
		• Use CalWORKs limits (minimum)
		• Combine: add more liberal Medically Needy limits—first vehicle always exempt and $3,300 limit
		• Increase asset limit above $3,300

Continued

CalWORKs	Medi-Cal Medically Needy	Section 1931(b) Eligibility Issues/Options
Asset Limits		
		Issues • Combined asset limit allows use of single standard and includes all Medically Needy whose incomes meet 1931(b) limits • Higher limits allow more temporarily poor families to participate without depleting their assets or savings
Unemployment Test for Two-Parent Families		
• Less than 100 hours of work per month at entry (main earner) • No limit on work hours after entry	• Less than 100 hours of work per month	**Options** • Adopt CalWORKs waiver of 100-hour limit after entry
		Issues • Availability of options depends on HCFA interpretation of federal law and waivers. • 100-hour waiver allows poor working families to remain on Medi-Cal without using their limited transitional coverage • Adopting 100-hour waiver simplifies administration and reporting, but will increase benefit costs
Linkage and Access to Transitional Medi-Cal Coverage		
Options • Allow children and pregnant women who remain in the poverty groups or Medically Indigent category to qualify for transitional Medi-Cal if they met the 1931(b) requirements for the necessary period of time. **Issues** • Can 1931(b) income or asset limits be higher than for CalWORKs without eliminating eligibility for transitional Medi-Cal under federal law? • Requiring counties to monitor status of other Medi-Cal eligibles for 1931(b) eligibility would increase awareness and use of coverage that it provides for parents and for transitional Medi-Cal, but would increase administrative costs and impose additional reporting burdens on beneficiaries.		

Augmentation for 1931(b) Eligibility Determinations Not Justified

We recommend a General Fund reduction of $15.6 million in 1998-99 and a reduction of $7.8 million in estimated 1997-98 spending for additional county eligibility determinations because the new workload will substitute for existing workload. (Reduce Item 4260-101-0001 by $15,630,400).

The budget proposes an increase of $62.5 million in 1998-99 ($15.6 million General Fund and $46.9 million federal funds) to cover additional county administration costs for (1) determining Section 1931(b) eligibility for families and children applying for Medi-Cal (other than those also applying for welfare) and (2) monitoring ongoing cases with respect to 1931(b) eligibility. The budget also estimates that the counties will require an additional $31.3 million ($7.8 million General Fund and $23.5 million federal funds) in the current year for these tasks.

Federal funds would be provided at a three-to-one matching ratio from California's share of a special allocation provided to help states cover added administrative costs to implement Section 1931 Medicaid eligibility provisions. This proposal would use $70.4 million of California's total share of $83 million from the special allocation. After the $83 million is exhausted, the federal share of these costs will revert to the regular 50 percent share for Medicaid administrative costs.

The budget assumes that making 1931(b) eligibility determinations will add an average of 30 minutes per intake and 5 minutes per month for each continuing Medi-Cal case involving children. The budget proposal indicates that these 1931(b) screenings are needed to determine whether Medi-Cal recipients will be eligible for transitional coverage if they become employed, and to notify beneficiaries of this eligibility.

New Determinations Will Substitute for Existing Workload. Currently, county eligibility workers generally first screen families applying for Medi-Cal to determine whether they qualify for medically needy coverage for both parents and children. Families that exceed the medically needy income or asset limits, or who are working two-parent families, then are evaluated for eligibility under the medically indigent or poverty-level programs, which cover only children or pregnant women.

The new 1931(b) income and asset limits for Medi-Cal intakes (which are the same as the CalWORKs application limits) are somewhat less than the medically needy limits. To accommodate this new category, families should first be evaluated for 1931(b) eligibility. Most families that currently fall into the medically needy category probably will qualify in the

1931(b) category instead, and those that do not will be evaluated for other categories in the same manner as done currently. Thus, the 1931(b) determination will simply substitute for the current medically needy determination in most cases.

We also note that screening for 1931(b) eligibility will not be feasible for children and pregnant women who use the new simplified mail-in application process authorized by Chapter 624, Statutes of 1997 (SB 903, Lee) because those forms will not include information about assets.

For the reasons discussed above, additional funding for 1931(b) eligibility determinations is unnecessary. Accordingly, we recommend deleting the proposed augmentation and reducing the associated current-year expenditures.

LONG-TERM CARE

Department Plans New Payment Approach for Nursing Homes

We recommend that the Department of Health Services report at budget hearings on its plans for revising payments to long-term-care facilities.

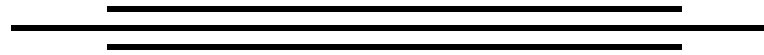
In the current year and 1998-99, the Medi-Cal budget includes about $37 million annually from the General Fund for the 1997-98 rate increase for long-term-care facilities that was effective on August 1, 1997. However, the budget does not include any funding for a 1998 rate increase.

Existing law requires DHS to audit nursing homes in order to determine their costs and to adjust rates annually in August to reflect those costs. This process conformed with the "Boren Amendment" provision of federal law, which required Medi-Cal rates for long-term care facilities to be sufficient to cover the costs of "efficiently and economically operated" facilities. Congress repealed the Boren Amendment in the *Balanced Budget Act of 1997*, however, so the state no longer is bound to provide cost-based rates to long-term care facilities.

The budget indicates that DHS will convene interested parties to consider alternatives to the current rate-setting mechanism for 1998-99 and subsequent years. We note, in this respect, that we have previously recommended that the state contract for Medi-Cal nursing facility services through the California Medical Assistance Commission (CMAC), as the state does for hospital inpatient services, in order to obtain the best rates and ensure adequate capacity for Medi-Cal patients (please see our *Analysis of the 1996-97 Budget Bill*, p. C-44).

Because long-term care is a major Medi-Cal expense and a critical service on which many elderly and disabled people depend, we recommend that the department report at budget hearings on its plans for revising the way in which nursing home payments are determined.

Finally, we note that the Legislature directed DHS in the *1997-98 Budget Act* to report on the feasibility of using regional clearinghouses to facilitate the transfer of Medi-Cal patients from hospitals to nursing homes. The department indicates that it currently is in the process of completing 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 $1.8 billion (all funds) for public health local assistance. This represents an increase of $72 million, or 3.9 percent, over estimated current-year expenditures. The budget proposes $332 million from the General Fund, which is less than 1 percent above estimated current-year expenditures.

Proposition 99

We recommend (1) deletion of three of the proposed eight new positions in the department because they are not justified by workload increases, and (2) redirection of the $286,000 in savings to the Proposition 99 media campaign.

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.

Budget Proposal. The Governor's budget proposes expenditures of $469.6 million from the C&T Fund in 1998-99, which is a reduction of $131.4 million, or 22 percent, from estimated expenditures in the current year. This decrease can be attributed primarily to a significant increase in current-year spending in the Health Education and Research accounts, generally due to the accumulation of relatively large balances in these accounts.

Major changes proposed for 1998-99 include:

- $61.5 million reduction in research by the University of California.
- $45.9 million reduction in health education programs administered by the Department of Health Services (DHS), and a $12.1 million reduction in health education programs administered by the State Department of Education.
- $10.7 million reduction in the California Healthcare for Indigents Program (CHIP), which provides funds for county indigent health care.
- $8.7 million increase for the Breast Cancer Early Detection Program.
- $4.5 million reduction for clinic grants.

The budget plan also reflects reserves in excess of the standard 2 percent in two accounts—Health Education ($32.5 million) and Research ($7 million), pending clarification of a recent California Supreme Court decision regarding the distribution of funds from these accounts.

New Positions Requested. The budget also proposes to establish eight new positions in the DHS, at a cost of $636,000 from the C&T Fund. This would be funded by a redirection of funds from the media campaign and the evaluation component.

The department indicates that these positions are needed to accomplish the following:

- Provide leadership, coordination, and guidance to the local programs that have been implemented at the local level (for example, by enabling the department to conduct site visits).
- Implement new and innovative activities, including activities to address the use of "spit" tobacco and cigars by youth and young adults, the tobacco industry's sponsorship of sporting events and concerts, and the entertainment industry's use of tobacco products in movies and television.
- Deal with the increasing number and complexity of legal issues associated with tobacco control.

Recommendation. The department's Tobacco Control Section currently has 33 positions, so the budget proposal represents a significant increase in departmental staff. Nevertheless, it is difficult to assess the potential

benefits of activities such as increased technical assistance to local agencies and the proposed new initiatives against the benefits of maintaining the funding levels for the media campaign and evaluation activities. With respect to three of the proposed positions, however, we believe the department has provided insufficient justification: one Public Health Medical Officer III, who would be the Section Chief; one Office Technician to provide clerical support for the Section Chief; and one Staff Counsel III to deal with tobacco litigation.

The department indicates that it is requesting a new position to assume the duties of the Section Chief because currently there is no chief of the section. Consequently, managers of the two major units in the section report directly to the Cancer Control Branch Chief.

We note that the absence of a Section Chief is by choice of the department. The department currently has four Health Manager positions in the Tobacco Control Section, more than enough to manage the two major units in the section and have a Section Chief. Thus, we suggest that the department reorganize the section if it places a priority on establishing a Section Chief position rather than retain the current configuration.

The department indicates that the new legal counsel position is needed to deal with the increasing number of legal issues dealing with tobacco control. As one reason, the department cites the state's lawsuit against tobacco companies. We note, however, that the budget includes a separate proposal for 21 positions in DHS (including five staff counsels) and 121.4 positions (34 attorneys) in the Department of Justice specifically for activities related to this lawsuit.

The department also cites a pending lawsuit that could generate workload in the budget year. We note, however, that the state has been involved in several major lawsuits related to Proposition 99 during the past several years and we see no indication that workload related to such litigation will increase in the budget year. Thus, we believe that the department's Office of Legal Affairs—currently staffed with 59 attorneys—will be able to handle the workload without the new position.

In summary, we recommend deletion of these three positions, and redirection of the $286,000 in savings to the Proposition 99 media campaign which has generally been regarded as one of the more successful components of the program.

Family Education Proposal—Redirecting Funds to Existing Program Would Increase Chances of Success

We recommend redirecting the proposed $2.6 million General Fund augmentation to establish an early childhood family education (parenting) program into the department's existing Adolescent Family Life Program because the latter program has a similar function, is targeted to a high-risk group, has been shown to be effective, and is not fully funded to meet its need.

The budget proposes $2,606,000 from the General Fund for local assistance and $544,000 ($294,000 General Fund) for six new positions in the Department of Health Services (DHS) to establish an early childhood family education program. The new program would award grants, ranging from $50,000 to $100,000 each, to local organizations to support from 27 to 54 projects designed to educate parents of children up to age three "regarding appropriate parent-child interactions to ensure optimal social, mental, and emotional development." The department lists the following examples of the type of activities that could be funded:

- Training and overseeing of volunteers to provide home visits and follow-up telephone calls to parents at their request.
- A "parent center" as a location where parents will bring children, learn about parenting, and relate to other parents.
- Parenting classes.
- Providing a source of referral for parenting classes or other community services.
- Providing a source of information by providing or lending pamphlets, books, or videos on parenting.

The department also indicates that an unspecified amount of the funds allocated to local assistance would be used to contract for a toll-free telephone line that would respond to questions concerning child development.

Related Programs. We note that several existing programs provide information and support services related to parenting of young children. These programs, many of which are targeted to particular populations, include the Preschool, Head Start, Healthy Start, and School-Age Parent and Infant Development programs in the State Department of Education, the Early Start program in the Department of Developmental Services, the Early Mental Health Initiative and the Children's System of Care program in the Department of Mental Health, the Cal Learn program in the Department of Social Services, and the Child Health and Disability Preven-

tion program, the California Children Services program, the Women, Infants, and Children program, and the Adolescent Family Life Program in the Department of Health Services.

Generally, these programs are targeted to specific populations, often in high-risk categories. Thus, it could be argued that there is a need for a program that could serve persons not eligible to participate in any of the existing ones. We note, however, that the proposal is not structured so as to avoid potential duplication of effort. We further note that parents have a variety of sources of information (family physicians, for example) on issues related to parenting.

Redirect Funds to Expand Existing Programs. We have no analytical basis for determining the cost-effectiveness of the proposal. We do not believe, however, that the administration has justified the establishment of a new program that, potentially, would duplicate the efforts of at least some of the existing programs. Instead, we think that it would make more sense to expand programs that have already been shown to be effective. There are several existing state programs that fall into this category—for example, the Adolescent Family Life Program (AFLP) and the Women, Infants, and Children program in DHS and the Children's System of Care program in the Department of Mental Health. Because the AFLP comes closer to the budget proposal with respect to its focus (parenting) and the general age group of the children, we recommend redirecting the proposed augmentation to this program.

The AFLP provides case management for pregnant and parenting teens, and is therefore targeted to a high-risk population. According to the department, it is not funded to fully meet its need. The department estimates that it would need over $25 million to serve all eligible persons who are not otherwise served by the Cal Learn program (a similar program in the Department of Social Services) and who would elect to participate in the program. Evaluations have indicated that the program is effective.

Rather than establish a new program, with additional funds for administration and with no basis for predicting effectiveness, we recommend redirecting the proposed $2.9 million in General Fund monies to expand the AFLP. Redirecting the funds proposed for the new program into this existing program would increase the likelihood that these funds will be used in a cost-effective manner.

Childhood Lead Poisoning Prevention Program

We recommend deleting the nine new positions proposed for the Childhood Lead Poisoning Prevention Program because the budget also proposes to eliminate the program's salary savings requirement, which would permit the department to fill nine positions that the department has been holding vacant. We further recommend eliminating two existing positions because their duties would be assumed by a new contract proposed in the budget. These recommendations would result in a savings of $786,000 to the Childhood Lead Poisoning Prevention Fund in 1998-99. (Reduce Item 4260-001-0080 by $786,000.)

The budget proposes an increase of $3.2 million in the current year (federal funds) and $11.1 million in the budget year ($6.5 million from the Childhood Lead Poisoning Prevention (CLPP) Fund and $4.6 million federal funds) for the Childhood Lead Poisoning Prevention Program. The CLPP Fund is supported by industry fees (primarily manufacturers of certain products containing lead).

New Positions. The amount proposed for the budget year includes funding for nine new positions. The department indicates that the intent is to restore nine of the 14 positions that were eliminated in 1996-97 when support for the program was temporarily shifted to the General Fund, pending the outcome of a court case related to the use of the fees in the CLPP Fund. The budget is requesting the new positions on the basis that they are needed to "rebuild the core program at the state and local levels." More specifically, the positions would conduct various activities such as program monitoring, fiscal oversight, policy development, and technical support of local programs.

As part of the supporting materials accompanying the budget proposal, the department documented the workload increase that would justify nine positions. We note, however, that the proposal also includes an augmentation of $364,000 to eliminate the program's salary savings requirement. This will have the effect of permitting the department to fill nine positions that the department has been holding vacant. These positions are generally equivalent to the new positions requested in the budget, and any differences can be reconciled through position reclassifications at no additional cost. Consequently, we recommend approval of the salary savings relief proposal and rejection of the nine new positions, for a savings of $616,000 to the CLPP Fund.

Contract Services. The budget also proposes approximately $200,000 to contract for laboratory services. According to the department, these services currently comprise a major part of the workload of three positions in the program. The department intends to redirect these existing

positions entirely to the "core" program, but has not justified the need to do so. Accordingly, we recommend deletion of two of the three positions (roughly equivalent to the redirection of staff resources) whose duties would be assumed under the contract, for a savings of $170,000 to the CLPP Fund.

Summary. In total, we recommend deletion of 11 positions, for a savings of $786,000 to the CLPP Fund. In conjunction with other components of the budget proposal, our recommendation would provide sufficient resources to address the additional workload documented by the department.

Administration Renews Request to Implement Federal Abstinence Education Program

The budget proposes $7.2 million in federal funds to implement the federal abstinence education program. We comment on the proposal and related research.

Budget Proposal. The budget proposes to spend $7.2 million in federal Title V Abstinence Education Project Grant funds in order to implement an abstinence education program in 1998-99. This would be a competitive grant program, administered by six new positions in the Department of Health Services (DHS). The required matching funds (75 percent of the federal grant) would be provided by grantees. The proposal would include an independent evaluation, although no specific amount is set aside for this activity.

Pursuant to the authorizing federal statute, abstinence education is defined as an educational or motivational program which:

- Has as its exclusive purpose, teaching the social, psychological, and health gains to be realized by abstaining from sexual activity.
- Teaches abstinence from sexual activity outside marriage as the expected standard for all school age children.
- Teaches that abstinence from sexual activity is the only certain way to avoid out-of-wedlock pregnancy, sexually transmitted diseases, and other associated health problems.
- Teaches that a mutually faithful monogamous relationship in the context of marriage is the expected standard of human sexual activity.
- Teaches that sexual activity outside of the context of marriage is likely to have harmful psychological and physical effects.

- Teaches that bearing children out-of-wedlock is likely to have harmful consequences for the child, the child's parents, and society.
- Teaches young people how to reject sexual advances and how alcohol and drug use increases vulnerability to sexual advances.
- Teaches the importance of attaining self-sufficiency before engaging in sexual activity.

According to the department, projects may incorporate any or all of these elements, as long as they are "abstinence-only" programs and do not incorporate any elements *not* listed in the federal definition.

Similar Proposal Rejected Last Year. Last year, the administration advanced a similar proposal through an amendment letter to the 1997-98 budget, requesting $4.3 million in federal funds. This proposal was rejected by the Legislature. In order to meet the July 15, 1997 federal application deadline, however, the DHS applied for the initial grant in July and the state was awarded $5.8 million in November 1997. These funds are included in the $7.2 million proposed for expenditure in 1998-99.

State Funded Teen Pregnancy Prevention Programs in California. One version of an abstinence education program—the Education Now and Babies Later (ENABL) program—was implemented in California in 1992. The program's focus was on adolescents ages 12 to 14, and emphasized the postponement of sexual activity by helping adolescents resist pressures to become sexually active. The curriculum in the classroom component of the program was based on a program developed in Georgia, which was evaluated as being effective. The evaluation of the ENABL program, however, found that the classroom component did not have any effect; and the administration terminated the program in February 1996.

In the *1996-97 Budget Act*, in response to a proposal by the Governor, the Legislature appropriated $20 million to establish the Challenge Grants program to fund local teen pregnancy prevention projects, which could include abstinence components or strategies. The current-year budget also appropriated $20 million for the program, and the budget proposes $20 million for 1998-99. The department indicates that of 328 grants awarded as of January 1998, 89 included abstinence as a strategy and two included abstinence-only strategies.

Finally, we note that Chapter 311, Statutes of 1995 (SB 1170, Lockyer) established a teenage pregnancy prevention grant program in the State Department of Education. The budget proposes $10 million to continue the program in 1998-99.

Research on Teen Pregnancy Prevention Programs. To provide a brief summary of the research, we relied on a review of the literature submitted by Philliber Research Associates to the Centers for Disease Control in December 1995. Thus, we caution that it does not encompass any evaluations reported during the past two years. The authors made the following points with respect to the research on teen pregnancy prevention programs generally and, more specifically, abstinence education:

- Relatively few teen pregnancy prevention programs have been subject to rigorous evaluations. Possibly for this reason, few programs have been found with clearly demonstrated impacts on teen pregnancy prevention.
- Most programs have shown only modest impacts on behavior. No single intervention will work for all teens, or will last throughout the adolescent years.
- The most successful programs include a wide variety of approaches to preventing teen pregnancy, including information giving, skills building, group support, service provision, and "life options building."
- There is no evidence that programs directed only toward abstinence can prevent teen pregnancy.
- The most successful abstinence programs delay the onset of sexual intercourse for only a few months.

Conclusion. The administration indicates that its proposal has generated considerable interest at the local level. Furthermore, it would be implemented at no cost to the General Fund. On the other hand, the research, while limited, suggests that an abstinence-only approach is not likely to be effective. In this respect, we note that both of the existing state programs for teen pregnancy prevention grants (described above) may include abstinence education but are not restricted to an abstinence-only approach as would be required by the program under which the federal funds are offered.

Should the Legislature decide to adopt the budget proposal, we suggest that sufficient funding be set aside to ensure that the program has a strong evaluation component.

Funding Alternatives Available for Emerging Infectious Diseases and Food Safety Programs

We recommend deleting the 13 new positions proposed for the Emerging Infectious Diseases program and instead reducing the department's salary savings requirement by $573,000 so the department can fill 12 vacant positions, for a net General Fund savings of $178,000. These 12 positions would be available for the Emerging Infectious Diseases program. (Reduce Item 4260-001-0001 by $178,000.)

We further recommend enactment of legislation to establish an industry fee to support the proposed Food Safety program, for a General Fund savings of $828,000. (Reduce Item 4260-001-0001 by $828,000 and increase Item 4260-001-0177 by $828,000.)

The budget proposes $3,109,000 from the General Fund to expand the department's activities to address (1) emerging infectious diseases and (2) food safety. The proposal would add 20 new positions, and an additional 10.5 positions through contract funds.

According to the department, the augmentation is designed to (1) control outbreaks and prevent the spread of emerging infectious diseases; (2) expand infectious disease surveillance activities to include emerging infections; (3) improve laboratory diagnostic methods for these emerging disease threats; (4) educate health care providers, policy makers, industries, and at-risk communities about emerging infectious disease prevention and control; and (5) prioritize food safety and food borne illness prevention by addressing raw and minimally processed food production practices and retail food safety.

The department has several "core" infectious disease and food safety programs, under the administration of the Communicable Disease Control (CDC) Division and the Food and Drug Division. These divisions consist of several branches and laboratories, including the following that would be augmented under the proposal: the Disease Investigations and Surveillance Branch (20 positions currently), the Microbial Diseases Laboratory (56 positions), the Viral and Rickettsial Diseases Laboratory (50 positions), and the Food and Drug Branch (131 positions).

Emerging Infectious Diseases Program. Because of the size of the CDC Division, the department has some flexibility to respond to emerging infectious diseases by redirecting resources. In fact, the department acknowledges that, to some extent, it has been able to do this but has neglected its ongoing tasks with respect to existing or traditional infectious diseases. The department points out that between 1987-88 and 1996-97, the number of authorized positions in its diagnostic laboratory, infectious disease epidemiology, surveillance, and investigation programs de-

creased by 12 percent, while the number of reportable infectious diseases increased by over 60 percent; and the number of reported cases of communicable diseases—excluding sexually transmitted diseases, tuberculosis, and vaccine-preventable infections—increased by more than 25 percent.

While it is difficult to determine the exact number of new positions that are needed, we believe that some increase is warranted. We note, however, that the department currently has 38 vacant positions ($1.5 million) in its CDC Division, most of which are being held vacant to meet the department's relatively high salary savings requirement of about 13 percent (see our analysis of Department of Health Services State Operations). Consequently, rather than add 13 new positions to the division, we recommend reducing the department's salary savings requirement by an amount sufficient to fill 12 vacant positions in the CDC Division, which correspond generally to 12 of the 13 positions requested. (If necessary, the department can request position reclassifications to align the positions more closely with the duties assigned.) This would result in a net General Fund savings of $110,000 in salaries—a savings of $683,000 for the proposed 13 new positions offset by a cost of $573,000 to reduce the salary savings requirement.

We are excluding one of the two proposed Public Health Medical Officer (PMHO) III positions because we believe the tasks described by the department can be accommodated by one PMHO III (which is included in the 12 vacant positions). We also note that the excluded position would not have managerial responsibilities and would be assigned to an existing four-person unit that already includes two of these high-level positions.

After adjusting for differences in personnel benefits and operating expenses, our recommendation would result in a net General Fund savings of $178,000.

Food Safety and Food-Borne Illness Prevention Program. Included in the proposal is $828,000 from the General Fund (seven positions) for a food safety and food-borne illness prevention program. This program is designed to improve surveillance and investigation of food-borne illness, raw and minimally processed food production practices, and retail food safety. Activities of the new staff would include analysis of food contamination, research on food-borne pathogens, inspections of raw and minimally processed food producers, and food safety training for the food service industry.

The department currently operates food safety and inspection programs, and has a separate budget proposal to establish a food safety

education and training program, for the processed food industry. These activities are funded by fees assessed on processed food manufacturers and wholesalers (with an exemption for small businesses), and deposited in the Food Safety Fund.

This raises the issue of whether the new food safety and food-borne illness program should be funded from the General Fund, as proposed, or from fees deposited in a special fund, as is the case with the aforementioned programs. The new program, if successful, would benefit the public in general; but—as the department indicates—it would also benefit the raw and minimally processed food industry and the retail food service industry by providing training for their employees, and preventing food contamination problems that can be costly to individual manufacturers and retailers as well as the industries in general. Given that the Legislature has deemed it appropriate to fund related activities through a fee assessed on the processed food industry, we believe that it would be consistent to follow the same practice with respect to the raw and minimally processed food industry and the retail food service industry.

Accordingly, we recommend legislation to authorize such a fee, and further recommend transferring the $828,000 proposed for support of the new program from the General Fund to the Food Safety Fund.

Newborn Hearing Screening Proposal Has Merit, But Cost Estimate Needs Justification

We withhold recommendation on $6.2 million ($3.5 million General Fund) proposed to establish a newborn hearing screening program, pending submission of additional justification for the cost estimate by the department.

Background and Budget Proposal. Currently, the California Children's Services (CCS) program provides for infant hearing screens for children in CCS-approved Neonatal Intensive Care Units if the child is at high risk of becoming deaf. The department indicates, however, that these hospital units do not routinely conduct hearing screens, even for "high risk" children.

The budget proposes $6.2 million ($3.5 million General Fund) to establish a newborn hearing screening program. Under this program, all hospitals approved by the CCS program (191 hospitals, which deliver about 70 percent of all newborns in the state) would be required to offer hearing screening tests to newborn infants. The proposed funding consists of (1) $3.4 million ($2.2 million General Fund) and ten new positions for the Department of Health Services state operations, (2) $2.5 million ($1.3 million General Fund) for local assistance in the Medi-Cal program, and (3) $221,000 ($111,000 General Fund) for local assistance in the CCS

program. The funds allocated to the Medi-Cal and CCS programs would be used to reimburse providers, on a fee-for-service basis, to conduct the screening tests for those infants eligible for these programs.

The proposal includes $1.5 million in contract funds to establish three Regional Early Hearing Detection and Intervention Centers to certify hospitals for participation in the program and assist hospitals in start-up and ongoing management activities, including the provision of staff training and technical assistance. In addition, the centers would maintain a database and would be responsible for (1) advising physicians of the results of the screen, (2) assuring that follow-up testing and diagnostic evaluations are performed, and (3) assuring that referrals are made for further intervention when appropriate.

The proposal also includes $750,000 to contract for a public awareness educational and outreach program and $300,000 to contract for the development of a computerized tracking system.

Program Has Merit but Cost Estimates Need Better Documentation. We agree that the proposal to establish a state newborn hearing screening program has merit. Even though a very small percentage of children have a permanent significant hearing loss, early detection followed up by appropriate interventions can enable a child to realize his or her full potential in the development of language and other communication skills. This, in turn, can lead to long-term public savings by reducing the need for special school programs. We note that several other states have implemented universal newborn hearing screening programs.

The department, however, has very little documentation of the specific cost estimates for the various components of the proposal. While it is difficult to estimate the costs of a new program, we believe that the department should provide an expenditure plan for the proposed contract funds, and should better justify the need for these funds and the proposed new positions by collecting data on programs that have already been established in other states.

Regarding the state operations request, we agree that some level of state support is needed to provide coordination, monitor the tracking system, and provide technical assistance. The request for ten new positions and three regional centers at $500,000 each, however, seems somewhat excessive. We note, in this respect, that many hospitals in California have implemented, without external assistance from the state, audiology programs that include hearing screens for infants.

We also recommend the establishment of a computerized tracking system. The department, however, has submitted no basis for its estimated cost of $300,000, other than to indicate that a software package

could be leased from another state for $1 per screen, or about $115,000 in 1998-99. No other alternatives were presented, nor were the remaining costs justified by any expenditure plan. We note that the department currently operates a tracking system for genetic disease testing.

Similarly, we agree with the concept of contracting for an outreach program; but the department has no basis for the estimated cost of $750,000, other than to indicate that the proposal would include brochures distributed to the hospitals, public announcements, and other materials. We also note that the budget proposal includes an additional increase of $107,000 for printing expenses. The department indicates that this would be used for items such as regulations and notices to the hospitals. We believe that the amount is excessive. To put it in perspective, the entire budget for printing expenses in 1998-99 for the Managed Risk Medical Insurance Board, which administers several health insurance programs (including the new Healthy Families Program) amounts to $55,000.

With respect to the local assistance costs, the $2.5 million proposed for Medi-Cal benefits assumes that only 30 percent of the newborns will be tested in 1998-99, due to the time it will take to implement the program. This assumes a relatively slow "ramp-up" for the program, given that the requirement for hospital screening would take effect at the beginning of the fiscal year. Finally, the Medi-Cal estimate assumes a cost per screening test of $30. We note that the corresponding cost in Colorado, according to the program administrator, is $25 per screen.

Accordingly, we withhold recommendation on the proposal, pending submission of additional justification of the cost estimate by the department.

California's Litigation Against the Tobacco Companies

The Governor's budget proposes $10 million ($5 million General Fund) in the current year and $10.9 million ($5.5 million General Fund) in the budget year for the Department of Health Services—and additional funds for the Department of Justice—to support litigation activities in connection with the state's lawsuit against the major tobacco companies. The lawsuit seeks damages against the tobacco companies to recover state-paid costs of medical care for tobacco-related illnesses.

For a discussion of this issue, please see the "Crosscutting Issues" in the Judiciary and Criminal Justice chapter of this *Analysis*.

DEPARTMENT OF DEVELOPMENTAL SERVICES (4300)

A developmental disability is defined as a disability, related to certain mental or neurological impairments, that originates before a person's eighteenth birthday, constitutes a substantial handicap, and is expected to continue indefinitely. The Lanterman Developmental Disabilities Services Act of 1969 entitles individuals with developmental disabilities to receive a variety of services, which are overseen by the state Department of Developmental Services (DDS). The department contracts with 21 nonprofit regional centers (RCs) to coordinate educational, vocational, and residential services for approximately 140,000 clients each year. In addition to providing some services directly, such as diagnosis and case management, the RCs purchase services from providers in the community.

Individuals with developmental disabilities have a number of residential options. While most live with their parents or other relatives, thousands live in their own homes or in group homes that are designed to meet their medical and behavioral needs. An additional 4,000 live in five state-run developmental centers (DCs).

The budget proposes $1.8 billion from all funds for support of DDS programs in 1998-99, an increase of 11 percent over estimated current-year projections. The budget proposes $634 million from the General Fund, which is $87 million, or 16 percent, above estimated current-year expenditures from this funding source.

COMMUNITY SERVICES PROGRAM

The Department of Developmental Services' Community Services Program includes community-based services provided to clients through the RCs. These services include assessment and diagnosis of children and adults, early intervention services for young children, placement in resi-

dential care facilities and daytime treatment/activity programs, arrangement for transportation when needed, and family supports such as respite care and counseling.

Proposal to Augment Regional Center Case Management Staff Is Incomplete

We recommend that funds appropriated for case management be scheduled separately in the Budget Bill in order to facilitate legislative oversight. We also recommend adoption of supplemental report language requiring the department to report on the implementation of its plan to augment case management.

Background. Regional centers coordinate the delivery of services to developmentally disabled persons residing in the community. The care centers are private nonprofit corporations under contract with the department.

Client program coordinators (CPCs) at the RCs provide case management services for RC clients. The recent federal review of California's Home and Community Based Services federal waiver program cited the state for deficiencies in case management activities. Specifically, the deficiencies were: (1) unreasonably high caseloads; (2) a lack of in-service training for case managers; (3) a high rate of turnover among case management staff; and (4) inadequate or unavailable client records, such as physical and mental health histories, which are essential to the proper management of client services. In response, the budget proposes to increase RC funding by $31 million ($21 million from the General Fund) in order to lower the actual case manager/client ratio from an estimated 1:90 to 1:62.

Actual Staffing Ratios Higher Than Budgeted. Although CPCs currently are budgeted at a 1:62 ratio, a 1997 survey by the Association of Regional Center Agencies estimates that RCs actually operate at a ratio of one CPC per 90 clients. The department indicates that RCs, on average, operate at this higher ratio for the following reasons:

- Four consecutive years of unallocated reductions totaling $40.6 million have caused RCs to cut staff positions.
- Although the RC salary schedule has not been adjusted since 1989-90, RCs have found it necessary to pay higher salaries than the schedule allows in order to fill positions.

- Regional centers have left case management positions unfilled in order to meet the 5.5 percent salary savings level required by the budget.
- Regional centers redirected funding from case management and other areas in order to create new positions, such as information systems personnel and training officers.

According to the department, these high caseloads prevent CPCs from providing adequate case management services to clients and from making quarterly monitoring visits to clients' residences as required by state law. In order to increase the number of case management staff hired by the RCs and restore case management services to the preferred 1:62 ratio, the department proposes the following actions, phased in over a two-year period:

- Restore 64 percent of the unallocated reduction in order to fully fund case management staff, at a half-year cost of $13 million ($6.5 million General Fund) in 1998-99.
- Adjust budgeted salaries for CPCs, supervising counselors, and intake workers to reflect the average salary level for equivalent state positions, at a half-year cost of $12.2 million ($8.2 million General Fund) in 1998-99.
- Reduce salary savings for case management positions from 5.5 percent to 1 percent, at a half-year cost of $1.9 million ($950,000 General Fund) in 1998-99.
- Add and fund seven new classifications (a total of 218 new positions) in the RC staffing schedule, at a cost of $6.8 million from the General Fund in 1998-99. These are positions that the department has determined are essential at every RC, such as information systems personnel, training officers, and fiscal officers.

Proposal Contains Technical Errors. The department indicates that it completed its proposal to augment case management services before it completed the November 1997 RC caseload estimate. Because of this, the case management proposal was based on caseload numbers that have since been revised upward. In addition, the case management proposal and the RC budget overlap in a number of areas, which, if approved, would result in double-funding of the same items. The department indicates it will submit a revised case management proposal based on more recent caseload estimates and make other technical adjustments to the plan in the spring. The department also indicates it will add one or more substantive items to the proposal. The Legislature cannot fully consider the proposal without knowing what these items entail.

Analysis and Recommendations. We believe that providing additional funds to make RCs more capable of achieving a 1:62 case management ratio is reasonable. In this respect, we note that the *1997-98 Budget Act* appropriated $5.6 million for increased case management staff in the RCs and required the DDS to report by April 1, 1998 on (1) the number of positions created and filled with the funds and (2) the prior and new case management ratios at each RC. We recommend that the department meet this deadline so the Legislature can consider the report in conjunction with the revised augmentation plan.

We will review the department's report and the revised plan when they are submitted, and report our findings and recommendations to the budget subcommittees.

We note, however, that the proposal does not include budget bill language to ensure that RCs use the funding solely for its intended purpose. The department indicates that it will include such requirements in its 1998-99 contracts with the RCs. To facilitate legislative oversight and control, however, we recommend that all funds appropriated for case management staff be scheduled separately in the Budget Bill.

We further recommend the adoption of supplemental report language requiring DDS to report on the outcomes of its augmentation plan, including but not limited to:

- The number of case management positions created and filled by each RC.
- Caseload ratios before and after implementation of the plan.
- The number of clients who received monitoring visits in their residences during each quarter and the outcome of those visits.

Specifically, we recommend the following supplemental report language:

> The Department of Developmental Services shall, by November 30, 1999, submit a report on the implementation of its plan to increase regional center case management staff to the appropriate legislative fiscal committees, the Joint Legislative Budget Committee, and the Department of Finance. The report shall contain the number of case management positions created and filled during 1998-99, the prior and new caseload ratios, and the number of quarterly monitoring visits made during 1998-99 and the outcomes of those visits.

Proposed Position "Upgrades" and Salaries Are Excessive

We recommend a reduction of $3.3 million from the General Fund to more closely align proposed regional center position upgrades with actual duties and salaries. We further recommend that proposed new positions in the centers be funded at the first salary step, to be consistent with standard budgeting practice, for an additional General Fund savings of $2.9 million. (Reduce Item 4300-101-0001 by $4,511,000, Item 4260-101-0001 by $1,686,000, and Item 4260-101-0890 by $1,789,000.)

Background. The RC budget for case management and related staff is based on a salary schedule that was created in the 1970s. The schedule is based on state job classifications that the department considers to be equivalent to RC positions. Although this schedule is used to formulate the department's annual budget and is the basis for contracts with the RCs, the RCs ultimately set their own salaries because they are nonprofit organizations, not state entities. As a result, there currently exists a significant disparity between the actual salaries paid by the RCs for certain types of staff and the salary schedules that are used by the DDS to budget funds for the RCs.

Budget Proposal. The budget proposes $16.7 million ($11.7 million General Fund) to increase the salary schedule for several job classifications at the RCs (part of which is included in the case management proposal described previously). This proposal would affect 3,775 positions, including 2,484 that currently exist and 1,291 that would be created through proposals to increase the number of case management staff in 1998-99. Figure 17 compares the salaries currently used by the DDS to budget funds for RCs with the proposed salaries.

Figure 17

Budgeted and Proposed Case Management Salaries Regional Centers

Position	Budgeted Salary	Proposed Salary	Percent Increase
Supervising counselor[a]	$38,036	$52,392	38.0%
Client program coordinator:			
With master's degree	28,649	37,824	32.0
Without master's degree	28,649	30,240	5.5
Clerical[b]	18,757	27,096	44.4

a One supervising counselor is budgeted for every eight client program coordinators.
b One clerical position is budgeted for every four professional positions.

Proposed Changes Represent Position Upgrades. The current salaries for these positions are based on 1989-90 salaries for the equivalent state job classifications. Salary increases granted to state workers since then were not automatically budgeted for the RCs because RC staff are not state employees. However, a 1996 survey by the department found that RCs have been redirecting funds from other areas to pay case management staff at salaries above the budgeted levels. In response, the Governor's budget for 1998-99 proposes to increase budgeted salaries to more closely reflect the actual salaries being paid by RCs as shown in Figure18.

The budget proposes to change the state job classifications that are used in the existing salary schedule. For example, supervising counselors would receive the average salary for a Community Program Specialist III and clerical employees would receive the average salary for an Office Technician.

Our analysis indicates that the proposed classifications for three of the four types of positions represent, in effect, position "upgrades" in that they go beyond the salary increases that would be needed to reflect the cost-of-living adjustments that have occurred since 1989-90 (a total of about 13 percent). As a result of these upgrades, the proposed salaries are significantly higher than the actual salaries for three of the four positions as shown in Figure 19 (see page 86).

Position Upgrades Excessive. The position reclassifications are justified if they reflect the duties performed and are necessary to compete in the market for qualified employees. On this basis, we recommend approval of the two client program coordinator classifications. However, we believe that the proposed classifications for supervising counselors and clerical employees represent excessive position upgrades as shown in Figure 19.

Supervising counselors have a wide range of duties, from direct supervision and training of CPCs to communication with service providers, advocates, clients and their representatives, and other members of the community. While the proposed upgrade to Community Program Specialist (CPS) III would take into account the supervisory function of the position, the CPS duties are more policy-oriented and analytical in nature than is required of a supervising counselor. In addition, basing the supervising counselor salary on the CPS III classification would result in an 18 percent increase above the actual salary for existing RC staff.

Figure 18

Actual and Proposed Case Management Salaries Regional Centers

Position	Actual Salary[a]	Proposed Salary	Percent Increase
Supervising counselor	$44,364	$52,392	18.0%
Client program coordinator:			
With master's degree	33,938	37,824	11.0
Without master's degree	30,297	30,240	-0.2
Clerical	21,880	27,096	24.0

[a] Estimate based on 1996 survey by Department of Developmental Services.

We reviewed a variety of state position classifications and found several that would be more closely related, with respect to duties and salary, to the supervising counselor position. Of these, we recommend that the department use the Rehabilitation Supervisor I (Administrator) classification as the basis for setting the salary for supervising counselor. The core duties of a Rehabilitation Supervisor I (Administrator) are consistent with those required of a supervising counselor—the position coordinates and directs staff whose jobs are similar to those of client program coordinators, performs duties in a client-oriented setting, and communicates with agencies and providers in the community. Updating the salary schedule to reflect the current Administrator salary would raise the budgeted salary by 17 percent and increase the average supervising counselor salary just above the actual salary being paid by the RCs (see Figure 18).

We also recommend a more appropriate state classification for clerical staff. We believe that the Office Assistant (Typing)—Range B job specification would be more closely aligned with the types of duties performed by RC clerical staff and would better reflect the actual salaries currently paid. Individuals in Range B of the Office Assistant classification can work independently on a variety of relatively complex clerical duties that require strong typing skills and entail regular communication with the general public. Accordingly, we recommend that the clerical positions be upgraded to the Office Assistant (Typing)—Range B level. This would raise the budgeted salary by about 25 percent and increase it to about 7 percent above the actual salary being paid by the Rcs.

Figure 19

**Case Management Position Classifications
Governor's Proposal and LAO Recommendations**

Position	Governor's Budget		LAO Recommendation
Supervising Counselor			
Actual salary		$44,364	
New position classification	Community Program Specialist III		Rehabilitation Supervisor I (Administrator)
Proposed average salary	$52,398		$44,628
Percent difference	**18.0%**		**0.6%**
Client Program Coordinator (Master's)			
Actual salary		$33,938	
New position classification	Psychiatric Social Worker		Psychiatric Social Worker
Proposed average salary	$37,824		$37,824
Percent difference	**11.0%**		**11.0%**
Client Program Coordinator (Without Master's)			
Actual salary		$30,297	
New position classification	Social Work Associate		Social Work Associate
Proposed average salary	$30,240		$30,240
Percent difference	**-0.2%**		**-0.2%**
Clerical			
Actual salary		21,880	
New position classification	Office Technician (Typing)		Office Assistant (Typing) Range B
Proposed average salary	$27,096		$23,388
Percent difference	**24.0%**		**6.9%**

Adoption of our recommendations for the supervising counselor and clerical staff classifications would result in a General Fund savings of $3.3 million in 1998-99 ($3.1 million in the DDS budget and $192,000 in the Department of Health Services [DHS] budget).

Budget New Positions at First Salary Step. The proposal to upgrade salaries does not distinguish between existing positions and proposed new positions, in that both categories are budgeted at the average or mid-

range salary levels for their classifications. The department has not justified the need to budget new positions at the mid-range salary level of the relevant position classification, rather than the first step as is consistent with standard budgeting procedures. Accordingly, we recommend that the proposed 1,291 new positions for case management be budgeted at the first salary step. This would result in a General Fund savings of $2.9 million in 1998-99 ($1.4 million in the DDS budget and $1.5 million in the DHS budget).

Care Facility Training Program Is Overbudgeted

We recommend a reduction of $4 million from the General Fund for the proposed training program for community care facility employees so the budget will be consistent with the department's planned phase-in of training classes and pay increases associated with these classes. (Reduce Item 4300-101-0001 by $1,569,000, Item 4260-101-0001 by $2,412,000, and Item 4260-101-0890 by $2,558,000.)

Background. An estimated 23,000 individuals with developmental disabilities live in 4,400 community care facilities (CCFs). These facilities are licensed by the Department of Social Services (DSS) and governed by both DSS and the Department of Development Services (DDS) regulations. The DDS training regulations require new CCF employees to complete an on-site orientation within their first 40 hours of work and receive an average of eight hours of continuing education each year.

The recent federal review of California's Home and Community Based Services federal waiver program cited the state for deficiencies in the quality of care provided in some CCFs, specifically: (1) a lack of supervision needed to ensure resident safety, (2) unsanitary conditions in bathrooms and kitchens, (3) a lack of basic necessities such as clean linens and adequate food, (4) inadequate services to help clients integrate into the community and improve their functioning ability, and (5) homes that were in disrepair to the point of being dangerous.

In response to these findings and other concerns regarding the quality of care in community facilities, the budget proposes $19.8 million ($14.5 million from the General Fund) in 1998-99 to plan and implement a formal training program for CCF employees. As part of the proposal, DDS plans to adopt regulations requiring all CCF employees to complete two 35-hour training courses within two years, beginning in January 1999. Employees would receive a 10 percent pay increase after completing each course and passing subsequent competency exams.

The department estimates that about 18,000 employees would be affected by the new regulations. However, the department intends to allow experienced staff to take the first competency test without attending classes. Those who pass would receive an automatic pay increase and be exempted from the initial 35-hour training course. The department estimates that about 1,600 CCF employees (half of those who are expected to seek an exemption) would pass the test and receive a 10 percent pay increase early in 1999.

Funding for the training program would be provided over three fiscal years. The budget proposal would fund four components of the training plan in 1998-99:

- **Planning and Coordination**—$546,000 from the General Fund for four positions and related operating expenses at DDS headquarters.
- **Classes and Competency Tests—**$1.7 million from the General Fund for certified trainers and other training costs.
- **Overtime/Coverage Costs—**$3.1 million from the General Fund to allow CCFs to maintain adequate facility staffing while employees attend training classes.
- **Pay Increases for Trained Staff**—$14.3 million ($8.8 million from the General Fund) to provide a 10 percent pay increase to CCF employees who pass the competency exam between January 1, 1999 and June 30, 1999.

Pay Increase Is Overbudgeted. The department intends to allocate the funding for pay increases and overtime/coverage costs through CCF rate increases that would take effect January 1, 1999. The department indicates that it would grant a rate increase to all providers on this day, to cover the salary and overtime costs. The proposed rate increase, however, is based on the amount of funds that would be needed if all employees who would undergo training in 1998-99 had completed the required training as of January 1, 1999—the date on which the program will be implemented. This is unrealistic and inconsistent with the department's implementation plan, which calls for the training to be phased in *throughout* 1999. If training is phased in as planned, the total amount needed in 1998-99 would be $7.8 million ($4.8 million from the General Fund), taking into account the employees who are expected to be exempt from the first training course.

We recommend that the budget be adjusted so that it is consistent with the department's plan to phase in the training classes. This would result in a General Fund savings of $4 million in 1998-99.

Federal Waiver for Habilitation Services Could Result in State Savings

We recommend that the Department of Developmental Services, in cooperation with the Department of Rehabilitation (DR), include services provided under the DR Habilitation Services Program in the state's request for a new Medicaid Home and Community Based Services federal waiver. This could result in a significant increase in federal funds and commensurate savings to the state.

Background. In December 1997 the Health Care Financing Administration (HCFA) refused to renew California's Home and Community Based Services waiver, which allows the state to collect federal Medicaid reimbursements for up to 35,105 developmentally disabled clients who receive community-based services as an alternative to institutionalization. In making its determination, HCFA cited instances of inadequate state oversight of the program and a lack of monitoring to ensure that waiver recipients receive quality services. The state continues to receive federal funds for existing waiver recipients under two 90-day extensions while it prepares a new waiver application to submit to HCFA. The application is due by March 28, 1998, and HCFA indicates that it plans to act on the new waiver by July 1, 1998.

In a report issued January 12, 1998, HCFA suggests that DDS consider adding "expanded habilitation services" to its allowable waiver services. "Expanded habilitation" includes supported employment services, prevocational training, and educational services that are designed to help developmentally disabled individuals develop skills that could lead to employment. These services are provided to some developmentally disabled clients at day programs funded by DDS, and the HCFA report refers to these services in its recommendation.

Department of Rehabilitation Also Provides Habilitation Services. Regional center-funded day programs are not the only providers of habilitation services to developmentally disabled clients. About 6,000 clients who receive services through the supported employment component of DR's Habilitation Services Program (HSP/SEP) could be eligible for waiver services. Not all of the HSP/SEP clients would automatically qualify for the waiver, which requires a determination that an individual would require institutionalization without the provision of waiver services. The DDS indicates that it could develop an estimate of who would be eligible. The department also informs us that it is interested in expanding the waiver to include DR clients, but has not indicated whether it intends to do so.

The budget proposes General Fund expenditures of $35 million for HSP/SEP services in 1998-99. Thus, federal funding at the Medicaid sharing ratio of approximately 51 percent could result in significant state savings, depending on the amount of expenditures that are eligible for federal funds and the increased state administrative costs to document eligibility and report the client costs. We note that the state would receive matching federal funds for these administrative costs.

Based on DDS's experience with the existing waiver, we believe it is very likely that the savings would outweigh the administrative costs. Accordingly, we recommend that DDS include DR clients in its application for a new waiver, and that the two departments report during the budget hearings, prior to the application deadline, on their intentions and the estimated fiscal effects of this action.

Legislature Needs More Information On Supported Living Augmentation

We withhold recommendation on the $2 million proposed for expansion of supported living services in 1998-99 because the department (1) has yet to allocate $1 million appropriated in the current year for expansion of these services and (2) is in the process of collecting data from the regional centers regarding the demand for the services.

Background. Supported living arrangements are designed to give developmentally disabled individuals the ability to live in their own homes while receiving a variety of support services that are tailored to their needs. Commonly provided assistance includes personal care (such as bathing and grooming), domestic services (such as cooking, shopping, and housecleaning), paid roommates or personal attendants, 24-hour emergency care, and adaptive equipment. These services may be provided in addition to similar services that are available through the In-Home Supportive Services program in the DSS. Supported living services are highly individualized and change as a client’s needs evolve. Services generally are coordinated by supported living agencies, upon referral by a RC.

More than 1,250 RC clients live in supported living arrangements, and the department expects that number to increase due to growing interest in supported living as a residential option. The department estimates that RCs spent about $28 million for supported living services in 1996-97. The DDS is in the process of surveying RCs to determine the precise number of clients receiving supported living services, current expenditures for supported living, and the projected future demand for these services.

Current-Year Expansion. The *1997-98 Budget Act* appropriated

$1 million from the General Fund to expand supported living services for RC clients in the current year. At the time that this analysis was prepared, the department was receiving project proposals from the RCs and indicated that it would allocate these funds to selected projects in late February. Regional centers were encouraged to propose projects that would help start new supported living agencies; expand existing agencies; or assist consumers with one-time costs such as furnishings, appliances, rental deposits, and modifications to make homes accessible.

Budget Proposal. The budget proposes to continue the $1 million appropriated for expansion in the current year and add another $1 million to further expand services in 1998-99. However, because DDS has not yet allocated the funds appropriated in 1997-98, it has been unable to determine the actual need for continuation funds in 1998-99. The department indicates that it will adjust the budget proposal in the spring to reflect the projects funded in the current year and the results of the RC survey. The survey should also help to determine the need for further expansion in the budget year. Accordingly, we withhold recommendation on the $2 million proposed for continuation and further expansion of supported living services in 1998-99. We also recommend that the department report at budget hearings on the projects funded for the current year and the outcome of its survey.

Technical Issue—Case Management For Community Placements Overbudgeted

We recommend a technical adjustment to the budget for ongoing case management services for developmental center clients placed into the community, for a General Fund savings of $375,000. (Reduce Item 4300-101-0001 by $276,000, Item 4260-101-0001 by $99,000, and Item 4260-101-0890 by $106,000.)

The budget proposes $1.4 million to provide "enhanced" case management services to 2,667 individuals who were placed from DCs into the community between 1993-94 and 1997-98 as a result of the settlement of *Coffelt v. Department of Developmental Services*. The goal of this funding is to provide a 1:45 case management ratio to these individuals, rather than the 1:62 ratio provided in the core staffing formula.

Our analysis indicates that the proposal to continue the baseline funding for these case managers in 1998-99 is overbudgeted due to a technical error in estimating these costs. We recommend adjusting for this error,

which would result in a General Fund savings of $375,000 ($276,000 in the DDS budget and $99,000 in DHS' budget).

DEVELOPMENTAL CENTERS PROGRAM

The budget proposes $482 million from all funds ($39 million from the General Fund) for support of the DCs in 1998-99.

Placement Decisions for DC Residents Should Be Reviewed

We recommend enactment of legislation directing the Department of Developmental Services to institute a process for conducting judicial reviews to determine the appropriateness of developmental center placements for current residents who have never had such reviews.

Background. Generally, the RCs and DDS determine whether a person with developmental disabilities qualifies for placement in a DC. This determination is made after consulting with a number of people, including the person who is disabled, their parents or conservator, physicians and other staff who can evaluate the needs of the person, and any other friends, relatives, or advocates who help plan the services that will be provided to the client.

To be admitted to a DC, an individual must fall into one of the legal categories for which admission is authorized. These categories are defined in various sections of the Welfare and Institutions Code and Penal Code, which generally spell out due process requirements for making such placements. In this respect, Welfare and Institutions Code Section 4825 allows for the placement of "nonprotesting" adults into a DC at the request of their parent, guardian, or conservator, without a judicial review before admission. In its 1981 decision *In re Hop*, however, the California Supreme Court ruled Section 4825 unconstitutional stating that persons with developmental disabilities who are unable to provide "informed consent" regarding their placement in a DC are entitled to a judicial review regarding the need for and appropriateness of such placement.

Subsequent to the *Hop* decision, various county entities (such as courts, district attorneys, and county counsels) adopted a variety of procedures to provide judicial reviews, often called "Hop reviews," for all new DC admissions. With a few exceptions, however, counties generally did *not* conduct Hop reviews for residents who had been admitted to DCs as nonprotesting adults or minors under Section 4825 *prior* to the 1981 decision. Therefore, although the placements of all DC residents are reviewed

annually by developmental center staff and client representatives (who prepare each client's individual program plan), the ongoing placements of most residents admitted to DCs prior to 1981 have never been *judicially* reviewed.

Implementation of the* In re Hop *Decision Has Been Mixed. Counties, RCs, and DCs varied in their responses to the *Hop* decision. For example, Orange County, where Fairview Developmental Center is located, required Hop reviews for all residents who had been placed as nonprotesting adults prior to the *Hop* decision. These placements are reviewed annually, and the county district attorney's office is involved in the process. In contrast, nonprotesting adult residents of Agnews Developmental Center in Santa Clara County did not have Hop reviews, although residents admitted as minors have been judicially reviewed as they reached the age of 18. As of December 1997, about 1,600 current DC residents—most of whom were placed after the *Hop* decision—had received a judicial review designed to meet the due process standards set for *Hop.* In contrast, about 1,700 current residents—most, if not all of whom were placed prior to the *Hop* decision—had not received a judicial review (see Figure 20 below).

Figure 20

Developmental Center Residents With and Without "Hop Reviews"

December 1997

Developmental Center	With Hop Review	Without Hop Review
Agnews	134	357
Fairview	706[a]	30
Lanterman	207	491
Porterville	155	418
Sonoma	397	398
Total	**1,599**	**1,694**

[a] Includes 44 pending cases.

Any DC resident may file a writ of habeas corpus asking to be released at any time; however, the Supreme Court noted in *Hop* that it is inappropriate to place the burden of requesting release on individuals who have been determined mentally incompetent due to a disability. Failing to provide judicial hearings for these individuals also is contrary to legisla-

tive intent as expressed by Senate Concurrent Resolution 45 in 1987, which stated that persons admitted to DCs prior to 1981 were entitled to judicial review of their placements.

We note that the Supreme Court also declared unconstitutional the indefinite nature of placement under Section 4825, which requires no periodic review of the commitment to a DC. Most of the counties that have instituted Hop review procedures provide for annual or biennial review of the commitment, although some do not. Because of the *Hop* ruling, we believe that commitments should be periodically reviewed to determine if continued placement in a DC is warranted.

Community Living Options May Exist for Many Unreviewed Clients. In recent years, the DC population and the number of annual admissions have dropped substantially as more community-based services have been developed, enabling more individuals with disabilities to live in private or group homes rather than DCs. More than 2,500 DC residents have moved into the community since 1994 as a result of the settlement of *Coffelt v. DDS*, which called for a reduction in the DC population and increased monitoring of community placements.

It is unknown how many of the 1,700 unreviewed DC residents could live in a less restrictive environment than the institutions. Nearly all Hop reviews conducted so far have resulted in a recommitment of the individual to the DC. However, staff at DCs, RCs, and the department suggest that a number of the unreviewed residents might be served just as well, if not more appropriately, in the community (notwithstanding the fact that the annual review of individual program plans has not led to changes in residential status). We note that reviews resulting in community placement generally would result in a net savings to the state. A 1991 study estimated that treatment in a DC costs roughly $24,000 more per year than treatment in the community.

Safeguards for Community Placements Are Increasing. Recent concern over the quality of care provided in the community has heightened awareness of the dangers developmentally disabled individuals face when moving from an institution. In response to these concerns, funds were appropriated in the current year to enhance case management and the monitoring of community-based services, and the *1998-99 Governor's Budget* proposes increased quality assurance activities by DDS and the Department of Health Services. In addition, Chapter 414, Statutes of 1997 (SB 1039, Thompson) allows DC residents to be given "provisional placement" in the community for up to 12 months, with heightened monitoring of their cases and the ability to return to a DC at any time. This doubled the previous six-month provisional placement period.

Estimated Cost to Review Cases. The following types of costs are associated with judicial reviews: (1) Writing and compiling reports by physicians, case managers, and other parties at the DC and RC; (2) filing court documents to initiate the review process and notifying concerned parties that a hearing will be held, which is done by the county counsel or district attorney in a majority of the cases; (3) representing the client, generally done by a public defender (clients and their families or conservators are not required to retain private counsel, and most do not); and (4) conducting the hearings, which generally take place in Superior Court and last from 15 to 30 minutes.

We estimate a per-case cost of about $590 to $745 to review clients who already live in a DC, or a total cost of $1 million to $1.2 million for all 1,700 unreviewed residents. This estimate assumes that district attorneys or county counsels would file petitions and represent the petitioner at hearings, rather than a regional center using in-house counsel or contracting for legal work. When district attorneys do not represent the petitioner, estimated costs increase by about $235 to $280 per case—an additional $400,000 to $500,000 in total—primarily due to a significantly higher per-case cost for the regional centers within Los Angeles County. (Nearly one-third of the unreviewed residents live at Lanterman Developmental Center in Los Angeles County.)

We note that the budget proposes to add 16 health records technician positions in the DCs in 1998-99. In addition to other duties, these employees would be responsible for compiling records, processing court papers, and maintaining data on the commitment status of all DC residents. The department indicates that these activities would be directed toward processing additional cases for judicial reviews, including the 1,700 unreviewed cases. We estimate that the budget proposal, if enacted, would fund roughly $100,000 of the total costs we identified above.

Recommend Legislation Mandating Hearings for Unreviewed Clients. We recommend that legislation be enacted directing DDS to implement a process to review the nearly 1,700 DC residents whose placements have never been judicially reviewed. More community living options exist today than at the time of the *Hop* decision, and recent concern regarding the possible dangers of community placement is being addressed in the form of longer provisional placement, increased monitoring of cases, and enhanced quality assurance activities.

We further recommend that in developing this process, the department consider the following actions to reduce state costs:

- ***Time the Initial Judicial Reviews for the 1,700 Residents—and Periodic Recommitment Hearings for All Residents—to Coincide***

With the Annual Preparation of Residents' Individual Program Plans. This action could save an estimated $130,000 to $190,000 in overall costs. Savings would occur as a result of consolidating otherwise separate (1) assessments of a client's needs, (2) evaluations of potentially appropriate community facilities, and (3) travel to the DC where the client resides. This would also help phase in the new judicial reviews, rather than immediately increasing the workload of the developmentally disabled and judicial systems.

- ***Review Commitments Every Three Years, Rather Than Annually or Biennially as Most Counties Currently Do.*** As noted above, *Hop* took issue with the indefinite nature of commitments under Section 4825 as compared to other commitments that are reviewed on a periodic basis. Those involved with the process, however, indicate that reviewing Hop commitments annually is largely ineffectual because a client's status is unlikely to change significantly over a one-year period. Reviewing cases every three years would result in estimated ongoing annual costs of $330,000 to $420,000, compared to $1 million to $1.2 million for annual reviews.
- ***Recoup Costs for Public Defense of Residents When Possible.*** This is done for clients placed into DCs under Welfare and Institutions Code Section 6500, but is not done for Hop placements. Individuals involved in the process indicate confusion regarding the legality of recouping public defender costs for these clients because it is not expressly allowed in the law. We recommend that any legislation enacted include clarifying language regarding the authority of public defenders to recoup costs from DC clients when feasible.
- ***Use Court Commissioners or Referees to Hear the Cases.*** Court commissioners and referees generally have lower salaries than superior court judges, whose salaries represent about one-third of annual superior court costs. Using commissioners or referees to hear cases could cut court costs by $8,000 to $17,000 and free judges' time for other cases.
- ***Consider Requiring District Attorneys or County Counsels to Handle Hop Cases***. Although this requirement appears to create a state-mandated local program, we believe the additional state costs to reimburse the counties would be more than offset by savings to the state-funded RCs that no longer retained private legal counsel to represent them at hearings. This cost avoidance is especially pronounced in Los Angeles County, where the use of private counsel would cost an estimated $362,000 more than using the district attorney in Hop cases.

Continue Funding for Camarillo Maintenance

We recommend that the Legislature augment the budget by $3.8 million from the General Fund to continue maintenance of Camarillo State Hospital and Developmental Center because California State University's proposal to assume control of the site is premature. (Increase Item 4300-003-0001 by $3,799,000.)

Pursuant to language in the *1996-97 Budget Act*, Camarillo State Hospital and Developmental Center was closed in July 1997. The *1997-98 Budget Act* appropriated $4.6 million from the General Fund for continued maintenance at the site, temporary administrative staff to finalize the closure, and related operating expenses. The budget proposes that these funds not continue in the DDS budget for 1998-99 because California State University (CSU) has been negotiating with DDS to assume control of the site by July 1, 1998. The budget proposal for CSU includes $16.5 million for this transfer.

As we discuss in our analyses of CSU in the Higher Education and Capital Outlay chapters, we believe this proposal is premature. Accordingly, we recommend that the Legislature continue $3.8 million in the DDS budget, which is our estimate of the amount needed for maintenance staff and operating expenses at Camarillo in 1998-99.

New Nursing Staff Should Be Budgeted at First Salary Step

We recommend that most of the proposed new positions in the developmental centers be funded at the first salary step, to be consistent with standard budgeting practice, for a General Fund savings of $819,000 in 1998-99. (Reduce Item 4300-003-0001 by $97,000, Item 4260-101-0001 by $722,000, and Item 4260-101-0890 by $767,000.)

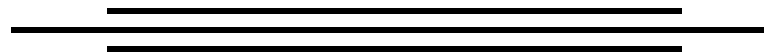
Background. Two of the state's five DCs, Fairview and Porterville, are facing sanctions as a result of recent licensing surveys by the Department of Health Services (DHS) and the federal Health Care Financing Administration. The surveys cited the DCs for numerous examples of inadequate care and understaffed residential and treatment units. As a result of the surveys, the state is currently unable to receive federal Medicaid funding for individuals who are newly admitted to the two institutions. If the state does not increase staffing in all five of its institutions, the department indicates that the DCs could all face some level of sanctions when they are next surveyed.

In response to these concerns, the budget proposes to add 1,703 positions in the DCs at a total cost of $107 million ($55 million from the Gen-

eral Fund) over the next four years. In 1998-99, the department would add 606 positions at a half-year cost of $31 million ($16 million from the General Fund). The proposed positions include medical and nursing staff to provide care to residents, train care providers, and assist DC residents who are placed into the community.

The largest component of this plan would provide 475 new nursing staff to treat and supervise DC clients, at a half-year cost of $10.1 million ($5.2 million from the General Fund) in 1998-99. The DCs employ several types of nursing staff, including registered nurses, licensed vocational nurses, and psychiatric technicians. Psychiatric technicians, senior psychiatric technicians, and psychiatric technician assistants comprise 75 percent of the current DC nursing complement.

New Positions Not Funded at First Step. We agree with the general intent of increasing staffing to meet federal and state licensing requirements. However, the budget proposes funding the new nursing positions at the average current salary for existing nursing staff, rather than the first salary step as is consistent with standard budgeting procedures. Due to a shortage of registered nurses in the state, we believe that budgeting registered nurse positions at the mid-range salary is justified in order for the state to compete in the market for these staff. However, the department has not justified the need to budget the remaining new positions at the mid-range level. Accordingly, we recommend that this group of positions be budgeted at the first salary step. This would result in a General Fund savings of $819,000 in 1998-99 ($97,000 in the DDS budget and $722,000 in the DHS budget).



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, (3) manage treatment services at the California Medical Facility at Vacaville (a state prison), and (4) administer nine community programs directed at specific populations.

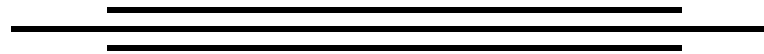
The state hospitals provide inpatient treatment services for mentally disabled county clients, judicially committed clients, clients civilly committed as sexually violent predators, and mentally disordered offenders and mentally disabled clients transferred from the California Department of Corrections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

The budget proposes $1.3 billion from all funds for support of DMH programs in 1998-99, which is an increase of 1.9 percent over estimated current-year expenditures. The budget proposes $570 million from the General Fund, which is an increase of $17 million or 3.1 percent above estimated current-year expenditures. This increase is primarily due to (1) increases in the Judicially Committed/Penal Code and Sexually Violent Predator populations in the state hospitals and (2) an increase in funding for managed care to reflect increased costs and additional services provided by counties.

Inflation Increase Overbudgeted

We recommend a reduction of $2.1 million from the General Fund for support of the Mental Health Managed Care Programs because the cost adjustment proposed for the program is overbudgeted. (Reduce Item 4440-103-0001 by $2,096,000.)

The Governor proposes a net increase of $7.3 million from the General Fund for support of the Mental Health Managed Care Program. This augmentation includes an increase in the amount budgeted to allocate among the counties, reflecting a $6.3 million cost adjustment for inpatient care based on the medical component of the U.S. Consumer Price Index (CPI). The proposed increase is calculated using the Department of Finance's planning forecast, which projects a medical CPI of 4.8 percent for 1998-99. However, the department's final forecast projects a medical CPI of 3.2 percent, which yields a $4.2 million cost adjustment. Accordingly, we recommend that the Legislature reduce the Mental Health Managed Care Program augmentation by $2.1 million.



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 youths, 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 $5.9 billion from various funds for support of the EDD in 1998-99. This is a decrease of $239 million, or 3.9 percent, from estimated current-year expenditures, primarily due to a decrease in projected UI and DI benefit payments and a decrease in expenditures in the Job Training Partnership Act Program. The budget proposes $23.6 million from the General Fund in 1998-99, which represents the same level of funding as in the current year.

FEDERAL WELFARE-TO-WORK BLOCK GRANT PROGRAM

The federal Welfare-to-Work block grant program will provide California with up to $363 million in federal funds to serve specified hard-to-employ Temporary Assistance for Needy Families (TANF) recipients, if the state provides the necessary one-third match. We comment on the Governor's proposal, present alternatives for legislative consideration, and recommend that the number of long-term TANF recipients be incorporated into the formula for allocating funds to the Private Industry Councils (PICs).

Background

The federal *Balanced Budget Act of 1997* includes $1.5 billion in both federal fiscal year (FFY) 98 and FFY 99 for Welfare-to-Work block grants administered by the Department of Labor. About 75 percent of these funds are allocated to states based on a formula that includes two factors: (1) the state's share of individuals in poverty and (2) the state's share of TANF recipients. (These are referred to as "Formula Grants.") The remaining 25 percent is available to specified local entities on a competitive basis.

If California provides the one-third match ($181.5 million) required for the Formula Grants, the state is eligible to receive up to approximately $190 million in federal funds in FFY 98 (October 1997 through September 1998) and $173 million in FFY 99 (October 1998 through September 1999). At least 85 percent of these federal funds must be allocated to PICs, which are regional organizations created by the Job Training Partnership Act to provide employment and training services to both welfare and non-welfare recipients. The remaining "discretionary funds"—up to 15 percent—are to be spent on projects to help long-term welfare recipients.

All Formula Grant expenditures are subject to state legislative appropriation, according to the following rules:

- ***Funds must Be Spent on Eligible Individuals According to the 70/30 Rule***. At least 70 percent must be spent on TANF recipients on aid 30 or more months who meet two of three specified conditions, or to certain noncustodial parents. Up to 30 percent must be spent on other TANF recipients who have characteristics associated with long-term welfare dependence. Once awarded, states have three years to spend the federal funds.
- ***Funds Must Be Spent on Allowable Activities***. These activities are: (1) community service or work experience programs; (2) job creation through public or private sector employment wage subsidies; (3) contracts with public or private providers of readiness, placement, and post-employment services; (4) job vouchers for placement, readiness, and post-employment services; or (5) job retention or support services if such services are not otherwise available.
- ***State Match***. States shall receive $2 in Welfare-to-Work formula grants for each $1 in state matching expenditures (up to the state maximum allotment). State matching funds must be in addition to the funds spent to meet the TANF maintenance-of-effort (MOE) requirement and must be spent on eligible individuals and activities. States have three years to spend the necessary match.

- ***Formula for Allocating Funds to PICs.*** Federal law establishes three factors for states to use when allocating funds to their local PICs: (1) excess poverty (number of persons in poverty above a 7.5 percent threshold), (2) adults receiving TANF for 30 months or more ("long-term TANF recipients"), and (3) the number of unemployed persons. The first factor (excess poverty) must be weighted at least 50 percent. States may use excess poverty as the sole factor or may combine it with one or both of the other two factors.

Governor's Proposal

The administration released its draft state plan for implementing the Welfare-to-Work program in California on January 16, 1998. The administration plans to hold five public hearings before submitting the plan to the federal Department of Labor in March. The Governor's proposal includes the following elements.

- ***State Match.*** The state will provide the first part of the required match by allocating to counties $95 million from the General Fund for the California Work Opportunity and Responsibility to Kids (CalWORKs) program employment services. As required by federal law, this is above the state MOE for the TANF (CalWORKs) program. The remaining $86.5 million in required matching funds are proposed to come from future expenditures between July 1, 1999 and September 30, 2001, as permitted by federal regulations.

- ***Formula Grant Allocation to PICs.*** Following the award of federal funds (probably in April or May of 1998), the budget proposes to allocate the required 85 percent of the federal funds to the PICs—specifically, $162 million in 1997-98 and $147 million in 1998-99. The PICs will have three years to spend the funds on eligible individuals and activities pursuant to plans that they are required to submit to the EDD. These local plans, developed by the PICs, must be approved by the local county welfare director.

- ***Allocation Formula.*** The proposed formula for allocating funds to the PICs assigns (1) a weight of 55 percent to the number of persons in poverty above the 7.5 percent threshold, (2) a weight of 30 percent to the number of adults receiving TANF for at least 30 months, and (3) a weight of 15 percent to the number of unemployed individuals.

- ***Local Competitive Grants.*** With most of the remaining 15 percent of the Formula Grants ($50.5 million), the budget proposes to create a local competitive grant program. Cities, counties, community-based organizations, and faith-based organizations would be eligi-

ble to apply for these grants based on their proposals for assisting hard-to-employ CalWORKs recipients.

- ***Administration***. The budget proposes to spend $4 million of the federal funds for state administration of the program, by allocating $1 million in 1998-99 and $1 million annually in the following three years. The PICs may spend no more than 13 percent of their Formula Grant allocation on administration.

Legislature Has Options

We believe that the proposal to draw down all of the federal funds is reasonable, given the attractive $2 for $1 federal match. We note, however, that the Legislature has several options regarding (1) how and when the state match should be spent, (2) how the 15 percent discretionary funds should be spent, and (3) whether to "free-up" federal TANF block grant funds in anticipation of the expenditure of the new Welfare-to-Work funds.

Use of Matching Funds. In order to qualify as a match for the Welfare-to-Work block grants, state spending must meet two tests. The first test is that total state spending on TANF must exceed the TANF MOE requirement. This amount can be thought of as the TANF "overmatch." This TANF overmatch will count toward the Welfare-to-Work match if the second test is satisfied. The second test is that an amount of spending equal to the TANF overmatch must be identified—out of either the overmatch itself or the baseline spending for CalWORKs/TANF services—which meets the federal criteria for expenditures of the Welfare-to-Work grant.

We note that the budget proposal to spend $95 million as the state match does not have to be spent for employment services, as proposed in the budget. The budget proposal would fully fund the employment services component of CalWORKs *without* the $95 million, based on the budget's caseload and cost assumptions. Thus, the Legislature might wish to consider alternative uses for these funds, which could include grants, employment services for non-custodial parents who have child support obligations, CalWORKs job creation programs, or allocating the funds to the PICs. Under this last option, the funds could be used as a state match on the condition that the PICs choose to spend the federal money in a manner consistent with legislative priorities. Should the Legislature choose any of these alternatives, however, it would need to identify $95 million from the remaining General Fund expenditures for

CalWORKs which meet the federal criteria for the Welfare-to-Work state match. We believe that this would be feasible.

***Timing of State Match Expenditures*.** The Governor proposes to spend $95 million toward the state match in 1998-99 and the remaining $86.5 million sometime between July 1, 1999 and September 30, 2001. We note that the Legislature could elect to spend the matching funds on its own schedule, which could be faster or slower than the schedule proposed by the Governor, with virtually no impact on the timing of the availability of the federal funds. In our analysis of the CalWORKs program (Item 5180), we recommend deferring this match payment until 1999-00 because we estimate that the required match could be identified from the base budget for CalWORKs services in that year, at no additional cost to the General Fund.

***State Discretionary Funds*.** Up to 15 percent of the federal funds ($54.5 million) must be spent on projects designed to help long-term welfare recipients. The Governor proposes to use these funds to create a competitive grant program for local entities. We note that this proposed *state* competitive grant program is in addition to the *federal* competitive Welfare-to-Work grant program which will provide approximately $368 million per year to local entities throughout the United States in FFY 98 and FFY 99. The Legislature could, as an alternative, use the discretionary funds to further its own priorities in CalWORKs, as long as the funds are spent on Welfare-to-Work eligible individuals and activities.

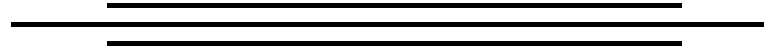
***"Freeing-Up" Federal TANF Block Grant Funds*.** Pursuant to the federal welfare reform legislation enacted in August 1996, California is entitled to receive an annual federal block grant of $3.7 billion, provided that the state meets the TANF MOE requirement that the state spend 80 percent of what it spent in FFY 94 on TANF recipients. Unlike the Welfare-to-Work funds which must be spent within three years, federal TANF funds may be carried over indefinitely.

The federal Welfare-to-Work block grant funds included in the *Balanced Budget Act of 1997* are an *additional* source of federal funding for services for certain TANF/CalWORKs recipients. The issue facing the Legislature is whether to take into account the new Welfare-to-Work funds in determining the budget for the CalWORKs program. If the Legislature wishes to treat the new funds as a partial funding source for CalWORKs, it could reduce the proposed appropriation for the program. Because of the TANF MOE requirement, state and county spending could not be reduced. Federal block grant funds, however, could be reduced and carried over indefinitely into future years. These "freed-up" TANF funds could be placed in a reserve for future years or could be used for

other legislative priorities in the CalWORKs program. We will address this issue in our analysis of the CalWORKs program (Item 5180).

Allocating Funds to PICs. As noted above, the three factors established by federal law for states to use when allocating Welfare-to-Work funds to the PICs are: (1) the incidence of poverty above a specified threshold, (2) the number of adults receiving TANF for 30 months or more, and (3) the number of unemployed persons. The law further provides that the poverty factor must be weighted at least 50 percent.

Because almost all of these funds must be spent on TANF recipients that have been on aid for 30 months or more, or on TANF recipients having characteristics associated with long-term welfare receipt, we believe that the number of long-term TANF recipients residing in each PIC should be one of the allocation factors. Specifically, we recommend legislation be enacted providing that the formula assign a weight of *at least* 25 percent to this factor. We note that the Governor's proposed weight of 30 percent for this factor is consistent with our recommendation. (In our January report, *CalWORKs Welfare Reform: Major Provisions and Issues*, we illustrate the fiscal impact on the PICs under three alternative distribution formulas that would meet our recommended criterion.)



DEPARTMENT OF REHABILITATION (5160)

The Department of Rehabilitation (DR) provides basic vocational rehabilitation and habilitation services to persons with disabilities. Vocational rehabilitation services seek to place disabled individuals in suitable employment, while habilitation services help individuals who are unable to participate in vocational rehabilitation programs achieve a higher level of functioning. Services are provided in sheltered workshops under the Work Activity Program (WAP) and to groups or individuals on job sites through the Supported Employment Program (SEP). In addition, the department helps legally blind clients support themselves as operators of vending stands, snack bars, and cafeterias throughout the state; provides prevocational rehabilitation services to newly blind adults; and assists community-based rehabilitation facilities such as independent living programs, halfway houses, and alcoholic recovery homes.

The budget proposes $368 million from all funds for support of DR programs in 1998-99, an increase of less than 1 percent over estimated current-year expenditures. The budget proposes $126 million from the General Fund, which is $1.8 million, or 1.4 percent, above estimated current-year expenditures from this funding source.

Governor's Proposal Does Not Fund Statutory Rate Increase

The department is statutorily required to recalculate rates paid to Work Activity Program (WAP) providers effective July 1, 1998. Rates paid to some Supported Employment Program (SEP) providers also would change, because SEP group-placement rates are linked to WAP rates. The Governor proposes to suspend the rate increase, for an estimated General Fund cost avoidance of $9.6 million in 1998-99.

Current state law requires the department to recalculate rates for WAP providers every two years. The next recalculation is scheduled to take effect July 1, 1998, and the department expects total payments to WAP providers to increase during 1998-99 if this statutory requirement is followed. In addition, payments would increase to some SEP providers

because rates for the group-placement component of SEP are tied to the rates for WAP providers. Based on preliminary calculations, the department estimates that the rate increase would cost a total of $10.9 million ($9.6 million from the General Fund and $1.3 million in federal funds) in 1998-99.

Caseload Projections Do Not Reflect Trends

We recommend a net reduction of $4.8 million from the General Fund for the Work Activity Program and Supported Employment Program so that caseloads will reflect recent trends. (Reduce Item 5160-101-0001 by $5,448,000, increase Item 5160-001-0001 by $644,000, and increase Item 5160-001-0890 by $2,381,000.)

The budget proposes expenditures of $112 million in total funds ($91 million General Fund) to support vocational rehabilitation and habilitation services programs for clients with developmental disabilities. This is an increase of $1.8 million from the General Fund, or 1 percent, to add 201 clients to the caseload.

Our analysis of the department's caseload projections indicates that the projections do not account for recent Habilitation Services Program/WAP (HSP/WAP), Vocational Rehabilitation/WAP (VR/WAP) and SEP group-placement caseload trends.

Habilitation Services Program/Work Activity Program Projection Too High. The budget proposal projects an increase of ten HSP/WAP cases per month during 1998-99, with total cases increasing from 9,850 at the beginning of the fiscal year to 9,960 in June 1999, as shown in Figure 21. Based on our analysis of the most recent 12 months of data (October 1996 through September 1997), the actual caseload is *decreasing* by an average of 29 cases monthly. Applying this trend to the actual caseload of 9,341 in September 1997, we estimate that the caseload will decrease to 8,732 by June 1999, which is 1,228 cases lower than the department's projection. This caseload adjustment would result in a General Fund savings of $5.2 million in 1998-99.

Vocational Rehabilitation/Work Activity Program Projection Too Low. The budget proposal projects a steady VR/WAP caseload of 1,950 clients during 1998-99. However, our review of the most recent 12 months of data shows that the actual caseload is *increasing* by an average of 18 cases per month. Applying this trend to the actual caseload of 2,243 clients in September 1997, we estimate that the caseload will increase to 2,621 clients in 1998-99, which is 671 clients above the department's projection. This caseload adjustment results in an increase of $3 million ($644,000 General Fund) in 1998-99.

Figure 21

Department of Rehabilitation Program Caseload Trends

	Recent Caseload Trends		1998-99 Year-End Projection June 1999		
Program	Monthly Change[a]	Actual September 1997	Governor's Budget	Legislative Analyst's Office	Difference
HSP/WAP	-29	9,341	9,960	8,732	-1,288
VR/WAP	18	2,243	1,950	2,621	671

[a] Based on most recent 12 months (October 1996 through September 1997).

Habilitation Services Program/Supported Employment Program Group-Placement Projection Does Not Reflect Seasonal Trend. The budget proposal projects a monthly increase of 20 HSP/SEP group-placement clients during 1998-99. Our analysis of the most recent 24 months of data from the HSP/SEP group-placement program shows an average increase in cases during nonsummer months offset by a pronounced *decrease* in cases during the months of May, June, July, and August. According to the department, this trend could be caused by an increased number of clients taking vacations during the summer months.

Given an actual caseload of 2,930 in September 1997 and taking the seasonal trend into account results in a slightly lower average projected caseload than assumed in the budget. Our projection would result in a $273,000 decrease in General Fund expenditures in 1998-99.

Summary. We recommend that the Legislature reduce caseload-related funding for a net reduction of $4.8 million from the General Fund. We note that more recent caseload data will be available at the time of the May Revision, allowing for further analysis of these trends.

Legislative Oversight: Delay in Submission Of Supported Employment Cost Study

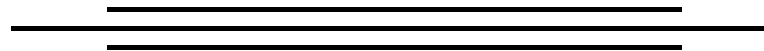
The department has not submitted a legislatively mandated report on the cost of providing supported employment services, due February 1, 1997. We recommend that the department advise the Legislature on the status of the report and on its recommendations for standardizing rates.

The *1996-97 Budget Act* appropriated $175,000 for the department to contract for an independent study of the costs of providing work activity and supported employment services, with the purpose of developing a proposal for "standardized" rates that would reimburse providers on the same basis for providing a particular type of service. The department was required to report the results of the study to the Legislature by February 1, 1997. Due to problems with the contractor, the work activity section of the study was submitted after the deadline. At the time that this analysis was prepared, the department had not submitted the supported employment section of the study.

We recommend that the department report at budget hearings on the status of the study or, if the study has been submitted by that time, on its findings and recommendations.

Federal Waiver for Habilitation Services Could Result in State Savings

Please refer to our analysis of the Department of Developmental Services for our discussion of this issue.



DEPARTMENT OF SOCIAL SERVICES CALWORKS PROGRAM (5180)

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

The budget proposes expenditures of $5.9 billion ($2 billion General Fund, $27 million county funds, and $3.9 billion federal funds) for the CalWORKs program in 1998-99. In total funds, this is an increase of $307 million, or 5.5 percent. General Fund spending is projected to decline by $88 million, or 4.2 percent. This decrease in General Fund spending is primarily due to the availability in the budget year of a large carryover balance ($489 million) of TANF bock grant funds from the current and prior years.

CURRENT-YEAR UPDATE OF CALWORKS/TANF PROGRAM

Major Changes in 1997-98

Welfare Reform. Figure 22 summarizes the major features of the CalWORKs program. The program established a five-year lifetime limit

Figure 22

CalWORKs Program (AB 1542) Major Features

Eligibility

- ✓ ***"Look Back" Provision.*** Eliminates the requirement that two-parent families applying for assistance have a prior connection to the labor force.
- ✓ ***Resource Limits.*** Conforms resource limits to the amounts permitted under federal law for the Food Stamps program. (This increases the asset limit for automobiles, as applied to applicants, from $1,500 to $4,650.)
- ✓ ***Diversion Program.*** Permits counties to provide eligible applicant families with up to three months of aid payments in the form of a lump sum for purposes of providing temporary assistance so that the family does not enter the program.

Grants

- ✓ ***Maximum Grants.*** Continues 4.9 percent statewide grant reduction and suspension of the statutory COLA through October 31, 1998.
- ✓ ***Beno Exemptions.*** Eliminates Beno court case grant reduction exemptions (applicable to certain recipients not able to work).
- ✓ ***Income Disregards***. Replaces the existing "fill the gap" and "$30 and one-third disregard" with a $225 plus 50 percent earned income disregard, whereby the first $225 of earnings plus 50 percent of each additional dollar of earnings are disregarded in determining the family's grant.

Services

- ✓ ***Welfare-to-Work Activities.*** Specifies the following sequence of services: job search; assessment; welfare-to-work activities (education and training); and community service employment.
- ✓ ***Child Care.*** Creates a new delivery system administered by county welfare departments and the State Department of Education.
- ✓ ***Employment Retention.*** Authorizes up to one year of case management and other job retention services for persons leaving aid due to employment.

Continued

Participation Requirements

Weekly Hours. Adults in single parent families must participate in work or approved education or training activities for 20 hours per week effective January 1, 1998, 26 hours effective July 1, 1998, and 32 hours effective July 1, 1999 and thereafter. An adult recipient in a two-parent family must participate for 35 hours per week.

Sanctions. The sanction for failure to participate in work activities or community service is removal of the adult portion of the grant.

Time Limits

Welfare-to-Work Services. New applicants are limited to 18 months of job training/education services. Existing recipients are limited to 24 months. Counties may extend the 18 month limit by 6 months if the extension is likely to lead to nonsubsidized employment or if no jobs are available. Able-bodied adults must commence community service employment at the end of these time limits, if the county certifies that a nonsubsidized job is not available.

Five-Year Time Limit/Safety Net. After five cumulative years on aid, the amount of the grant is reduced by the portion for the adult. Counties have the option of providing subsequent aid in the form of cash or vouchers. Certain recipients are exempt, including specified caretaker relatives and disabled persons.

County Administration

County Training. Provides funding for county training and "retooling."

County Fiscal Incentives. Provides 100 percent of certain grant savings to the counties. Specifically, allocates 75 percent of the state's grant savings resulting from (1) program exits due to employment lasting six months, (2) increased earnings due to employment, and (3) diversion of applicants from the program. The remaining 25 percent of such grant savings shall be allocated to counties that have not achieved savings but have performed in a manner "worthy of recognition." Counties must use these savings in the CalWORKs program unless expenditure of these funds is not needed to meet the federal TANF maintenance-of-effort requirement.

Fraud Savings. Reallocates 25 percent of the state's savings from fraud detection activities to the counties.

for adult recipients, a participation mandate for certain recipients that exceeds federal requirements, a community service component for recipients on aid after 18 months (with county discretion to extend to two years), and a simplified grant structure whereby recipients retain the first $225 of any earned income and 50 percent of any earnings above $225. (Please see the K-12 Education chapter for a discussion of child care issues related to the CalWORKs program.)

Grants. Chapter 270 also extended the statewide 4.9 percent grant reduction and the suspension of the statutory cost-of-living adjustment (COLA) through October 31, 1998. These changes result in a General Fund cost avoidance of $218 million in 1997-98.

Recent Federal Action on Welfare Reform

The Balanced Budget Act of 1997 makes significant changes in federal welfare policy. The act, and the proposed federal regulations on welfare reform, have significant implications for California. We summarize these recent federal actions.

The Balanced Budget Act (BBA) of 1997. On August 5, 1997, the President signed the BBA (H.R. 2015), which significantly amended the 1996 federal welfare reform provisions. Key changes are summarized below.

- ***Welfare-to-Work Block Grant Program***. The BBA includes $1.5 billion in both federal fiscal year (FFY) 98 and FFY 99 for Welfare-to-Work block grants administered by the Department of Labor. If California provides the required one-third match, the state is eligible to receive a total of $363 million in "Formula Grants," $190 million in FFY 98 and $173 million in FFY 99. These funds must be spent on certain hard-to-employ TANF/CalWORKs recipients. We discuss this new program in our analysis of the Employment Development Department budget in this chapter of the *Analysis*.
- ***Pass-Through of Child Support***. The BBA allows states to count up to $50 per month in child support that is passed through to TANF families toward meeting the federal maintenance-of-effort (MOE) requirement. (This change means that California's countable MOE spending increases by about $40 million in both the current year and the budget year.)
- ***Federal Penalties***. The BBA adds and modifies the penalties for not meeting specified federal performance measures. For a discussion of the changes in the federal penalties, please see our report

CalWORKs Welfare Reform: Major Provisions and Issues (January 23, 1998).

- ***Simplified Transfer to the Social Services Block Grant (SSBG)***. The BBA allows states to transfer up to 10 percent of their federal block grant into the SSBG. Previously, states had to transfer $2 into the child care development block grant for each $1 transferred into the SSBG, subject to a combined total transfer of 30 percent.

- ***Supplemental Security Income/State Supplementary Program (SSI/SSP) Eligibility for Noncitizens***. The BBA reversed earlier policy and retains SSI/SSP eligibility for all noncitizens in the United States who were receiving such grants as of August 22, 1996. The act also allows noncitizens in the U.S. prior to August 1996 who subsequently become disabled to obtain SSI/SSP benefits.

Proposed Federal Regulations. On November 20, 1997, the federal Department of Health and Human Services (DHHS) issued proposed regulations for the TANF program. Although these regulations are subject to change when the final rules are issued, they give an indication of the department's thinking on many issues, including the imposition of penalties. Some of the most significant regulations are summarized below.

- ***Work Participation Penalty***. Federal welfare reform requires states to meet work participation rates for both the overall caseload and separate higher rates for two-parent families. The DHHS proposes that any states that meet the *overall* work participation requirement, but fail to meet the higher rate for *two-parent* families, should have their penalty based on the proportion of the caseload represented by two-parent families. Because approximately 14 percent of California's TANF cases are two-parent families, this would reduce the potential first year penalty from $185 million (5 percent of the $3.7 billion block grant) to $26 million ($185 million times 14 percent). States will be eligible for further reductions if they come within 90 percent of the required rates of work participation.

- ***Corrective Action Plans***. States that come into compliance within six months of acceptance of a corrective action plan by the DHHS will not be penalized. States that achieve a 50 percent or greater improvement within six months will have their penalties reduced.

- ***No Penalty Relief for States That "Game" the System***. States that attempt to evade work participation requirements or retain the federal share of child support collections—for example, through

the creation of state-only funded programs—will be denied specified penalty relief (such as the proration of the penalty for failure to meet the two-parent work participation rate).

1998-99 BUDGET ISSUES

Budget Proposes to Continue Past Grant Reduction and Eliminate Cost-of-Living Adjustment

The Governor proposes to (1) make permanent the statewide 4.9 percent grant reduction, and (2) eliminate the statutory cost-of-living adjustment, resulting in a General Fund cost avoidance of $248 million. We review the Governor's proposals and comment on them.

Making Past Reductions Permanent. The budget proposes to (1) make permanent the statewide 4.9 percent grant reduction that is scheduled to be restored November 1, 1998 and (2) eliminate the statutory requirement to resume the COLA, which has been suspended since 1991-92. As Figure 23 shows, these changes result in a combined General Fund cost avoidance of $247.6 million. Specifically, the proposal to make the 4.9 percent grant reduction permanent results in a General Fund cost avoidance of $150.8 million in 1998-99. The proposal to delete the requirement to restore the COLA (2.84 percent for 1998-99) results in a General Fund cost avoidance of $96.8 million in 1998-99.

Figure 23

Governor's CalWORKs Grant Proposals General Fund Savings

1998-99
(In Millions)

Proposal	General Fund Savings[a]
Make permanent the 4.9 percent statewide grant reduction	$150.8
Eliminate the requirement to restore the statutory COLA	96.8
Total	**$247.6**

[a] Assumes that total cost of policy proposals will, at the margin, be General Fund costs with no federal share.

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 CalWORKs recipients.

Figure 24

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

1998-99

	Current Law	Governor's Proposal	Change From Current Law
Region 1: High-cost counties			
January 1, 1998 actual grant	**$565**		
1998-99 grant assuming:			
Make 4.9 percent statewide reduction permanent and delete statutory COLA	—	$565	
Restore 4.9 percent statewide grant reduction November 1, 1998	$594	—	
Restore COLA (2.84 percent) November 1, 1998	611	—	
Food Stamps	253	267	
Totals	**$864**	**$832**	**-$32**
Region 2: Low-cost counties			
January 1, 1998 actual grant	**$538**	**—**	
1998-99 grant assuming:			
Make 4.9 percent statewide reduction permanent and delete statutory COLA	—	$538	
Restore 4.9 percent statewide grant reduction November 1, 1998	$565	—	
Restore COLA (2.84 percent) November 1, 1998	582	—	
Food Stamps	262	275	
Totals	**$844**	**$813**	**-$31**

Impact on Families. Figure 24 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 $46 below the level required by current law in 1998-99. Under the Governor's proposal, the combined maximum monthly grant and food stamp allowance is $832 (75 percent of the poverty level), or $32 below the level required by current law ($864, 78 percent of poverty). In Region 2, the proposed grant level is $538, or $44 below the level required by current law. When combined with food stamps, total benefits under the Governor's proposal are $813 (73 percent of poverty), which is $31 less than the level required by current law ($844, 76 percent of poverty).

Impact on the "Work Incentive." Under CalWORKs, the first $225 and 50 percent of each additional dollar of earned income are disregarded in determining a family's grant. Restoring the 4.9 percent grant reduction, and thereby raising grants pursuant to current law, would not reduce from a financial perspective the "work incentive" for CalWORKs recipients. (We note that under prior law, raising grants could have reduced the work incentive because it would have reduced the "gap" between the need standard [$778, family of three] and the maximum grant [$565, family of three]. Previously, recipients could earn the difference between the maximum grant and the need standard with no reduction in their grant.)

Impact on Caseload. Increasing grants will not affect a family's eligibility for the CalWORKs program. (Eligibility will continue to be based on a "need standard" established in statute.) However, a grant increase might induce some families, that are currently eligible but have elected not to participate, to apply for assistance.

Conclusion. In summary, an assessment of the Governor's grant proposals involves balancing the benefits of budgetary savings against the impact of setting grants for families with children further below the poverty line.

Defer Expenditure of State Match For Welfare-to-Work Program Until 1999-00

We recommend deferring the proposed General Fund expenditure of $95 million in state matching funds for the federal Welfare-to-Work block grant by one year because the state may be able to identify the required match from within the base budget for CalWORKs in 1999-00, at no additional cost to the General Fund. (Reduce Item 5180-101-0001 by $95,000,000.)

Background. To receive the annual federal TANF block grant

($3.7 billion for California), states must meet a MOE requirement that state spending on welfare for needy families be at least 80 percent of the FFY 94 level, which is $2.9 billion for California. The MOE requirement drops to 75 percent if states meet two specified work participation rates, but California is unlikely to meet both rates in the budget year. For 1998-99, the Governor's budget for CalWORKs is at the MOE floor, with the exception of $95 million above the MOE for purposes of providing matching expenditures for the federal Welfare-to-Work block grant funds. A total of $181.5 million in state matching funds must spent by September 30, 2001 in order to receive the maximum allocation of these federal funds.

As discussed in our analysis of the Employment Development Department, it is in the state's interest to put up the state match in order to qualify for the federal Welfare-to-Work block grant funds. Federal law, however, permits the states to spend the match at any time prior to September 30, 2001 and still receive the federal allocation in the current and budget years as assumed in the budget. Thus, the Legislature can fund the state match on its own schedule, which may be faster or slower than the schedule proposed by the Governor.

Recommendation. As discussed above, the Governor proposes to spend the first $95 million in 1998-99 toward the total match obligation of $181.5 million. We recommend delaying this expenditure by one year because we estimate that General Fund spending for CalWORKs in 1999-00 will be at least $200 million above the TANF MOE floor, thus allowing the match to be identified from within the base budget in that year at no additional cost to the General Fund.

We project that General Fund spending for CalWORKs will increase in 1999-00 for two reasons. First, the $489 million carryover balance of federal funds that the budget proposes to use as an offset to General Fund costs in CalWORKs in 1998-99 will not be available in 1999-00. Second, 1999-00 is the first state fiscal year in which all recipients will be receiving CalWORKs services for an entire year, which will result in additional costs for employment services. We also note that in 1999-00, many CalWORKs recipients will have phased into the community service component of the program, which is an allowable activity for matching funds for the Welfare-to-Work grant. For these reasons we believe that it will be feasible to identify the entire required match for the Welfare-to-Work funds out of the base budget requirement for the CalWORKs program in 1999-00. Accordingly, we recommend deleting the proposed expenditure of $95 million in matching funds in 1998-99, for a corresponding General Fund savings.

Impact of Budget Reductions in CalWORKs

Because of the federal maintenance-of-effort requirement, any budget reductions in the CalWORKs program identified by the Legislature would result in a savings in federal funds. Such savings could be (1) redirected to other priorities in CalWORKs, (2) placed into a reserve for future years, and/or (3) transferred to the Social Services Block Grant (Title XX), where the funds could be used to offset General Fund spending.

Options for the Legislature. As indicated above, the budget proposal for state spending in CalWORKs is at the MOE floor (excepting the $95 million match for the Welfare-to-Work block grant). Thus, if the Legislature makes any budget reductions (beyond the $95 million) the resulting savings would be in federal funds. The savings are retained by the state because they are TANF block grant funds.

The Legislature has three options with respect to any such savings: (1) redirecting the savings into other priorities in the CalWORKs program (such as increasing grants or establishing job creation programs); (2) placing the federal savings in a reserve for expenditure in future years; and/or (3) transferring the federal funds into the SSBG, where the funds could be used to replace General Fund spending in certain other departments. This last option requires some explanation.

In accordance with federal law (TANF and the BBA), California may transfer up to $370 million in federal TANF funds into the SSBG, also known as Title XX funds. Once transferred, the funds become subject to the rules of the SSBG, subject to the condition that spending of any transferred TANF funds must be for children or their families with incomes under 200 percent of poverty.

For 1998-99, the budget proposes to use about $255 million in Title XX SSBG funds to offset General Fund costs, primarily in the In-Home Supportive Services (IHSS) program and in the community-based programs of the Department of Developmental Services (DDS). We estimate that additional SSBG funds (from a TANF transfer) could be used to supplant approximately $100 million in General Fund spending for low-income children and families in these two programs.

To illustrate the impact of such a transfer on the General Fund, the "residual" (state-only) component of the IHSS program can be used as an example. Currently, the budget allocates $87 million in SSBG funds to the residual IHSS program, which results in a corresponding General Fund savings. We estimate that about 6 percent of the residual IHSS caseload consists of children whose family incomes are under 200 percent of poverty and that General Fund spending for these children is about $15 million. Thus, the state could transfer $15 million in TANF funds into

the SSBG, which could be used to offset $15 million in General Fund spending. Using a similar approach in the DDS, about $85 million in General Fund spending could be offset by TANF funds transferred into the SSBG. Alternatively, these SSBG funds could be used to augment spending in these programs, subject to the conditions noted above.

In the following discussion, we identify various savings with respect to the Governor's budget for CalWORKs. As noted above, proposed General Fund spending cannot be reduced, so we identify all savings as federal TANF savings. In each of the following issues, we recommend that expenditure of federal TANF funds be reduced. Following the specific budget issues, we make a recommendation on how the identified savings should be allocated among the three options discussed above.

Budget for CalWORKs Administration Does Not Reflect Savings From Projected Caseload Decline

We recommend that proposed expenditures for county administration of the CalWORKs program be reduced by $40 million in federal funds because the budget does not reflect savings from its projected caseload declines. (Reduce Item 5180-101-0890 by $39,991,000.)

Typically, the methodology used to budget for county administration of the CalWORKs program 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, if any. The budget proposal for county administration, however, does not reflect the 5.6 percent caseload reduction that the budget projects for the CalWORKs program in 1998-99. Making this adjustment would result in General Fund savings of $14.5 million and federal TANF savings of $20 million, based on the former state/federal cost sharing ratios. Because of the federal MOE requirement, General Fund spending cannot be reduced, so the reduction must be in federal funds. Accordingly, we recommend that the budget for county administration be reduced by $34.5 million to be consistent with the caseload projections.

In addition, our recommendation would result in a $5.4 million reduction for the county share of expenditures, but for technical reasons this would also translate into a reduction of federal TANF block grant funds. (This is due to the interaction between our recommended action and an existing statutory provision.)

Historical Context. In recent years, we made similar recommendations with respect to the budget proposal for county welfare administration. The counties responded by pointing out that the current-year baseline level of expenditures understates the counties' needs because of recent

historical budgeting trends. Prior to 1993-94, the budget for county administration was based on workload standards developed in the 1980s, projected changes in caseload, and changes in the "county cost of doing business" (inflation). During the tight fiscal constraints of the early 1990s, counties generally spent less on administration than was required to match the entire state appropriation (the county share was about 15 percent of total program costs). In reaction to this, beginning in 1993-94 the state appropriation for county administration was reduced to reflect this inability of the counties to provide their match. Essentially, administration of the welfare programs was underfunded with respect to the previously developed workload standards due to the counties' inability to match. Our analysis of spending for CalWORKs (AFDC) administration, however, indicates that since 1993-94 it has increased substantially in "real" dollars (that is adjusted for inflation and excluding policy changes) on a per-case basis.

Figure 25 shows the basic administrative cost per case from 1989-90 through 1998-99 in constant 1989-90 (inflation adjusted) dollars. In terms of constant dollars, the Governor's budget proposes an appropriation for 1998-99 equal to $796 dollars per case, a level that is higher than in all of the past nine state fiscal years except 1991-92. We note that if our recommendation is adopted, the budget for 1998-99 would be $752 per case in constant dollars, just above the current-year level and higher than in six of the past nine fiscal years.

CalWORKs Employment Services Are Overbudgeted

We recommend that the budget for CalWORKs employment services be reduced by $209 million because the budget exceeds the estimated amount needed to fully fund the program. (Reduce Item 5180-101-0890 by $209,174,000.)

Background. The budget for CalWORKs employment services is based on the estimated caseload that requires such services, and the estimated cost of the various service components, such as job search. For 1998-99, the total budget for CalWORKs "basic" employment services is $883 million. This budget allocation is designed to fully fund the program, assuming that counties would begin implementing CalWORKs in January 1998 and would phase in all existing recipients by January 1999 at the latest.

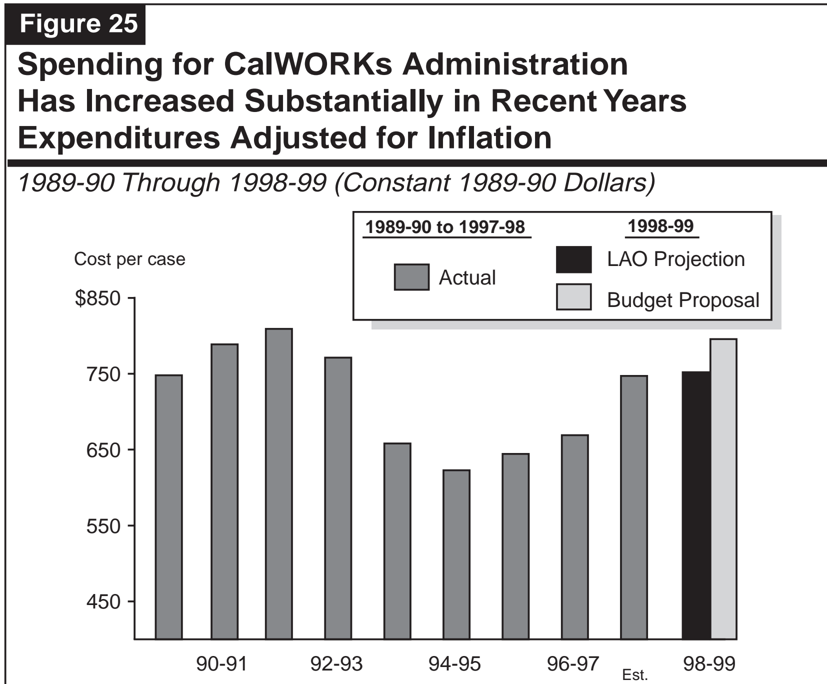


Figure 25

Spending for CalWORKs Administration Has Increased Substantially in Recent Years Expenditures Adjusted for Inflation

1989-90 Through 1998-99 (Constant 1989-90 Dollars)

The budget, however, proposes substantially more for employment services than the amount in the basic allocation. Figure 26 (see next page) shows all funds budgeted for employment services for CalWORKs recipients in 1997-98 and 1998-99. According to the figure, the budget for employment services exceeds the estimated need by *$766 million* over the two-year period. Not all of this "excess" funding, however, should necessarily be considered "overbudgeting." We review specific elements below.

Current-Year CalWORKs Employment Services Augmentations. The current-year appropriation for CalWORKs includes a legislative augmentation of $62.5 million for CalWORKs employment services. This funding was placed in the budget to permit counties to implement the program more quickly than assumed in the basic cost estimate for 1997-98. There is some indication, however, that the counties are implementing CalWORKs more *slowly* than assumed in the budget (for example, Los Angeles County is not likely to begin until April 1998). Nevertheless, the funds have been allocated to the counties and, pursuant to Chapter 270, they may retain the funds until July 2000. Given that counties apparently are implementing CalWORKs more slowly than budgeted, and given that the Legislature has already provided an augmentation of $62.5 million,

we see no analytical basis for increasing the current-year appropriation by $42.9 million as proposed by the Governor. Accordingly, we recommend rejecting this proposal. We further recommend that the $42.9 million in available federal TANF funds be carried over into 1998-99, and that they be considered for other legislative priorities, as we discuss later in this *Analysis*.

Figure 26

CalWORKs Employment Services Budget Total Funds

1997-98 and 1998-99 (In Thousands)

	1997-98	1998-99	Two-Year Total
Budgeted for Services			
CalWORKs/AFDC basic allocation			
GAIN basic	$192,933	—	$192,933
GAIN augmentation	60,000	—	60,000
Reappropriation of GAIN augmentation	59,000	—	59,000
CalWORKs basic	160,086	$882,822	1,042,908
CalWORKs augmentations			
Legislative	$62,520	—	$62,520
Governor's budget	42,899	—	42,899
Welfare-to-Work funds			
State matching funds	—	$95,000	$95,000
Federal funds (to PICs)[a]	$29,000	192,700	221,700
Federal funds (local competitive grants)	—	50,500	50,500
County fiscal incentives	26,005	266,879	292,884
Total budget	**$632,443**	**$1,487,901**	**$2,120,344**
Estimated Need for Services[b]			
GAIN basic	$192,933	—	$192,933
GAIN augmentations	119,000	—	—
CalWORKs basic	160,086	$882,822	1,042,908
Total estimated need	**$472,019**	**$882,822**	**$1,235,841**
Budgeted amount in excess of estimated need	**$160,424**	**$605,079**	**$765,503**

a Although the budget proposes $162 million in 1997-98 and $147 million in 1998-99 for allocation to the PICs, the draft state plan indicates that only $29 million and $192.7 million, in 1997-98 and 1998-99 respectively, are likely to be spent by the PICs.

b Based on caseload and service costs.

County Fiscal Incentives. As discussed previously, under CalWORKs, the state and federal grant savings from increased earnings and specified exits due to employment are to be allocated to the counties as "fiscal incentives." The budget estimates these fiscal incentives to be $26 million in 1997-98 and $267 million in 1998-99. Because the Governor's budget is set at the MOE floor, however, counties will be required to expend the state share of the fiscal incentives in the CalWORKs program in the year they are paid to the counties. (The federal share must be spent on TANF eligible recipients and activities, but could be carried over by the counties into future years.) We believe it would be reasonable to assume that the CalWORKs legislation intended that county fiscal incentives be provided to the counties even if total budgeted expenditures exceed the amount needed. Accordingly, we recommend that the fiscal incentives be considered a county-run program enhancement, and we therefore do not assume these funds represent overbudgeting.

Federal Welfare-to-Work Funds Allocated to Private Industry Councils (PICs). The budget proposes to allocate $162 million in 1997-98 and $147 million in 1998-99 to PICs in order to serve hard-to-employ TANF recipients. Although a total of $309 million will be available to the PICs, over the two-year period, the administration's draft state Welfare-to-Work plan indicates that counties are likely to spend just $29 million in 1997-98 and $192.7 million in 1998-99 as shown in Figure 27. These funds will be used to provide specified welfare-to-work services to certain hard-to-employ CalWORKs recipients. It is likely that a significant amount of these funds will address the projected need for employment services in the CalWORKs program because PICs must use these funds to serve CalWORKs recipients. We recommend that 75 percent of these Welfare-to-Work funds ($166 million) be considered as an offset to the basic budget for CalWORKs employment services. (In other words, the new federal Welfare-to-Work funds could replace federal TANF funds that are budgeted to meet the projected need for employment services.) Accordingly, we recommend reducing the amount proposed for CalWORKs employment services by $166 million in federal TANF funds.

Welfare-to-Work State Competitive Grant Program. The budget also proposes allocating $50.5 million of the federal funds to establish a state competitive grant program. Funds will be awarded to local organizations based on their ability to assist CalWORKs recipients in obtaining employment and their ability in leveraging other funding. We also note that the federal Welfare-to-Work program includes a separate competitive grants program which could make additional funds available to local entities in California, including county welfare departments. Because there is significant uncertainty concerning how the funds provided under these grant

programs will be used, at this time, we do not recommend considering these funds as an offset to the CalWORKs employment services budget.

State Matching Funds for the Welfare-to-Work Program. As discussed above, we recommend deleting the $95 million for employment services that is proposed to serve as part of the state match for the federal Welfare-to-Work funds. Consequently, we do not need to address this component of employment services "overbudgeting" in this issue.

Summary. To summarize our specific recommendations, we believe that the budget for CalWORKs employment services is overbudgeted by a total of $209 million, and should be reduced accordingly. These savings would be in federal TANF block grant funds. Figure 27 shows the components that result in this total. We note that, in conjunction with our previous recommendation to delete the $95 million state match, this recommendation would still leave about $450 million (out of the $766 million identified in Figure 26) over the estimated amount needed to fully fund CalWORKs employment services.

Figure 27

Recommended Reductions in CalWORKs Employment Services Program Federal Block Grant Funds

(In Millions)

LAO Recommendation	Amount
Treat 75 percent of federal funds for Welfare-to-Work allocated to PICs as an offset to basic employment services budget	-$166.3
Reject Governor's proposed current-year augmentation to employment services budget	-42.9
Total	**-$209.2**

Establish a TANF Reserve

We recommend that the Legislature place at least 50 percent ($126 million) of our identified federal savings in the CalWORKs program into a reserve for expenditure in future years. The remaining savings ($126 million) could be (1) redirected to other legislative priorities in the CalWORKs program and/or (2) transferred to the Social Services Block Grant (up to $100 million) in order to offset General Fund expenditures.

Background. As discussed in the previous section, we recommend reducing the employment services budget by $209 million. Because of the

federal MOE requirement, all of these savings are in federal funds. In addition, we have recommended that the budget proposals for CalWORKs administration and Food Stamps administration be reduced, based on the budget's projected caseload decline. If the Legislature adopts the latter two recommendations, there will be $42.6 million in additional federal TANF savings. In total, we recommend reducing CalWORKs federal TANF funds expenditures by $252 million. Below, we discuss four options for using these funds.

Option 1: Allocating Excess Employment Services Funds to the Counties. Essentially, the Governor proposes to overbudget employment services and let the counties decide how best to spend these funds on services for CalWORKs recipients. An advantage of this approach is that it provides counties with flexibility. (Pursuant to the CalWORKs legislation, counties may shift funds between administration, services, and child care.) While it is reasonable to assume that some benefit will be derived from these expenditures, we note that this spending presumably will be for purposes not encompassed in the estimated need for employment services in the program and may not reflect legislative priorities.

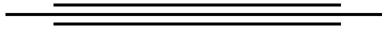
Option 2: Reducing General Fund Expenditures by Transferring TANF Funds to the SSBG. As described above, we believe that about $100 million of the identified savings could be transferred to the SSBG and then used to offset General Fund spending in the "residual" IHSS program or in the community-based programs in the DDS. An advantage of this approach is that it maximizes the Legislature's discretion by freeing up General Fund monies for *any* legislative priorities, while not resulting in a reduction in IHSS or community-based programs.

Option 3: Other CalWORKs Priorities. The identified savings could be redirected to other legislative priorities in the CalWORKs program, such as grants or job creation programs.

Option 4: Establish a TANF Reserve. Another option is to set aside the identified savings into a reserve for future years. There are three advantages to this approach. First, we note that in the event of a recession, the state will be responsible for 100 percent of any increased CalWORKs grant costs associated with an increase in the caseload. Establishing a TANF reserve would help mitigate the impact of a recession. Second, General Fund spending for CalWORKs is likely to increase in 1999-00 because the Governor proposes to spend all available TANF federal funds in 1998-99, including $489 million carried over from prior years. These carry-over funds will not be available in 1999-00, thereby creating a potential General Fund obligation to replace the one-time carry-over funds. (We note, for example, that if this balance were not available, General

Fund spending would have increased by $393 million in 1998-99 compared to the prior year.) The third advantage to creating a TANF reserve is that it would provide legislative flexibility. If counties need more funds for CalWORKs services, they could request them during the budget year and the Legislature could authorize additional funding.

Recommendation. We recommend that the Legislature place at least 50 percent of the savings we have identified in the CalWORKs program (or $126 million) into the TANF reserve. The remaining savings—about $100 million of which could be transferred into the SSBG and used to offset General Fund costs—could be used for other legislative priorities.



FOSTER CARE

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

The budget proposes total expenditures of $1.5 billion ($406 million General Fund, $518 million county funds, and $590 million federal funds) for the AFDC-FC program in 1998-99. This is an increase of 9.4 percent (7 percent General Fund) from estimated expenditures in the current year, primarily due to caseload growth.

Budget Underestimates Proportion Of Cases Eligible for Federal Funds

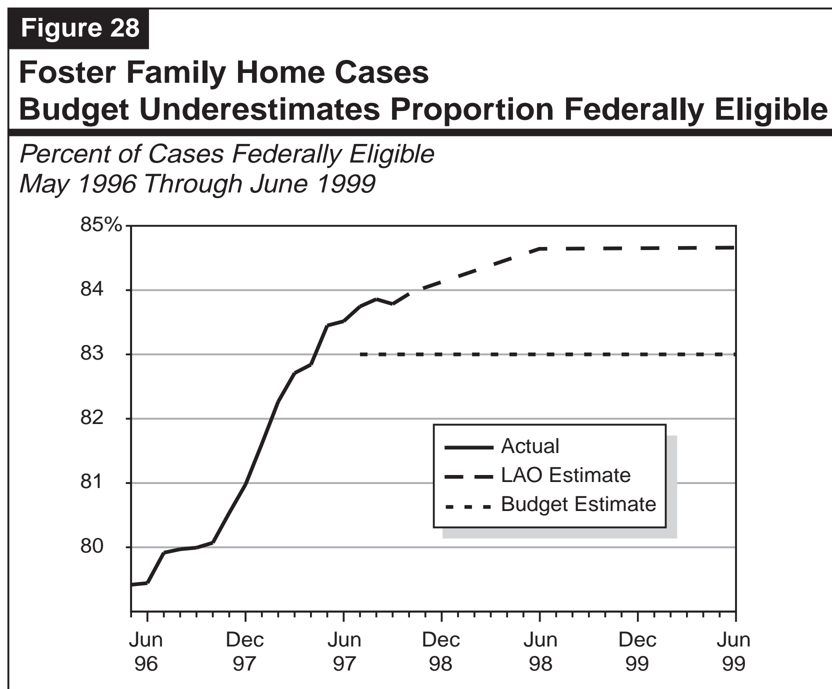
We recommend reducing the General Fund amount budgeted for the Aid to Families with Dependent Children-Foster Care program by $4.3 million in 1997-98 and $7.9 million in 1998-99 because the budget underestimates the number of cases that are eligible for federal funding. (Increase Item 5180-101-0890 by $19,690,000 and reduce Item 5180-101-0001 by $7,894,000.)

Under the AFDC-FC Program, the state receives matching federal funds (51 percent of total expenditures) for those cases meeting federal eligibility criteria. Non-federal costs are shared 40 percent General Fund and 60 percent county funds.

The budget estimates that 83 percent of children in FFH placements and 77 percent of children in GH placements will be federally eligible in

both the current and budget years. Our analysis indicates that this understates the number of children who will be eligible for federal funds for two reasons:

- ***Proportion of Federally Eligible Cases Currently Higher Than Budget Estimate.*** Figures 28 and 29 show that, at last count (October 1997), the proportion of federally eligible cases was higher than the proportion assumed in the budget for both FFH and GH cases.
- ***Proportion of Federally Eligible Cases Is Increasing.*** Figures 28 and 29 also indicate that the proportion of federally eligible FFH and GH cases has been growing over the last 18 months. In fact, the proportion of federally eligible cases has been growing over the last several years. According to the department, this trend primarily reflects improvements in county eligibility determination procedures.



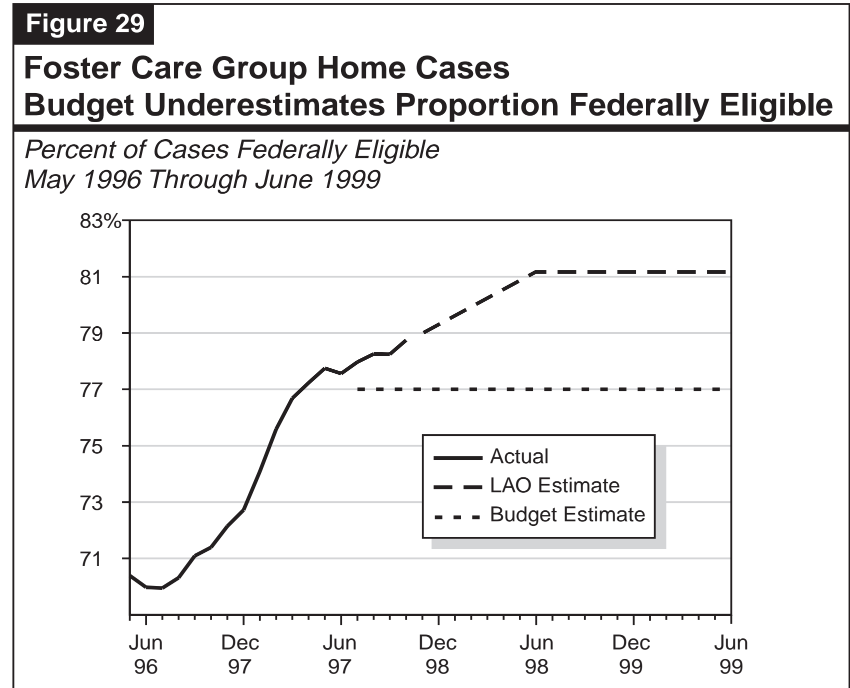
Figures 28 and 29 also illustrate our approach to estimating federal eligibility in the current and budget years. First, we assumed that the rate of increase in the proportion of federally eligible cases observed in the latest six months of data would continue for the remainder of the current year. Then we assumed that the federally eligible proportion would

remain fixed in the budget year at the level projected to be achieved at the end of the current year. Our approach assumes continued improvements in county eligibility determination procedures in the near term, but acknowledges that there is a limit to future growth in the proportion of cases that are federally eligible.

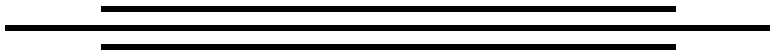
Figure 29

Foster Care Group Home Cases
Budget Underestimates Proportion Federally Eligible

Percent of Cases Federally Eligible
May 1996 Through June 1999



Based on this approach, we estimate that 80 percent of FFH cases and 84 percent of GH cases will be federally eligible in the current year, and that 81 percent of FFH cases and 85 percent of GH cases will be federally eligible in the budget year. Consequently, we estimate that federal expenditures for the Foster Care program are understated by $10.6 million in the current year and $19.7 million in the budget year, and combined state and county expenditures are therefore overstated by the same amount. Accordingly, we recommend that the budget be adjusted to reflect our estimates, resulting in General Fund savings of $4.3 million in 1997-98 and $7.9 million in 1998-99.



Child Support Enforcement

All children are legally entitled to support from both parents. Federal law requires the states to provide child support enforcement services to families receiving Temporary Assistance for Needy Families (TANF). Non-TANF families may request the same services, or seek to obtain child support through a private attorney. Child support payments that are collected on behalf of TANF recipients are used to offset the public costs of TANF grants, except the first $50 of monthly payments which are distributed to the custodial parent. Collections on behalf of non-TANF recipients are distributed directly to the custodial parents.

In California, the child support enforcement program is administered by county district attorneys under the supervision of the Department of Social Services (DSS). The federal government picks up two-thirds of county administrative expenditures, and makes incentive payments to states designed to encourage them to collect child support. California passes the federal incentive payments to the counties along with additional state incentive payments. These payments are used to support the county costs of the program.

Child Support Incentive Payment Systems

We recommend enactment of legislation establishing a state child support incentive payment system in which county incentive payments are a function of county administrative effort and cost-effectiveness. We further recommend that this legislation establish an administrative review procedure—or "performance enhancement process"—for counties that rank low in performance.

The Current State Incentive System

In the current year, state incentive payments to a county are the product of the county's collections and an incentive rate:

Incentive Payment = (Incentive Rate) x (Collections)

The same "flat" incentive rate of 13.6 percent is applied to the total collections for each county. In other words, all collections—TANF and non-TANF—are weighted equally in calculating the incentive payments to a county, and each county's incentive rate is independent of its score on any performance measure. The current system does reward performance in that the incentive payment increases directly with the amount of collections. We note that the budget proposes to continue the "flat rate" methodology in 1998-99.

In response to the provisions of the federal welfare reform act—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996—the Secretary of Health and Human Services recently proposed a new federal performance-based incentive system for child support enforcement. A bill currently in the House—H.R. 3130—contains the basic structure of the Secretary's proposal.

Mirroring the Proposed Federal System

Chapter 926, Statutes of 1997 (SB 936, Burton), requires our office to develop a state child support incentive system that (1) continues the "flat-rate" methodology for 1998-99 and (2) for subsequent years, would mirror the latest draft federal incentive plan. In this section, we describe a state incentive system that mirrors the system contained in H.R. 3130 and analyze its potential effects on county performance. In the following section, we present a different incentive system that, in our judgement, is a better alternative.

The New Collections Base. Under the federal proposal, the new "collections base" would be the sum of collections on behalf of families who have never received TANF, plus *twice* the sum of collections on behalf of current and former TANF recipients. This change would give more weight to TANF and former-TANF collections than the current state system, in which all collections are weighted equally.

The New Performance Measures. The new incentive *rate* would be a function of five performance measures:

- ***Paternity Establishment***. A county may use either (1) the ratio of the number of children in the child support program caseload for whom paternity was established in the year to the total number of children in the program caseload who were born out of wedlock or (2) the ratio of the total *countywide* number of children born out of wedlock for whom paternity was established in the year to the total number of children born out of wedlock in the prior year.

- ***Support Order Establishment***. The percentage of cases in which there is a support order.
- ***Current Support Collections***. The percentage of total current support owed that is collected.
- ***Arrearage Collections***. The percentage of cases with arrearages in which past-due support is collected.
- ***Cost-Effectiveness***. Total collections divided by total administrative expenditures.

How the Performance Measure Scores Would Determine the New Incentive Rate. The incentive rate earned on each performance measure would be determined by a specified schedule that depends both on the county's level of performance and its rate of improvement. Figure 30 depicts, for illustration purposes, the incentive rate schedule for the support order establishment measure. For example, if at least 80 percent of a county's cases have support orders, then the county would earn the maximum incentive rate for the support order establishment criterion. If fewer than 50 percent of the county's cases have orders, then the county would generally earn no incentive rate for that criterion. However, if the county had improved its support order establishment performance by at least 5 percentage points over the previous fiscal year, then it would earn half of the maximum incentive rate for that criterion.

Figure 30

Incentive Rate Schedule for Support Order Establishment Proposed Federal Incentive System

Performance Level	Percent of Maximum Incentive
80% and above	100%
70% to 79%	80% to 98% (increases by 2% increments)
50% to 69%	60% to 79% (increases by 1% increments)
49% and below	50% if performance level increased by 5% over previous year, otherwise 0%

The maximum incentive rates for paternity establishment, support order establishment, and current support collections would be one-third higher than the maximum rate for arrearage collections and cost-effectiveness. The incentive rates earned for each of the five performance measures

would be added to produce a total incentive rate. The total incentive rate would then be applied to the collections base to determine the incentive payment.

Evaluation of the Proposed Federal System

Proposed System Unlikely to Improve Collection Efficiency. We attempted to determine whether a state incentive payment system that mirrors the proposed federal system would accomplish the goal of increasing child support collections. We did this by analyzing the relationship between collections and the five performance measures—as well as other selected variables—in a series of statistical analyses using data from the 58 counties in California. In our analysis, the only variables we found to be statistically significant in explaining differences in collections among the counties were (1) overall administrative expenditures per case in the program (a measure of "administrative effort") and (2) cost-effectiveness. As we noted in previous analyses of the program, administrative effort shows a particularly strong relationship to collections—explaining about 70 percent of the variation in collections.

Besides cost-effectiveness, we found no statistically significant relationship between the proposed performance variables and collections. We also found no relationship between collections and demographic variables (for example, unemployment and per capita income) which, according to some program administrators, might have had an effect on the ability to collect child support.

While we recognize that the proposed performance measures represent important components of the enforcement process, we also note that they are only part of a network of elements in that process. The issue is whether collections will be enhanced by giving program administrators fiscal incentives to place greater weight on particular components of the process than they would in the absence of these incentives or, alternatively, whether the administrators should be left to make their resource allocation decisions without bias toward particular program elements. Our findings suggest that the latter course may be wiser.

Proposed System Would Not Resolve "Case-Closing" Problem. The proposed federal system does not resolve a problem with existing federal regulations, which allow counties to close "old" cases (those in which collections have not been made in three years). A county's performance score on the support order establishment, current support collections, and arrearage collections measures, and the first of the two paternity establishment measures would increase if the county closed difficult cases. Because counties have closed cases at different rates (some close all "old"

cases, others keep these cases open), comparisons of performance among counties based on the proposed performance measures may be distorted.

For purposes of measuring county performance, we believe that these cases should not be closed, in order to derive an accurate picture of the program. As long as the federal government permits case closure on this basis, however, it might make sense to follow this practice only for federal reporting purposes in order to compete with the other states for federal incentive funds (until the federal administration addresses the problem).

Proposed System Would Create an Indirect Incentive to Recruit "Never-on-TANF" Cases. As indicated earlier, the proposed federal system would reduce the weight assigned to never-on-TANF collections in the collections base. Nevertheless, by making incentive rates a function of performance on never-on-TANF cases, it would create an additional indirect incentive to "recruit" such cases into the county program. (As noted above, non-TANF parents have the option of using either the county district attorney or a private attorney.)

Some counties have begun to recruit these cases—which tend to have relatively large orders that are easier to enforce—by setting up programs that immediately refer all court orders directly to the county program. Through such programs, counties could increase their performance scores and earn a higher incentive rate on all collections. Consequently, a county's fiscal reward for pursuing never-on-TANF cases would include both the additional incentive payments earned on the increase in the collections base and the additional payments earned from the increase in the incentive rate applied to *all* collections.

The potential problems are twofold. First, recruiting never-on-TANF cases may divert county resources from the enforcement of TANF cases, where the custodial parent does not have the option of using a private attorney. Second, this diversion of resources may result in lower TANF collections, which partially offset the government costs of TANF grant expenditures. In light of this, the Legislature may want to consider an incentive system that contains greater rewards for TANF collections.

Summary of Findings on Federal Proposal. In summary, we find:

- The performance measures do not, with the exception of cost-effectiveness, demonstrate a statistically significant relationship with the principal variable that reflects the program's objectives—collections.
- The performance measures do not resolve the "case-closing" problem, which gives a distorted picture of program performance and makes county comparisons difficult.

- Although the proposed system reduces the relative weight applied to never-on-TANF collections in the collections base, it creates an additional indirect—and potentially strong—incentive to recruit such cases into the program. This could result in the diversion of resources away from the enforcement of TANF cases.

An Alternative Incentive System

In this section, we describe an alternative performance-based incentive system with performance measures that (1) are directly related to collections, (2) avoid the "case-closing" problem, and (3) replace the indirect incentive to recruit never-on-TANF cases with an incentive to more vigorously pursue TANF collections.

The Incentive Rate. Under our proposed alternative, the incentive rate would be a function of two performance measures:

- ***Cost-Effectiveness***. Total TANF collections divided by total administrative expenditures on TANF cases.
- ***Administrative Effort***. Total administrative expenditures on TANF cases divided by average TANF/California Work Opportunity and Responsibility to Kids (CalWORKs) Family Group caseload.

Each county's performance score would be the product of cost-effectiveness and administrative effort:

Performance Score = (Cost-Effectiveness) x (Administrative Effort)

A county's performance score would determine the incentive rate that would be applied to its collections base when determining the amount of the incentive payment.

The Collections Base. The collections base would be identical to the base in the proposed federal system: the sum of collections on behalf of families who have never received TANF, plus *twice* the sum of collections on behalf of current and former TANF recipients. Note that although each county's incentive rate would be a function only of variables related to TANF cases, incentive payments would continue to be made on non-TANF collections as well because they would contribute to the collections base.

Evaluation of the Legislative Analyst's Office Alternative Incentive System

Promotes Efficiency. As indicated, the incentive rate would be partly a function of administrative effort, but only spending on productive

administrative activities would be rewarded. In other words, the Legislative Analyst's Office (LAO) alternative would promote efficiency because only expenditures that result in increased child support collections would increase a county's incentive payments. In order to illustrate this point, our proposed performance score would work as follows:

$$\text{Performance Score} = \underbrace{\frac{\text{TANF Collections}}{\text{Administrative Costs}}}_{\textbf{Cost-Effectiveness}} \times \underbrace{\frac{\text{Administrative Costs}}{\text{TANF Cases}}}_{\textbf{Administrative Effort}}$$

Note that the formula operates in a way whereby expenditures that do *not* increase collections would produce completely offsetting changes in the two components of the performance score: the increase in administrative effort would be offset by a corresponding decrease in the cost-effectiveness ratio.

Avoids "Case-Closing" Problem. Because counties have taken different approaches toward the practice of closing child support cases, using this caseload to calculate administrative effort could create a distorted picture of performance. Until a uniform measure of the program caseload is required and reflected in the program reporting systems, we propose measuring performance using the county average TANF/CalWORKs (Family Group) caseload as the case measure. By using a measure of caseload that is outside of the control of the county child support program, the "case-closing" problem would be avoided. This measure, moreover, should have a high correlation to the child support TANF caseload because all CalWORKs (formerly Aid to Families with Dependent Children [AFDC]) cases must be referred to the county for child support enforcement.

Eliminates Indirect Incentive to Recruit Never-on-TANF Cases. Because the incentive rate is determined only by enforcement activities on behalf of families that are currently receiving TANF, the LAO alternative would remove the indirect incentive to recruit never-on-TANF cases. Counties would continue to earn incentive payments on the never-on-TANF collections, but these collections would not affect performance scores and incentive rates.

Net Fiscal Effect. We note that if proposals being considered at the federal level are adopted, our alternative may not maximize the federal incentive payments earned by the state in the short run. This is because our proposal bases incentive payments on variables directly related to collections rather than on the federal performance measures. In other

words, there may be a tradeoff between maximizing federal incentive payments and maximizing program effectiveness, at least in the short run. In the long run, however, we believe that our alternative is more likely to increase collections, which would lead to higher federal incentive payments. Moreover, because its performance measures are based on TANF collections, the LAO alternative would give counties a greater incentive to increase these collections and, therefore, would encourage recoupment of the public costs of TANF/CalWORKs grants. Finally, by eliminating the indirect incentive to recruit never-on-TANF cases into the program, the LAO alternative would reduce the risk that program resources will be diverted from TANF cases and toward cases that could be enforced through the private sector.

Impact of the Proposals on County Incentive Payments

To assess the potential impact of the two alternatives on the distribution of incentive payments among the counties, we estimated the payments that counties would have received in 1995-96 under the proposed federal system and the LAO proposal. (In order to calculate the incentive payments, we had to make certain assumptions. First, we assumed that 75 percent of each county's non-TANF collections were made on behalf of families that were formerly TANF recipients. Second, for the LAO alternative system, we developed a schedule to translate performance scores into incentive rates.)

Figure 31 (see page 140) compares county performance in 1995-96 under (1) a flat incentive rate (similar to the methodology in current state law and the budget proposal for 1998-99), (2) the proposed federal incentive system, and (3) the LAO alternative. The figure reveals significant differences in incentive payments under the proposed federal system and the LAO alternative for some counties.

Figure 32 (see page 141) illustrates the reasons for these differences by focusing on the performance of Orange and Fresno Counties. (Orange County's performance on TANF collections has improved substantially since 1995-96, so the figure is used for illustration purposes and does not reflect the county's current performance.) Orange County scored higher on the federal performance measures, and would have earned a higher incentive rate than Fresno County under the proposed federal system. However, Fresno would have earned a higher incentive rate under the LAO alternative because it had better cost-effectiveness and higher administrative effort.

The proposed federal system would have rewarded a county like Orange that scores highly on the federal performance measures. How-

Figure 31

Comparison of Three Incentive Payment Systems Hypothetical Example Based on 1995-96 Data Twenty Largest Counties[a]

(In Millions)

County	Flat Rate (Current Law)	Federal Proposal	LAO Alternative
Los Angeles	$24.2	$8.7	$16.9
Orange	8.2	10.1	8.3
Alameda	7.4	9.8	7.7
San Bernardino	6.8	5.6	5.6
Santa Clara	6.8	8.1	7.3
Fresno	6.7	7.3	8.0
San Diego	6.4	8.3	5.5
Sacramento	6.4	5.7	5.5
Riverside	6.0	5.3	5.0
Kern	4.3	5.7	4.5
Ventura	4.3	4.8	6.1
Contra Costa	3.8	4.3	3.8
San Joaquin	3.5	4.0	3.4
Stanislaus	3.3	4.7	3.9
Tulare	3.0	3.5	3.5
San Francisco	3.0	3.9	3.3
San Mateo	2.4	2.6	2.6
Sonoma	2.3	2.9	3.0
Santa Barbara	2.0	2.6	2.4
Monterey	2.0	2.6	2.3
Total (58 counties)	**$136.3**	**$136.3**	**$136.3**

[a] As measured by total child support collections.

ever, an examination of program data indicates that Orange was an average performer in 1995-96 on measures related to collections, such as the AFDC (or CalWORKs) recoupment rate. On the other hand, the LAO alternative would have rewarded a county like Fresno that manages to combine relatively high levels of administrative effort and cost-effectiveness, which reflects the ability to collect a substantial amount of child support in an efficient manner. To phrase it another way, counties that have only a moderate level of collections but do well on the cost-effectiveness measure by holding costs down to a very low level will not fare well on the administrative effort measure; and counties that have high levels

of administrative effort but whose collections do not keep pace with this effort will not do well on the cost-effectiveness measure.

Figure 32

Federal Incentive System and the LAO Alternative Effect on Incentive Rates Hypothetical Example Based on 1995-96 Data

	Orange	Fresno
AFDC recoupment rate[a]	13.8%	17.3%
Administrative effort (AFDC)	$360/case	$451/case
Cost-effectiveness ratio[b] (AFDC)	2.61	2.74
Proposed federal incentive rate	8.4%	7.2%
LAO alternative incentive rate	6.9%	7.9%

a Child support collections on AFDC cases divided by AFDC grant expenditures.
b Collections per $1 of administrative expenditures.

Finally, we conclude that in addition to being superior to the proposed federal system, our proposal is preferable to an incentive system based on a single flat rate applied to collections—as provided by existing law for the current and budget years only. This is because under our proposal the counties will have a specific incentive to increase their administrative effort, and to apply this effort so as to increase collections in a cost-effective manner.

Legislative Analyst's Suggested "Performance Enhancement Process"

Chapter 926 also requires that our proposed incentive program include a provision to require poorly performing counties to agree to technical assistance as a condition of receiving any incentive payments. In response, we propose the following "performance enhancement process," which is a modified version of a recommendation we made in the *1990-91 Analysis of the Budget Bill* (please see pp. 707-710). The process would consist of an administrative review procedure, as explained below.

- ***Identify those counties that are (1) performing poorly and (2) showing a relatively low level of improvement in performance over the prior year.*** We define this group as counties that (1) rank in the bottom quartile on the LAO performance score and (2) are below the median in improvement in that score over the prior year.

- ***Among the counties that are not performing well and not showing adequate improvement in performance there are two strategies.*** First, for counties that are making a low level of administrative effort, the department and the county would be required to establish a three-year expenditure plan designed to reach targeted levels of administrative effort. Second, for counties with relatively high levels of administrative effort but a relatively low level of collections, the Department of Social Services would be required to conduct a program review and provide technical assistance. For counties in the latter category (which are characterized as having low cost-effectiveness ratios), the program review would attempt to discover the causes for the county's low level of collections, examining management practices such as the use of automation and the allocation of resources. We note that the intent is not to sanction these counties but to assist them in improving their performance.

Conclusion

Although mirroring the proposed federal incentive system may maximize California's share of federal incentive payments in the short run, our analysis suggests that a different incentive system may be a better alternative. The proposed federal system is based on performance measures that (1) are not—with the exception of cost-effectiveness—strongly related to collections, (2) do not resolve the "case-closing" problem, and (3) create an indirect incentive to recruit never-on-TANF cases into the program, which could divert resources from TANF cases. The LAO alternative is more likely to increase program effectiveness because it is based on performance measures that are directly related to collections. In addition, our alternative is more likely to accurately measure county performance because its performance measures do not depend on the rate at which counties have closed cases solely because they have been unable to make collections within three years. Finally, by replacing the indirect incentive to recruit never-on-TANF cases with an incentive to more vigorously pursue TANF collections, the LAO alternative may generate additional General Fund savings.

Accordingly, we recommend that legislation be enacted establishing a child support incentive payment system in which county incentive payments are a function of county administrative effort and cost-effectiveness. In addition, we recommend that legislation be enacted establishing a performance enhancement process for counties that rank low in performance.

BUDGETING ISSUES

Budget Overestimates Child Support Incentive Payments

We recommend reducing the General Fund amount budgeted for child support incentive payments by $20.3 million in 1997-98 and $26.3 million in 1998-99 because the budget overestimates state incentive payments to counties for non-CalWORKs child support collections. (Reduce Item 5180-101-0001 by $26,307,000.)

The Governor's budget assumes that child support collections on behalf of non-CalWORKs families will increase by 51 percent in 1997-98 and 29 percent in 1998-99. Based on these estimates of collections, the budget projects the amount of incentive payments which will be made to the counties in the current and budget years.

We surveyed the child support enforcement programs in 13 of the largest counties in the state and found that non-CalWORKs collections in the first six months of 1997-98 have increased by 18 percent over the same period in 1996-97. We anticipate that non-CalWORKs collections will continue to increase, due to the effect of certain policy changes adopted in 1997. However, given the actual experience to date, it seems unlikely that these collections will grow enough to register a 51 percent increase between the current and past years.

While it is difficult to predict the impact of the 1997 policy changes, we believe it would be reasonable to assume an increase in the growth rate to 29 percent for the second half of 1997-98 and all of the budget year—the same rate of growth assumed in the budget for 1998-99. Based on these assumptions, we have projected non-CalWORKs child support collections for the current and budget years. Figure 33 (see page 144) compares our estimates with the Governor's budget, as well as showing actual collections in 1994-95, 1995-96, and 1996-97.

Based on our assumptions, we estimate that the General Fund expenditures for non-CalWORKs child support incentive payments are overstated in the budget by $20.3 million in the current year and $26.3 million in 1998-99. Accordingly, we recommend that the budget be reduced to reflect these estimates.

Budget Overestimates Effect of Arrearage Distribution Changes

We recommend a General Fund reduction of $26.4 million to more accurately reflect the amount of collections on arrearages on CalWORKs grant expenditures. (Reduce Item 5180-101-0001 by $26,416,000 and reduce Item 5180-101-0890 by $32,270,000.)

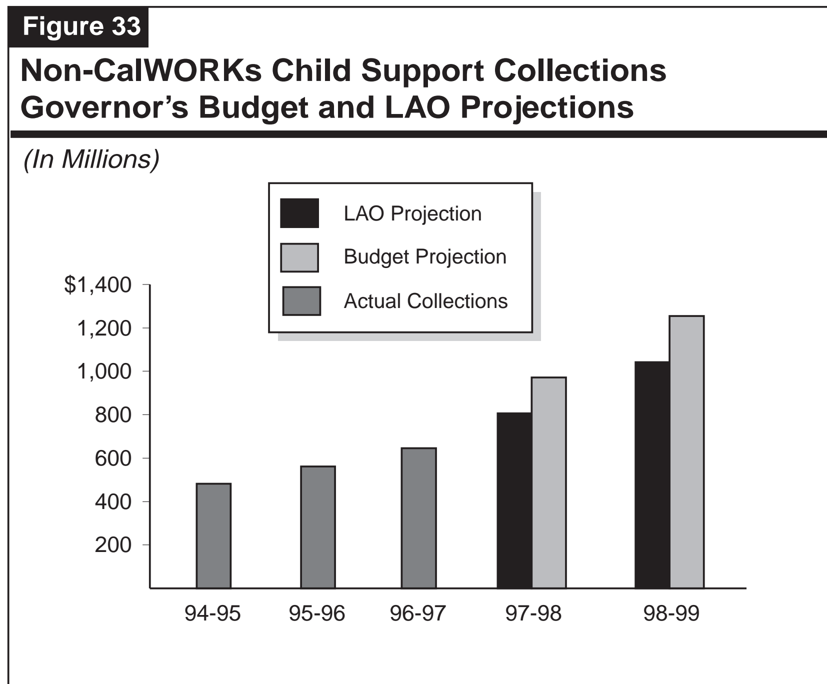


Figure 33

Non-CalWORKs Child Support Collections Governor's Budget and LAO Projections

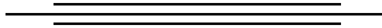
Child support collections made for custodial parents receiving CalWORKs grants are used to offset the public costs of the grants (except for the first $50 per month which goes to the parent). In addition, the custodial parent currently must *permanently* assign to the state the rights to "pre-assistance" arrearages—that is, collections on arrearages that accrued prior to a family going on aid. Permanently assigned pre-assistance arrearages are used to offset the family's CalWORKs grants, even if the arrearages are collected *after* the family goes off aid.

Chapter 270, Statutes of 1997 (AB 1542, Ducheny, Ashburn, Thompson, and Maddy), in response to provisions of the federal welfare reform act, requires changes in the distribution of pre-assistance arrearages beginning October 1, 1998. Under Chapter 270, a family that goes on aid after October 1, 1998 must *temporarily* assign the rights to pre-assistance arrearages to the state—that is, until the family goes off aid.

The budget incorrectly assumes that *all* pre-assistance arrearages will be paid directly to the family (instead of assigned to the state), beginning October 1, 1998. Under Chapter 270, however, pre-assistance arrearages collected while a family is still on aid will continue to be assigned to the state. In addition, pre-assistance arrearages collected for families who

went on aid prior to October 1, 1998 remain permanently assigned to the state, even if the arrearages are collected after the family goes off aid.

Consequently, the budget overestimates the amount of pre-assistance arrearage collections that will be paid directly to families, and underestimates the amount that will offset the cost of CalWORKs grants. We estimate that expenditures for the arrearage distribution changes are overstated in the budget by $61.5 million ($26.4 million General Fund). Accordingly, we recommend that the budget be reduced to reflect these estimates, for a General Fund savings of $26.4 million



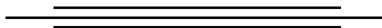
FOOD STAMPS PROGRAM

The Food Stamps Program provides food stamps to low-income persons. The cost of the food stamp coupons ($2 billion) is borne entirely by the federal government, with the exception of the new state-only program, as discussed below. Administrative costs are shared between the federal government (50 percent), the state (35 percent), and the counties (15 percent). (We discuss an issue concerning the administration of food stamps in the County Administration of Welfare section of this chapter.)

California Food Assistance Program

Federal welfare reform makes legal noncitizens (with certain exceptions) ineligible for food stamps. Chapter 287, Statutes of 1997 (AB 1576, Bustamante) created a state-only program that provides food stamps for noncitizens under the age of 18 or over the age of 64 who were residing in the United States prior to August 22, 1996. Under this new program, California purchases the food stamp coupons from the federal government and distributes them to eligible recipients. This temporary program began on September 1, 1997 and sunsets on July 1, 2000.

The budget proposes an appropriation of $24.3 million from the General Fund for the cost of coupon purchases and program administration. This is a decrease of $16.8 million from estimated expenditures in 1997-98, mostly attributable to noncitizens attaining citizenship. We note that the President, in his budget for federal fiscal year 1999 (October 1998 through September 1999), proposes to restore federal food stamp benefits to certain noncitizens, including the groups covered in California's state-only program.



SUPPLEMENTAL SECURITY INCOME/ STATE SUPPLEMENTARY PROGRAM

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. The budget proposes an appropriation of $2.2 billion from the General Fund for the states's share of the SSI/SSP in 1998-99. This is an increase of $96 million, or 4.7 percent, over estimated current-year expenditures. This increase is due primarily to projected caseload growth and an increase in the federal administrative fee.

In December 1997, there were 322,756 aged, 21,360 blind, and 668,513 disabled SSI/SSP recipients.

Caseload Growth Is Overestimated

We recommend reducing the General Fund amount budgeted for the state portion of Supplemental Security Income/State Supplementary Program grants by $49 million in 1997-98 and $64 million in 1998-99 because the caseload growth is overestimated. (Reduce Item 5180-111-0001 by $63,980,000.)

The Governor's budget assumes that the SSI/SSP caseload will increase by 1.4 percent in 1997-98 and 3.1 percent in 1998-99. The projected growth rate of 3.1 percent for the budget year includes 2.1 percent for basic caseload growth, and 1 percent for the net impact of other factors such as the 1997 federal law change that made legal noncitizens residing in the U.S. prior to August 22, 1996, but not yet receiving SSI/SSP, eligible for SSI/SSP if they become disabled.

Our review indicates that during the first six months of 1997-98, the caseload actually *declined* by about 5,200 cases, or 0.5 percent, and was 1.7 percent below the administration's current estimate for that period. During this period of caseload decline, however, there was an increase in the number of applicants seeking disability evaluations for purposes of qualifying for SSI/SSP. Despite the recent caseload decline, we believe that in the long run growth in the aged portion of the caseload will mirror

statewide population growth for aged individuals, and that growth in the disabled portion of the caseload will ultimately reflect the addition of disabled noncitizens who were not yet receiving aid as of August 1996.

Accordingly, we have adjusted the department's forecast to reflect the latest *actual* caseload data but have followed their projected future trend. After making these adjustments, we project the caseload will *decline* by 1 percent in 1997-98 and *increase* by 2.5 percent in 1998-99. Based on these projections, we estimate that the General Fund expenditures for SSI/SSP grants are overstated by $49 million in the current year and $64 million in the budget year. We recommend that the budget be reduced to reflect these estimates.

Budget Proposes to Eliminate State Cost-of-Living Adjustment

By proposing to delete the requirement to restore the statutory state cost-of-living adjustment, the budget would achieve a cost avoidance of $39 million in 1998-99.

Background. Chapter 606, Statutes of 1997 (AB 67, Escutia)—the 1997-98 budget trailer bill for social services—extended the suspension of the state cost-of-living adjustment (COLA) through December 31, 1998, but did not extend the 4.9 percent statewide grant reduction. Accordingly, the 4.9 percent statewide grant reduction ended on October 31, 1997, and the state COLA is scheduled to resume on January 1, 1999.

Calculating the State COLA. The SSP grant adjustments for the state COLA depend on both (1) the California Necessities Index (CNI), which is applied to the *combined* SSI/SSP grant, and (2) the U.S. Consumer Price Index (CPI), which is used to determine the amount of the federal COLA and is applied *only* to the SSI component of the grant. (Specifically, the state COLA sets the SSP portion of the grant equal to the difference between the combined SSI/SSP grant as increased by the CNI, less the amount of the federally funded SSI portion.)

Budget Impact of Governor's Proposal. The Governor's budget estimates that the CPI will be 2.6 percent, and that the CNI will be 3.2 percent. Based on these assumptions, restoring the state COLA on January 1, 1999 would result in a six-month General Fund cost of $51.7 million in 1998-99. Based on our review of more recent data, we estimate that the CNI will be 2.84 percent. Using our lower estimate of the CNI, we estimate that restoring the state COLA would result in a six-month General Fund cost of approximately $39 million. We note that the actual cost will depend on both the final CNI and CPI figures.

Impact on Recipients. Figure 34 shows SSI/SSP grants on January 1, 1999 for individuals and couples under both current law and the Governor's proposal. Although the budget proposes permanent elimination of the *state* COLA, the budget includes the "pass through" of the *federal* COLA to recipients, resulting in grant increases of $13 per individual and $19 per couple. After this increase, grants under the Governor's proposal would be 0.8 percent less (for individuals) and 1.2 percent less (for couples) than current law. As a point of reference, we note that the federal poverty guideline in 1997 is $658 per month for an individual and $884 per month for a couple. Thus, under both the Governor's proposal and current law, the grant for an individual would be just above the poverty guideline—specifically, 1 percent above the poverty guideline under the Governor's proposal and 2 percent above the guideline under current law. Grants for couples would be 33 percent above the poverty guideline under the Governor's proposal and 34 percent above the guideline under current law.

Figure 34

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

January 1998 and January 1999

		January 1999			
				Change from Current Law	
Recipient Category	January 1998	Current Law[b]	Governor's Proposal[c]	Amount	Percent
Individuals	$650	$669	$663	-$6	-0.8%
Couples	1,156	1,189	1,175	-14	-1.2

a The grant levels shown in this figure do not reflect the effect of the 4.9 percent grant reduction in low-cost counties (pursuant to current law) because this grant reduction requires relief from the federal maintenance-of-effort requirements. Such relief has not been enacted and the budget assumes no relief in 1998-99.

b Includes federal SSI COLA of $13 per individual and $19 per couple and application of the state COLA (about $6 for individuals and $14 for couples).

c Includes federal COLA of $13 per individual and $19 per couple.

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such assistance. An individual is eligible for IHSS if he or she lives in his or her own home—or is capable of safely doing so if IHSS is provided—and meets specific criteria related to eligibility for the Supplemental Security Income/State Supplementary Program (SSI/SSP).

The IHSS program consists of two components: the Personal Care Services Program (PCSP) and the Residual IHSS program. Services provided in the PCSP are federally reimbursable under the Medicaid Program. The PCSP limits eligibility to categorically eligible Medi-Cal recipients (California Work Opportunity and Responsibility to Kids 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. The following cases are excluded from the PCSP and therefore receive services through the Residual IHSS program: cases with domestic services only, protective supervision tasks, spousal providers, parent providers of minor children, "income eligibles" (generally, recipients with income above a specified threshold), "advance pay" recipients (eligible for payments prior to the provision of services), and recipients covered by third party insurance.

State Plan Amendment Would Result in General Fund Savings

We recommend adoption of budget bill language directing the Department of Health Services to submit a State Medicaid Plan amendment to allow In-Home Supportive Services "income eligibles" to be included in the Personal Care Services Program. This action would enable the state to receive additional federal funds, resulting in General Fund savings of approximately $35 million in 1998-99. (Increase Item 5180-111-0890 by $81,902,000 and reduce Item 5180-111-0001 by $35,136,000.)

Background. In order to be eligible for services under the IHSS program, a person must be living in his or her own home and be either "status eligible" or "income eligible." An individual is considered to be status eligible if he or she is receiving SSI/SSP. An individual is considered to be income eligible if he or she:

- Meets all SSI/SSP eligibility requirements but has "nonexempt" income that exceeds the maximum SSI/SSP payments levels. Persons in this category may have to pay for a share of IHSS costs.
- Meets all SSI/SSP eligibility requirements, but chooses not to accept SSI/SSP benefits. These individuals would not be required to pay a share of cost.
- Has been eligible for SSI/SSP based on a disability (and is still disabled) but has lost eligibility due to employment. These individuals may be required to pay a share of IHSS costs.

Federal Funds Could Be Obtained for Income Eligibles. Income eligibles currently are excluded from the PCSP component of the IHSS program. These cases are funded in the Residual IHSS program, at a ratio of 65 percent General Fund and 35 percent county funds.

The income eligibles population falls into two categories: (1) those who are not eligible for the PCSP because of federal Medicaid regulations (for example, because they are receiving services from a spouse or paying for services using the advance pay option), and (2) those who may be eligible for the PCSP at the option of the state under Medicaid regulations but are excluded by the provisions of the State Medicaid Plan. Our analysis indicates that the second category could be made eligible for federal funding simply by amending our State Medicaid Plan to allow this group to be eligible for the PCSP. This would result in federal reimbursement for services at the Medicaid sharing ratio of approximately 51 percent.

We estimate that including income eligibles in the PCSP would result in additional federal Medicaid funds of $81.9 million in 1998-99, with a net savings of $35.1 million to the General Fund and $18.9 million in county funds. (Our estimate accounts for the possibility that some additional people, who are not currently receiving services through IHSS but rather are paying for personal care services "out of pocket,"will become eligible for the PCSP.) Accordingly, we recommend that the Legislature adopt budget bill language directing the Department of Health Services to submit the necessary State Medicaid Plan amendment to the federal Department of Health and Human Services to allow IHSS income eligibles to be included in the PCSP.

This could be accomplished by adoption of the following budget bill language in Item 4260-001-0001:

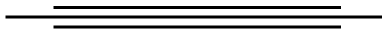
> "The Department of Health Services shall, by September 30, 1998, submit to the Secretary of Health and Human Services an amendment to the State Medicaid Plan so as to allow income eligibles in the In-Home Supportive Services (IHSS) program, who are not otherwise excluded under Title XIX of the Social Security Act, to be eligible for services under the IHSS Personal Care Services Program."

Federal Funds Not Budgeted

We recommend that federal funds budgeted for the In-Home Supportive Services program be increased by $12.7 million, and that 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 5180-111-0890 by $12,662,000 and reduce Item 5180-111-0001 by $12,662,000.)

Federal Title XX Social Services Block Grant funds are allocated to the states and can be used for a variety of purposes in social services programs, with no state maintenance-of-effort requirement. The budget projection of the Title XX funds that will be available for expenditure in 1998-99 is based on an assumption which underestimates the amount actually allocated to California in federal fiscal year 1998. In recognition of this, the department revised its estimate of available Title XX funds after the budget was introduced, indicating that the state will receive an additional $12.7 million of these funds in the budget year. We agree with the department's new projection.

These additional federal funds can be used to offset state General Fund expenditures. Consequently, we recommend that the additional funds be budgeted for the IHSS program, in lieu of General Fund support, for a state savings of $12.7 million. This is consistent with how Title XX funds currently allocated to the department are budgeted, and will not result in a reduction in the level of services provided under the program.



County Administration of Welfare Programs

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

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

The budget proposes an appropriation of $269.7 million from the General Fund for county administration of welfare programs (excluding CalWORKs) in 1998-99. This represents a decrease of $38.4 million, or 12 percent, from estimated current-year expenditures. This reduction is primarily due to (1) substantially reduced costs for the Statewide Automated Child Support System as the state temporarily suspends its child support automation effort and (2) the shifting of certain child support court commissioner costs to the Judicial Council. (The budget, however, separately includes a $20 million "set-aside" for child support automation.)

Food Stamps Budget Does Not Reflect Savings From Projected Caseload Decline

We recommend that proposed General Fund expenditures for county administration of the Food Stamps program be reduced by $7.8 million because the budget does not reflect savings from its projected caseload

decline. (Reduce Item 5180-141-0001 by $7,766,000, reduce Item 5180-141-0890 by $10,545,000, and reduce Item 5180-101-0890 by $2,614,000.)

Typically, the methodology used to budget for county administration of the Food Stamps program 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, if any. The budget proposal for county administration, however, does not reflect the 7.9 percent caseload reduction that the budget projects for the Food Stamps program in 1998-99. Making this adjustment would result in General Fund savings of $7.8 million. Accordingly, we recommend that the budget for county administration be reduced to be consistent with the caseload projections.

In addition, our recommendation would result in a $2.6 million reduction for the county share of expenditures, but for technical reasons this would translate into a reduction of federal TANF funds. (This is due to the interaction between our recommendation and an existing statutory provision.) Because these funds are part of a block grant, they would be retained by the state and could be used for other CalWORKs activities.

Automation Projects

The budget proposes an appropriation of $48.1 million in the Department of Social Services for the state's share of the costs of four major welfare automation projects. These projects are the Statewide Automated Welfare System, the Statewide Automated Child Support System, the Statewide Fingerprint Identification System, and the Electronic Benefit Transfer program. The Health and Welfare Agency Data Center (HWDC) is responsible for administering these projects. For a discussion of the major welfare automation projects, please see our review of the HWDC in the General Government Section of this *Analysis*.

SPECIAL PROGRAMS

The Department of Social Services (DSS) has several special programs which include the following: Specialized Services; Deaf Access Assistance; Licensed Maternity Home Care (LMHC); Refugee Assistance Services; and the County Services Block Grant. The budget proposes expenditures of $77.2 million ($30 million General Fund) for Special Programs in 1998-99. This represents a 42 percent increase in General Fund expenditures from the current year, largely due to a $9 million increase in the County Services Block Grant to augment the Adult Protective Services Program.

Licensed Maternity Home Care Program Overbudgeted

We recommend a General Fund reduction of $1.6 million to reflect actual expenditures in the Licensed Maternity Home Care program. (Reduce Item 5180-151-0001 by $1,595,000.)

The LMHC program provides residential care and maternity-related services to unmarried pregnant women under the age of 18. The budget proposes General Fund expenditures of $2 million for support of the program in 1998-99. Figure 35 (see page 156) shows the amount of funds budgeted and spent by maternity homes since 1994-95. As the figure indicates, expenditures have fallen short of the amount appropriated for the program in the last three years. Based on our discussions with the department, we estimate that the program will revert $1.6 million to the General Fund in the current year.

The department advises that the expenditure levels accurately reflect the need for LMHC program services. We note that many unmarried pregnant women under the age of 18 are placed in foster care group homes instead of licensed maternity homes because they require additional nonmaternity related services that LMHC facilities are not licensed to provide. Given the demonstrated level of demand for LMHC program services, we recommend a General Fund reduction of $1.6 million to more accurately reflect the program's anticipated spending level.

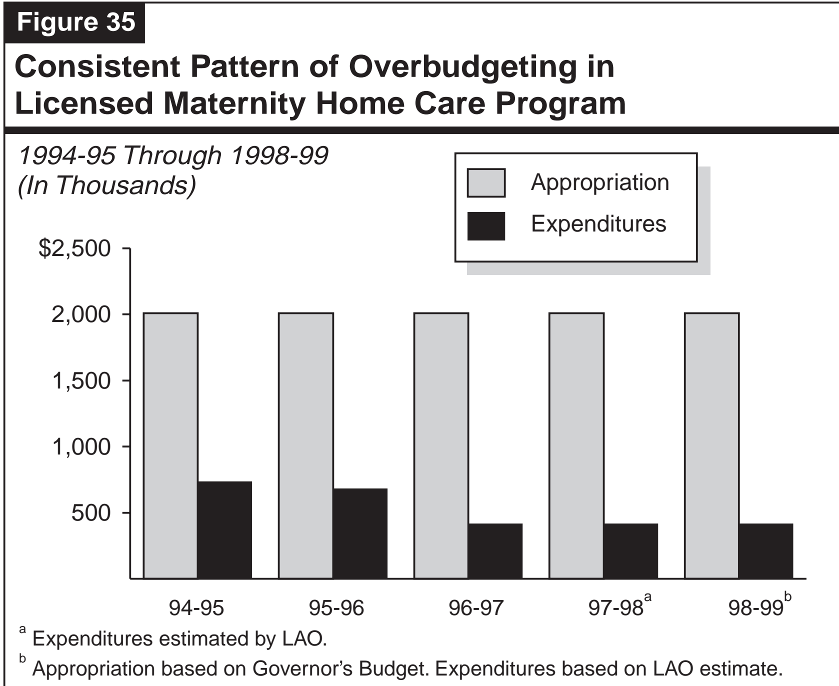
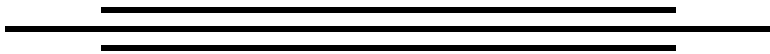


Figure 35
Consistent Pattern of Overbudgeting in Licensed Maternity Home Care Program
1994-95 Through 1998-99
(In Thousands)
Appropriation
Expenditures
$2,500
2,000
1,500
1,000
500
94-95
95-96
96-97
97-98[a]
98-99[b]
[a] Expenditures estimated by LAO.
[b] Appropriation based on Governor's Budget. Expenditures based on LAO estimate.



ADOPTIONS

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

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

In addition to the Adoptions Program, the Adoptions Assistance Program (AAP) provides grants to parents who adopt "difficult to place" children. State law defines these children as those who, without assistance, would likely be unadoptable because of their age, racial or ethnic background, handicap, or because they are a member of a sibling group that should remain intact.

Budget Underestimates Proportion of AAP Cases Eligible for Federal Funds

We recommend reducing the General Fund amount budgeted for the Adoptions Assistance Program by $3.9 million in 1997-98 and $6.6 million in 1998-99 because the budget underestimates the number of cases that are eligible for federal funding. (Increase Item 5180-101-0890 by $8,848,000 and reduce Item 5180-101-0001 by $6,636,000.)

The AAP provides grants to parents who adopt "difficult to place" children. For those cases meeting federal eligibility criteria, the federal government will fund 51.23 percent of costs (51.55 percent beginning October 1998). For nonfederally eligible cases, the state covers 75 percent of costs and counties fund 25 percent.

The budget estimates the proportion of AAP cases that are federally eligible using caseload data from June 1996 through April 1997. Beginning in May 1997, Los Angeles County corrected an error in its eligibility determination procedures that had resulted in many AAP cases that met the federal criteria being counted as not federally eligible. The county redetermined federal eligibility for all of its AAP cases, and a much larger proportion of cases have been determined to be federally eligible. Figure 36 shows that the changes reported by the county have substantially increased the statewide proportion of AAP cases that are receiving federal funding, with the percentage of federally eligible cases increasing from 72 percent in April 1997 to 83 percent in September 1997.

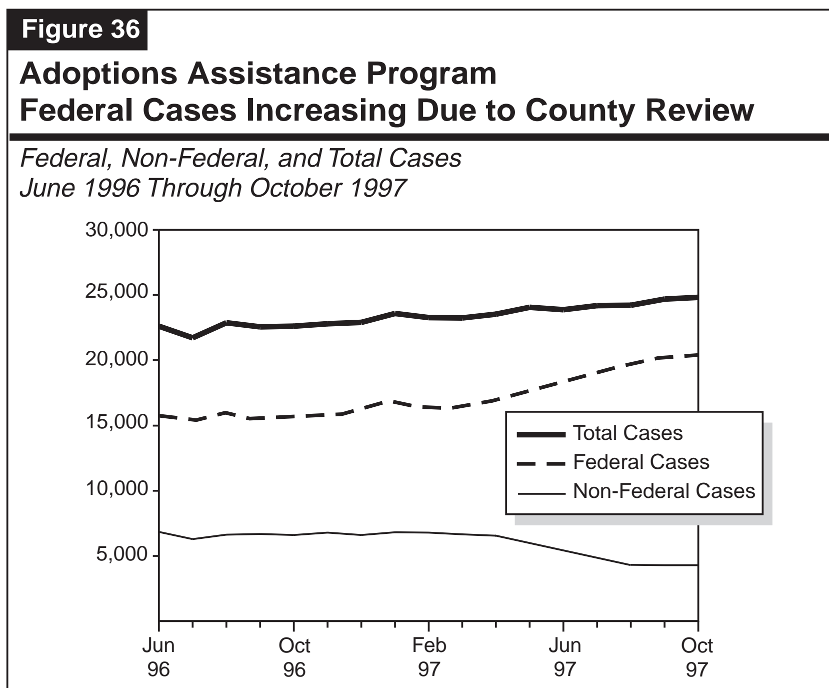


Figure 36

Adoptions Assistance Program
Federal Cases Increasing Due to County Review

Federal, Non-Federal, and Total Cases
June 1996 Through October 1997

The budget estimate of the proportion of AAP cases that are eligible for federal funding—71 percent statewide—does not reflect the corrected eligibility determination procedures in Los Angeles County. Based on recent data, we project that 82 percent of AAP cases will be federally eligible in 1998-99. Combining this projection with the rate of total caseload growth assumed in the budget, we estimate that federal expenditures for the AAP are understated by $8.8 million, and combined state and county expenditures are therefore overstated by the same amount. Accordingly, we recommend that the budget be adjusted to reflect our

estimates, resulting in a General Fund savings of $6.6 million and a county funds savings of $2.2 million.

State May Earn Federal Adoptions Incentive Payments

California could receive up to $15 million in federal adoptions incentive payments, beginning October 1998, depending primarily on how much is appropriated by Congress for the new program in federal fiscal year 1999.

The federal Adoptions and Safe Families Act of 1997 (PL 105-89) authorizes the Secretary of Health and Human Services to make incentive payments to states that increase the number of adoptions of children in foster care in federal fiscal years (FFY) 1998-02. The incentive payment would be $4,000 per child, plus an additional $2,000 for each special needs adoption, with a maximum allocation to all states of $20 million in each fiscal year. The incentive payments may be used to augment services that are provided under the foster care, child welfare services, and adoptions programs, or to supplant General Fund money that is currently spent on these programs and is not used to match federal funds.

If the authorized level of federal adoptions incentive funds is appropriated for FFY 99 (October 1998 through September 1999), and if counties meet their state Adoptions Initiative performance agreement targets in 1997-98 and 1998-99, we estimate that the state could earn as much as $15 million in incentive payments in FFY 99. As noted above, the maximum incentive payment allocation to *all* states is capped at $20 million. Therefore, unless other states perform poorly, California would probably earn less than the full $15 million.

The Legislature could express its preferences on this issue by adopting budget bill language—either to augment programs or reduce General Fund expenditures—in anticipation of the potential receipt of these funds.

COMMUNITY CARE LICENSING DIVISION

The Community Care Licensing Division (CCLD) within the Department of Social Services (DSS) develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. Licensed facilities include day care homes and centers, foster family homes and group homes, adult residential facilities, and residential facilities for the elderly.

The budget proposes expenditures of $85.2 million ($36 million General Fund) for the CCLD in 1998-99. This represents a 45 percent increase in General Fund expenditures from the current year, largely due to a projected increase in licensing program workload and a proposal to provide early childhood development training to child care providers.

Use Special Fund Balances to Increase Technical Assistance and Achieve General Fund Savings

We recommend an augmentation of $386,000 from the Technical Assistance Fund to establish five new positions in order to provide technical assistance to community care licensees. We further recommend appropriating $1.2 million from the Technical Assistance Fund, with a corresponding reduction from the General Fund, to support certain one-time expenditures for community care licensing in 1998-99. (Reduce Item 5180-001-0001 by $1,200,000 and increase Item 5180-001-0270 by $1,586,000.)

Background. Under current law, the DSS collects annual fees which fund some of the costs of licensing community care facilities. Current law also provides that for each year, fee revenues exceeding $6 million (after deducting administrative costs) shall be deposited in the Technical Assistance Fund, and shall be available for appropriation to establish and maintain CCLD staff to provide technical assistance to licensees.

Technical Assistance. The Technical Support Program (TSP) within the CCLD includes eight program analysts who provide technical assistance to residential care providers licensed by the division. The TSP provides

both group training sessions for care providers and in-depth consultations with individual providers who are having difficulty in complying with licensing standards. The TSP is supported by $450,000 from the Technical Assistance Fund and $360,000 from the General Fund in the current year.

The Child Care Advocate Program (CCAP) within the CCLD includes 13 program analysts who provide technical assistance to child care providers licensed by the division. The CCAP is supported by $360,000 from the Technical Assistance Fund, $386,000 from the Child Health and Safety Fund, and $280,000 from the General Fund in the current year.

Large Balance in Technical Assistance Fund. The budget projects that the Technical Assistance Fund year-end balance will increase from $784,000 in 1996-97 to $1.3 million in the current year and $1.7 million in the budget year. The budget estimates annual revenues of $1.3 million and expenditures of $868,000 in 1998-99. If annual revenues and expenditures continue at these levels, the fund balance will increase by approximately $400,000 annually.

Additional Technical Assistance Could Result in Savings. The department reports that, although the TSP is effective in increasing compliance with licensing standards, providers who desire an in-depth consultation often must wait several months before staff are available to provide assistance.

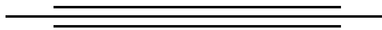
To the extent that technical assistance enables providers to comply with licensing regulations, expenditures on such assistance could result in future General Fund savings by decreasing the workload in other areas of the licensing program. Based on our discussions with the department, we believe that using Technical Assistance Fund resources for additional TSP positions would reduce the backlog for in-depth consultations, and would increase the number of providers who are in compliance with licensing regulations. Accordingly, we recommend increasing Technical Assistance Fund expenditures by $386,000 in 1998-99 to augment the TSP by five new positions. With these additional staff, the department would then have one program analyst in each of the division's 13 district offices.

Excess Fund Balances Could Be Used to Achieve General Fund Savings. Expanding the TSP by five positions would align Technical Assistance Fund revenues and expenditures at a level of about $1.3 million. However, the fund would continue to have a year-end balance of about $1.4 million, or 110 percent of expenditures, which is well in excess of a prudent reserve.

These funds could be used to provide additional technical assistance; however, this would create an ongoing expenditure which, at some point, would exhaust the reserves unless revenues increase. Furthermore, adoption of our recommendation would, by staffing all of the district offices, bring the resources for technical assistance to a level which we believe are sufficient to meet the program's needs. Thus, we believe it would be reasonable to use the reserves to replace one-time General Fund monies proposed in the budget for community care licensing activities. Specifically, we recommend appropriating $1.2 million from the Technical Assistance Fund, with a corresponding reduction in the General Fund, to support the following one-time expenditures proposed in the budget:

- $800,000 for furniture, computers, and printers for additional licensing division staff.
- $300,000 for a new training curriculum in early childhood development.
- $100,000 for furniture, computers, and printers for new Trustline Registry staff.

Adoption of our recommendation would leave a projected year-end fund balance of about $100,000 in the Technical Assistance Fund, which would amount to about 8 percent of ongoing expenditures from the fund. We note that because the authorizing legislation requires that Technical Assistance Fund monies be expended to fund the creation and maintenance of new Technical Assistance positions, our recommendation would require trailer bill legislation to supersede this provision in 1998-99.



FINDINGS AND RECOMMENDATIONS

Health and Social Services

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Crosscutting Issues

Healthy Families Program

1. **$1.4 Billion of Federal Funds Will Roll Forward Into 1999-00.** Under the budget plan, about $1.4 billion of California's federal allocation through June 1999 will remain unspent and roll forward. It is likely that most, if not all, of these funds will remain unspent. C-19

2. **Federal Approval of Continuing Eligibility in Doubt.** Withhold recommendation on $9.2 million from the General Fund requested in the Department of Health Services' (DHS) Medi-Cal budget to provide one-month continuing eligibility for children, pending resolution of federal objections to this proposal. C-19

3. **Requiring Children in the California Children's Services (CCS) Program to Enroll in the Healthy Families Program, If Eligible, Would Result in State and Local Savings. Reduce Item 4260-111-0001 by $9,118,000, Increase Item 4280-101-0001 by $2,972,000.** Recommend enactment of legislation to require qualifying participants in the CCS Program to enroll in the Healthy Families Program in order to provide more comprehensive health care services to CCS children and to reduce net General Fund and county costs by $6.2 million each in 1998-99 compared with the Governor's budget. C-20

4. **Including Regional Center Services As a Healthy Families Benefit Should Be Explored.** Recommend that DHS, the Department of Developmental Services and the Managed Risk C-22

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Medical Insurance Board report at budget hearings on the feasibility of including regional center services as a Healthy Families benefit, including an estimate of any potential state savings.

Department of Aging

5. **Proposed Expansion Would Not Allocate Funds According to Need**. Withhold recommendation on $12.2 million ($9.1 million General Fund) requested to expand several California Department of Aging programs because the program expansion is not based on the need for services. C-23

6. **Budget Does Not Reflect Savings From an Increase in Federal Funds. Reduce Item 4170-101-0001 by $125,000 and Increase Item 4170-101-0890 by $125,000.** Recommend a General Fund reduction of $125,000 in the amount proposed for the Multipurpose Senior Services Program to reflect additional federal funds due to an increase in the federal share of costs of this program. C-29

Department of Alcohol and Drug Programs

7. **Budget Does Not Account for Increased Federal Medicaid Sharing Ratio. Reduce Item 4200-101-0001 by $280,000 and Item 4200-102-0001 by $37,000.** Recommend budget adjustment, for a $317,000 General Fund savings. C-30

Department of Health Services—State Operations

8. **Armed and Over Budget. Reduce Item 4260-001-0001 by $193,000.** Recommend reduction in the amount requested for the California Zero Fraud Tolerance Initiative because (1) large travel allotments are unnecessary, (2) additional border inspectors should be budgeted at the entry-level position classification, and (3) armed officers are not required to conduct eligibility verifications in hospitals or computer database checks of aliens. C-32

9. **Filling Positions Would Generate Savings. Increase Item 4260-001-0001 by $1,090,000 and Reduce Item 4260-101-0001 by $4,761,000.** Recommend General Fund augmentation of C-34

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$1.1 million to fill 39.3 vacant positions in order to increase recoveries from third parties and reduce General Fund Medi-Cal costs by $4.8 million, for a net savings of $3.7 million.

10. **Phantom Positions Undermine Legislative Oversight.** Recommend that the department present a revised staffing plan to the budget subcommittees that identifies and proposes to eliminate approximately 500 vacant positions that the budget does not propose to fund in 1998-99. C-34

California Medical Assistance Program (Medi-Cal)

11. **Medi-Cal Estimate Includes Adjustments for Shift to Managed Care.** The Medi-Cal estimate has been reduced by $14.9 million in 1997-98 and $93.9 million in 1998-99 (about half General Fund) in order to correct for distortions caused by the shift to managed care. We find that these adjustments are appropriate in nature and do not seem unreasonable in size. We will review the specific methodology of these adjustment as part of our overall review of the Medi-Cal estimate for the May Revision. C-49

12. **Savings from Uncertainty Adjustments Appear Arbitrary.** The Medi-Cal budget estimate includes General Fund savings of $109.6 million in 1997-98 and $133 million in 1998-99 as a result of adjustments that reduce expenditures 2 percent below the department's mid-range estimate. These adjustments appear arbitrary at this time, and we recommend excluding these savings for budget planning purposes, pending a more complete analysis of the Medi-Cal estimate and the most recent available caseload and expenditure information for the May Revision. C-50

13. **Caseload Growth Funding for County Administration is Unnecessary. Reduce Item 4260-101-0001 by $16,700,000.** Recommend total General Fund reduction of $26.1 million (including current-year savings of $9.4 million) because these amounts have been budgeted for caseload growth which the department's Medi-Cal estimate indicates will not occur. C-51

14. **Are Transitional Medi-Cal Participation Rates Too Low?** Recommend that the department report during budget hearings on (1) the reasons for the apparent low participation rate in Medi- C-54

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Cal transitional coverage, (2) the number of eligible families that do not participate and lack other health coverage, and (3) progress in implementing recent legislation to improve administration of the transitional program and outreach and education efforts.

15. **Additional Year of Transitional Medi-Cal in Doubt.** Withhold recommendation on $2.6 million ($1.3 million General Fund) proposed to fund extended Medi-Cal transitional benefits, pending the outcome of discussions between the Department of Health Services (DHS) and the Health Care Financing Administration to obtain a federal waiver necessary to implement the additional coverage. C-56

16. **Plan Needed for Implementing Medi-Cal Eligibility Under Section 1931(b).** Recommend that DHS develop, prior to budget hearings, a proposal for implementing Section 1931(b) Medi-Cal eligibility and coordinating 1931(b) eligibility with the current medically needy and transitional Medi-Cal eligibility categories. We present some issues for the Legislature to consider in evaluating this proposal. C-59

17. **Augmentation for Section 1931(b) Eligibility Determinations Not Justified. Reduce Item 4260-101-0001 by $15,630,400.** Recommend total General Fund reduction of $23.4 million (including current-year savings of $7.8 million) for additional county eligibility determinations because the new workload will substitute for existing workload. C-62

18. **Department Plans New Payment Approach for Nursing Homes.** We recommend that DHS report at budget hearings on its plans for revising payments to long-term-care facilities. C-63

Public Health

19. **Proposition 99—New Positions Not Justified by Workload.** Recommend deletion of three of the eight new positions requested, and redirection of the $286,000 savings into the Proposition 99 media campaign. C-65

20. **Redirecting Funds Proposed for New Program Into Proven Existing Program Likely to Be More Cost Effective.** Recom- C-68

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	mend redirecting proposed $2.6 million General Fund augmentation to establish a new early childhood family education program into the existing Adolescent Family Life Program.	
21.	**Positions Not Needed in Childhood Lead Poisoning Prevention Program. Reduce Item 4260-001-0080 by $786,000.** Recommend deleting nine new positions proposed in the budget and two existing positions because the workload can be addressed by related budget proposals.	C-70
22.	**Administration Renews Request to Implement Federal Abstinence Education Program.** We comment on the proposal and related research.	C-71
23.	**Funding Alternatives Available for Emerging Infectious Diseases and Food Safety Programs. Reduce Item 4260-001-0001 by $1,006,000 and Increase Item 4260-001-0177 by $828,000.** Recommend deleting 13 new positions proposed for the Emerging Infectious Diseases program and instead permitting the department to fill 12 position vacancies by reducing the salary savings requirement, for a net General Fund savings of $178,000. Further recommend funding the proposed Food Safety program with industry fees instead of $828,000 from the General Fund.	C-74
24.	**Newborn Hearing Screening Proposal Has Merit, But Cost Estimate Needs Justification.** We withhold recommendation, pending submission of additional justification by the department.	C-76

Department of Developmental Services

25.	**Reporting Changes Would Improve Legislative Oversight of Case Management Funding.** Recommend that funds appropriated for case management be scheduled separately in the Budget Bill. Further recommend adoption of supplemental report language requiring the department to report on the implementation of its plan to augment case management.	C-80
26.	**Proposed Position Upgrades Are Excessive. Reduce Item 4300-101-0001 by $4,511,000, Item 4260-101-0001 by $1,686,000, and Item 4260-101-0890 by $1,789,000.** Recommend reduction of	C-83

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	$3.3 million from the General Fund to align proposed regional center position upgrades more closely with actual duties and salaries. Further recommend that new case management positions be budgeted at the first salary step of the relevant state classification, for a General Fund savings of $2.9 million.	
27.	**Care Facility Training Program is Overbudgeted. Reduce Item 4300-101-0001 by $1,569,000, Item 4260-101- 0001 by $2,412,000, and Item 4260-101-0890 by $2,558,000.** Recommend budget reduction to reflect the department's planned phase-in of training and associated pay increases for community care facility employees, for a General Fund savings of $4 million in 1998-99.	C-87
28.	**Federal Waiver for Habilitation Services Could Result in State Savings**. Recommend that DDS, in cooperation with the Department of Rehabilitation (DR), include services provided under the Department of Rehabilitation's Habitation Services program in the state's application for a new Home and Community Based Services federal waiver. This could result in a significant increase in federal funds and commensurate savings to the state.	C-89
29.	**Legislature Needs More Information on Supported Living Augmentation.** Withhold recommendation on $2 million proposed for the expansion of supported living services in 1998-99 because the department (1) has not yet allocated $1 million appropriated for expansion in the current year and (2) is in the process of surveying regional centers to determine the level of demand for these services.	C-90
30.	**Technical Issue—Case Management for Community Placements Overbudgeted. Reduce Item 4300-101-0001 by $276,000, Item 4260-101-0001 by $99,000, and Item 4260-101-0890 by $106,000.** Recommend adjusting the budget to correct for a technical error, which would result in a General Fund savings of $375,000.	C-91
31.	**Developmental Center Placements Should Be Judicially Reviewed.** Recommend enactment of legislation requiring the DDS to institute a process for conducting judicial reviews to determine the appropriateness of developmental center placement for current residents who have never had such reviews.	C-92

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32.	**Continue Funding for Camarillo Maintenance. Increase Item 4300-003-0001 by $3,799,000.** Recommend $3.8 million General Fund augmentation to continue maintenance of the state hospital and developmental center because California State University's proposal to assume control of the site is premature.	C-97
33.	**Proposed Developmental Center Positions Should Be Budgeted at First Salary Step. Reduce Item 4300-003-0001 by $97,000, Item 4260- 101-0001 by $722,000, and Item 4260-101-0890 by $767,000.** Recommend that most of the new nursing positions be budgeted at the first salary step, to be consistent with standard budgeting procedures, for a General Fund savings of $819,000 in 1998-99.	C-97

Department of Mental Health

34.	**Inflation Adjustment Is Overbudgeted. Reduce Item 4440-103-0001 by $2,096,000.** Recommend a technical adjustment to reflect an updated forecast of the 1998-99 medical Consumer Price Index.	C-99

Employment Development Department

35.	**Federal Welfare-to-Work Block Grant Program.** California will receive up to $363 million in federal Welfare-to-Work block grant funds to serve specified hard-to-employ Temporary Assistance for Needy Families recipients, if the state provides the necessary one-third match. The Governor proposes to spend $95 million from the General Fund for the state match and further proposes a plan for the entire federal allotment. We review the proposal and identify options available to the Legislature.	C-101

Department of Rehabilitation

36.	**Governor Proposes to Suspend Statutory Rate Increase for the Work Activity Program.** Suspension of the rate increase would result in a General Fund cost avoidance of $9.6 million.	C-107
37.	**Caseload Projections Do Not Reflect Recent Trends. Reduce Item 5160-101-0001 by $5,448,000, Increase Item 5160-001-0001**	C-108

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by $644,000, and Increase Item 5160-001-0890 by $2,381,000. Recommend a net reduction of $4.8 million from the General Fund to reflect recent trends in the Work Activity Program and Supported Employment Program.

38. **Department Should Report on Supported Employment Cost Study.** Recommend department advise Legislature on the status and findings of the statutorily required study. C-110

Department of Social Services— CalWORKs Program

39. **Recent Federal Changes in Welfare Reform Have Significant Implications for California.** We review the key features of the Balanced Budget Act and the recently issued proposed federal regulations. C-114

40. **Governor Proposes to Continue Past Grant Reduction and Eliminate Statutory Cost of Living Adjustments**. These changes result in a General Fund cost avoidance of $248 million. We review the Governor's proposals and comment on them. C-116

41. **Defer Expenditure of State Match for Welfare-to-Work Program Until 1999-00. Reduce Item 5180-101-0001 by $95,000,000.** Recommend deferring the proposed General Fund expenditure of $95 million in state matching funds for the federal Welfare-to-Work block grant by one year because the state may be able to identify the required match from within the base budget for the CalWORKs program in 1999-00, at no additional cost to the General Fund. C-118

42. **Impact of Budget Reductions in CalWORKs**. Because of the federal maintenance-of-effort requirement, any budget reductions in the CalWORKs program identified by the Legislature would result in a savings of federal funds. Such savings could be (1) redirected to other priorities in CalWORKs, (2) placed into a reserve for future years, and/or (3) transferred to the Social Services Block Grant (Title XX), where the funds could be used to offset General Fund spending in other departments. C-120

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43.	**Budget Does Not Reflect Savings From Projected Caseload Decline. Reduce Item 5180-101-0890 by $40,011,000.** Recommend that proposed expenditures for county administration of the CalWORKs program be reduced by $40 million in federal funds to reflect the budget's projected caseload decline.	C-121
44.	**CalWORKs Employment Services Are Overbudgeted. Reduce Item 5180-101-0890 by $209,174,000.** Recommend that the budget for CalWORKs employment services be reduced by $209 million because the budget exceeds the estimated amount needed to fully fund the program.	C-122
45.	**Establish a Temporary Assistance for Needy Families Reserve**. Recommend that the Legislature place at least 50 percent of our identified savings in the CalWORKs program into a reserve for expenditure in future years.	C-126

Aid to Families with Dependent Children—Foster Care

46.	**Budget Underestimates Proportion of Cases Eligible for Federal Funds. Increase Item 5180-101-0890 by $19,690,000 and Reduce Item 5180-101-0001 by $7,894,000.** Recommend reducing the General Fund amount budgeted for the Aid to Families with Dependent Children-Foster Care program by $4.3 million in 1997-98 and $7.9 million in 1998-99 because the budget underestimates the number of cases that are eligible for federal funding.	C-129

Child Support Enforcement

47.	**Adoption of New Incentive Payment System Could Improve Child Support Enforcement Program.** Recommend legislation be enacted to establish a child support incentive payment system in which county incentive payments are a function of county administrative effort and cost-effectiveness. Further recommend legislation to establish a specified administrative review procedure for low-performing counties.	C-132
48.	**Child Support Incentive Payments Are Overstated. Reduce Item 5180-101-0001 by $26,307,000.** Recommend reducing the	C-143

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General Fund amount proposed for child support incentive payments by $20.3 million in 1997-98 and $26.3 million in 1998-99 because the budget overestimates state incentive payments to counties for non-CalWORKs child support collections.

49. **Budget Underestimates Arrearages Available to Offset CalWORKs Grant Costs. Reduce Item 5180-101-0001 by $26,416,000 and Reduce Item 5180-101-0890 by $32,270,000.** Recommend reducing proposed General Fund expenditures to more accurately reflect amount of arrearages available to offset CalWORKs grant costs. C-143

Supplemental Security Income/ State Supplementary Program

50. **Supplemental Security Income/State Supplementary Program (SSI/SSP) Caseload Growth Is Overestimated. Reduce Item 5180-111-0001 by $63,980,000.** Recommend reducing the General Fund amount proposed for SSI/SSP grants by $49 million in 1997-98 and $64 million in 1998-99 because caseload growth is overestimated. C-147

51. **Budget Proposes to Eliminate State Cost-of-Living Adjustment**. By proposing to delete the requirement to restore the statutory state cost-of-living adjustment, the budget would achieve a cost avoidance of $39 million in 1998-99. C-148

In-Home Supportive Services

52. **State Plan Amendment Would Increase Eligibility for the Personal Care Services Program (PCSP). Increase Item 5180-111-0890 by $81,902,000 and Reduce Item 5180-111-0001 by $35,136,000.** Recommend adoption of budget bill language to direct the Department of Health Services to submit a State Medicaid plan amendment to allow In-Home Supportive Services "income eligibles" to be included in the PCSP, which would result in $81.9 million in additional federal funds and a General Fund savings of $35.1 million. C-150

53. **Federal Funds Not Budgeted. Increase Item 5180-111-0890 by $12,662,000 and Reduce Item 5180-111-0001 by $12,662,000.** C-152

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Recommend that federal funds budgeted for the IHSS program be increased by $12.7 million, and General Fund support be reduced by the same amount, to reflect federal Social Services Block Grant funds that the state will receive and which are not reflected in the budget.

County Administration of Welfare Programs

54. **Budget Does Not Reflect Savings From Projected Caseload Decline. Reduce Item 5180-141-0001 by $7,766,000, Reduce Item 5180-141-0890 by $10,545,000, and Reduce Item 5180-101-0890 by $2,614,000.** Recommend proposed expenditures for county administration of the Food Stamps program be reduced by $7.8 million from the General Fund to reflect the budget's projected caseload decline. C-153

Special Programs

55. **Licensed Maternity Home Care Program Overbudgeted. Reduce Item 5180-151-0001 by $1,595,000.** Recommend a General Fund reduction of $1.6 million to reflect the actual expenditure trend. C-155

Adoptions

56. **Budget Underestimates Proportion of Adoptions Assistance Program (AAP) Cases Eligible for Federal Funds**. **Increase Item 5180-101-0890 by $8,848,000 and Reduce Item 5180-101-0001 by $6,636,000.** Recommend reducing the General Fund amount budgeted for the AAP by $6.6 million in 1998-99 because the budget underestimates the number of cases that are eligible for federal funding. C-157

57. **State May Earn Federal Adoptions Incentive Payments**. California could receive up to $15 million in federal adoptions incentive payments, beginning October 1998, depending primarily on how much is appropriated for the new program in federal fiscal year 1999. C-159

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Community Care Licensing Division

58. **Use Special Fund Balance to Increase Technical Assistance and Achieve General Fund Savings. Reduce Item 5180-001-0001 by $1,200,000, and Increase Item 5180-001-0270 by $1,586,000.** Recommend augmenting the budget by $386,000 from the Technical Assistance Fund to establish five new positions for technical assistance in the Community Care Licensing Division. Further recommend appropriating $1,200,000 from the Technical Assistance Fund, with a corresponding reduction from the General Fund, to support certain one-time expenditures in 1998-99. C-160