

PART THREE

Major Fiscal Issues Facing the Legislature



In addition to the major policy and funding issues identified in the *Analysis*, this part discusses some of the broader issues currently facing the Legislature. Many of these issues are closely linked to funding requests contained in the Governor's Budget for 1988-89; others are more long-range in nature and will, in all probability, persist for many years beyond 1988.

Most of the issues in this section fall into three categories. The first involves reviews of specific programs or policy areas: the state's health care "safety net," homelessness, the state's home-to-school transportation program, and state reimbursement of local mandates. The second category includes issues on which the Legislature will face important budget-year implementation decisions: the Greater Avenues for Independence (GAIN) program, allocation of federal immigration reform monies, Proposition 65 (the Safe Drinking Water and Toxic Enforcement Act of 1986), and increased state minimum wage. The third category includes discussions of the state's transportation policies, demographic composition and aging programs. These pieces are intended to assist the Legislature in its longer-range planning.

The Health Services "Safety Net"

What Demands Are Placed on California's Health Safety Net? What Options Are Available to the Legislature to Change the Way We Provide and Finance Health Care?

Summary

- *About 5.2 million Californians under age 65, or 23 percent of the state's population under 65, lack health insurance or other coverage such as Medi-Cal. When faced with health problems, these individuals are served by private providers and by the "safety net" of federal-, state-, and county-funded programs.*
- *Despite a growing amount of public funds being spent on safety net services, these expenditures generally are not keeping up with population and inflation increases.*
- *On average, counties have been shouldering an increasing proportion of safety net funding.*
- *Individually, counties devote very different levels of resources to indigent health care. These levels and changes in the levels over time appear to be based less on need than on historical expenditure trends and competing county budget priorities.*
- *Access to health services for indigent persons varies significantly between counties. There appear to be unmet and increasing health services needs.*
- *Absent major changes in the fiscal situation for counties, it is likely that neither the "squeeze" on county health systems nor access to health services for persons who lack coverage will improve.*
- *The Legislature has three basic options for changing the way we provide and finance health care for those without coverage in the state: (1) strengthen county systems directly, (2) establish a funding source for uncompensated care, or (3) extend insurance coverage for those who do not now have it.*

Over the past several years, the Legislature has considered numerous proposals to address problems associated with financing health services for persons who do not have health insurance or other coverage, such as Medi-Cal, and cannot pay for the services. In this analysis, we examine available data that shed light on these problems and whether they are getting better or worse.

Specifically, after providing background on the "safety net" of publicly funded services for persons who cannot pay for health care, we examine data on (1) the number and characteristics of persons who lack health insurance or other coverage, (2) the role of the private sector in

providing care to persons who lack coverage, and (3) county funding of health programs.

Background—California's Health Care Delivery System

Currently, Californians receive health care services through a variety of mechanisms:

Private Insurance and Medicare. For the most part, individuals under the age of 65 receive health insurance through their employer or the employer of a family member. Most persons over 65 and certain disabled persons receive coverage under the federal Medicare program.

Most insured individuals pay for a portion of their care out-of-pocket through deductibles (where the individual pays a certain amount each year before the insurance pays benefits) and copayments (where the individual pays a certain percentage or a fixed fee each time he or she uses services).

Medi-Cal. The state, with assistance from the federal government, funds health coverage for certain poor individuals through the Medi-Cal program. Individuals are entitled to Medi-Cal benefits if they (1) are members of families with dependent children or are aged, blind, or disabled; (2) are legal residents; and (3) meet income and resource requirements. Persons with higher incomes can become eligible for Medi-Cal if they (1) have health problems that require a large expenditure relative to their incomes and (2) "spend down" their resources to qualifying levels.

Services for Persons Without Health Coverage. Persons who are without health insurance and are ineligible for Medi-Cal or Medicare must buy services on a pay-as-you-go basis. They often cannot afford to pay for the services they receive. For the most part, *private* providers attempt to avoid incurring costs for clients who cannot pay for services by referring them to public programs if feasible. However, they generally have been able to recoup the costs they incur for providing these services by increasing charges to insured clients. *Public* providers support their costs for providing services to persons who are unable to pay through a variety of governmental programs collectively referred to as the "safety net." Some private nonprofit providers, such as community clinics, supplement public services to persons without coverage using funds available from safety net programs and private grants.

What is the "Safety Net"?

Under Section 17000 of the Welfare and Institutions Code, counties have ultimate responsibility for providing access to health care services for those who lack coverage under public or private programs. Over time, the state has assisted counties by (1) providing grants for county health

services and (2) funding a patchwork of programs designed to enhance access to health care for persons lacking coverage. The state programs are, for the most part, not entitlement programs like Medi-Cal, but grants to providers to care for limited numbers of people. These services provide a "safety net" for those who have no other source of care.

There are three main segments of the safety net:

- **Medically Indigent Services (MIS) Program.** This program provides state monies to counties to fund health care for indigents. The program began in 1983, when, as a result of Medi-Cal reform legislation, counties became responsible for providing services to persons who formerly would have been eligible for Medi-Cal as "medically indigent adults." Some counties operate quasi-insurance programs for indigent persons using their MIS funds. The eligibility standards and benefit levels vary significantly from county to county. Many counties have continued Medi-Cal eligibility policies in operating these programs. (For example, many counties exclude undocumented persons from coverage under their MIS programs.) Other counties fold their MIS monies into funding for their overall "safety net" programs.
- **County Health Services (AB 8).** This state program provides block grants to counties, with local matching funds required, to provide public health services and inpatient/outpatient care for low-income persons (such as "working poor" families and undocumented immigrants). In order for a county to receive its full share of state County Health Services program funds, it must budget expenditures equal to a standard based on expenditures for health care in 1977-78, increased each year by population and inflation.
- **Grant Programs for Special Populations.** These programs provide health services for special populations (migrants, Indians, pregnant women, rural residents) through grants to counties, community clinics, and other providers.

Safety Net Funding

Table 19 summarizes total public-sector funding for California's safety net from 1985-86 through 1987-88. It indicates that funding totaled \$1.3 billion in 1987-88, an increase of 7 percent since 1985-86. On a per-capita basis, funding increased 1.3 percent. During the same period, inflation increased costs by 5.5 percent to 14 percent (depending on which inflation index is used for the calculations). Consequently, "real" (inflation-adjusted) per-capita funding actually declined.

Table 19
California's "Safety Net" Funding
1985-86 through 1987-88
(dollars in thousands)

<i>Program</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>Percent Change From 1985-86</i>
Medically Indigent Services program (state funds) ^a	\$566,188	\$542,174	\$543,475	-4.0%
County Health Services (AB 8) ^b				
State	260,300	279,800	285,400	9.6
County ^c	256,000	290,500	337,400	31.8
Grants for special populations				
Maternal and child health ^d				
State	3,507	4,514	2,508	-28.5
Federal	9,996	8,762	10,836	8.4
Rural health (state funds)	3,862	3,856	3,862	—
Primary clinics				
State	1,459	1,462	1,459	—
Federal	32,560	30,571	32,700	0.4
Migrant				
State	1,038	1,038	1,038	—
Federal	5,997	6,079	5,300	-11.6
Indian health				
State	2,996	2,996	2,996	—
Federal	30,500	33,500	33,500	9.8
Family planning				
State	34,129	34,155	34,155	0.1
Federal	12,764	12,901	11,805	-7.5
Totals	\$1,221,296	\$1,252,508	\$1,306,434	7.0%
Funding sources				
County	\$256,000	\$290,500	\$337,400	31.8%
State	873,479	870,195	874,893	0.2
Federal	91,817	91,813	94,141	2.5

^a Includes County Medical Services program.

^b Inpatient and outpatient services only.

^c Based on county budgets submitted under the County Health Services (AB 8) program.

^d Changes in General Fund and federal funds have not affected the overall program level.

County funding for the safety net is estimated to be \$337 million in 1987-88, an increase of 32 percent since 1985-86. This is a per-capita increase of 25 percent. State funding totaled \$875 million in 1987-88, an increase of 0.2 percent. This is a per-capita *decrease* of 5.1 percent.

How Many People Lack Health Coverage?

The Current Population Survey (CPS) performed by the Census Bureau collects information about health insurance status. The University of California, Los Angeles (UCLA) released a study in September 1987 that analyzed these data for persons under age 65. These data give us a detailed picture of the number and characteristics of persons who lacked insurance or other coverage throughout 1985. However, there are several important caveats to the CPS data. First, the data *overstate* the extent of coverage because they count as "covered" those individuals who (1)

were covered only for part of the year and (2) have limited coverage. For example, some individuals may have coverage that does not pay for catastrophic medical expenditures. Second, the data *understate* the extent of coverage because they do *not* count as "covered," persons who would be eligible for Medi-Cal if they incurred health care expenditures that are large relative to their income.

According to the CPS data, California has the 11th highest proportion of uncovered individuals in the nation, with 22 percent, or 5.2 million individuals under the age of 65 lacking coverage for the entire year. Trend data for California are not available. Nationwide, the Congressional Budget Office recently reported that the percentage of persons lacking coverage has increased from 15 percent in 1980 to 18 percent in 1987. This trend appears to be related to the growth of service-sector employment compared to other employment sectors. (Service-sector employees typically receive lower wages and benefits.) Because this employment trend has occurred in California as well, it is likely that the proportion of persons who lack coverage may also have increased in California.

Compared to the rest of the under-65 population, the UCLA study shows that the 5.2 million people who lack coverage in California include high proportions of people who are young, poor, Latino, self-employed or employed in the service sector, and living in certain metropolitan areas in southern California and the Central Valley (such as Los Angeles, San Diego, and Bakersfield).

Moreover, 75 percent of the population lacking health coverage, or almost 4 million people, are *employed* or are the *dependents of employees*. Persons in families that have dependent children and incomes less than 150 percent of the poverty line account for about 45 percent, or 2.3 million, of the people lacking coverage. These individuals are likely to be eligible for Medi-Cal if they (1) incur large medical expenses relative to their income and (2) are legal residents.

The CPS data reflect the "universe" of people who *potentially* may use the services of the safety net. The only statewide data available that show *actual* utilization of these services come from the Office of Statewide Health Planning and Development (OSHDP). The office collects hospital discharge data on persons whose care was funded through county MIS programs. The data show that compared to all hospital discharges, MIS hospital patients disproportionately: are male, young (25 to 34 years of age), black and Latino; have injuries (as opposed to illnesses); and were admitted from the emergency room. The data, however, do not provide a complete picture of safety net utilization, because they exclude (1) outpatient services and (2) services to individuals who do *not* qualify for county MIS programs. Many counties use eligibility criteria for their MIS

programs that are similar to criteria used for the former Medi-Cal medically indigent adult category. Most notably, these criteria exclude undocumented persons.

What is Uncompensated Care?

Although the roles of the public and private sectors in providing care to persons without coverage are generally different, from an accounting perspective the costs of services provided by both sectors to persons who cannot pay are considered to be "charity care" or bad debt. Together, using the OSHPD's definition, these two categories are referred to as "uncompensated care." Under this definition, "uncompensated care" does *not include* (1) shortfalls due to low rates paid by Medi-Cal or other payors and (2) services funded by county MIS programs. (County MIS programs are considered to be a payment source in the data the OSHPD collects from hospitals on their costs for providing uncompensated care.)

What is the Relative Involvement of the Private and Public Sectors in Providing Uncompensated Care?

In order to answer this question, we reviewed an OSHPD study released in May 1987. This study analyzed uncompensated care data from 1980-81 through 1984-85. The study provides some information about the relative burden of these costs borne by private providers and counties. The data indicate that private and public hospitals provided uncompensated care costing approximately \$750 million in 1984-85. County hospitals provide a disproportionate share of this uncompensated care. They had only 13 percent of total beds in the state in 1984-85 yet accounted for 43 percent—or \$323 million—of these costs. Private providers, with 87 percent of the beds, bore 57 percent—or \$427 million—of uncompensated costs. These proportions have remained relatively constant since 1982-83.

Other OSHPD data indicate that the per-capita amount of uncompensated care is significantly higher in counties with county hospitals than in those without. In 1986 the amount of uncompensated care per capita was 200 percent higher in these counties than in counties without a county hospital. This is not surprising since individuals without health coverage can probably obtain services more easily in counties that have county hospitals.

Effect of Uncompensated Care on Institutions. On average, the OSHPD study indicates that private hospitals have raised more than enough revenues to cover the cost of the uncompensated care they provide, while county hospitals continue to do poorly. Between 1980-81 and 1984-85, net income (revenues less patient expenses) of nonprofit hospitals increased from 2.2 percent of expenses to 5.1 percent. Net income of investor-owned hospitals increased from 5.6 percent of expenses to 15 percent. County hospital revenues, on the other hand, have

been consistently about 30 percent *below* expenses over time. This is because a large portion of the services provided in county hospitals are to low-income individuals who lack coverage and who are unable to pay for the services they receive.

These generalizations about the public- and private-sector involvement in providing uncompensated care mask the situations of individual providers. For example, some private providers may have increased services to persons without coverage. These providers would have higher uncompensated care costs and more limited ability to generate revenue to cover these costs. In contrast, some private providers may have significantly reduced their level of uncompensated costs over the period we examined by instituting more effective client screening. To the extent that this increased screening has occurred, it probably has resulted in access problems for individuals lacking coverage and additional stress on California's safety net programs.

County Funding of Health Services

Currently, counties must report their expenditures for health services to the state Department of Health Services. The usefulness of these data is limited because the reporting is in very broad categories and the data are inconsistent between counties. Nevertheless, it is possible to use these data to identify trends and patterns in county spending. We examined in detail data from budgets submitted by six counties. These counties were selected to include ones of varying size and with different types of health care delivery systems, including those with and without county hospitals.

Summary information on these counties is provided in four charts. Chart 35 presents data on per-capita inpatient/outpatient expenditures, Chart 36 presents data on per-capita *net* inpatient/outpatient expenditures, Chart 37 presents data on per-capita expenditures for health services from general purpose revenue, and Chart 38 presents data on the proportion of general purpose revenue budgeted for health services.

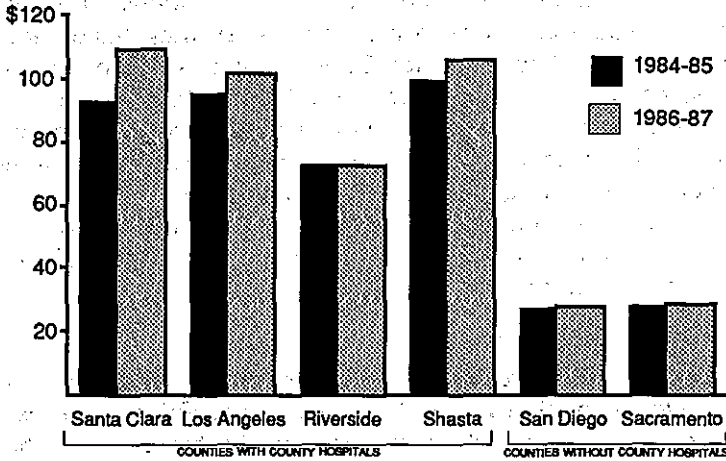
The data in these charts show significant variations among the six counties we examined. Specifically:

- *The level of resources devoted to health services varies significantly among the counties.* For example, Chart 36 shows that budgeted per-capita net expenditures for inpatient/outpatient services varied from \$4 (Shasta) to \$32 (Los Angeles). The proportion of county general purpose revenues budgeted for health services (Chart 38) varied from 0.8 percent (Shasta) to 7.8 percent (Los Angeles). The differences between counties reflect a number of factors, including

Chart 35

**Per Capita Inpatient/Outpatient Expenditures
Selected Counties^a**

1984-85 and 1986-87

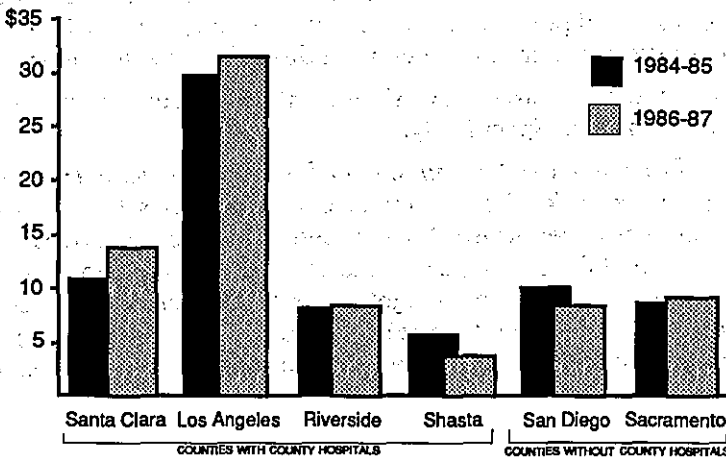


^a Based on county budgets.

Chart 36

**Per Capita Net Inpatient/Outpatient Expenditures^a
Selected Counties^b**

1984-85 and 1986-87



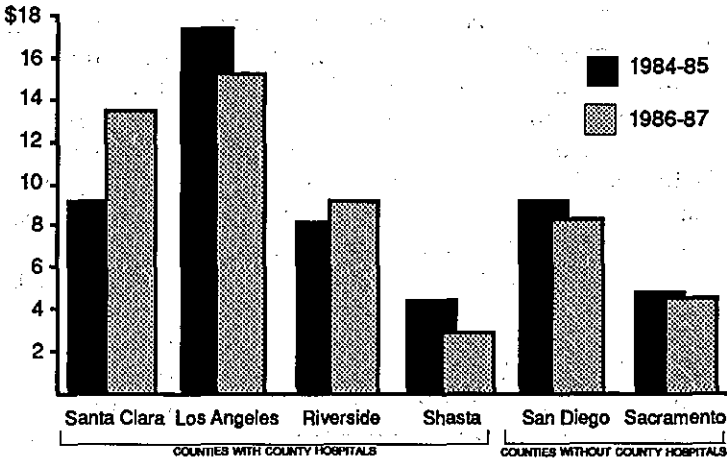
^a Gross expenditures less patient revenue.

^b Based on county budgets.

Chart 37

Per Capita Expenditures for Health Services From County General Purpose Revenue Selected Counties*

1984-85 and 1986-87

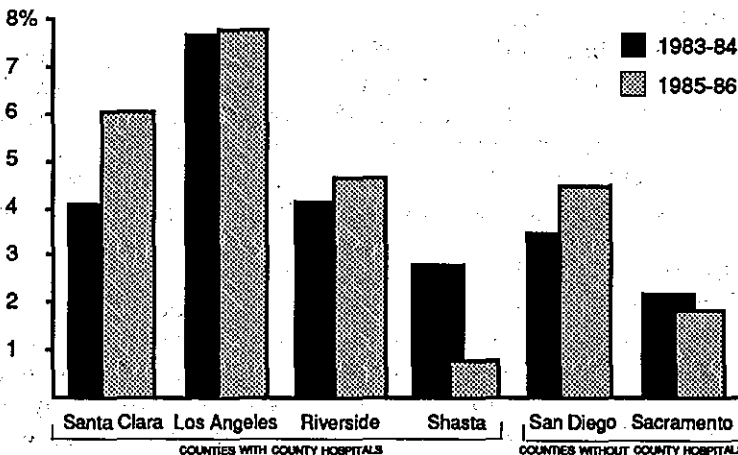


* Based on county budgets.

Chart 38

Percent of General Purpose Revenue Budgeted for Health Services Selected Counties*

1983-84 and 1985-86



* Based on county budgets.

- (1) the historical role of the county in providing services, (2) the needs of the county's population, (3) the relative efficiency and costs of county services, and (4) the population's ability to pay for services and/or the effectiveness of the county's revenue collection function.
- *The change in the level of resources devoted to health services during the period we examined also varied significantly among the counties.* For example, budgeted per-capita net expenditures for inpatient/outpatient services *increased* by 29 percent from 1984-85 to 1986-87 in Santa Clara County and *decreased* by 34 percent in Shasta County (Chart 36). The proportion of county general purpose revenues budgeted for health services *increased* by 51 percent from 1983-84 to 1985-86 in Santa Clara County and *decreased* by 71 percent in Shasta County (Chart 38). The reasons for these differences are unknown. Presumably, increases are due to cost increases and expansion of services, while decreases are a result of county budget constraints.
 - *Increases in the various expenditure measures have not generally kept pace with inflation.* Between 1984-85 and 1986-87, inflation was between 7.4 percent (using the AB 8 funding formula, which involves the Consumer Price Index for two major urban areas) and 15 percent (using the medical component of the Consumer Price Index). Expenditure increases generally exceeded these inflation indices only in Santa Clara (Charts 35, 36, and 37).

The county profiles reveal large differences in orientation towards and experience with health care. For example:

- *Los Angeles County.* On one end of the spectrum is Los Angeles, a large urban center with a network of hospitals, health centers, and public health clinics providing a broad range of services from outpatient to specialty inpatient. It has a relatively high level of per-capita financial involvement.
- *Shasta County.* On the other end of the county hospital spectrum is Shasta County, a small rural county with a relatively low per-capita financial involvement in health care. The county's per-capita investment in health care, which began small, is getting smaller. In fact, in 1987, due to some major financial problems, the county closed its county hospital. Subsequently, the county also decided not to operate its own medically indigent services program, and is now participating in the state-operated program for small counties.
- *San Diego and Sacramento Counties.* These counties do not have county hospitals. As a result, they spend less on health care than the three urban counties with county hospitals. Moreover, their level of resources devoted to health services has grown more slowly, or actually decreased, relative to most of our sample counties with hospitals.

- *Santa Clara County.* This county has relatively high expenditures on health services compared to other counties we examined. It is the only county of the six we examined where expenditures are increasing faster than inflation.

Access to Health Services Through the Safety Net Varies Significantly Between Counties

In our review of safety net services, we attempted to evaluate the issue of health service "access." By this we generally mean the availability of services to meet needs. For instance, there are access problems to the extent that services simply are not available (such as the lack of obstetrical care in certain rural counties), difficult to reach (say, due to lengthy distances that must be traveled to reach health facilities), or difficult to use (due to lengthy waiting times). Based on a variety of measures that provide direct and indirect evidence regarding access to safety net services, we conclude that there are (1) significant differences in access to health services between counties, (2) increasing demands for safety net services in many counties, and (3) access problems in some counties that may result in adverse health effects.

Specifically, we examined the following measures:

- *Financial Differences.* As discussed above, counties devote very different levels of resources to health care services. These differences appear to relate more to historical trends and competing budget needs rather than any apparent measure of demand.
- *Demands for Service.* Most counties we visited reported difficulties in scheduling appointments and increased waiting times for services. These problems result in barriers to individuals needing care that potentially discourage them from seeking it at all. For example, Los Angeles County reported to us that some women must wait up to 18 weeks to begin receiving prenatal care. Medical professionals agree that prenatal care is most effective when it begins early in the pregnancy. Thus, access problems in some areas, particularly prenatal care, may result in adverse health effects.
- *Eligibility Requirements.* Counties have widely varying eligibility requirements for services. In some counties, virtually anyone who comes to the county hospital is served. In other counties, people using county-funded services must go through an elaborate eligibility determination process.
- *Lawsuits.* Several individuals have filed lawsuits against counties and the state alleging that access to health care is inadequate in those counties. Interestingly, these counties include Los Angeles and Shasta, which are on either end of the spectrum in terms of the resources the county devotes towards health care.

- **Health Indicators.** While California's health status indicators have improved over time, recently there have been some downward trends. According to information from the Department of Health Services, in 1986 more women went without *any* prenatal care than at any time since 1970. In addition, in 1986 black infant mortality relative to white infant mortality was higher than it had been at any time since 1970. These problems are caused by a variety of factors, which probably include health service needs not met through the safety net. Counties also vary on these indicators, although their performance relative to one another on these indicators does not reveal any consistent patterns.

Future Stresses on County Health Services Funding

Our review of county spending on safety net services suggests that many counties are struggling to keep up with the demand for services. Unfortunately, there are major factors at work—now and in the future—that will further stress the ability of counties to fund health care services. Specifically:

- **County Capital Needs.** Our review indicates that counties have tremendous capital needs for health-related facilities. On a statewide basis, the counties assessed these needs at over \$1 billion in 1985-86. Counties will need funds in the near future to replace existing structures and to build additional facilities.
- **Trauma Systems.** Within the last several years, 13 counties have organized trauma systems in order to get severely injured persons to the appropriate level of care as quickly as possible. Trauma systems are characterized by a sophisticated system of transporting trauma victims to medical care (for example, paramedics may be used instead of less well-trained emergency medical technicians) and a network of "trauma centers." A "trauma center" is better equipped and staffed to respond to life-threatening emergencies than an emergency room. For example, trauma centers must have an entire trauma team, including a surgeon and an anesthesiologist, at the hospital 24 hours each day. A variety of specialists must also be promptly available.

Trauma systems have saved lives, but at high cost to the facilities that provide the services. This is because they are expensive to operate and many of the people who are likely to lack health coverage—young males and minorities—are also at the greatest risk for being injured as a result of a car accident or a violent crime. This high cost has caused some private hospitals to close their trauma centers. This is true in Los Angeles, where the burden on the county has been made worse because private hospitals located in and

adjacent to areas with large numbers of individuals without health coverage have dropped out of the trauma system.

- **AIDS.** AIDS is placing a growing burden on county facilities, both physically—by taking up beds—and financially. This is a population that was not previously receiving services in county hospitals and one that will grow substantially in the future. It is also likely that counties—again, in their role as provider of last resort—will end up bearing a large portion of these costs.

These factors will be offset to an unknown degree by the availability of new funds as a result of the federal Immigration Reform and Control Act (IRCA). Under IRCA, some aliens currently receiving county-funded services will become eligible for Medi-Cal, thereby reducing county costs. In addition, counties will receive a portion of federal legalization impact grant funds to assist them in providing services to legalized aliens. These grants will be available for at least four years. There may be, however, some county cost increases as a result of IRCA (for example, counties may provide additional services to meet increasing demands).

Three other state measures may improve counties' ability to fund health care services by increasing general discretionary revenues. First, Ch 1257/87 authorizes counties with populations under 350,000 to impose an additional half-cent sales tax to support any local programs with voter approval. Second, Ch 1211/87 provides for state funding of county trial courts, thereby potentially freeing up \$350 million to \$450 million in county funds now used to support the courts. Third, Ch 1286/87 provides for stabilization of county matching requirements in four separate health and welfare programs.

Summary of Findings

Our review of various sources of information on safety net spending indicates that:

- Although a growing amount of public funds are being spent on "safety net" services, these expenditures are not keeping up with population and inflation increases. Counties are shouldering an increasing proportion of safety net funding.
- Private hospitals provide a majority of the uncompensated care in the state, but they have raised more than sufficient revenue to pay for this care. County hospitals, however, provide a disproportionately large share of uncompensated care. These costs must be borne by the safety net.
- Counties devote different levels of resources to indigent health care. These levels appear to be based on whether or not a county operates a hospital and on historical expenditure levels.

- Health services expenditures are changing in counties for reasons that are not completely understood. It is likely that reductions are due to county budget constraints and increases are due to cost increases and addressing unmet or increasing service needs.
- In four of the six counties we examined, the proportion of county general purpose revenues earmarked for health care has grown (Chart 4). Counties have limited ability to increase the proportion of funding for health care services due to other demands on county funds.
- Access to health services for indigent persons varies significantly between counties. There appear to be unmet and increasing health services needs in many counties we visited.

Absent major changes in health care delivery systems and the fiscal situation of counties, these findings imply it is likely that (1) the squeeze on county systems will continue and (2) access to health services for persons who lack coverage will not improve. Therefore, the Legislature may want to look at different ways of providing and financing this care.

The Legislature's Options

In order to provide better and more uniform access to health care services in different counties and relieve the pressure on county systems, the state has three basic options:

- *Strengthen existing county systems* by providing additional funding for health services and, possibly, imposing standards and data collection requirements on county services in order to assure more uniform access among counties. This option allows state costs to be easily controlled because counties would provide services within a capped allocation.
- *Establish a funding source for uncompensated care* (or a system for reallocating the costs of uncompensated care among providers). These funds could be allocated to public and private providers based on the level of uncompensated care they provide. This option could encourage more participation by private providers because they would be paid for services provided to individuals without coverage. This, in turn, would reduce pressure on county systems. Revenue pools, which reimburse providers for bad debt and charity care, would be one way to expand private-sector participation in providing services to the uninsured.
- *Extend coverage to persons who do not now have it*. This could be achieved by (1) providing incentives to employers to cover employees (mandating coverage is infeasible due to federal laws), (2) subsidizing purchase of insurance by individuals, (3) providing state coverage similar to Medi-Cal for additional categories of individuals (for example, by reinstating the medically indigent adult program), or (4) establishing a risk pool for uninsurable persons.

Extending insurance coverage to individuals would provide each individual with the resources to seek his or her own health care services. Because of this, it is likely to address some of the problems we have identified by (1) enabling service utilization to be more closely related to need and (2) relieving the pressure on county systems. However, this option is likely to be more costly overall to the health care system than the other two options and may not result in improved access unless the coverage is comprehensive and provides adequate payments to providers.

Determining the costs and designing administrative structures for these options is a major project involving (particularly for the insurance-based options) extensive data analysis. If the Legislature wishes to consider alternatives to our current health safety net, it may want to contract for a study that would spell out the costs of these or other approaches. Several other states have performed studies of this type or have implemented programs using various approaches. Their experience could be used as a basis for performing studies in California. For example:

Washington. Recently, Washington's Legislature established a commission to identify the number and characteristics of persons lacking coverage, the benefit and administrative structure of an insurance plan to meet the needs of this population, and the cost and financing of such a plan. Based on the work of the commission, the Legislature initiated a pilot project for a system that involves:

- A voluntary program of state-funded insurance for persons with family incomes under 200 percent of the poverty level, with copayments on a sliding fee scale.
- An insurance pool for the medically uninsurable.
- An uncompensated care pool for the remainder of the uninsured.
- Financing by (1) a payroll tax on employers who do not contribute specified amounts toward employee health insurance premiums and (2) a tax on health services.

Hawaii. Hawaii mandates its employers to provide coverage to all employees working more than 20 hours per week. As a result, 97 percent of persons under 65 have health coverage. In order to do this, Hawaii had to obtain a waiver of provisions of the federal Employment Retirement Income Security Act. The federal government, however, has indicated that it will not grant more of these waivers.

New Jersey. New Jersey funds public and private providers for uncompensated costs through hospital rate regulation. Through this system, the state sets payment rates for hospital services that apply to all payors and generally take into account hospital bad debt and charity care

costs. The state has also recently initiated an uncompensated care trust fund (funded by a tax on all hospitals). From this fund, the state pays hospitals that provide care to the uninsured.

Where Do We Go From Here?

In our view, whatever approach the Legislature wishes to take, it must first decide the following:

- What should the role of the private sector be in providing (1) additional services to persons without coverage or (2) insurance coverage for employees who do not currently receive coverage as a benefit? How should the state encourage the private sector to assume additional responsibility—through mandates or incentives?
- What level of control should the state exert over county health services programs and expenditures? For example, should the state attempt to ensure statewide consistency in access to safety net services?
- Who should bear the costs of providing safety net services?
- How much is the state willing to pay for safety net services?

State Programs To Help The Homeless

How Can the Legislature Best Allocate Funds for the Homeless?

Summary

- *California's homeless population has been estimated at between 50,000 and 150,000. There is evidence that the population has grown in recent years.*
- *The homeless population is still largely comprised of adult unemployed males; however, there now appear to be larger numbers of women and families. This population also consists of large numbers of veterans, mentally ill persons, and people with drug and alcohol abuse problems.*
- *In recent years, the state has established several programs to supplement local efforts. These programs provide general emergency shelter and targeted relief to specific groups (such as the mentally ill, AFDC families, and veterans).*
- *There are several questions the Legislature should address in order to decide how to best allocate funds to the homeless:*
 - *What is the range of services that the Legislature could provide?*
 - *How should funds be allocated to subgroups within the homeless population?*
 - *How should funds be allocated among emergency, transitional, and "permanent" services?*
 - *Can the Legislature encourage service coordination?*
- *By considering these questions, the Legislature can make better decisions on (1) its 1988-89 budget allocations for the homeless, (2) the future direction of the Grants for Homeless Families program, and (3) the allocation of federal funds for the homeless (McKinney monies).*
- *We recommend that the Health and Welfare Agency report by November 1, 1988 on various options for improving services to the homeless population.*

In the past three years, the Legislature has created several programs to assist the homeless. These actions were at least partly in response to perceptions that the homeless population was growing and that people were going without needed shelter and assistance. In this analysis, we first provide background information on the homeless in California: the size and characteristics of the population, the causes of homelessness, and whether the problem is growing. We then summarize existing state programs for the homeless, which include both targeted and emergency

shelter programs. Finally, we discuss various decisions that the Legislature will need to make regarding the allocation of state funds to the homeless in the coming year.

BACKGROUND

How Many Homeless Are There?

The homeless population—almost by definition—is difficult to quantify, as people are continually moving in and out of housing and emergency shelter. Most estimates of this population are based on surveys of local officials and local shelter providers. For instance, based on statewide surveys, the Department of Housing and Community Development (HCD) estimated that there were 50,000 to 75,000 homeless people in California in 1984. A 1987 report by the Health and Welfare Agency (HWA), however, suggests that this population is now higher. The HWA report, which is based on a survey of 20 county welfare departments, indicates that the total homeless population could be closer to 100,000 (excluding an estimated 46,000 undocumented immigrants who are homeless in the state). Information provided by Los Angeles County and the nine bay area counties would appear to confirm the higher HWA estimates. Surveys in these 10 counties indicate that there are about 80,000 homeless in those jurisdictions alone.

Who Are the Homeless?

Table 20 provides information on the composition of the homeless population in three counties. The data are based on surveys of local shelters in Alameda and San Francisco counties, and a study of the skid row area in Los Angeles County. It is important to note that the populations reflected in these surveys may not be comparable to the *general* homeless population. For example, the two bay area studies are based on surveys of shelters, and people who use such services may be significantly different from those who do not. Furthermore, the Los Angeles study focused on the downtown area, where single men and the mentally ill tend to congregate, but where youth, the elderly, women, and others are probably underrepresented. Nonetheless, the data from the three counties provide some useful information on the characteristics of California's homeless population.

The table shows significant differences between the downtown Los Angeles and San Francisco populations and that of Alameda. Data from the former tend to confirm some common perceptions about the characteristics of the homeless population. Specifically, these populations have:

- An overwhelming proportion of adult, unemployed males.
- A significant number of veterans (about one-third).
- A significant proportion of those with alcohol (almost 30 percent) and drug (10 percent) problems.
- A large percentage of mentally ill persons (21-33 percent).

Table 20
Characteristics of the Homeless Population^a
Three California Counties

Characteristic	<i>Los Angeles County</i>	<i>San Francisco County</i>	<i>Alameda County</i> 1987 Homeless Survey
	<i>Department of Mental Health</i> March 1986	<i>Department of Social Services</i> August 1986	
Sex:			
Male.....	96%	89%	45%
Female.....	4	11	55
Age: ^b			
Below 20.....	4	1	48
21-40.....	61	53	44
Over 40.....	35	46	8
Median age.....	35	38	—
Ethnicity:			
White.....	27%	55%	30%
Black.....	39	29	59
Hispanic.....	25	9	7
Other.....	9	7	4
Education: ^c			
Less than high school completed....	49	20	30
High school completed.....	28	61 ^d	59 ^d
Some post-secondary education.....	23	19	11
Health problems:			
Alcohol abuse.....	27	28	19
Drug abuse.....	10	10	—
Mental illness.....	28-33	21	16
Veteran status:			
No.....	63	64	88
Yes.....	37	36	12
Employment status:			
Employed.....	15	—	—
Unemployed/retired/disabled.....	85	—	—

^a Dashes signify that the data were not included in the survey.

^b Age ranges among the groups are not exact.

^c Of those over age 20.

^d Includes vocational education.

The Alameda County survey, on the other hand, presents a much different picture of the homeless. Of the people receiving shelter services, almost one-half are female and almost one-half are children and teenagers. These figures indicate that the number of *families* which are homeless is high in Alameda County and provide some anecdotal evidence in support of the notion that the problem of homeless families is getting worse. The Alameda survey also indicates that the county homeless population has lower proportions of alcohol (19 percent) and mental health (16 percent) problems.

Data from all three counties indicate that:

- Minorities comprise significant percentages of the population (from 45 percent to 73 percent).
- A high proportion of adults have earned at least a high school diploma (51 percent to 80 percent).

What Do the Data Suggest About the Causes of Homelessness?

There are many factors which are commonly assumed to cause homelessness: poverty, a lack of low-income housing, mental illness, substance abuse, and the break-up of personal relationships. The data presented above tend to confirm the importance of many of these factors, although they do not clearly establish the relative significance of these factors. There is some evidence to suggest that the relative importance of the factors vary for different populations among the homeless. For example, in one study, 57 percent of homeless families reported that eviction or overcrowding had resulted in homelessness. For alcoholics, however, homelessness often results from an inability to pay for housing due to money management problems.

In many cases, there is more than one contributing factor. For example, one national study on the homeless indicates that approximately 30 percent of alcoholic homeless people are also mentally ill.

Has the Problem Gotten Worse?

Another common perception is that the number of homeless in California has increased during this decade. While we have not found any hard data to verify this belief, there is some evidence to suggest that the problem has in fact worsened in recent years. For example, surveys of city officials and shelter operators conducted by the U.S. Conference of Mayors in 1986 and 1987 indicate that the demand for emergency shelter nationwide has increased markedly in the last few years, with Los Angeles and San Francisco reporting increases of more than 50 percent over the two-year period. A 1987 survey of service providers by the National Coalition for the Homeless indicates that the total homeless population in Los Angeles increased by 25 percent between 1986 and 1987, the number of homeless families grew by 40 percent, and that families now comprise 30 percent of the homeless in Los Angeles.

There are indications that changes in some of the major factors that cause homelessness have resulted in an increase in the homeless population.

- ***The Growth in the Poverty Population.*** According to U.S. Bureau of the Census data, the percentage of Californians having incomes below the federal poverty income guidelines increased from 10 percent in 1979 to 14 percent of the state's population in 1985.
- ***Increasing Rent Burdens.*** There are some data that suggest that rental housing costs have grown faster than the incomes of poor

people in recent years. For example, the statewide *median* rent for a one-bedroom apartment increased by 30 percent between 1983 and 1986, while the Aid to Families with Dependent Children (AFDC) grant for a family of three increased by 17 percent and the starting wage for service industry jobs increased by 6.5 percent over the same period. At some point, increasing rent burdens push some people out of their permanent housing.

- **Availability of Low-Cost Housing.** Regional data also suggest that the total supply of housing in major urban areas of the state has not kept pace with population increases. In Los Angeles, for example, the population increased by 5.6 percent between 1983 and 1986, while the supply of housing increased by 3 percent over the same period. In addition, many urban housing markets have lost units which serve the low-end of the market. Redevelopment projects, for instance, have destroyed many single-room occupancy hotels, which provide inexpensive shelter primarily to low-income adult men.
- **Increases In Family Break-Ups As a Result of Family Violence.** Operators of shelters for battered women and youths indicate that the growing public awareness of the alternatives available to victims of family violence lead more women and children to flee from violent homes than in the past. For some of these individuals, however, the resulting disruption in their living arrangements can lead to homelessness.

Although a significant percentage of the homeless population is mentally ill, providers of services to this group indicate that homelessness among the mentally ill has *not increased* substantially in recent years.

THE LEGISLATURE HAS CREATED SEVERAL STATE PROGRAMS TO SERVE THE HOMELESS IN RECENT YEARS

Prior to 1985, there were few state programs targeted specifically at the homeless. The problem of homelessness was generally regarded as a concern for private charities and local governments that supported emergency shelters and food programs. The state's role was confined to the major income maintenance, mental health, and social service programs, which serve the entire eligible population and are not specifically targeted at the homeless.

In recent years, however, not only have local governments increased the level of resources for the homeless, but the Legislature has also increased the state's involvement in programs targeted at the homeless. Table 21 displays the current state programs for the homeless, estimated current-year expenditures for the programs, and the amounts proposed for the programs in the budget. The programs displayed in the table are grouped into two categories—those designed to serve specific groups within the homeless population and those that provide emergency shelter services to the general homeless population.

Table 21
State Programs for the Homeless
1987-88 and 1988-89
(dollars in millions)

	<i>Initial Year of Program</i>	<i>1987-88</i>		<i>1988-89</i>		<i>Purpose of Program</i>
		<i>General Fund</i>	<i>Total Funds</i>	<i>General Fund</i>	<i>Total Funds</i>	
TARGETED PROGRAMS						
<i>Mentally Disabled Homeless</i>						
<i>Department of Mental Health:</i>						
Community support system	1985	\$19.7	\$21.7	\$19.7	\$21.7	Subvenes funds to counties to provide a range of services to homeless mentally disabled (HMD). Type of program and service mix varies by county.
Federal block grant programs	1985	—	0.6	—	0.6	Supports three "innovative" programs to provide case management and outreach to HMD. Programs emphasize self-help and advocacy.
Medi-Cal case management (Ch 1384/87)	1989	—	—	—	—	Requires DMH to establish a case management program which may target the HMD population (contingent on federal government agreeing to provide matching funds).
<i>Youth</i>						
<i>Office of Criminal Justice Planning:</i>						
Homeless youth emergency hotline	1987	0.2	0.2	0.2	0.2	Supports statewide telephone number for homeless youth to receive information and referrals to services.
Homeless youth pilot project	1986	0.9	0.9	—	— ^a	Provides funds to local agencies to provide a variety of services, including outreach, shelter, and counseling to homeless youth in two counties (sunsets 1/1/89).
California Conservation Corps: Program for homeless young adults	1988	—	—	3.8	3.8 ^a	Adds 154 positions to the California Conservation Corps for homeless young adults (budget proposal).
<i>Families</i>						
<i>Department of Social Services:</i>						
Deposit grants to AFDC-eligibles	1988	7.0	16.1	17.4	38.6	Provides payments to AFDC-eligible families for emergency shelter for up to 30 days and for rental and security deposits in permanent housing.

Office of Criminal Justice Planning: Domestic violence shelter program	1985	1.5	3.0	1.5	3.0	Provides emergency shelter to victims of domestic vio- lence.
<i>Substance Abusers</i>						
Department of Alcohol and Drug Programs (DADP): Federal drug abuse funds	—	N/A	N/A	N/A	N/A	The DADP requires local agencies to target federal drug and alcohol funds to homeless.
<i>Veterans</i>						
Department of Veterans Affairs: Homeless veterans pilot project	1986	0.2	0.2	—	—	Provides information, coun- seling, and referral to homeless veterans in three counties (sunsets 1/1/88).
<i>Aged</i>						
Department of Social Services: Adult shelter demonstra- tion project	1986	0.3	0.3	0.1	0.1	Provides emergency shelter for elderly victims of adult abuse.
EMERGENCY SHELTER PROGRAMS						
Housing and Community Development: Emergency shelter	1985	—	4.6	—	4.6	Provides grants to community-based programs that provide emergency shelter, hotel/motel vouch- ers, and emergency rental payments.
Rental deposit demonstra- tion project	1987	—	—	0.2	0.2	Provides grants to establish programs to guarantee housing deposits made by homeless persons.
Department of Economic Opportunity: Community services block grant program emergency shelter and services	1981	—	2.4	—	2.4	Subvenes funds to community-based programs to provide emergency shel- ter and services.
Department of Health Services: Emergency shelters for homeless people with AIDS	1988	—	—	0.7	0.7	Establishes two emergency shelters for people with AIDS (budget proposal).
Totals.....		\$29.8	\$50.0	\$43.4	\$75.7	

* The 1988-89 budget proposes \$968,000 (General fund) for the California Conservation Corps to "incorporate the activities" of the Homeless Youth Pilot Project into its program.

As Table 21 shows, the budget proposes \$76 million (\$43 million General Fund and \$33 million federal and other funds) for programs for the homeless in 1988-89. More than half of the total funding is for two

programs, one that serves the mentally ill and the other a new program for homeless families. The following section discusses programs targeted at specific homeless groups.

Programs Targeted At Specific Groups of the Homeless

Homeless Mentally Ill. The table shows that the Department of Mental Health (DMH) administers the state's largest General Fund program for the homeless: the Community Support System program for the homeless mentally disabled. This is an ongoing program for which the budget proposes \$21.7 million (\$19.7 million General Fund) in 1988-89. Through this program, county mental health departments provide case management, money management, and social services to the homeless mentally ill.

Runaway and Homeless Youth. In addition to children who live with their homeless families, several studies report that there are significant numbers of homeless youth who have run away or have been abandoned. Studies indicate that these youth, many in their early teens, have serious emotional, developmental, and health problems. Two state programs target homeless youth and one new program is proposed in the budget for homeless young adults:

- The Office of Criminal Justice Planning (OCJP) operates an emergency hotline to help homeless youth and their families contact each other and to provide referrals to local services and shelters.
- The Homeless Youth Pilot Project, which sunsets on January 1, 1989, provides a variety of services to homeless youth in Los Angeles and San Francisco. The California Conservation Corps (CCC) budget includes funds for this project, as noted below.
- A new project is proposed in the budget to enroll homeless young adults between the ages of 18 and 23 in the CCC. The budget states that the CCC will incorporate the activities of the Homeless Youth Pilot Project into what the budget terms the "homeless youth component" of the CCC proposal. (We discuss these programs as part of our *Analysis of the 1988-89 Budget Bill*, Item 3340.)

Homeless Families. While there have been no statewide surveys to determine the number of homeless families in the state, the Department of Social Services estimates that 30,500 families will take advantage of a new program for homeless AFDC-eligible families. This program, which would be the state's largest homeless program in 1988-89, was established by Ch 1353/87 to give homeless AFDC-eligible families the wherewithal to find and acquire permanent housing accommodations. The budget proposes \$38.6 million (\$17.4 million General Fund) for this program in the budget year.

Homeless Substance Abusers. While the state does not directly administer any programs specifically targeted to serve homeless substance abusers, the Department of Alcohol and Drug Programs (DADP) has identified homelessness as one of the three priorities for the expenditure of \$17.3 million in federal alcohol, drug abuse treatment, and rehabilitation grant funds available in 1988-89.

Homeless Veterans. The state's only program targeted to serve homeless veterans was the Homeless Veterans Pilot Project. This pilot project provided information, counseling, and referral to veterans in three counties. The project's funding expired on January 1, 1988. The budget does not include funds for this project.

Aged Homeless. The one state program for this population is a pilot project to provide shelter for elderly victims of family violence. The program is scheduled to sunset on July 1, 1988. The budget proposes \$140,000 for 1988-89 to continue the project until December 31, 1988.

Programs Providing Emergency Shelter for the Homeless

Emergency shelters generally provide homeless persons a place to sleep for one night at a time and one or two meals. Some shelters also provide other services, such as counseling and referral. As most shelters close during daylight hours, individuals must give up their beds each morning. Currently, there are about 17,000 emergency shelter beds in the state, all of which are operated by private, nonprofit organizations, religious groups, or by local governments.

In recent years, the state has provided several millions of dollars in support to local shelters, primarily through two programs:

- The Emergency Shelter program (ESP), administered by the HCD, has provided \$4.6 million annually in recent years to local entities to build and operate shelters. The HCD estimates that approximately 6,000 persons were sheltered each night in 1986-87 as a result of its grant programs.
- The Department of Economic Opportunity (DEO) estimates that local agencies use a portion (estimated at \$2.4 million) of the federal Community Services Block Grant (CSBG) funds that they received from the DEO to provide supportive services to the homeless and to pay for a portion of the costs of approximately 1,000 shelter beds.

The 1988-89 budget also includes funds for a demonstration project to provide housing deposit guarantees to homeless individuals and a new shelter program for homeless AIDS victims. (We discuss this latter program as part of our *Analysis of the 1988-89 Budget Bill*, Item 4260.)

HOW SHOULD THE LEGISLATURE ALLOCATE FUNDS FOR THE HOMELESS?

As described above, the Legislature is currently spending about \$76 million in General Fund and other monies on programs targeted specifically to the homeless. The Legislature will have to decide not only how to allocate those funds but also how to spend approximately \$12 million in new federal monies ("McKinney" funds).

Before discussing these specific issues, however, we identify some key questions that the Legislature should address in devising its overall strategy of providing assistance to the homeless.

- *What Homeless Services Could the Legislature Provide?* As noted above, we do not have reliable information on the characteristics of the homeless population or the statewide availability of services to the homeless. Our review of state programs and discussions with local service providers, however, indicate several types of services for the homeless which could be provided: (1) emergency shelter beds—HCD estimates that approximately 17,000 beds are available for an estimated homeless population exceeding 75,000 persons and relatively few beds are available to intact families or to homeless youth, (2) daytime multi-service centers that provide job and home-finding assistance to the homeless (most emergency shelters are closed during the day), (3) programs for the homeless mentally ill who also have substance abuse problems, and (4) money management for persons unable to adequately administer their incomes.
- *How Should Funds Be Allocated to Subgroups Within the Homeless?* Of the total monies proposed for spending on the homeless in 1988-89, 80 percent is targeted to just two groups: the mentally ill and AFDC families. Given the range of potential services listed above, the Legislature may want to consider reallocating the "pot" of money proposed for homeless to different programs. In addition, it is unclear whether the administration's homeless proposals are targeted at the most needy groups. For example, the budget proposes to spend \$2.8 million on a new program in 1988-89 for the CCC to add 154 homeless young adults (ages 18-23) to its ranks. This age group, however, at least has access to some homeless assistance (such as emergency shelter), whereas existing information indicates that there may be far more serious problems with homeless youth *under* the age of 18 (for example, these youth generally cannot use shelter services). The budget further indicates that the CCC program will incorporate the activities of the Homeless Youth Pilot Project, although that project serves only youth *under* the age of 18.
- *How Should Funds Be Allocated Among Emergency, Transitional, and "Permanent" Services?* Efforts to assist the homeless generally can be categorized as emergency, transitional, or "permanent"

services. Emergency programs, such as homeless shelters, generally provide up to one month of shelter and limited support services. Transitional programs provide temporary housing for up to two years and supportive services that prepare homeless people to move into permanent housing. Finally, services which help keep people in permanent housing include short-term solutions, like emergency loans or grants to prevent eviction of tenants, and longer-term actions, such as programs to increase the supply of low-cost housing. If the Legislature intends its programs to enable homeless people to move from the streets into permanent housing, some homeless people would need all three types of programs.

- *How Can the Legislature Encourage Service Coordination?* Given the diversity of the homeless population and of the programs designed to serve the homeless, it is important to ensure that service duplication is minimized and that the programs serve homeless people as effectively as possible. Our review indicates that coordination of services can be achieved in two ways. First, the Legislature could require program coordination among state departments. For example, an effective "permanent" program for the homeless mentally ill might include both housing and supportive services, thereby requiring coordination among HCD, DSS, and DMH. Second, the Legislature can encourage coordination at the *local* level. One such method is specific direction in statutes which create programs. For example, the Legislature recognized the need for local coordination when it enacted Ch 1484/86, which established a pilot project to coordinate and centralize the delivery of services to the homeless in one county. Another possibility for encouraging local coordination would be to provide block grants for homeless services to a single local entity in each county, which would then decide how to allocate the funds. The disadvantage of this approach is that the Legislature could not ensure that each county provides comparable services.

Additional Information That Will Be Available

For some of the homeless programs established in recent years, the Legislature required specific studies and evaluations. Three of these reports will be available this spring and should (1) serve to answer some of the questions posed above and (2) provide information that the Legislature can use to make its decisions on the 1988-89 budget.

Study of Programs for the Homeless Mentally Disabled. The 1986 Budget Act required DMH to contract for an independent performance review of county programs supported by the community support system funds for the homeless mentally disabled. The 1988-89 budget proposes \$21.7 million (\$19.7 million General Fund) for this program, which is the state's largest General Fund homeless program. The program review is

due to the Legislature on February 1, 1988 and should provide a good base of information in the budget year for the Legislature in setting its priorities for use of community support services funds and other monies for homeless persons who are mentally ill. The major objectives of the review are to assess the adequacy of funding for these programs, the allocation of funds among counties, the appropriateness of service mixes and subpopulation targeting, and to identify potential improvements in the effectiveness of the services provided.

The report will provide a basis for setting priorities for the use of funds for homeless people other than the mentally ill, however, because it will review characteristics and services for the *total* homeless population in selected counties.

Pilot Project Results. The Legislature also has required two pilot project evaluations—one of the Homeless Veterans Pilot Project (which sunset January 1, 1988), and one of the Homeless Youth Pilot Project (which sunsets January 1, 1989). The Department of Veterans Affairs indicates that its evaluation of the Homeless Veterans Pilot Project will be available prior to budget hearings. With regard to the Homeless Youth Pilot Project, the OCJP has already issued an interim report on the activities of the pilot in 1986-87. That report indicates that it provided outreach services to 11,400 homeless youth in a nine-month period. The pilot further provided shelter for 1,523 homeless youth and long-term placement for 470 of those sheltered, or 31 percent. A final evaluation of this pilot is due in December 1989. The administration does not propose to fund the Homeless Veterans Pilot Project in the budget, but it does propose funding to incorporate the activities of the Homeless Youth Pilot Project into the CCC, as noted above.

Hopefully, these three evaluations will provide some guidance to the Legislature as it makes its budget decisions. Two of the most important such decisions involve the recently established program for AFDC-eligible homeless families and the allocation of new federal monies for the homeless. We turn to these programs now.

Implementation of Ch 1353/87—Grants for Homeless Families

We recommend that prior to budget hearings, the DSS report to the fiscal committees its plans to evaluate the effectiveness of Ch 1353/87 in reducing homelessness among AFDC-eligible families.

Chapter 1353, Statutes of 1987 (AB 1733), established a special payment for AFDC-eligible homeless families. Chapter 1353 was enacted in response to both legislative concern about homeless families and a lawsuit alleging that state programs to shelter homeless children caused the separation of children from their families. As a result of the lawsuit, the court issued a preliminary injunction requiring the state to stop shelter-

ing homeless children in a manner that separated them from their families. Chapter 1353 provides for homeless children to be sheltered with their families. The measure was implemented in February 1988, following federal approval of the necessary changes in the state's AFDC plan. The federal government took the unusual step of approving the plan changes for only one year, apparently due to its concern about the cost-effectiveness of the new program. (The federal share of the program's costs is 50 percent.)

The measure provides for (1) payments to cover temporary housing needs of \$30 per day (up to 28 days annually) and (2) up to 80 percent of a family's "maximum aid payment" (in 1987-88, 80 percent of the payment is \$506) for a security and utility deposit and a month's rent in permanent housing. The budget proposes \$39 million (\$17 million General Fund) for these grants to homeless families in 1988-89, making it the state's largest homeless program.

Chapter 1353 has the potential to reduce homelessness among AFDC-eligible families by providing them with the funds they need to make the transition from homelessness to permanent housing. Our analysis indicates, however, that the measure's actual impact on these homeless families will depend on the following three factors: (1) the extent to which families actually use the money provided to secure permanent housing (Chapter 1353 does not require counties to ensure that recipients actually use the funds to secure permanent housing), (2) the money management skills of the families that receive the grants, and (3) the availability of low-cost housing for these families. Some service providers indicate that these families will need help with money management in order to take full advantage of the opportunities presented by the homeless grants offered through Chapter 1353. We do not know the extent to which the problems and difficulties in finding affordable housing will keep families from using these grants to make the transition from homelessness to permanent housing. These concerns, however, warrant attention.

We believe an evaluation of the Chapter 1353 program would provide the Legislature with information on the characteristics of the population of homeless AFDC-eligible families, the relative difficulty that these families face in finding low-cost housing in different parts of the state and the impact the grants have on helping these families to establish themselves in permanent housing. Such an evaluation would also provide information that the state could use to secure permanent federal approval of the program. It is our understanding that DSS could evaluate the effectiveness of the Chapter 1353 program using data that can be collected on the state computer system that counties use to track all AFDC and food stamps recipients. Preliminary discussions with the

department indicate that this could be achieved relatively easily. We therefore recommend that prior to budget hearings, the DSS provide the fiscal committees with a plan to evaluate the Chapter 1353 program and its effectiveness in reducing homelessness among AFDC-eligible families.

How Should the State Use \$12 Million in Unbudgeted Federal Funds Earmarked For the Homeless?

We recommend that prior to budget hearings, the Department of Finance submit a plan for spending \$12 million in federal McKinney Act funds.

The Stewart B. McKinney Homeless Assistance Act of 1987 will provide about \$56 million in federal funds to California in 1987-88 and 1988-89, with most of the funds allocated to local governments. Table 22 summarizes how these funds will be distributed to various entities within the state. It indicates that (1) \$26 million has already been distributed to local and private agencies to support emergency shelters and food banks and to HCD and DEO for allocation to local agencies for emergency shelter and services programs; (2) a total of \$18 million will be awarded in the coming year to local agencies for health services, outreach, nonresidential treatment for substance abusers, mental health services, and emergency food and shelter; and (3) approximately \$12 million will be available to the state for allocation by the Legislature in 1988-89.

Table 22
Federal McKinney Act Allocations to California
FFY 1987 and FFY 1988
(dollars in millions)

<i>Funds Already Allocated</i>	<i>Entity Likely to Receive Grant</i>	<i>Estimated Federal Fund Availability</i>	<i>Competitive (C) or Formula (F) Grants</i>	<i>Local Match Required</i>	<i>Purpose for Funds</i>
Primary health services and substance abuse grants	Local agencies	\$9.7	C	33%	Health services, outreach, nonresidential treatment for substance abusers
Emergency shelter grants	HCD	1.4	F	50%	Emergency shelter
Community services block grant	DEO	3.4	F	None	Expanded comprehensive services
Emergency shelter grants	Local agencies	3.8	F	50%	Emergency shelter
Emergency food and shelter	Local FEMA ^a boards	1.3	F	None	Support for local food banks and shelters
Transitional housing demonstration	Local agencies	4.5	C	50%	Acquisition and rehabilitation of structures for transitional housing and the provision of supportive services

Supplemental assistance to meet special needs of disabled, elderly, families	Local agencies	1.5	C	None	Special needs of families with children, elderly, disabled
Subtotal, Funds Already Allocated		<u>(\$25.6)</u>			
<i>Funds Available to Local Agencies For 1988-89^b</i>					
Alcohol and drug treatment demonstration grants	Local agencies	\$0.9	C	None	Substance abuse treatment demonstration projects
Mental health demonstration grants	Local agencies	0.9	C	None	Mental health demonstration projects
Emergency food and shelter	Local FEMA boards	12.9	F	None	Support for local food banks and shelters
Rehabilitation of single-room occupancy (SRO) hotels	Local grantees	3.5	C	None	Rehabilitation of SRO hotels
Subtotal, Available to Local Agencies		<u>(\$18.2)</u>			
<i>Funding Available to the State for 1988-89^b</i>					
Community services block grant	DEO	\$2.0	F	None	Expanded comprehensive services
Mental health block grant	DMH	6.1	F	33%	Outreach, mental health services, case management
Youth and adult education	SDE	1.8	F	None	Outreach and basic skills for adults; data collection and plan for education of homeless youth
Job training	EDD/local agencies	0.8	C	10%-50%	Basic skills, job search, counseling, and preparation
Job training for veterans	Unknown	0.2	Unknown	10%-50%	Reintegration of homeless veterans into labor force
Permanent housing for disabled	HCD	1.5	C	50%	Acquisition and rehabilitation of permanent housing for disabled; provision of supportive services
Subtotal, Available to the State 1988-89		<u>(\$12.4)</u>			
Total		<u>\$56.2</u>			

^a Federal Emergency Management Assistance.

^b Estimates assume that California will get 10 percent of total national grant.

With regard to these state monies, we have recommended in our *Analysis of the 1988-89 Budget Bill* that the Legislature augment the budget items for the affected state departments by the amounts reflected in Table 3. [Please see Items 2240 (Department of Housing and Community Development), 4440 (Department of Mental Health), 5100 (Employment Development Department), 6110 (State Department of Education), and 8915 (Department of Economic Opportunity).] We do not recommend Budget Bill language in those items specifying how the funds should be used by each department because we believe that the Legislature should make its decision on these monies based on its overall strategy regarding programs for the homeless.

The Legislature can use these McKinney Act funds for three purposes: (1) expand existing programs, (2) establish new programs to serve homeless people, and (3) develop better information on homeless people and the programs that serve them by conducting evaluations of the programs funded both by state pass-throughs and directly by the federal government.

With regard to this third purpose, the state and local programs funded by McKinney Act monies will provide diverse services to a broad spectrum of the homeless population, and therefore provide a unique opportunity for the state to (1) evaluate the effectiveness of specific programs—such as transitional housing programs and programs providing substance abuse and health care services to homeless and (2) identify gaps in services that prevent the homeless from becoming permanently housed.

The federal government requires evaluations of several programs established by the McKinney Act. It is our understanding that the state could work with the federal government to ensure that (1) these evaluations provide information that the Legislature will need to adequately evaluate the programs and (2) the state has timely access to the data collected. These kinds of evaluations will be particularly important to the extent that local governments seek state funding for these programs when the McKinney Act funding is no longer available.

In order to provide the Legislature with the information that it will need to budget these McKinney funds, we recommend that prior to budget hearings, the Department of Finance (DOF) provide the fiscal committees with a plan for their use. The plan should, at a minimum (1) specify how the affected state departments will use their allocations, including plans to coordinate expenditure of these funds with other programs for the homeless; (2) identify any funds for which the administration does not propose to apply; (3) identify the source of state or local matching funds (in our analysis of the budget, we discuss the potential source of matching funds for the monies available to DMH in

Item 4440); and (4) identify a plan to evaluate programs funded with McKinney Act funds.

A Plan to Address Other Homeless Issues

We recommend that the Legislature adopt supplemental report language requiring the HWA to submit a report by November 1, 1988 that provides options for legislative and regulatory changes to address several issues identified in an April 1987 HWA survey of programs serving homeless people.

The HWA published a brief report in April 1987 which summarized findings from a survey of HWA departments that serve the homeless. The survey results indicate that many state programs serve the homeless, but that in some areas service needs may not be addressed by existing programs and in others, service delivery could be improved. The following are some of the report's key findings.

- **Cost of Providing Emergency Shelter.** Several departments report that the insufficiency of emergency shelter is one major barrier to serving the homeless. Current data, however, are inadequate for determining the state's cost to provide additional shelter beds and operating funds for those beds.
- **Services to the Rural Homeless.** Based on surveys of 20 county departments of social services, the HWA estimated that there are over 46,000 undocumented migrants who are homeless. We do not know what portion of this group lives in rural areas, but service providers indicate that there are significant numbers of homeless persons in rural areas. Apparently, services are less available in rural areas because private agencies tend to target their resources on the major urban areas, where the problem of homelessness has been more visible.
- **Employers' Inability to Contact Homeless Job-Seekers.** The HWA surveyed EDD field offices, which reported that the single major barrier to securing jobs for the homeless is the absence of a local address or phone.
- **Program for Public Inebriates.** Most surveys indicate that approximately 25 to 30 percent of homeless persons are alcoholics. The DADP has established homelessness as one priority for expenditure of a \$17.3 million (1988-89) federal Alcohol, Drug Abuse Treatment, and Rehabilitation grant, and plans to monitor local programs to identify those that provide services to the homeless. The HWA report indicates that the DADP is investigating the possibility of a demonstration project targeting homeless public inebriates. The DADP administered a similar pilot program in 1978 and 1979, and despite the findings of its 1980 evaluation that the program had some benefits, it was not continued.

- ***Income Maintenance Program Issues.*** County welfare departments that responded to the survey indicated that major barriers to providing services to the homeless include homeless peoples' lack of proper documentation to establish eligibility for services. The DSS is currently examining the extent to which Supplemental Security Income/State Supplementary Program (SSI/SSP) payments are denied or delayed for the homeless mentally ill because they are unable to provide proper documentation to establish eligibility for services. To the extent that the department confirms this finding, it indicates that it will assess various options to correct the problem.

To address these problems, we recommend that the Legislature adopt supplemental report language requiring the HWA to submit, by November 1, 1988, a report that provides information and options for legislative and regulatory changes to address the issues identified in the April 1987 HWA survey.

The following supplemental report language is consistent with this recommendation:

The Health and Welfare Agency shall submit a report to the fiscal committees and the Joint Legislative Budget Committee by November 1, 1988 that identifies (1) the range of capital and operating costs to establish additional shelter beds in rural and urban areas, (2) options for providing services to homeless persons in rural areas, (3) options for improving employers' ability to contact homeless persons, (4) options for improving services to homeless substance abusers, and (5) options for improving the capability of homeless persons to establish eligibility for income maintenance programs.

The Allocation Of Home-To-School Transportation Funds

What Options Are Available to the Legislature for Reforming the Home-to-School Transportation Funding Formula?

Summary

- *The state spends over \$300 million annually to reimburse local education agencies (LEAs) for their home-to-school and special education transportation costs.*
- *The current formula for funding home-to-school transportation does not relate reimbursement to actual cost, results in an inequitable allocation of monies, and does not provide reimbursement to new school agencies.*
- *A funding formula for home-to-school transportation should (1) be sensitive to basic cost factors, (2) be sensitive to workload changes, (3) promote efficient transportation programs, (4) be easy to administer.*
- *Our review of four alternative funding mechanisms indicates that they are all superior to the current funding formula, and that of the alternatives, the bus-based and fixed percentage reimbursement formulas rank highest.*
- *We recommend adoption of supplemental report language directing the State Department of Education (SDE) to develop a specific proposal for implementing either the bus-based or the fixed percentage reimbursement formulas. Any new funding formula should also (1) provide for a phase-in period to allow LEAs time to adjust to new funding levels, and (2) take into account other sources of state funding currently available for transportation. We further recommend that, after review of the SDE's report, the Legislature enact legislation to replace the current formula with one of the two alternatives.*

The home-to-school transportation program provides state reimbursement for a portion of the approved transportation costs of local school districts and county offices of education. The program also funds transportation to and from related student services required by the individualized education programs of special education pupils.

In 1987-88, the Budget Act appropriated \$290 million from the General Fund for home-to-school and special education transportation aid. The Governor's Budget proposes to continue this funding level in 1988-89. The state also provides two other types of transportation-related assistance. First, it appropriates funds (\$20 million in the current year) for the small

school district transportation aid revenue limit adjustment. This adjustment, which is available to 552 school districts, is designed to compensate small districts that have high transportation costs in relation to their total operating budgets. Second, the state also provides funds to reimburse school districts for transportation costs related to school desegregation.

Our review of the home-to-school transportation program indicates several problems with the way funds are currently allocated. In this analysis, we: (1) examine the specific problems with the current reimbursement process; (2) identify alternative funding mechanisms; and (3) evaluate those alternatives against four criteria. Based on our analysis, we recommend that the Legislature adopt a new method of allocating existing state school transportation funds.

Background

Under current law, a local education agency's (LEA) home-to-school transportation allowance is determined primarily on the basis of its prior-year allowance. (An LEA is a county office of education, school district, or joint powers authority.) In fact, the allowances received by the overwhelming majority of LEAs are equal to their prior-year allowances. Allowances change only if (1) a cost-of-living adjustment (COLA) is provided in the Budget Act (resulting in an increase), or (2) an LEA's actual costs drop below 95 percent of its prior year allowance (resulting in a decrease). There are no provisions in current law to increase the allowances of districts that are experiencing cost increases.

Problems with the Current Formula

Our analysis indicates that there are three major problems associated with the current reimbursement formula.

The Formula Does Not Relate Reimbursement to Actual Cost. Since 1984-85, allowances for home-to-school and special education transportation have been based primarily on the prior-year allowance of each LEA. Meanwhile, workload changes brought about by either (1) enrollment growth or (2) additional special education transportation requirements have led to higher costs in many LEAs. The formula, however, does not recognize workload-related cost increases. As a result, the relationship between an LEA's actual cost and its state allowance is becoming increasingly remote. The formula, therefore, is no longer an effective vehicle for reimbursing districts for specific program costs that the Legislature has determined ought to be state-funded.

The Formula Results in an Inequitable Distribution of State Funds. The problem described above is exacerbated by the fact that the size of workload-related cost increases varies widely from agency to agency. Accordingly, the percentage of costs that is currently reimbursed by the state also varies widely. This has occurred because, as costs increase and

reimbursement levels remain constant, the percentage of those costs that are reimbursed decreases. Those districts that have experienced the highest cost increases, therefore, are reimbursed for the lowest percentage of total costs. Currently, a small number of districts are *fully* reimbursed for their transportation costs, while other districts are reimbursed for only about one-third of their costs. The average reimbursement is about 60 percent.

The Formula Provides No Mechanism for New LEAs to Receive Reimbursement. Because an LEA's reimbursement is based on its prior-year allowance, it cannot qualify for reimbursement unless it operated either a home-to-school or special education transportation program in prior years. An LEA with a newly established transportation program, therefore, does not qualify for any reimbursement simply because it did not operate and receive reimbursement for a program in prior years. We believe, however, that only a small number of districts are experiencing this problem.

Alternative Solutions

There are several other ways the Legislature could allocate transportation funds to LEAs. Below, we describe four such alternatives, including one suggested by the private firm of Deloitte, Haskins and Sells (DHS) in a spring 1987 report to the Legislature.

Miles-Based Reimbursement. The DHS study recommends several reimbursement formulas that are based on the number of miles traveled. DHS's basic formula would allocate to each LEA an amount equal to the number of approved miles traveled multiplied by a per mile rate to be computed by the state. The alternative formulas recommended by DHS would modify the basic miles-based formula by including adjustments for district type (elementary, high school, or unified) and for "linear density," which is defined as the number of miles traveled divided by the number of pupils transported one way. Simulations of the distribution of transportation aid through each recommended formula, however, show that there is virtually no difference between the basic formula and ones adjusted for these factors.

Bus-Based Reimbursement. In our *Analysis of the 1986-87 Budget Bill*, we described a reimbursement formula that is based on the number of buses an LEA operates. Under this formula, each LEA would receive a specified amount per bus in recognition of such bus-related costs as drivers' wages, bus storage, maintenance, fuel, and insurance. This amount would be adjusted by a "utilization factor" in order to reflect the extent to which buses are used and to encourage their maximum utilization. The utilization factor is calculated by dividing the number of pupils transported each day by the capacity of the bus.

A factor of less than one would indicate that the bus is ordinarily operated with empty seats, while a factor of more than one would indicate that the bus is used for double duty (that is, it makes more than one round trip per day). If state reimbursement were higher for buses that had higher utilization factors, then LEAs would be encouraged to get the maximum use of each available bus. For example, small districts that may not have enough students to fill their buses would be encouraged by the formula to cooperate with neighboring districts to share resources so as to maximize existing bus usage. The savings from increased efficiency could be shared by both the LEAs and the state.

Fixed Percentage Reimbursement. A third alternative would be simply to reimburse LEAs for a fixed percentage of their approved transportation costs. As mentioned, current state aid covers an *average* of 60 percent of costs. This percentage could be maintained and applied to all LEAs, or changed by the Legislature.

Revenue Limit Roll-In. This alternative would eliminate transportation assistance as a categorical aid program by rolling it into school revenue limits. Transportation aid would thereby become subject to the annual statutory COLA for revenue limits as well as to funding adjustments due to changes in average daily attendance. If the Legislature were to adopt this option, it would also have to decide whether the amount to roll into each LEA's revenue limit would be the agency's current transportation aid or an adjusted amount that more closely corresponded to the LEA's approved costs. The adjusted amount would not necessarily require additional funding—it could represent simply a reallocation of the existing funding level.

Evaluation of the Alternatives

Each of the alternatives described above has its advantages and disadvantages. In determining which alternative to adopt, the Legislature must clarify what it wants from a formula and then determine which alternative best provides the desired elements. In this section we describe some criteria that the Legislature could use for such an evaluation and then discuss how well each of the alternatives discussed above—and current law—meet these criteria.

Criterion 1: Does the Formula Accurately Reimburse Basic Transportation Costs of an Efficiently Run Program? The formula should take into account the basic cost factors associated with the operation of the transportation program. These factors should include the cost of bus depreciation as well as the cost of bus maintenance, operation and route planning. The factors should *not* include: (1) self-imposed costs, such as

costs associated with providing a level of service (like door-to-door transportation) that exceed basic requirements; or (2) higher-than-average operating and capital costs.

Analysis. Our review indicates that both the miles-based and bus-based formulas do a reasonably good job of reflecting basic cost factors. First, they are good proxies for workload. Specifically, the number of miles traveled and the number of buses operated each explain about 95 percent of the variation of total transportation costs. Second, the reimbursement rates per mile or per bus can be set at levels that reflect efficiently run programs. Because a formula that is bus-based can most easily contain a bus depreciation factor, we rank it somewhat higher than a miles-based formula on this criterion.

Fixed percentage reimbursement, by definition, also would reflect basic costs. The formula does not, however, distinguish between high- and low-cost programs. Accordingly, we rate this alternative lower on this criterion.

We rate the revenue limit roll-in alternative and the current funding mechanism lowest on this criterion, because these methods make little or no attempt to relate state aid to specific cost factors.

Criterion 2: Is the Formula Sensitive to Cost Changes? According to this criterion, the allocation formula should take into account expenses associated with legitimate cost changes that are beyond a district's ability to control.

Analysis. Reimbursing LEAs for a fixed percentage of approved costs would automatically recognize cost changes that are due to either (1) workload changes (such as an increased number of miles driven) or (2) the changing cost of providing the same level of service (such as changes due to fuel price increases). Accordingly, we rate this alternative highest on this criterion.

A miles-based or bus-based formula would be sensitive to workload-related cost changes to the extent that such changes are reflected in either (1) the number of miles driven, (2) the utilization of buses, or (3) the number of buses operated. Any of these changes would result in a change in an LEA's reimbursement under either a miles-based or bus-based funding formula. These formulas, however, do not automatically account for price changes in the cost factors themselves—specifically, the cost per mile or per bus of operating an efficient system. Accordingly, we rate these formulas lower than the percentage reimbursement formula on this criterion.

Under the revenue limit roll-in method, annual funding would change in accordance with average daily attendance (ADA) without respect to actual workload or cost-factor price changes. The current funding

mechanism does not account for workload changes and only roughly adjusts for cost-factor changes (to the extent a COLA is granted). Accordingly, we rate these alternatives lowest on the cost-sensitive criterion.

Criterion 3: Does the Formula Promote Efficiency? The formula should encourage local education agencies to employ the least-cost method for providing basic transportation services.

Analysis. Three of the alternative formulas rank high on this criterion. The revenue limit roll-in would promote efficiency because any savings realized would not result in a reduction of district funding. Savings from cost reductions would accrue entirely to the LEA and could be reallocated to other local purposes.

The bus-based formula, through the utilization-factor adjustment, would also promote efficiency. This alternative is preferable from the state's perspective, moreover, because the benefits of any cost reductions resulting from more efficient operations would be shared between the state and the LEA. On the other hand, if costs increase, a bus-based formula would result in increased state funding, while the revenue limit roll-in would not.

Finally, the current funding formula also promotes efficiency. This is because most LEAs tend to bear 100 percent of workload and cost-factor increases. In addition, because most LEAs are reimbursed for only a part of their total cost, they would benefit from 100 percent of any cost reductions.

How well the fixed percentage alternative meets this criterion would depend on the reimbursement rate selected by the Legislature. If, for example, the local share were set too low, agencies would have little incentive to economize. Consequently, we rank this alternative somewhat lower.

Our review indicates that the miles-based formula is the least likely to encourage efficiency. If LEAs are reimbursed on the basis of the number of miles traveled, then they would have an incentive to drive more miles, which—other things being equal—would be less efficient. This incentive would exist even if LEAs are reimbursed for only a percentage of their actual average cost per mile, as long as the amount of reimbursement per mile is greater than the LEA's actual cost of each additional mile traveled.

Criterion 4: Is the Formula Administratively Efficient? The formula should minimize the amount of time and expense needed to administer it. The formula should not impose unnecessary administrative burdens on the State Department of Education, the Legislature, or local education agencies.

Analysis. The revenue limit roll-in method ranks the highest on this criterion because it would require neither a separate calculation of each LEA's allowance nor even a separate apportionment of funds. Fixed percentage reimbursement and the current funding mechanism also rate high—though not as high as the revenue limit roll-in—because allocations are fairly easily computed.

The miles-based and bus-based formulas are rated lower on this criterion because they would impose more extensive record-keeping and date reporting requirements on LEAs. Our review indicates that the bus-based formula—because of the bus utilization factor—would be the most complex alternative to use.

Comparison of the Alternatives Indicates a New Formula Is Needed

We recommend the adoption of supplemental report language directing the State Department of Education to develop a specific proposal for implementing either a bus-based or fixed percentage reimbursement formula. Any new formula should also: (1) provide for a phase-in period to allow LEAs time to adjust to new funding levels and (2) take into account other sources of state funding currently available for transportation. We further recommend that, after review of the department's report, the Legislature enact legislation to replace the current funding method with one of the two alternatives.

Chart 39 summarizes our assessment of how current law and the four alternative formulas rank according to the four criteria. We have rated each formula on a scale that ranges from a low of 1 (does not meet the criterion) to a high of 3 (best meets the criterion). These ratings are shown in parentheses in the chart.

In evaluating the alternative options, it is important not only to rate them according to the desired criteria, but also to determine how much weight—or importance—to assign to each criterion. In this way, a score on the three-point scale will be more or less important in accordance with the importance attributed to the criterion. As Chart 1 shows, we assigned weights to each criterion and then multiplied each formula's rating on the three-point scale by that weight, in order to produce a weighted score. Based on our assessment, we give greater weight to the first three criteria and much less weight to the administrative efficiency criterion. The weighted scores are then added together and the sum is displayed as a composite score in the far right column of the chart.

The chart shows that none of the alternatives outranks any of the others on every criterion—each has its strengths and weaknesses. All four alternatives, however, rank higher than current law. The bus-based and fixed percentage formulas rate the highest, with scores of 250 and 230, respectively. While different weightings of the criteria could produce

different results, our review suggests that these two formulas are superior to the others.

Chart 39

**Home-to-School Transportation Program
Legislative Analyst's Rating of Alternative Funding Formulas
By Criterion***

FORMULA	Reflects Basic Costs (30)	Sensitive to Cost Changes (30)	Promotes Operating Efficiency (30)	Efficient to Administer (10)	Composite (100)
Miles-Based	(3) 90	(2) 60	(1) 30	(1) 10	190
Bus-Based	(3) 90	(2) 60	(3) 90	(1) 10	250
Fixed Percentage	(2) 60	(3) 90	(2) 60	(2) 20	230
Revenue Limit Roll-In	(1) 30	(1) 30	(3) 90	(3) 30	180
Current Law	(1) 30	(1) 30	(3) 90	(2) 20	170
	CRITERION 1	CRITERION 2	CRITERION 3	CRITERION 4	

* Numbers in parentheses are the ratings (3 being the best). The rating times the "weight" equals the score for each category.

Selecting a Formula. At this time, however, we do not have enough detailed information to recommend either of these formulas as a replacement for current law. Specifically, before an alternative formula can be selected and implemented, the Legislature needs more specific information on the appropriate rate of reimbursement and on the basic costs that should be eligible for state reimbursement. The Legislature also needs to know how the allocation of funds under these new formulas would compare with the current allocation. As discussed below, when selecting an alternative funding formula, the Legislature should also consider two related issues: (1) phasing in a new formula, and (2) accounting for other state transportation assistance.

Phasing in the New Formula. Any new funding formula should be phased in over a period of several years, in order to allow LEAs time to adjust to their new funding levels. An adjustment period would be especially necessary for LEAs that have their transportation aid *reduced* due to a redistribution of funds. The same adjustment mechanism could be used for any alternative that is adopted. Specifically, for each year of the adjustment period, an LEA would receive or lose a fraction of its total gain or loss that would result from the new formula. The fractional

amount would be based on the number of years of the phase-in period (for example, one-fifth for a five-year period).

Accounting for Other Transportation Aid. Funding for the new formula should take into account *total* current state transportation funding—not just the categorical home-to-school transportation funding. Specifically, some LEAs have two sources of transportation funding in *addition* to their home-to-school transportation allocation—small school district transportation aid and school desegregation aid. The former is available to small school districts that, at one point in time, had high transportation costs in relation to their total operating budgets. Although this aid is provided to compensate districts for high transportation costs, it is allocated via the revenue limit apportionment and can actually be used for general purposes. Our analysis indicates that the total aid received by some districts through a combination of small district and home-to-school transportation aid actually *exceeds* their total transportation costs. The amount of this “excess” aid ranges from less than \$100 to almost \$500,000, and totals \$6 million statewide. In order to avoid such anomalies, and to achieve a more equitable distribution of total transportation funds, funding for small school district transportation aid should be folded into—and allocated through the same formula as—home-to-transportation funding. (In our *Analysis of the 1988-89 Budget Bill*, Item 6110-101-001, we recommend that \$6 million be transferred from small district transportation aid to home-to-school transportation aid in order to eliminate the problem of overpayment and to achieve a more equitable distribution of transportation aid.)

Transportation services that are provided as part of school desegregation programs are reimbursed separately—through state reimbursements of court-ordered and voluntary school desegregation programs. Funding for desegregation-related transportation programs should continue to be provided separately; however, home-to-school transportation aid for such districts should be adjusted to account for the fact that some of the reported expenses are already funded through desegregation reimbursements.

Recommendation. We recommend, therefore, that the Legislature direct the Department of Education to develop and simulate specific plans to implement bus-based and fixed percentage reimbursement methods. The Legislature could then select its preferred formula and pass legislation to implement it. In addition, the legislation should provide for the phase in of the new formula and account for total state transportation funding. The following supplemental report language is consistent with this recommendation:

The State Department of Education shall report to the fiscal committees and the Joint Legislative Budget Committee by December 1, 1988

information on bus-based and fixed percentage funding formulas for allocating state home-to-school transportation aid. The report shall include: (1) the basic costs which should be eligible for reimbursement; (2) the appropriate rate of reimbursement; and (3) how the allocation of funds under these new formulas would compare with current law.

Funding for State-Mandated Local Programs

How Should the Legislature Respond to a Recent Court Decision Restricting Its Control Over Payments for State Mandates?

Summary

- *According to a recent court decision, the Legislature cannot override a mandate finding made by the Commission on State Mandates in its traditional manner — by eliminating a local government claims bill appropriation.*
 - *This court decision strictly limits the Legislature's control over the payment of funds for reimbursement of state mandates.*
 - *We recommend that the Legislature seek judicial review of commission decisions in all cases where it takes exception to the commission's mandate findings because this is the only means available to protect the state's financial interests.*
 - *We further recommend the enactment of legislation to extend the statute of limitations applicable to such state challenges of the commission's findings.*
-

During the past year, a court ruling effectively invalidated the traditional procedure used by the Legislature to override decisions made by the Commission on State Mandates. The ruling could have a profound impact on the state's costs for reimbursement of state-mandated local programs, because the commission's mandate findings could now result in the payment of claims by court order rather than legislative appropriation. This section examines the impact of the court ruling in *Carmel Valley Fire Protection District v. State of California (Carmel Valley)* and recommends that the Legislature adopt new procedures to ensure that its views are presented to the judiciary.

Background

The State Constitution requires the state to reimburse local governments and school districts for all costs mandated by the state. Under the provisions of the Constitution, costs mandated by the state are defined as costs arising from legislation or executive orders which require the provision of a *new program* or an *increased level of service* in an existing program.

Under existing law, local agencies may obtain reimbursement for the costs of a state-mandated local program in one of two ways. First, the legislation initially imposing the state-mandated local program may contain an appropriation to provide the reimbursement, and local agencies may file claims to obtain a share of these funds. Second, if the

legislation does not contain an appropriation, or if the costs are imposed by executive order, the local agency may file a claim with the Commission on State Mandates. The "test claim" filed against a particular statute or executive order initiates a fact-finding process which culminates in a decision by the commission as to the merits of the claim. If the commission determines that a particular statute or executive order contains a reimbursable state mandate, it adopts a "finding" to that effect and requests the Legislature to provide an appropriation sufficient to reimburse all potential claimants for the costs they have incurred since the time the mandate became operative.

These appropriations are then included in an annual local government claims bill, and considered by the Legislature. Following enactment of such a bill, the State Controller notifies local agencies that funds for reimbursement are available and provides them with guidelines for preparing reimbursement claims. Local agencies then file their claims, based on the costs they actually incurred, and are paid from the appropriation in the local government claims bill. In subsequent years, an amount is included in the Budget Act to provide for state reimbursement of the *ongoing* costs of complying with each statute or executive order.

Legislative Action on the Claims Bill. Traditionally, the Legislature has been able to maintain oversight of the commission's decisions through the claims bill process. Like any other appropriations bill, the claims bill must be heard before the Legislature's fiscal committees, and the committees generally review the basis for the commission's decisions. In past years, if the Legislature did not agree with a mandate finding, it amended the claims bill to exclude the appropriation for that mandate. If the Legislature essentially agreed with the mandate finding — but thought that the "parameters and guidelines" provided for excessive reimbursement — it reduced the appropriation for that mandate or instructed the commission to amend its parameters and guidelines for reimbursement. *Through the claims bill process, the Legislature has retained the authority to determine which new mandates will be funded and to change the basis on which they will be reimbursed.*

The Legislature has exerted its control over the claims bill to eliminate millions of dollars in appropriations requested by the commission and its predecessor for making mandate findings, the Board of Control. In 1983, for example, the Board of Control requested \$220 million in a claims bill to reimburse local governments for complying with 32 statutes and executive orders found to impose state-mandated local programs. After several hearings, the Legislature eventually approved funding for 19 of the programs at a cost of \$53 million. In signing the bill into law (Ch 96/84), the Governor further reduced its funding level to \$22 million by eliminating reimbursement for two of the 19 programs. Thus, from the

time that the claims bill was presented to the Legislature until it was signed by the Governor, almost \$200 million in mandate reimbursements was eliminated. While this is the most dramatic example of legislative action on the claims bill, it serves to illustrate the degree to which the Legislature has been able to exert its influence over the state's program of reimbursing local governments for state-mandated costs. Virtually all of the claims bills have had a mandate appropriation request reduced or eliminated at some point during the process.

Carmel Valley Fire Protection District v. State of California

The *Carmel Valley* case originated from a local government's challenge to the elimination of an appropriation from a local government claims bill. In 1979, the Board of Control determined that an executive order enacted in 1978 imposed a state-mandated local program. This executive order, which added Title 8, sections 3401-3409 to the California Administrative Code (CAC), required fire departments to purchase certain protective clothing and equipment for firefighters.

In 1981, a local government claims bill was introduced which included funds to pay claims for local costs arising from Title 8. This bill was amended by the Legislature to delete the appropriation provided for this purpose prior to its enactment as Ch 1090/81. Following this failure to secure reimbursement through the legislative process, the Carmel Valley Fire Protection District sought reimbursement for these costs by filing a petition in court to compel payment. In 1985, the trial court ruled that the district and its co-petitioners were entitled to reimbursement and ordered funds appropriated in the operating budget of the Department of Industrial Relations (DIR) to be encumbered for the purpose of paying local claims arising from Title 8. In addition, the court ruled that the petitioners could withhold fine and forfeiture revenues due the state if necessary to satisfy their claims.

The state appealed this decision, contending that the local costs incurred as a result of complying with Title 8 did not constitute a "new program" or "higher level of service." The state further contended that — even if a "new program" or "higher level of service" was required — the court exceeded its jurisdiction by ordering reimbursement to be paid out of DIR's operating budget. Regarding this second point, the state contended that a court order compelling the payment of funds constituted a violation of the separation of powers doctrine. Therefore, the court judgment unconstitutionally required the performance of a legislative act.

In early 1987, the appellate court rejected the state's arguments and affirmed the lower court's decision (it is this appellate court decision which has become known as the *Carmel Valley* case). More importantly,

the court ruled that the state's appeal *could not even raise the question of* whether Title 8 had imposed a mandate because the state failed to seek judicial review of the Board of Control's original decision on the matter in 1979. The court held that once the three-year statute of limitations applicable to such review expired, the state was prohibited from challenging the mandate finding.

The appellate court also rejected the state's contention that the court order to encumber funds in the Department of Industrial Relations' operating budget constituted a violation of the separation of powers doctrine. The appellate court reasoned that the order would have violated this doctrine only if it compelled the Legislature to appropriate funds or to pay funds not yet appropriated, and that this case affected only *an existing* appropriation. The appellate court cited case law in which the courts have directed payments to be made from agency support budgets, either to compel satisfaction of a judgment or because the expenditure had been prohibited by an unconstitutional restriction. The appellate court concluded, therefore, that the lower court did not transgress the separation of powers doctrine by directing payments to be made from already appropriated funds.

The state appealed the appellate court's decision in the *Carmel Valley* case, but the State Supreme Court refused to hear the appeal. The State Controller has paid funds out of the DIR's 1985-86 support budget item to satisfy the court order. In addition, the Governor's Budget proposes to appropriate \$30 million in 1988-89 to satisfy the claims of other local agencies not a party to the decision, and to fund the ongoing costs of the mandate.

Implications of the Carmel Valley Decision

The implications of the *Carmel Valley* decision go far beyond the efforts of one fire protection district (and its co-petitioners) to seek reimbursement for the costs imposed by a single executive order. In affirming the lower court's judgment, the appellate court consolidated the state's appeal with two similar cases and addressed the broader issue of the state's ability to control its financial liability for state-mandated local programs through legislative action. Most importantly, the court ruled that the state cannot avoid its financial obligation to reimburse state-mandated local costs solely by reducing a claims bill appropriation. The state's constitutional obligation to reimburse these costs will be enforced unless the state successfully challenges the mandate finding of the commission in court. If the mandate finding is not challenged within a period of three years and the Legislature fails to appropriate the funds necessary to reimburse local costs, the courts can order that payments be made from the operating budgets of state agencies. In addition, the courts may authorize local governments to satisfy unpaid claims by offsetting various fines and forfeitures due to the state.

The Legislature Must Challenge the Commission's Decisions in Court

We recommend that the Legislature seek judicial review of commission decisions in all cases where it takes exception to the commission's mandate findings.

The *Carmel Valley* decision makes it clear that the Legislature must focus on the *commission's decision*, rather than the claims bill, when it takes exception to a mandate determination. Current law (Government Code section 17559) authorizes the state, or any claimant, to commence a legal proceeding to set aside a decision of the commission on the grounds that the decision is not supported by substantial evidence. In such cases, the court may order the commission to hold another hearing on the test claim and may direct the commission on what basis the claim is to receive a rehearing.

In order to protect the state's long-term financial liability for state-mandated costs, we recommend that the Legislature seek judicial review of the commission's decisions in cases where it takes exception to a mandate finding. The Legislature should still use the claims bill process to identify the mandate determinations with which it takes exception. However, in addition to deleting funding for these mandates from the claims bill, it should direct the Attorney General to seek judicial review of the mandate finding.

There are benefits to the Legislature of having this review regardless of the judicial outcome. If the Legislature is successful in overturning a decision of the commission, it will avoid being faced with a court-ordered settlement to provide reimbursement in cases where the reimbursement may not be legally necessary. If the challenge is not successful, the Legislature would know, at an earlier point in time than otherwise, that the state has a legal liability for reimbursement. The Legislature could then consider alternatives, such as repealing the mandate or making it optional, thereby potentially saving several years worth of reimbursements. In either case, the Legislature would ensure that its views are taken into consideration in the judicial process.

The Statute of Limitations Should be Extended

We recommend that the Legislature enact legislation to extend the statute of limitations applicable to the state's challenge of mandate findings.

As mentioned above, the appellate court ruled in the *Carmel Valley* case that a statute of limitations applies to the state's right to seek judicial review of a mandate finding. The three-year period starts with the commission's original finding of a mandate.

The three-year statute of limitations is problematic because in some cases the Legislature has not made its determination as to whether funding is required until more than three years have elapsed since the mandate finding. This is because the mandate determination process can be very time-consuming. Once the commission makes a mandate finding, it must conduct two additional hearings in order to adopt parameters and guidelines and a statewide cost estimate for the mandate. Often the commission experiences scheduling delays because local agencies do not submit documentation necessary for the hearings in a timely manner. In addition, the Legislature's hearings on the claims bill can extend over a period of several months. As a result, a period of more than three years can in some cases pass between the date of the initial mandate finding and the time the claims bill is chaptered.

Before the Legislature can assess whether it should seek judicial review of a mandate finding, it needs to know which types of costs will be reimbursed and the estimated cost to the state of providing reimbursement for the mandated program. Thus, it is essential that both the commission's and the Legislature's deliberations on the claims bill be completed before the decision is made to seek judicial review of a mandate finding. Accordingly, we recommend the enactment of legislation to extend the statute of limitations applicable to judicial review of mandate findings to a period of one year from the effective date of the claims bill which deletes funding for the mandate. This will give the Attorney General sufficient time to prepare a case challenging the mandate finding in court.

The Greater Avenues for Independence (GAIN) Program

What Options Are Available to the Legislature for Funding the GAIN Program in 1988-89?

Summary

- *The Greater Avenues for Independence (GAIN) program is the state's major new initiative to help welfare recipients become self-sufficient.*
- *Based on the experience of the 18 counties that had implemented the program by the fall of 1987, the Department of Social Services (DSS) has nearly doubled its estimate of how much the program will cost when fully implemented. The estimated costs for each participant at full implementation have increased by 130 percent.*
- *The major reasons for the increase in the estimated costs of GAIN are: caseload increases in certain components (especially education) and unit cost increases in every component.*
- *The budget proposed for GAIN in 1988-89 is \$134 million below the estimated amount required to fully fund the program. The budget proposal would accommodate these reductions by restricting program participation in 40 counties, with no restrictions on the remaining 18 counties.*
- *The Legislature has several options for funding the program in 1988-89: (1) provide full funding with no change in program scope, (2) reduce funding requirements by restricting program participation, or (3) reduce funding requirements by changing program design.*
- *The Legislature should have better information about GAIN program costs—and therefore a better estimate of 1988-89 funding requirements—by the time of the May revision.*

The Greater Avenues for Independence (GAIN) program, the state's major new initiative to help welfare recipients become self-sufficient, faces a key juncture in its implementation period. Apparently because of the program's rapidly increasing costs, the Governor's Budget proposes not to fully fund the GAIN costs of all counties in 1988-89.

In this analysis, we examine cost estimates for the GAIN program and what accounts for the rapid growth in these projections. We then describe several alternatives to the budget's proposed way of dealing with the budget-year funding shortfall. First, however, we provide some background on the GAIN program and describe the Governor's 1988-89 GAIN proposal in more detail.

Background

Under the GAIN program, enacted by Ch 1025/85 (AB 2580), counties provide education, employment, and training services to Aid to Families with Dependent Children (AFDC) recipients in order to help them find jobs and become self-supporting. The Department of Social Services (DSS) provides policy guidance and oversight at the state level, while county welfare departments administer the program locally. The program is funded through new state and federal funds appropriated for GAIN and through a redirection of funds from existing programs which currently serve AFDC recipients. The counties are not required to pay for any costs of the GAIN program.

The law requires all counties to begin operating the program by October 1988 and allows counties to bring their full caseload into the program over a two-year period. At the time we prepared this analysis, the DSS had approved implementation plans for 26 counties: 18 which were operating prior to October 1987 (an important date, given the administration's budget proposal) and 8 which began operations after October 1987. Of the 32 counties without approved plans, 18 are expected to begin operation by the end of 1987-88, with the remaining 14 counties expected to begin operation early in 1988-89. Chart 40 lists the GAIN implementation status of the 58 counties and shows each county's percentage share of the state's total AFDC caseload.

Chart 40

Status of GAIN Implementation by County* As of February 1988

COUNTIES WITH APPROVED PLANS		COUNTIES WITHOUT APPROVED PLANS	
18 Counties Operating Prior to October 1987 (28.3%)		8 Counties Operating After October 1987 (8.4%)	
Butte	0.8%	Inyo	*
Fresno	4.1	Lake	0.3%
Kern	2.1	Monterey	0.9
Kings	0.5	Nevada	5.5
Madera	0.4	San Bernardino	0.3
Merced	1.1	San Luis Obispo	5.5
Napa	0.2	Sonoma	0.8
Placer	0.4	Yolo	0.5
Riverside	2.9		
San Diego	6.6		
San Mateo	0.6		
Santa Barbara	0.6		
Santa Clara	3.5		
Shasta	0.8		
Stanislaus	1.8		
Sutter	0.3		
Ventura	1.2		
Yuba	0.4		
		32 Counties (63.3%)	
		Alameda	4.6%
		Alpine	*
		Amador	*
		Calaveras	0.1
		Colusa	*
		Contra Costa	2.0
		Del Norte	0.2
		El Dorado	0.3
		Glenn	0.1
		Humboldt	0.6
		Imperial	0.6
		Lassen	0.1
		Los Angeles	36.6
		Marin	0.2
		Mariposa	*
		Mendocino	0.4
		Modoc	*
		Mono	*
		Orange	2.9
		Plumas	*
		Sacramento	5.3
		San Benito	0.1
		San Francisco	2.0
		San Joaquin	2.8
		Santa Cruz	0.5
		Sierra	*
		Siskiyou	0.3
		Solano	0.9
		Tehama	0.2
		Trinity	*
		Tulare	2.0
		Tuolumne	0.1

* Figures represent the county share of the statewide AFDC caseload.

* Represents less than 0.1 percent of statewide AFDC caseload.

Program Participation. Certain AFDC recipients must participate in GAIN in order to receive aid, while others may volunteer for the program. Generally, those who are required to participate are the heads of single-parent households—AFDC-Family Group (AFDC-FG) households—if their youngest child is six years of age or older, and primary wage earners from two-parent households—AFDC-Unemployed Parent (AFDC-U) households. For mandatory participants, there are two points in time when individuals would be required to enter the GAIN program: (1) when they apply for aid (these are called AFDC applicants) and (2) when people who are already on aid go through a periodic review (these are called AFDC continuing cases or recipients). Mandatory participants remain in the program until they find a job or discontinue aid for some other reason.

Scope of Program Services. The GAIN program requires counties to provide the following major services to participants:

- **Education.** Counties must refer any participant who lacks a high school diploma or basic literacy to adult basic education or vocational English-as-a-Second Language.
- **Job Search.** Counties will offer training in job search techniques as well as a period of supervised job search.
- **Assessment.** An in-depth assessment of a participant's skills and aptitudes must precede any training or work program.
- **Training.** A variety of training programs, requiring 3 to 10 months of classroom or on-the-job instruction, will be available to assist participants in gaining new job skills.
- **Preemployment Preparation (PREP).** Counties may require participants to work in a public-sector job for 3 to 12 months at a time in order to acquire work behavior skills. The number of required hours is based on the size of the participant's AFDC grant.
- **Transitional Child Care.** GAIN participants who leave aid as a result of employment continue to receive child care for a three-month transition period.

Counties may provide these services directly using county staff or through contracts with local education and training agencies. All participants are guaranteed support services such as child care and transportation if the services are needed to enable participation in the program.

Budget Proposal

The Governor's Budget proposes \$408 million for GAIN in 1988-89. These costs would be funded by \$245 million from the General Fund, \$71 million from federal funds, and \$92 million in existing resources that are proposed for redirection to serve GAIN participants. As shown in Table 23, this is almost double the \$210 million in costs estimated for the current

year. However, the 1988-89 total is not sufficient to provide *full funding* for the GAIN program in 1988-89. Specifically, the department estimates that, without the participation restrictions proposed in the budget, the GAIN program would cost \$542 million in 1988-89. Thus, the amount proposed in the budget represents 75 percent of the estimated amount needed for full funding.

Table 23
GAIN Expenditures and Funding Sources ^a
1987-88 and 1988-89
(dollars in millions)

	<i>Est.</i> 1987-88	<i>1988-89</i>	
		<i>Proposed</i>	<i>Full Funding</i>
GAIN Costs	\$210	\$408	\$542
<i>Funding Sources</i>			
Funds appropriated for GAIN:			
General Fund	108	245	342 ^b
Federal funds	42	71	97 ^b
Subtotals, funds appropriated for GAIN	(\$150)	(\$316)	(\$439)
Redirected funds	\$60	\$92	\$103 ^b

^a Source: Department of Social Services.

^b Legislative Analyst's Office estimate.

The administration proposes to limit the cost of the program by using a two-tiered funding approach. First, the budget would fully fund the GAIN program in 18 counties that began operating prior to October 1987. Although the department is not certain exactly how much it will cost to fund the programs in these counties, it is likely that full funding would require *more than half* of the total \$408 million proposed in the budget year. As shown in Chart 40, these counties account for 28 percent of the total AFDC statewide caseload.

Second, the remaining funds would be allocated among the remaining 40 counties, which account for approximately 72 percent of the AFDC caseload. According to the department's preliminary estimates, the amount left over to fund GAIN in these counties could be \$134 million, or 50 percent, less than the estimated cost to fully fund these programs. In order to accommodate this shortfall, the budget proposes to limit the number of individuals who will receive GAIN services in the affected counties.

The GAIN statute requires counties, in the event that their anticipated expenditures for GAIN exceed available funding, to reduce spending by implementing certain program participation restrictions. That is, counties must exclude individuals from GAIN participation according to the order outlined in a statutory list (shown in Chart 41), with those first on the list excluded first and those lower on the list receiving priority for services. The intent of this statutory reduction list is to target GAIN funds

on people who are least likely to get off aid on their own (or conversely, to first eliminate from participation those *most likely* to get off aid on their own). In addition, these participation restrictions are intended as a temporary measure—they only stay in effect for the duration of the fiscal year in which they are implemented.

Chart 41

Statutory Participation Restrictions for GAIN by Order of Exclusion

1. New applicants for AFDC-U
 2. Recipients of AFDC-U who have been on aid for less than one year
 3. Volunteers
 4. New applicants for AFDC-FG
-
5. Recipients of AFDC-U who have been on aid for more than one year
 6. Recipients of AFDC-FG who have been on aid for less than one year
 7. Recipients of AFDC-FG who have been on aid for less than two years
 8. All remaining participants, based on their time on aid, with those who have been on aid the longest being the last to be deferred



The budget assumes that these four groups would not be served in 40 counties during 1988-89.

The budget assumes that the first four groups on the list—AFDC-U applicants and recent recipients, GAIN volunteers, and AFDC-FG applicants—would *not* be served in 40 counties during 1988-89. We estimate that these groups account for nearly 50 percent of the potential GAIN caseload in these counties. Those who *would* be served include all mandatory AFDC-FG recipients and mandatory AFDC-U recipients who have been on aid for more than one year.

At the time we prepared this analysis, the Department of Social Services (DSS) had not finalized its policy for allocating funds to these 40 counties. The department advises, however, that it will probably allocate the available funds among the affected counties according to their share of the AFDC statewide caseload. Each county will then propose to DSS how it intends to operate its program within a specific allocation. Counties with high costs may have to serve fewer people (in other words, go farther down the caseload reduction list) whereas counties with low costs may be able to serve more of their potential caseload.

HOW MUCH WILL GAIN COST?

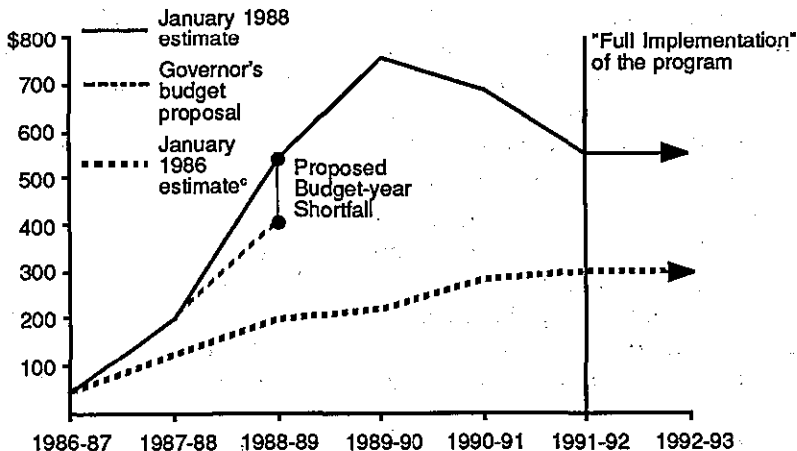
Department's Current Estimate Indicates that GAIN Costs Almost Twice As Much As Originally Anticipated

Since the GAIN program is still in its phase-in period, the 1988-89 costs are not indicative of what the costs of the program will be in future years. Moreover, the program is so new that there is little detailed expenditure data available that would indicate how much it actually costs to provide certain services. Chart 42 shows two estimates (as of January 1986 and January 1988) of GAIN costs over time if fully funded. The chart also shows the budget proposal for 1988-89.

The chart illustrates two main points. First, it shows the projected pattern of GAIN costs over the next several years. Costs are expected to grow past the budget year, peak in 1989-90, and then decline somewhat to a "full implementation" level. The drop in costs reflects the department's assumption that the number of participants entering the GAIN program will eventually decline as the program causes AFDC recipients to leave aid. At full implementation, which the department now estimates will occur in 1991-92, the flow of participants in and out of components should reach a steady state and GAIN costs should stabilize. (Note: It is important not to confuse the terms "full funding" and "full implementation." The former refers to a program in which there are no *planned* caseload reductions and the latter refers to the time when program costs have stabilized at their *ongoing* level.)

Chart 42

GAIN Costs Over Time^a Initial and Current Estimates of Program Costs^b 1986-87 through 1992-93 (In millions)



^a Costs include all funding sources, including funds redirected from other programs.

^b Source: Department of Social Services.

^c January 1986 estimate has been adjusted to reflect one-year start-up delay.

Second, the chart shows the tremendous increase in the department's estimate of program costs at full implementation since its original January 1986 estimates. As noted earlier, these costs have almost doubled.

Costs At Full Implementation. Table 24 provides more specific information on the estimated costs of GAIN at full implementation—when program costs have stabilized at their ongoing level in 1991-92. The DSS expects the program to cost \$553 million (all sources), which is \$250 million, or 83 percent, more than the department originally estimated. Based on the department's figures, we estimate that the General Fund share of these costs would be almost \$300 million annually, a 273 percent increase. As estimates of federal and redirected funds have increased only slightly, it is assumed that the General Fund will be forced to pick up the lion's share of the overall cost increase.

Table 24
Comparison of GAIN Full Implementation Costs
and Funding Sources in 1991-92^a
As Estimated in January 1986 and January 1988^b
(dollars in millions)

	Estimate as of January 1986	Estimate as of January 1988	Change	
			Amount	Percent
Full implementation costs ^c	\$303	\$553	\$250	83%
<i>Funding Sources</i>				
Funds appropriated for GAIN:				
General Fund	\$79	\$295 ^d	\$216	273%
Federal funds	78	83 ^d	5	6
Subtotals, funds appropriated for GAIN	(\$157)	(\$378)	(\$221)	(141%)
Redirected funds	\$146	\$175 ^d	\$29	20%

^a Source: Department of Social Services.

^b January 1986 estimate assumed full implementation would occur in 1990-91; January 1988 estimate now assumes it will occur in 1991-92.

^c Includes funds already budgeted for other programs which will be redirected to serve GAIN participants.

^d Legislative Analyst's Office estimate.

While the department has increased its cost estimates, it has *reduced* its GAIN caseload estimates. As Table 25 shows, when this caseload reduction is taken into account, the increase in the estimated cost per person at full implementation is 130 percent.

Table 25
Increase in Estimated Costs Per GAIN Registrant^a
At Full Implementation^b

	Estimate as of January 1986	Estimate as of January 1988	Change	
			Amount	Percent
Total costs (millions of dollars)	\$303	\$553	\$250	83%
Caseload (number of registrants)	170,527	135,576	-34,951	-21
Cost per registrant ^c	\$1,777	\$4,079	\$2,302	130

^a Source: Department of Social Services.

^b January 1986 estimate assumed full implementation would occur in 1990-91; January 1988 estimate now assumes it will occur in 1991-92.

^c Total costs in full implementation year divided by number of registrants in that year.

Net Budgetary Impact of the GAIN Program. Another perspective on the GAIN program is its *net* impact on the state budget. In the department's original GAIN estimates, it anticipated that at full implementation the program would result in *net annual savings* to federal, state, and county funds of \$109 million. This is because—as shown in Table 24—the department expected the total costs of the program (\$303 million) to be more than offset by (1) existing resources which would be redirected to serve GAIN participants (\$146 million) and (2) savings in federal, state, and county AFDC grant costs due to GAIN (\$266 million)—not shown in the table.

The DSS assumes that GAIN will generate two types of savings for the AFDC program. First, some AFDC recipients would terminate aid or receive reduced grants due to finding jobs as a result of services provided under the GAIN program. Second, some individuals would not apply for aid or would leave aid in order to avoid participating in GAIN. This second type of savings is called “grant avoidance.” (In our review of the AFDC budget—please see Item 5180-101 in the *Analysis*—we note that the department has been unable to provide any evidence to support its assumption that GAIN will generate grant avoidance savings.)

The department now projects that at full implementation GAIN will result in *net annual costs* to federal and state funds of \$65 million rather than in net savings. This is because estimated total costs (\$553 million) have risen dramatically, while estimated redirected resources (\$175 million) and AFDC grant savings (\$313 million) have risen only slightly.

It is too early to measure the extent of AFDC savings due to the GAIN program. The department's most recent savings estimate is based on the same assumptions as was its original estimate. There simply is not yet any data reflecting the program's actual track record in generating AFDC savings. Moreover, it is not reasonable to expect that any such data will be available for several years because of the time required for recipients to become job ready, find a job, and go off aid in sufficient numbers to calculate an impact.

For this reason, the Legislature will have to base its budgetary decisions on the GAIN program on (1) the program's cost, (2) the Legislature's own assumptions regarding the prospects for the program to reduce AFDC grant costs, and (3) the Legislature's evaluation of the nonfinancial and longer-term benefits which may result from the GAIN program. For example, many observers believe that GAIN will result in benefits that include (1) the value to individuals and to society of increased employment among AFDC recipients, (2) a higher level of education and vocational skills for participants, (3) increased self-esteem for GAIN participants, and (4) better role models for participants' children.

**Department Has Refined Its Estimate
But GAIN Costs Are Still Highly Uncertain**

The department's January 1986 estimate of program costs was based primarily on the experience of other employment programs for welfare recipients. Since it prepared that estimate, the department has continuously refined its estimate in order to better reflect county experience with the GAIN program.

Based on our review, we believe that the department's estimate now incorporates the best available information from operating counties regarding the kinds of services GAIN participants need and the costs that counties expect to incur in providing these services. This information, however, is based primarily on the early experience of a relatively small number of counties representing less than one-third of the potential GAIN statewide caseload. Although some counties have already had substantial experience with the early components of the program, such as registration, orientation and appraisal, and education, they still have very little caseload or cost experience regarding the later—and more expensive—components of the program, such as long-term PREP. Moreover, even in the 18 operational counties, the GAIN program is so new that there is little detailed expenditure data available that would indicate how much it actually costs to provide certain services.

Thus, we still regard the department's estimate as preliminary and subject to change. It is possible that experience may prove that the costs of the GAIN program may be substantially higher or lower than the DSS and the counties now anticipate. In light of these major uncertainties, it is difficult to advise the Legislature on how much the GAIN program will actually cost, either in 1988-89 or in future years. We believe, however, that the department will be able to refine its estimate further by the time it submits its May revisions of expenditures, based on an additional six months of county experience.

WHY HAVE COSTS INCREASED?

Our review of the department's estimate indicates that there are two major factors that contribute to the increased costs of the GAIN program discussed above: caseload factors—changes in the number of individuals that the department expects will be served in each program component, and unit cost factors—changes in the cost of supporting one person in each program component.

Caseload Factors

The number of people who participate in GAIN, the characteristics of these individuals, and the way they move through the program, all have a fundamental impact on the costs of the program. Relying primarily on the experience of operating counties, the DSS has updated its estimate as new information has become available on the number and characteristics of the GAIN caseload. This information has resulted in substantial changes in the department's estimate of the caseload entering the GAIN program as well as the caseloads within each program component. Table 26 compares the department's January 1986 caseload estimate with its current one.

Table 26
GAIN Caseloads at Full Implementation^a
January 1986 and January 1988 Estimates^b

Component	January 1986 Estimate		January 1988 Estimate		Caseload Change	
	Caseload	Percent of Total Registrants Who Enter Each Component ^c	Caseload	Percent of Total Registrants Who Enter Each Component ^c	Amount	Percent
Registration, orientation, and appraisal.....	170,527	100%	135,576	100%	-34,951	-20.5%
Education.....	25,500	15	77,278	57 ^d	51,778	203.1
Job club/job search.....	160,769	94	90,979	67	-69,790	-43.4
Assessment.....	77,889	46	61,638	45	-16,251	-20.9
Training.....	77,889	46	52,583	39	-25,306	-32.5
Long-term PREP.....	40,348	24	45,228	33	4,880	12.1
Transitional child care.....	4,300	3	22,741	17	18,441	428.9

^a January 1986 estimate assumed full implementation would occur in 1990-91; January 1988 estimate now assumes it occurs in 1991-92.

^b Source: Department of Social Services.

^c The percents in each component add to more than 100 percent because individuals may go through several components.

^d DSS estimates that 57 percent of AFDC applicants and 67 percent of AFDC continuing cases will be referred for education. This table only reflects applicant caseload because DSS assumes there will be no continuing cases entering GAIN at full implementation.

The table shows that the department's estimate of the number of individuals registering for the program at full implementation has dropped by 21 percent. The department made this adjustment when it learned that its original estimate of registrants was partially based on erroneous data on new AFDC applicants.

Because the number of people expected to *enter* GAIN is lower, the number expected in several components is lower as well. However, these reductions are not necessarily in the same proportion because the department has also changed some of its major assumptions regarding the percentage of people entering GAIN who go through various components.

The caseload change with the largest impact on GAIN costs is the increase in the number of people expected to need education. Despite the reduction in the number of people entering the program, the number expected to go into education has *tripled*, for an increase of almost 52,000 participants. In its early caseload estimate, DSS assumed that 15 percent of GAIN participants would need education. Based on the most recent data on CASAS test results (the test administered to GAIN participants to assess their educational skill levels), the department now estimates that 57 percent of the applicant caseload and 67 percent of the continuing caseload will require educational services when they enter the GAIN program. Given the \$2,000 cost to support one person in the education component, this caseload increase has a major impact on program costs. In fact, the combined impact of higher caseload and increased unit costs (see below) in the education component *has increased the total cost of this component from \$16 million to \$152 million (most of which—\$137 million—is from the General Fund)*.

The increased caseload anticipated in the education component increases the General Fund costs of GAIN in another way. The department's original estimate of education costs did not include any costs to pay the schools for the instruction provided to GAIN participants. The department assumed the schools could accommodate the expected number of GAIN participants within their existing capacity. However, the schools have indicated that they *cannot* accommodate the much higher demand for educational services which is now expected. Thus, the department's current estimate includes \$68 million to pay the schools for the cost of educating GAIN participants at full implementation.

The other changes in component caseloads are less pronounced than the change in education caseloads. Most of these changes involve caseload reductions, but the fiscal impact of the reductions is more than offset by increases in the unit costs of the components.

Unit Cost Factors

Unit costs include several types of expenditures. For example, the unit cost for education (now estimated at almost \$2,000) includes the education cost paid to the school, the county administration costs for monitoring the individual's progress during education, and the cost of child care and transportation paid to the individual while attending school. As

shown in Table 27, the department's estimate of GAIN unit costs at full implementation have increased for every component of the program. These unit costs, which reflect the costs of each component on a per-participant basis, are affected by a variety of factors. For example, unit costs can change based on how long participants remain in a component. They can also change as a result of changes in the level of resources allocated to a component, such as occurs when a county assigns more staff to perform a function or when contractors charge higher fees than originally anticipated.

Table 27
Increase in GAIN Unit Costs at Full Implementation^a

Unit Cost ^b	January 1986	January 1988	Change	
	Estimate	Estimate	Amount	Percent
Registration, orientation, appraisal	\$7	\$99	\$92	1,312%
Education	612	1,967	1,355	221
Job club/job search	307	694	387	126
Assessment	204	337	133	65
Training	1,899	3,244	1,345	71
Long-term PREP	1,750	2,642	892	51
Transitional child care	535	611	76	14
Average Cost per Registrant.....	\$1,777	\$4,079	\$2,302	130%

^a Source: Department of Social Services.

^b These costs reflect the average total cost for an individual to participate in each component. Individuals might receive services in several different components in any given year. Costs include redirected resources.

The major unit cost increases reflected in Table are as follows:

- **Increased Registration, Orientation, and Appraisal Costs.** The expenditures under this component are primarily for county staff to register new participants, inform them about the program, administer the CASAS test, and complete a basic contract with the participant. The increased unit costs of this component are primarily due to an increase in the estimate of the amount of county staff time needed to perform these functions. The increase is based on county funding requests submitted with the county plans for operation of the GAIN program. Because the total costs of this component are relatively small, the large increase in unit costs does not have a major impact on overall costs.
- **Increased Education Costs.** This increase occurred because the department's original estimate assumed that school costs would be covered using existing resources. In its most recent estimate, the DSS has built in costs to pay schools to provide instruction and to pay both county and school staff to monitor and track GAIN participants. In addition, the DSS has increased its estimate of the cost to provide child care and transportation to participants in this component.

- **Increased Job Club and Job Search Costs.** This rise is primarily due to increased costs for county staff. For example, the department now assumes that counties will need two social workers rather than one to run a job club. In addition, the department has changed its assumptions about the child care needs of participants in certain job search activities. Previously, the estimate assumed that people would conduct their job search while their children were in school so they would not need child care. The DSS' most recent estimate includes costs for child care during this job search period.
- **Increased Training Costs.** This increase reflects higher costs reported by Job Training Partnership Act providers. In addition, the department has added to its estimate \$200 per participant to pay county and contract staff to find on-the-job training and work experience opportunities with employers.

In addition to these increased costs in specific components, the department has revised its assumptions regarding several general cost factors which affect all components. For example, the department has doubled its estimate of the costs of the monthly transportation allowance (from \$32 to \$65) based on actual county experience.

WHAT ARE THE LEGISLATURE'S FUNDING OPTIONS FOR THE GAIN PROGRAM IN 1988-89 AND IN THE FUTURE?

The 1988-89 budget presents the Legislature with major policy decisions regarding funding for the GAIN program. As opposed to the *expected* increase in the budget due to the program's phase-in, the doubling of the department's estimate of the full implementation costs of the program results in an *unexpected* increase. The result is that full funding of the program in 1988-89 would cost an estimated \$542 million (includes state and federal funds appropriated for GAIN and existing resources redirected for GAIN), which is an increase of \$332 million, or 158 percent, over the amount provided in the current year. Moreover, the costs of the GAIN program are expected to grow even more in 1989-90.

Although the administration has characterized the budget proposal as a *temporary* approach, we believe that the administration's proposal could set a precedent for GAIN funding for years to come. For example, if the program is underfunded in 1988-89 by \$134 million (\$97 million General Fund), full funding in 1989-90 not only would require the Legislature to restore this amount to the base, but also would require an *additional* funding increase of \$218 million (\$129 million General Fund), reflecting the program's anticipated growth.

The Governor's Budget, then, has responded to the rising costs of the GAIN program in one way. Our review indicates, however, that there are

a number of funding options available to the Legislature. We have grouped these options into the following three categories:

- Provide full funding without changing the scope or design of the program.
- Address some or all of the funding shortfall by restricting program participation.
- Address some or all of the funding shortfall by changing the program design.

Full Funding—No Change in Program Scope

One funding option available to the Legislature is to provide adequate funding to ensure that GAIN will operate at full caseloads in all counties with no reductions in the services it now provides. As noted above, the DSS' estimate indicates that full funding would require an additional General Fund commitment of \$97 million over the amount proposed in the budget. By the time of the May revision, however, this figure could change substantially, for three reasons:

- *Uncertainties Regarding the DSS Estimate of Costs.* As we have noted in our discussion of the DSS' estimate, the department's figures are based on preliminary data from 18 counties. By the time of the May revision, an additional six months of data will be available and the department will have had an opportunity to review the budget requests of some of the major counties that have not yet implemented GAIN. We cannot predict whether this information will increase or decrease the department's estimate, but it is quite possible that it will substantially change the estimate.
- *Unexpended Current-Year Funds for GAIN Could Reduce Additional General Fund Need in the Budget Year.* Because of delays in county implementation and lower-than-anticipated caseloads and costs in certain GAIN components, it is likely that the counties will not spend a substantial portion of the funds allocated to them for 1987-88. The department has not revised its current-year budget to reflect this situation (thus, these probable "savings" are not now counted in General Fund surplus totals). Ordinarily, if these funds are not spent, they would revert to the General Fund. To the extent that the Legislature earmarks these funds to support the GAIN program in 1988-89, however, they could substantially reduce the need for *new* General Fund resources. (In our review of Item 5180-151 in the *Analysis*, we recommend that the department provide the Legislature with its most recent estimate of unexpended current-year funds.)
- *California Might Receive Additional Federal Funds.* It is possible that enactment of a federal welfare reform proposal, several of which are pending in Congress, could provide a substantial amount of

additional federal money which could be used to offset *part* of the costs of the GAIN program in 1988-89 and thereafter. At the moment, however, we do not know what the chances are that the funds will be available or how much additional funding such a proposal would provide for California. Obviously, any increase in the amount of federal funds available for GAIN would reduce the amount of the budget-year shortfall which would have to be met with General Fund monies. We anticipate that the Legislature will have better information about this federal legislation by May.

In addition to these factors, which could reduce the amount of General Fund resources that the Legislature would have to commit in order to achieve full funding for the GAIN program, we have identified two strategies available to the Legislature which could minimize the need for additional resources while still fully funding GAIN.

The Legislature Could Require DSS to Implement a System for Containing GAIN Costs. One way to reduce the General Fund cost of fully funding the GAIN program would be for the Legislature to encourage the department to continue to refine its county allocation process. Our review of county allocations to date and the assumptions behind the department's estimate of GAIN costs indicates that there may be opportunities to substantially reduce the net costs of the GAIN program without changing its basic design or restricting participation in it. We base this conclusion on the considerable variation that exists in county costs, suggesting that in some cases counties could (1) provide GAIN services more efficiently and (2) take better advantage of existing resources that could be redirected from other programs. In our review of Item 5180 in the *Analysis*, we describe these cost variations and recommend that the department report to the Legislature on its plans to develop a system for containing GAIN costs. Although cost containment measures are not likely to reduce the General Fund costs of the program substantially in the short run, we believe they have the potential to make a significant difference in the long run.

The Legislature Could Mandate That Existing Education and Training Programs Devote More Resources to the GAIN Program. Another way to reduce the new General Fund costs of the GAIN program would be to require other state programs to provide more services to GAIN clients. Existing programs have already made a substantial commitment to serve GAIN participants within their existing resources. These current commitments are generally based on serving the same number of GAIN participants as these programs served AFDC recipients in the past. In addition to requiring counties to take better advantage of the resources already available to GAIN, however, the Legislature could require that adult education programs, community colleges, or the Employment

Development Department's job service program devote *an increased level of resources* to serve GAIN participants. This would have the effect of reducing the amount of General Fund (and federal fund) money needed to meet the budget shortfall, but could also displace non-GAIN individuals in these programs. Obviously, the decision to redirect more existing training and education resources to GAIN is a major policy decision.

By the time the department submits its May estimate, the Legislature should have a better sense of how much it would cost to fully fund the GAIN program. At that time, the Legislature will be better able to assess how much of a General Fund augmentation would be needed to provide full funding in 1988-89. In the event that the Legislature determines, based on its fiscal priorities, that providing this amount of additional General Fund support for the GAIN program is not possible, there are two approaches to reducing the funding requirements of the program: (1) participation restrictions and (2) reductions in the scope of services.

Restrictions in Program Participation

The GAIN statute provides for restrictions in program participation in the event that counties face an unexpected increase in GAIN expenditures (see Chart 41, above). Clearly, one option available to the Legislature is simply to use this existing method as a means of reducing GAIN expenditures. The major advantage of this provision is that it allows the Legislature to determine a funding level for GAIN during the budget process.

We would, however, point out three concerns with this approach. First, it lacks predictability. Because counties would not know from year to year how many people they could serve, it would be difficult for them to maintain stable county staffing levels and to enter into reasonably certain contracts with service providers. Second, given a specified funding level, different counties might end up implementing more or less of the statutory reductions depending on their relative costs to provide services and the proportion of their AFDC caseload which falls into the various categories on the statutory reduction list. Third, the order for restricting participation outlined in current law (particularly with regard to volunteers) may not be the best way to achieve legislative intent to target GAIN services where they will have the most impact. Generally, the current list calls for excluding first those who are most likely to leave aid on their own. However, the list excludes volunteers relatively quickly, before AFDC-FG applicants. Most volunteers are women with children under the age of six, many of whom have been on aid for a longer time and have less work experience than most applicants. They may, therefore, be less likely than AFDC-FG applicants to leave aid on their own.

The Governor's Proposal Is Just One Way of Reducing GAIN Expenditures Through Participation Restrictions. The budget proposes to reduce expenditures by approximately \$134 million by restricting the number of recipients served in 40 counties and providing full funding to 18 counties. While using program participation restrictions to limit expenditures is consistent with the provisions of Ch 1025/85, there are at least two major problems with the administration's proposal:

1. ***It Treats Counties Differently.*** Specifically, the Governor's two-tiered approach would result in different requirements for program participation in different counties. This differential county funding is based solely on timing—counties which implemented GAIN first will receive full funding while those which implement later will receive reduced funding. The proposal does not take into account the relative efficiency of programs in operating counties, nor does it take into account the different costs of providing services in various counties.

2. ***It Sets a Precedent Which Will be Difficult to Reverse.*** We believe that if the two-tiered approach proposed by the Governor is implemented in 1988-89, it will be difficult for the Legislature to put the program on an equal footing in all 58 counties anytime in the near future.

An Alternative to the Budget's Two-Tiered Approach Would Be to Implement Participation Restrictions More Equitably Among the Counties. While recognizing the importance of minimizing disruption in the already operating counties, the Legislature may wish to implement some program participation restrictions in these counties in the budget year. For example, the budget could require the 18 operating counties to stop serving new AFDC-U applicants. This restriction would not impose a major burden on these counties, since new AFDC-U applicants account for only about 10 percent of their caseloads. This approach would free up funds from the operating counties which could be used to increase funds available for the remaining counties. More importantly, however, it would send a clear signal to all counties that GAIN is intended to be a uniform statewide program.

Reductions in Scope of Services

In addition to providing for participation restrictions as a mechanism to reduce GAIN expenditures, Chapter 1025 suggests another option that the Legislature may wish to consider for reducing program expenditures. Specifically, the law requires that counties give priority in providing expensive services (such as supported work and lengthy classroom training) to individuals who have been on aid for at least two years or who have little or no work history. The Legislature may wish to consider requiring counties to serve a *full caseload*, but provide a *reduced level of service* to certain individuals.

There are various ways the Legislature could consider modifying the design of the program in a manner which is consistent with its intent to target expensive services to those who need them most. For example, counties could provide only job search to AFDC-U applicants because they are most likely to remain on aid for the shortest period and have recent work experience. Alternatively, the counties could limit the amount of extended educational and training services they provide to AFDC applicants or to recipients who have only been on aid for a short time. Obviously, changes of this magnitude involve basic policy decisions about the design of the GAIN program.

Summary

Although the actual costs of the GAIN program remain uncertain, recent estimates suggest that the program will be substantially more costly than anticipated. The Governor's Budget proposes not to fund the full costs of the program estimated for 1988-89. The 1988-89 budget presents the Legislature with a major policy decision regarding funding for this program: to fully fund the existing program, or to reduce the scope of the program—either through participation or service reductions. We believe that, to the extent possible, the Legislature's actions on the budget should be considered in light of their long-term implications for the GAIN program.

Meeting the Costs of Federal Immigration Reform

What Strategy Should the Legislature Use in Spending Federal Monies Provided Under the Immigration Reform and Control Act (IRCA)?

Summary

- *The administration expects the federal government to approve up to 900,000 illegal aliens in California for legal resident status under the amnesty provisions of IRCA.*
 - *The 1988-89 Governor's Budget proposes a specific plan to spend an estimated \$1.7 billion in federal funds that will come to California over the next four years to pay for the health, welfare, and education costs of eligible legalized aliens.*
 - *The Legislature has the opportunity to recast the use of these federal funds in order to set its own service priorities for legalized aliens and improve its flexibility regarding the availability and use of General Fund monies.*
 - *We suggest four fiscal guidelines for the Legislature to use in allocating federal funds:*
 - *Give high priority to funding unavoidable new costs.*
 - *Keep spending plans flexible as cost information improves with time.*
 - *Minimize the amount of new General Fund support that is needed in any one year once federal funds are exhausted.*
 - *Use "freed up" funds to support one-time or limited-term projects.*
 - *We recommend the Health and Welfare Agency report specified information to the appropriate fiscal and policy committees that would help the Legislature understand the administration's proposal and develop its own spending plan.*
-

In October 1986, Congress passed legislation substantially amending federal law governing legal and illegal immigration into the United States. These amendments, known as the Immigration Reform and Control Act (IRCA), authorized a general amnesty for certain groups of illegal aliens already in the country, holding out eventual citizenship to these individuals. In addition, the amendments created employer sanctions in the hopes of discouraging future illegal immigration.

The IRCA legislation included \$4 billion in federal funds to pay for the cost of certain state and federal services that would be available to legal aliens, as well as the costs of registering, reviewing, and approving individuals applying for legal alien status. These funds—known as State

Legalization Impact Assistance Grants (SLIAG)—will be made available to the states beginning in 1987-88.

In this analysis, we discuss the administration's plan to spend SLIAG funds available to California under IRCA. We also identify and discuss alternate strategies that the Legislature may want to consider in order to maintain its financial flexibility over the long-run.

BACKGROUND

The IRCA recognizes two new groups that may lawfully gain citizenship in the United States. First, undocumented aliens who have lived in the country continuously since January 1982 may become legal residents if they apply to the federal Immigration and Naturalization Service (INS) between May 6, 1987 and May 5, 1988. For the purpose of this discussion, we will refer to these applicants as undocumented workers (UWs). After reviewing an application for legalization, the INS grants an eligible UW *temporary* resident status. Each person then must apply for *permanent* resident status within a specified period. The law requires temporary residents to show progress toward attaining minimum English and civics competencies in order to obtain permanent status.

The second group now eligible for citizenship is agricultural workers. Specifically, the act permits undocumented immigrants to apply for temporary resident status if they worked in US agriculture for a minimum of 90 days during the period May 1, 1985 to May 1, 1986. These individuals, known as Special Agricultural Workers (SAWs), must apply to the INS by September 1, 1988 for temporary status. SAWs also would be eligible subsequently for permanent resident status and citizenship.

The law also authorizes temporary work status to "replenishment agricultural workers" (RAWs) beginning in 1990, should the federal government determine that an agricultural labor shortage exists. The federal government would not, however, offer replenishment workers permanent resident status. For this discussion, the term "legalized alien" does not include RAWs.

Limitation on Welfare Benefits. The IRCA restricts legalized aliens' eligibility for receiving specified federal welfare benefits for a five-year period after they become legal aliens. Specifically:

- Federal AFDC benefits are banned. Under California law, however, legal aliens would be eligible for three months of state-funded AFDC.
- Some Medi-Cal benefits are permitted—children, aged, blind, and disabled persons are entitled to receive a full scope of benefits; adults in families with children are limited to emergency and pregnancy-related services.
- SAWs—but not UWs—are eligible for food stamps.
- All aliens who qualify are eligible to receive SSI/SSP.

How Many People Will Be Legalized in California?

The Department of Finance (DOF) estimates that 1.7 million individuals are *eligible* to receive temporary resident status in California. Of these persons, DOF estimates that 55 percent, or 950,000 immigrants, will apply for amnesty by May 1988. The department projects that the group of applicants will be composed of 850,000 UWs (89 percent) and 100,000 SAWs (11 percent). To determine the number of temporary *residents* approved in California, DOF assumed that 95 percent, or 900,000, of the state's applicants will be approved by INS as temporary residents.

The actual number of applicants may fall somewhat lower than the DOF projections. As of November 27, 1987, 570,000 persons had applied for legalization in California. Of these applicants, 476,000 (84 percent) are UWs, and 94,000 (16 percent) are SAWs. The rate of new applications has fallen significantly since the summer months, however. Should applications continue at this slower rate, we project that only 850,000 total *applications* would be submitted by May 1988, or 100,000 fewer than estimated by DOF. Given the current INS approval rate of 95 percent (as estimated by DOF), the lower application total would translate into about 810,000 approved applications, about 90,000 less than estimated.

Existing trends also suggest that the composition of the applicants will be different than estimated by DOF, as well. Of the total applications, 200,000 applications—double the DOF estimate—would be SAWs. The remaining 650,000 would be UWs.

Projecting the number of immigrants that will apply for amnesty is very difficult. According to DOF, the assumption that 55 percent of the potential applicant pool will submit an application is based on educated guesses, as the almost total lack of data does not allow a more analytically based figure. There are a number of reasons why potentially eligible aliens would not apply. For example, each family member must separately apply for amnesty. Because the federal act does not treat families uniformly for the purposes of amnesty, one member may not apply for temporary status if he or she worries the application itself might endanger the anonymity of members who are ineligible for amnesty.

The number and demographic makeup of the population of approved resident aliens has important fiscal implications. The actual number of resident aliens will help define the total amount of health, education, and welfare services that may be supported with federal SLIAG funds. The demographic makeup of the population will allow more accurate identification of how each state or local program will be affected. We will continue to track the number and composition of applicants and the

approval rate in order to ensure that the Legislature has the information it needs to allocate funds in a manner consistent with its priorities.

WHAT IS THE ADMINISTRATION'S PROPOSAL FOR THE USE OF SLIAG FUNDS?

As discussed above, IRCA appropriates \$4 billion to reimburse state and local governments for the cost of health, welfare, and education expenses incurred in assisting legalized aliens. These monies, minus the federal costs of Medi-Cal, SSI/SSP and food stamps that are provided to legalized aliens (known as the federal offset), will be allocated to states based on a formula that includes: the number of legalized immigrants living in the state, the percent of all U.S. legalized aliens living in the state, and estimated state and local expenditures to provide assistance to legal immigrants.

Table 28 displays the amount of SLIAG funds potentially available to California as well as the expenditure of these funds from 1987-88 through

**Table 28
Federal SLIAG Funds
Availability and Proposed Expenditures
1987-88 through 1991-92
(dollars in millions)**

	<i>State Fiscal Year</i>					<i>Total</i>
	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	
SLIAG Funds Available^a						
Federal funds.....	\$1,000	\$1,000	\$1,000	\$1,000	—	\$4,000
Federal offset	70	359	260	267	—	956
Funds available to states	\$930	\$641	\$740	\$733	—	\$3,044
California's estimated share (57%)	\$530	\$365	\$422	\$418	—	\$1,735
Proposed Expenditures						
Public assistance:						
Medically Indigent Services program	\$41.1	\$67.6	\$94.0	\$96.2	\$96.2	\$395.1
General assistance.....	6.0	47.0	88.1	108.6	108.6	358.3
Medi-Cal	6.3	26.9	47.5	65.7	65.7	212.1
AFDC (state only).....	0.4	7.4	14.3	46.4	47.7	116.2
SSI/SSP.....	4.3	12.9	21.4	27.4	23.0	89.0
Primary care clinics.....	8.5	11.6	14.7	14.7	14.7	64.2
Other	3.8	8.3	9.7	9.6	9.4	40.8
Administration	1.8	2.7	3.5	4.1	4.2	16.3
Subtotals	(\$72.2)	(\$184.4)	(\$293.2)	(\$372.7)	(\$369.5)	(\$1,292.0)
Education:						
Adult education.....	\$30.0	\$80.0	\$110.0	\$90.0	\$27.1	\$337.1
K-12 supplemental	4.2	2.8	1.4	—	—	8.4
Administration	0.6	1.3	1.7	1.4	0.5	5.5
Subtotals	(\$34.8)	(\$84.1)	(\$113.1)	(\$91.4)	(\$27.6)	(\$351.0)
Public health	\$38.7	\$22.8	\$11.1	\$10.1	\$9.3	\$92.0
Total expenditures	\$145.7	\$291.3	\$417.4	\$474.2	\$406.4	\$1,735.0
Carryover.....	\$384.4	\$458.2	\$462.8	\$406.4	—	—

^a Appropriated on a federal fiscal-year basis, which runs from October 1 through September 30 of each year.

1991-92, as proposed in the 1988-89 Governor's Budget. These estimates were assembled by the Health and Welfare Agency, which was designated lead agency for IRCA implementation. Of the \$3 billion federal funds available to states (after adjusting for the federal offset), the agency estimates that 57 percent will be allocated to California, for a total of \$1.7 billion over the four-year period.

The budget proposes to spend these funds over a *five-year* period, from 1987-88 through 1991-92. According to the agency, federal regulations appear to allow states to carry over SLIAG funds from year to year. Taking advantage of this flexibility, the plan proposes spending only \$145.7 million of the \$530.1 million available during 1987-88. The remaining \$384.4 of the state's 1987-88 allocation of federal funds would be carried over for use in future years. By carrying these surpluses over each year, the budget proposal makes sufficient funds available to support program costs in the fifth year, 1991-92.

How Are the Funds Allocated By Function? The expenditure plan shows that \$1.3 billion, or 74 percent, of the state's total SLIAG allocation would pay for *public assistance* costs for individuals who become temporary or permanent residents under the IRCA amnesty provisions. (Certain medical services are considered public assistance costs under IRCA). The remainder of the funds are allocated to educational services (21 percent) and public health services (5 percent).

The pattern of costs over time in these three areas are quite different, presumably reflecting the administration's assessment of when costs will occur. Specifically:

- Public assistance costs grow rapidly and then stabilize in the last two years. This expenditure pattern apparently is based on an assumption of increasing demand for AFDC and general assistance over time.
- Education expenses grow rapidly and then decline. This expenditure pattern may reflect the need for English and civics instruction before aliens make the transition from temporary to permanent resident status.
- Public health costs diminish steadily over time. These estimates appear to assume that health problems of most legalized aliens will be discovered and addressed early.

How Are the Funds Allocated By Level of Government? As proposed, locally funded programs would receive two-thirds of all SLIAG funds made available to California. The distinction between what constitutes a state or locally funded program often is difficult to discern because both levels of government provide funding to the same programs. For this analysis, we assumed that a program is funded by whichever level of

government would have paid for additional services needed by newly legalized aliens absent the new SLIAG funds. Using this criterion, costs of general assistance, medical services for indigents, and education programs generally would be born by local agencies. These programs account for \$1.1 billion (63 percent) of the SLIAG funds available to California. Specifically, \$346 million (20 percent) is targeted to local education agencies, and \$753 million (43 percent) to county governments. The remaining 35 percent in federal funds would go to state-funded programs.

How Will the Funds Be Appropriated? At the time this analysis was prepared, *current-year* funds had not been proposed for expenditure pursuant to Section 14 of the 1987 Budget Act. This section was added to give the Legislature a 60-day period for review of the administration's plan to spend SLIAG funds. Presumably, the administration will be using this section to (1) propose expenditure of \$146 million in 1987-88, per the Governor's Budget, and (2) present to the Legislature its plan for the expenditure of SLIAG monies.

The administration proposes to appropriate most of the budget-year SLIAG monies (\$291 million) through Section 23.5 of the 1988 Budget Bill. This control section would allow the Department of Finance the flexibility to allocate funds to individual programs and departments as necessary to meet allowable costs. As a result, individual program and departmental budgets generally do not reflect the availability of SLIAG funds. There are two exceptions: the Medi-Cal and County Medical Services program budgets have included these funds in their expenditure estimates. The agency advises that most programs will reflect the availability of SLIAG funds through a Department of Finance budget amendment letter or as part of the revision of expenditure estimates that occurs in May.

The section also contains a number of other significant provisions that regulate the use of SLIAG funds. Included in the section is language that:

- Limits funding for Medi-Cal services to pay for only those services that are eligible for federal financial participation.
- Requires the Department of Education (SDE) to develop a plan to administer education funds made available under the agency's SLIAG proposal. The language would require SDE to describe in the plan the appropriate division of responsibility for providing adult education services between local school districts and the community colleges.
- Authorizes the Department of Finance within 10 days of notifying the Joint Legislative Budget Committee to reallocate SLIAG funds among different public health programs or between the "general assistance" and state-only AFDC allocations. Normally, the realloca-

tions would be subject to Section 28 or Section 6.5 of the Budget Bill, which contain 30-day waiting periods.

We discuss these and other matters in our analysis of Section 23.5 contained in the *Analysis of the 1988-89 Budget Bill*.

SLIAG EXPENDITURE PLAN POSES MAJOR FISCAL AND POLICY ISSUES

With so many programs involved, and because there is so little information about the services needed by legalized aliens, there are a large number of issues that the Legislature will need to address during the coming months and years. In the following section, we discuss the Legislature's options concerning the SLIAG funds in general terms, addressing three questions: (1) What does the Legislature need to consider in devising a SLIAG funding plan? (2) What guidelines would help the Legislature in developing its strategy? and (3) What additional information does the Legislature need in order to fully evaluate the administration's plan?

What Are the Major Components of a SLIAG Funding Plan?

The agency's SLIAG spending plan represents the administration's strategy for providing health, welfare, and education services to newly legalized aliens. As such, it addresses the administration's preference on three key IRCA policy decisions: (1) the programs to receive SLIAG funding; (2) the additional funding needs of each program; and (3) the time period over which SLIAG funds support these costs. The Legislature, however, may choose to decide these matters very differently. The options available to the Legislature are discussed below.

Other Services Could Be Funded with SLIAG Funds. Although the budget proposes to support 21 different programs, our analysis indicates that the Legislature could elect to support IRCA-related costs incurred by four additional health and welfare programs as well as a higher level of support for the adult education and K-12 programs. (Additional funds given to K-12 programs—known as the "supplement"—would increase support for a variety of activities to schools in which a significant number of legalized aliens were enrolled.) Table 29 illustrates that, in 1988-89, \$21.5 million in health and welfare costs and up to \$80 million in education costs could be supported from SLIAG funds but have not been included in the Governor's proposal. Therefore, based on these estimates, the Legislature could spend \$395 million of the SLIAG funds in the budget year (\$291 million proposed in the 1988-89 budget plus an additional \$102 million identified in Table 29).

Table 29
Potential Costs Eligible for SLIAG Funding
That Are Not Included in the Governor's Plan
1988-89 Costs
(dollars in millions)

<i>Program</i>	<i>Estimated 1988-89 Costs</i>
Health and Welfare: ^a	
Mental health	\$12.7
Migrant farmworker housing	6.3
Alcohol and drug treatment	2.5
In-home supportive services	— ^b
Subtotal	(\$21.5)
Education:	
Adult education	\$76.0 ^c
K-12 supplement	4.0 ^d
Subtotal	(\$80.0)
Total	\$101.5

^a Health and Welfare Agency estimates.

^b Costs estimated at less than \$100,000 in 1988-89.

^c Assumes additional education or job skill training is desired.

^d Assumes that final federal regulations would permit these additional funds to be allocated to the K-12 supplement.

The consequences of not funding these services with SLIAG monies differ by program. Migrant farmworker housing, alcohol and drug treatment, mental health and adult education programs would not automatically receive funding increases to compensate for increased demand for services. This is because these programs must try to satisfy demand for services within a specified annual appropriation. Thus, these four programs would provide services to newly legalized aliens by displacing other potential participants. The In-Home Supportive Services (IHSS) program generally serves all eligible individuals needing assistance. Therefore, additional costs to this program probably would be funded with General Fund monies.

The consequences of not funding a higher level of *education* services are somewhat different. The Governor's proposed SLIAG plan already allocates funds to K-12 and adult education programs. Amounts shown in Table 29, therefore, illustrate the *additional* funding that could be spent on education under federal law. This increased spending could allow legalized aliens to further improve their basic skills.

The Budget Proposes to Reimburse Programs for Their Total—Not Incremental—IRCA Costs. Many of the 21 programs for which the budget proposes funding *currently* serve the illegal immigrant population. As a result, some of the funds needed to provide services to legalized aliens *are already in the base budgets for these programs*. For instance, county health services programs currently attend to the health needs of the undocumented alien population through the "AB 8" program, which

is supported by a combination of state and local monies. According to an estimate made by the Department of Health Services, approximately two-thirds of aliens that will be legalized are already receiving services through existing county health programs. There is great uncertainty over the actual level of services currently provided by programs. If, however, the department's estimate is reasonable, the new cost to county programs—the *additional* cost beyond the amounts currently budgeted—will be far less than proposed in the Governor's Budget.

The budget proposal acknowledges, but does not include, estimates of the amount of SLIAG funding that would support expenditures already in the base. According to the agency, there is too much uncertainty over the extent to which legalized aliens are currently receiving services. The Departments of Health Services and Education, however, have provided estimates of the services proposed for funding with SLIAG funds that would have been provided *within existing program resources*. These figures are summarized in Table 30. The table shows how total SLIAG funds are proposed to be distributed between these "base" services and "new" services. It indicates that one-quarter—or about \$435 million—of the total would supplant funds that are already in state and local governments' existing budgets.

Table 30
Total SLIAG Funding
New Services and Base Funding
1987-88 through 1991-92
(in millions)

<i>Program</i>	<i>Total SLIAG Funds</i>	<i>"New" Services</i>	<i>"Base" Funding</i>
Public health (all programs).....	\$92	\$68	\$24
Medi-Cal.....	212	131	81
Medically Indigent Services program	395	134	261
Primary care clinics.....	64	51	13
Adult education	337	281	56
Other programs ^a	635	635	—
Totals.....	\$1,735	\$1,300	\$435

^aThe Department of Social Services did not estimate the amount of funds that existing cash assistance or social service programs currently spend on the undocumented alien population. We have placed all the monies in the "New Services" category, however, because it appears that very little service in these areas currently is being provided.

We would caution against using these numbers to make allocation decisions for specific programs because these estimates are little better than educated guesses. At this time, there is very little data available to determine the level of services currently provided by most of these programs. The table illustrates the general point, however, that the Governor's proposal does much more than simply fund new IRCA-

related costs—the proposal also would use SLIAG funds to pay programs for services already provided to undocumented aliens with state or local monies.

The budget's proposed use of SLIAG monies to "buy out" existing expenditures for this group would have one of two effects. First, the "freed up" state and local funds could be used to *augment program spending*. These additional monies could be used: (a) to enhance service levels for *all* program participants (federal rules require that aliens receive the same services as other participants, and higher service levels would have to be available to all program participants) or (b) for other purposes (increased salaries, equipment purchases, replacement of revenue losses from other sources). For instance, counties could redirect the funds currently devoted to health services for legal aliens in order to improve services for all recipients of county health services.

Second, these extra funds could provide *fiscal relief* to state or local governments. That is, governments could simply "bank" these funds and redirect them for *any* other purpose.

While it is impossible to know in all situations how governments will respond to SLIAG "base displacement"—the buy out of existing expenditures—our review indicates that the following scenarios are likely to occur:

- **Program Augmentations.** Local education agencies and primary care clinics probably would use the SLIAG funds for enhanced services or other purposes. Since unspent funds resulting from SLIAG "displacement" would revert to the state and could not be used in other ways by these agencies, they would have incentives to spend the funds in some way.
- **Fiscal Relief.** The proposed five-year Medi-Cal allocation of \$81 million for base services would result in fiscal relief to the state. This is because recent changes in federal law require the Medi-Cal program to provide emergency medical services to specified undocumented aliens. The 1988-89 budget reflects the fiscal relief approach, as the Medi-Cal General Fund budget has been reduced by the amount of proposed SLIAG funds.
- **Combination.** Local health programs, including the Medically Indigent Services program (MISP) and public health components, probably would choose a combination of funding augmentations and fiscal relief. For example, counties could use MISP funds to provide county fiscal relief by reducing expenditures on "AB 8" health services *if* they currently spend more than is required under existing state funding rules (referred to as "overmatched" funds). Once counties eliminate the local "overmatch," however, they would probably choose to enhance local services rather than return state

General Fund monies. (Please see Item 4260 in our *Analysis* for more extensive discussion of this particular issue.)

The Legislature can control the extent to which SLIAG funds are used to increase program funding levels and provide fiscal relief, as well as which programs and levels of government will receive these benefits. For example, the Legislature could choose to redirect SLIAG support for local MISP programs—which generates *county* fiscal relief and program augmentations—in order to create more *state* fiscal relief. The budget proposes to allocate \$395 million in SLIAG funds for the MISP program over the funding period. The budget also provides an annual appropriation (\$495 million from the General Fund in 1988-89) for the *existing* MISP program. The Legislature could reduce over the next few years existing General Fund-supported spending by up to \$260 million (our estimate of the amount that would be provided to IRCA-eligible aliens by the existing MISP program) and instead appropriate SLIAG funds to support these costs. This would result in fiscal relief to the state.

Using SLIAG funds to replace existing General Fund expenditures has at least one serious drawback, however. The Governor's Budget expects SLIAG funds to last until 1991-92. *When the funds are exhausted, the General Fund monies will have to be restored to the budget.* If during the intervening years the freed-up monies are redirected to support an ongoing program with funding needs that extend beyond 1991-92, there may not be sufficient funds or room within the state's appropriations limit to support both the restoration and the newly funded program's needs.

SLIAG Funds Could Be Made Available for Two Additional Years. The budget proposes spending SLIAG funds over a five-year period, from 1987-88 through 1991-92. During this time, all \$1.7 billion in federal funds would be spent. The Governor's proposal does not identify how the *continuing* costs of services would be funded once SLIAG monies are exhausted. The proposal recognizes this problem, however, stating that the issue will be addressed at a later time.

Federal law allows the state to use SLIAG monies for up to two years longer than proposed in the budget. Thus, the Legislature could stretch out the use of SLIAG funds through 1993-94. In order to have SLIAG funds available in 1993-94, however, fewer funds than proposed by the budget would be spent during the *earlier* years of the plan. The pros and cons of these two choices are as follows:

- **Early Spending.** The advantage of early spending is that it makes program augmentations and fiscal relief available right away. The disadvantage is that state and local governments will face great pressure to maintain new services and benefits once SLIAG funds are exhausted.

- ***Stretched Out Spending.*** The advantage of spending SLIAG funds in later years is that it protects state and local funds from costs incurred in 1992-93 and 1993-94. It also protects state and local resources in the event that new costs in any year are higher than anticipated. The main drawback of stretched-out spending is that the state may not be able to take full advantage of any *additional* federal funds that are made available in future years.

What Guidelines Should Govern Legislative Decisionmaking?

In developing a strategy on allocating SLIAG funds, there is no "right" or "best" approach. The strategy selected by the Legislature will depend on its preferences with regard to the key policy decisions discussed above. There are, however, some fiscal guidelines that we believe deserve high priority in the Legislature's planning process:

- ***Give High Priority to Funding New Costs.*** Without SLIAG monies, new costs will be supported from existing state or local funds. The Governor's plan generally funds new costs of services with two exceptions. First, the proposed plan does not support new costs associated with four health and welfare programs that may experience increased demand for services due to IRCA. Second, the proposed plan does not budget any funds for new costs incurred in 1992-93 or 1993-94. We think the Legislature should give high priority to funding these unavoidable new costs.
- ***Keep Spending Plans Flexible as Cost Information Improves With Time.*** We think it highly likely that actual costs will prove to be much different than projected in the Governor's budget. This is *not* because the budget estimates are poorly done. There simply is so little information to work with that reliable estimates are not a possibility. As more information becomes available on the additional services legalized immigrants need from state and local programs, the Legislature's assessment of how to spend SLIAG funds may change. For instance, if legalized aliens do not demand the level of adult education services proposed in the state's plan, the Legislature may want to redirect SLIAG funds to another purpose. Thus, it is important to stay flexible as information on the need for services improves.
- ***Minimize the Discontinuity Effect.*** We estimate that the cost of continuing the plan proposed in the Governor's Budget in 1992-93 and 1993-94 is approximately \$350 million a year. If no SLIAG funds are available, these costs would be supported by state and local governments beginning in 1992-93. Taking steps to minimize this abrupt increase—or discontinuity—would allow state and local governments to incorporate the increase into base budgets more easily. One way of minimizing the discontinuity is to phase out the use of

SLIAG funds over a few years. This would allow governments to include new costs in base budgets over a longer period.

- *Use "Supplanted Funds" to Support One-Time or Limited-Term Projects.* As discussed above, the Governor's SLIAG spending proposal will allow some programs to supplant existing spending on aliens and thereby augment program funding levels. When SLIAG funds are exhausted, however, there will be pressure to replace the federal funds with state General Fund monies in order to maintain the same level of funding in the future. Therefore, the Legislature should be careful about appropriating the funds to on-going programs and consider instead using supplanted funds to support one-time or limited-term projects.

An Alternative Spending Plan. The above guidelines suggest that, at least from a fiscal and budgetary perspective, there may be a better way to allocate the IRCA funds. Charts 43 and 44 illustrate the Governor's proposal and compare it with one such hypothetical alternative. Both charts show total state and local spending for all IRCA-related programs over the period 1987-88 through 1993-94. The center line shows what might have happened to state and local spending if IRCA had not passed. This is the "baseline," which includes funds currently expended by programs on IRCA-eligible aliens. The top line represents existing governmental costs *plus* additional, or new, costs of providing services to legal immigrants. The bottom line represents governmental spending *less* the cost of services that programs currently provide to legalized aliens. The space between the top and bottom lines, therefore, represents *total* spending to provide services to eligible aliens.

Chart 43 illustrates how the Governor's budget proposes to spend SLIAG monies. Funds will support the *total* cost of services delivered to legalized aliens—both the existing and additional costs—through 1991-92. At that point, SLIAG funds are exhausted. Therefore, in 1992-93, the demand for services is at point A, but program budgets have sufficient funds to provide services only up to point B. As discussed earlier, we estimate that the magnitude of this gap is approximately \$350 million.

An alternative to the Governor's plan is illustrated in Chart 44. Under this "new cost" alternative, only the *additional* costs of providing services are supported with SLIAG funds. Programs are assumed to maintain the current level of spending on the eligible population. By not funding "base" costs the state could pay for most of the additional costs of services for 1992-93 and 1993-94. Under this alternative, there would be some new costs in 1992-93 and 1993-94 not covered by SLIAG monies that would have to be picked up by state and local governments (the darkened wedge on Chart 44).

Chart 43

**Uses of SLIAG Funds
Governor's "Total Cost" Proposal
1987-88 through 1994-95**

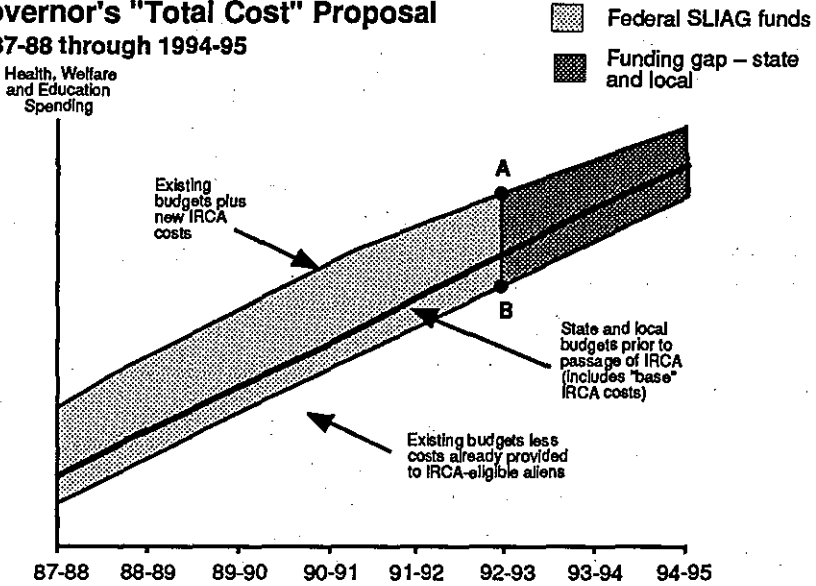
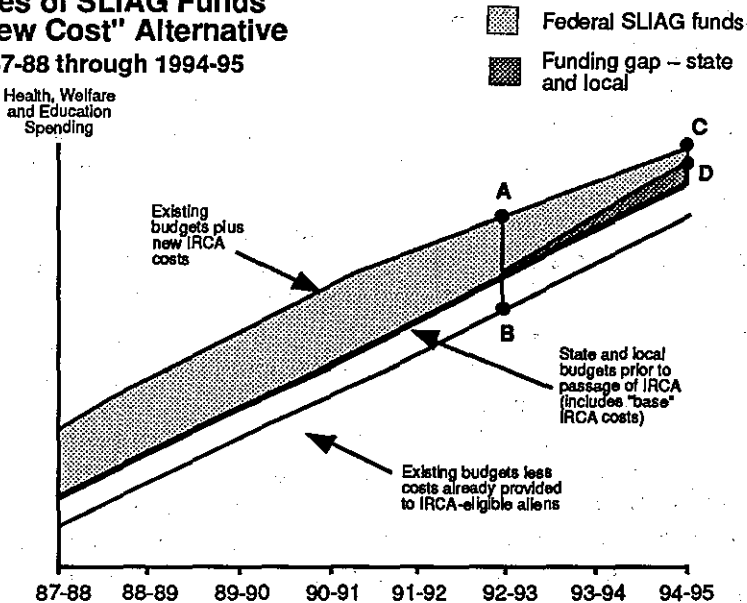


Chart 44

**Uses of SLIAG Funds
"New Cost" Alternative
1987-88 through 1994-95**



There are two basic advantages to this alternative. First, it reduces the funding discontinuity. As Chart 44 shows, the funding gap would be the amount represented by the line between points C and D, the additional costs that state and local government would start to assume in 1994-95. This amount is much less than the discontinuity proposed by the Governor's Budget. Second, this alternative, in contrast to the Governor's, does not create pressure to further increase the level of services provided by state and local programs as a result of the buyout of existing expenditures.

The new cost alternative assumes, however, that no additional federal funds would be made available beginning in 1991-92. If the federal government provided additional monies and allocated the new funds on the basis of state spending to date, California would have a relatively large amount of unused funds. This might mean that the state would get less additional funding than under the Governor's proposal. Given the federal budget deficit, however, it appears unlikely that additional SLIAG funds would be made available to states in the future.

Legislature Needs Additional Information About Administration's Plan

We recommend that the Health and Welfare Agency provide additional information to the appropriate fiscal and policy committees by April 1, 1988 concerning its proposal to spend federal SLIAG funds.

While the proposed SLIAG spending plan addresses the main questions surrounding how funds would be used, there are a number of important questions that it does not answer. These questions include:

- *What will happen to program and annual total allocations if one year's allocation is not sufficient to cover total costs?* The budget proposes to spend \$291.3 million in SLIAG funds in 1988-89. What happens, for example, if costs for the programs proposed for funding exceed that amount by \$20 million? Will the administration require programs to absorb the difference or will it propose to increase the allocation of funds for that year by \$20 million?
- *How does the administration propose to spend any additional SLIAG funds that may become available during the next four years?* We believe the agency's estimate of \$1.7 billion in SLIAG funds coming to the state is conservative. Our preliminary review of anticipated SLIAG fund availability suggests that: (1) the federal offset may be considerably *smaller* than estimated by the Health and Welfare Agency, and (2) that California's share of funds made available to states may be *larger* than the 57 percent assumed by the agency. It is possible that the federal government may eventually award the state upwards of \$2 billion in SLIAG funds. How the agency would use these monies is not apparent. The Legislature needs to understand the administration's plans for any additional funds should they come available.

- ***Does the administration propose to use General Fund monies to provide initial program funding in the event that the federal government does not allow SLIAG funds to be used for that purpose?*** Many programs will have difficulty expanding services to the legalized immigrant population if some upfront funds are not made available. This is because some programs cannot or will not use funds from other sources to pay for services pending reimbursement with SLIAG funds. The administration proposes to provide *prospective* reimbursement in most cases. A strong possibility exists, however, that the federal government will not allow SLIAG funds to be used for that purpose. In that case, the state could use General Fund monies to provide prospective funds and would be reimbursed later with SLIAG monies. Senate Bill 1753 (Torres) would make General Fund monies available to provide prospective funding. The administration has not yet decided whether it will support the use of General Fund monies for prospective payments to programs.

In addition to these unanswered questions, we believe that the following information is essential to understanding the full range of alternatives that are available to the state:

- ***Complete cost estimates for those programs the Governor's plan does not propose to fund.*** While estimates of the 1988-89 costs are available for the four programs the Governor's Budget did not propose to fund, the Legislature needs to know how these costs will change over time.
- ***The administration's best estimate of the amount of existing program expenditures that are currently providing services to the legalized alien population.*** An estimate of existing costs in those programs for which we had data from departments indicates the proportion of costs that could be met with existing resources. These estimates are (1) somewhat dated, (2) do not cover all programs proposed for funding, and (3) may not be very accurate. We recognize that these estimates will be difficult to develop. However, accurate and complete estimates of existing expenditures are essential to the Legislature's SLIAG fund allocation process.
- ***The continuing cost of providing essential services to the legalized alien population in 1992-93 and 1993-94.*** In order to understand the funding situation it may face in these later years, the Legislature needs estimates of state and local costs that will result from its plan in 1992-93 and 1993-94.

We believe that the Legislature needs this information in order to fully understand the administration's proposal and to develop its own plan. Therefore, we recommend the Health and Welfare Agency report to the appropriate fiscal and policy committees by April 1, 1988 in response to these information needs.

A Status Report on Proposition 65—The Safe Drinking Water and Toxic Enforcement Act of 1986

What are the Proposition 65 Implementation Issues Facing the Legislature in the Coming Year?

Summary

- *The Governor's Budget proposes to fund the Safe Drinking Water and Toxic Enforcement Act—Proposition 65—at essentially the same level as in the current year (\$11.7 million and 154 positions in seven agencies).*
- *The implementation of Proposition 65 is off to a slow start. The majority of the activity to date has revolved around compiling the list of chemicals subject to the discharge and exposure warning requirements of the measure, drafting regulations, reporting illegal waste discharges, and providing technical assistance. At the time this analysis was prepared, few of the positions authorized in the 1987 Budget Act had been filled and none of the regulations needed to implement the measure were expected to be adopted until late February 1988.*
- *Questions the Legislature will be facing in the coming year include: (1) To what extent should the state take an active role in performing discretionary activities? (2) Are there other activities that should be funded? (3) What are the appropriate funding sources for activities that benefit individual businesses? (4) Should the Department of Food and Agriculture enforce the measure's safety factor for reproductive toxicants, or its own standard? (5) Should the State Water Resources Control Board impose Proposition 65 restrictions on dischargers exempted from the measure?*
- *We recommend that the administration submit a work plan to the fiscal committees prior to budget hearings that reflects the Legislature's stated priorities and current information on workload.*

The Governor's Budget proposes to fund the Safe Drinking Water and Toxic Enforcement Act—Proposition 65—at essentially the same level as in the current year (\$11.7 million), with minor technical adjustments. According to the Governor's Budget Summary concerning Proposition 65, the administration plans to "review the current implementation in the spring for any potential workload or funding issues requiring adjustment."

This section reviews the implementation of Proposition 65 to date and outlines several issues that the Legislature may wish to address in the coming year when reviewing the administration's Proposition 65 budget proposal.

Background

On November 4, 1986, the voters approved Proposition 65, the Safe Drinking Water and Toxic Enforcement Act. The general purposes of Proposition 65 are to (1) prevent contamination of drinking water by prohibiting discharges of toxic substances that cause cancer or "reproductive toxicity" (that is, causing reproduction-related problems like sterility or birth defects) in humans and (2) assure that individuals are informed when they are exposed to toxic substances that can cause cancer or reproductive toxicity.

State Mandates. The measure requires the Governor, by March 1, 1987, to publish a list of chemicals known to cause cancer or reproductive toxicity and to update the list at least once each year. The Governor is also required to publish a second list by January 1, 1989 that includes chemicals being tested for their potential toxicity. In developing these lists, the Governor is required to consult with the state's qualified experts.

The measure also requires "designated" government employees to report to county governments within 72 hours of discovering any illegal discharges of hazardous waste. Counties are then required to make this information available to the media.

Private-Sector Mandates. The key provisions of Proposition 65, however, apply exclusively to the private sector. There are two basic prohibitions. First, the measure prohibits businesses with 10 or more employees from knowingly discharging a chemical known to the state to cause cancer or reproductive toxicity into water or onto land where the chemical could reach a drinking water source. The discharge prohibition becomes effective 20 months after a chemical is listed. Businesses are exempt from the discharge prohibition if the discharge will not result in the chemical entering a drinking water source in amounts leading to exposures that pose a "significant risk" to health.

Second, the measure also prohibits businesses with 10 or more employees from knowingly exposing any individual to a chemical known to cause cancer or reproductive toxicity without first giving clear and reasonable warning. The warning requirement becomes effective 12 months after the chemical is listed. Businesses are exempt from the warning requirement if the chemical exposure poses no "significant risk."

The measure defines the no "significant risk" level for *reproductive toxicants* as an exposure 1,000 times less than the level that has no observable effect based on scientific evidence. The measure does not

define what the "no significant risk" level is for *cancer-causing chemicals*. The measure places the burden on businesses to prove that exposures and discharges do not cause a significant risk.

The measure specifies the penalties for violating these requirements and authorizes individuals to file suit against violators if the district attorney or Attorney General fails to take action against the violation within 60 days of being notified of the violation.

Current-Year Budget. In early 1987, the Governor chose the Health and Welfare Agency to be the lead agency responsible for coordinating the implementation of Proposition 65. One of the first activities undertaken by the agency was to develop a proposed 1987-88 budget for Proposition 65. This proposed budget was submitted to the Legislature by the Department of Finance in a May 1987 budget amendment letter. The request proposed augmentations to the budgets of various agencies totaling \$11.7 million (\$6.7 million from the General Fund, \$0.8 million from the Hazardous Waste Control Account, and \$4.2 million from fees).

After reviewing the proposal, the Legislature made several changes. Specifically, it (1) appropriated all the funds in a control section (23.00), (2) adopted language establishing funding priorities that apply to all affected agencies; and (3) increased funds for technical assistance and enforcement related to occupational exposures (\$399,000), technical assistance related to air exposures (\$66,000), and for general enforcement activities in the Department of Justice (\$518,000). The Governor deleted the augmentations related to occupational and air exposures and reduced the augmentation for general enforcement to \$236,000. He also deleted funding in other areas of the program so that the net amounts appropriated were the same as in the original proposal.

Table 31 displays the current budget allocation for Proposition 65 activities by department and funding sources.

The current-year budget allocates the majority of the funding to three departments: (1) the Department of Health Services, to assess health risks and enforce the warning requirements in the food and drug industry; (2) the State Water Resources Control Board, to provide technical assistance and prepare to enforce the discharge prohibitions; and (3) the Department of Food and Agriculture, to provide technical assistance and enforce the warning requirements with respect to pesticides.

Table 31
Proposition 65
Funding by Agency and Activity
1987-88
(dollars in thousands)

<i>State Agency</i>	<i>Management and Support</i>	<i>Scientific Functions</i>	<i>Technical Assistance</i>	<i>Monitoring and Enforcement</i>	<i>Designated Employee Reporting</i>	<i>Totals</i>
Department of Health Services.....	\$152	\$3,387	\$818	\$444	\$229	\$5,030
Department of Food and Agriculture.....	—	1,929	430	916	36	3,311
State Water Resources Control Board	167	774	214	887	313	2,355
Health and Welfare Agency	150	253	—	—	—	403
Air Resources Board	—	279	—	—	—	279
Department of Fish and Game.....	—	—	—	—	23	23
Office of Emergency Services	—	—	—	—	23	23
Department of Justice.....	—	—	—	236	23	259
Totals.....	\$469	\$6,622	\$1,462	\$2,483	\$647	\$11,683
Funding sources						
<i>General Fund</i>	<i>\$469</i>	<i>\$2,409</i>	<i>\$917</i>	<i>\$2,483</i>	<i>\$418</i>	<i>\$6,696</i>
<i>Hazardous Waste Control Account..</i>	<i>—</i>	<i>597</i>	<i>—</i>	<i>—</i>	<i>229</i>	<i>826</i>
<i>Fees</i>	<i>—</i>	<i>3,616</i>	<i>545</i>	<i>—</i>	<i>—</i>	<i>4,161</i>
<i>Positions</i>	<i>7.7</i>	<i>72.7</i>	<i>24.5</i>	<i>38.7</i>	<i>10.7</i>	<i>154.3</i>

STATUS OF PROPOSITION 65 IMPLEMENTATION

The majority of the activity to date has revolved around compiling the list of chemicals subject to the measure, drafting regulations, reporting illegal waste discharges, and providing technical assistance. Below we describe the status of each of the five program activities that are identified in the 1987 Budget Act, as of January 1, 1988.

Management and Support

The 1987-88 budget includes \$469,000 for this function. The primary activity in this area has been the development of administrative procedures and regulations. The Health and Welfare Agency (HWA) intends to adopt final regulations defining a few of the terms used in Proposition 65 by the end of February.

The most important issues in regulation development involve the definitions of "clear and reasonable warning," "significant risk," and "sources of drinking water." At the time this analysis was prepared, the most pressing set of regulations involved the warning requirements, because these requirements go into effect on February 27, 1988 for the first group of chemicals listed by the Governor. The general debate over how the warnings should be provided involves whether individual products should be labeled, whether the retailer or wholesaler should be responsible for placing signs at the point of sale, or if a telephone hotline is sufficient.

A major issue concerning the definition of "significant risk" involves whether *current* state and federal standards promulgated under a variety of regulatory programs provide the level of protection intended by

Proposition 65. At the time this analysis was prepared, the HWA was proposing interim standards addressing warning requirements for food, drugs, cosmetics, and medical devices based on these current standards. Under this proposal, if businesses comply with the current standards in these areas, then warnings would not be required.

For other types of exposures, such as worker exposure and air pollution, and for discharges into sources of drinking water, the HWA has not yet defined significant risk. Toward this end, the administration intends to develop "safe use numbers" (exposure levels presenting no significant risk). Until the state sets "safe use numbers," businesses will have to (a) develop their own assessment of risks, (b) request "safe use determinations" (see below) from one of several state departments, and/or (c) provide warnings or eliminate discharges.

In addition to the regulations that define "clear and reasonable warning" and "significant risk," the administration is currently developing regulations defining "source of drinking water" as it pertains to the discharge prohibition. This prohibition goes into effect for the first group of chemicals on October 27, 1988.

Scientific Functions

The current-year budget includes \$6.6 million and 72.7 positions for scientific functions in five departments. The Legislature directed that the funds be spent for five activities according to designated priorities but did not separately identify funding and positions for each activity.

As of January 1, 1988, only 6 of the 72.7 positions had been filled. The remaining positions had not been filled because (a) workload has not materialized and (b) the Department of Health Services has intentionally held positions vacant to meet a department-wide salary savings requirement. A specific status report on each activity follows.

Legislative Priority 1: Policy and Guidelines. This activity involves developing policies and guidelines for assessing risks posed by cancer-causing substances and reproductive toxicants.

The Department of Health Services (DHS) has issued very general "interpretive guidelines" to assist industry in assessing risks posed by cancer-causing substances and reproductive toxicants. For more specific guidelines for cancer risks, the DHS intends to rely on its existing cancer policy, which was published in November 1985. There are no existing guidelines for reproductive toxicants, and the DHS estimates it will take at least three years to develop them. The interpretive guidelines include only one page concerning reproductive toxicants.

Legislative Priority 2: Listing of Chemicals. As of January 29, 1988, the Governor had listed 177 chemicals, 148 chemicals more than the original 29 listed in February 1987. On January 29, 1988, the Scientific Advisory Panel recommended that an additional 41 chemicals be added

to the list for a total of 218. The Governor is expected to decide on the additional chemicals by April 1, 1988. The Scientific Advisory Panel has held public hearings approximately every three months since March 1987 to review and recommend additional chemicals for the list.

Legislative Priority 3: Health Hazard Assessments. This activity involves conducting health hazard assessments in order to develop "safe use numbers" for listed chemicals. A "safe use number" is a level of exposure that poses no significant health risk. For example, a safe use number might be expressed in terms of the concentration of a chemical contained in drinking water.

In the current-year budget, three departments received funding to perform health hazard assessments. At the time this analysis was prepared, the Department of Food and Agriculture (DFA) was the only department that had begun implementing this activity.

Specifically, the DFA indicates that it has expanded its current pesticide review efforts to evaluate existing uses of pesticides containing listed chemicals. The DFA's evaluations will determine if continued use will result in exposures or discharges that constitute a "significant risk" based on "generally accepted scientific criteria." According to the DFA, it generally considers levels of exposure or contamination to be safe when they are 100 times less than the "no observable effect level," assuming a lifetime of continued exposure. According to the DFA, as of January 1, 1988, it had completed reviews of existing health hazard assessment data for seven chemicals that were listed or expected to be listed.

The DHS has not hired any staff to develop health hazard assessments. The DHS indicates that it intends to review the listed chemicals to determine which are of highest priority and then begin assessing the risks of those chemicals first. The DHS, however, has not developed a work plan indicating when the risk assessments will begin and when they will be completed.

The State Water Resources Control Board (SWRCB) also has not hired any staff for this activity. Although it received \$442,000 and 8.4 positions to conduct health hazard assessments, the SWRCB now indicates it will rely on the DHS for health hazard assessments, given the department's primary responsibility for and special expertise in evaluating health risks.

Legislative Priority 4: Permit and Pesticide Registration Review. This activity involves the review of (a) waste discharge permits by the SWRCB and (b) requirements for pesticide registrations and use permits by the DFA. The SWRCB currently is determining which industries would be most likely to discharge listed chemicals. It plans to request detailed analyses from dischargers in those industries in order to determine whether their wastes include any of the listed chemicals.

As discussed earlier, the DFA has begun reviewing pesticides that contain the listed chemicals. The DFA indicates that no regulatory action was required by the seven risk assessments it has completed. If additional restrictions on specific pesticide uses are needed to prevent exposures of significant risk, the DFA indicates it can implement these restrictions by revising pesticide use permits, which specify required application procedures at specific sites.

Legislative Priority 5: Safe Use Determinations (SUDs). A major part of the administration's plan for implementing Proposition 65 is to provide safe use determinations (SUDs) when requested by businesses. A SUD advises a business on whether chemical exposures and discharges resulting from its business activities result in a significant health risk.

A SUD differs from a safe use number. A safe use number relates to the health risk of exposure to a chemical through, for example, drinking water or food. A SUD determines how a *specific use* of a chemical will affect exposures. For example, a SUD might determine how much of a chemical could be discharged to a river at a specific location without causing contamination in drinking water that poses a significant risk.

The current-year budget includes approximately \$3.5 million for SUDs. The anticipated workload has not materialized, as there has not been one request yet for a SUD. Due to this lack of workload, no positions have been filled for this activity.

Technical Assistance

The 1987-88 budget provides \$1.5 million and 24.5 positions to three departments (DFA, SWRCB, and DHS) to provide technical assistance to the general public, other state agencies, and businesses concerning the requirements of Proposition 65. Only 6 of the 24.5 positions have been filled, 5 of which are at the DFA. The DFA is responding to requests for information concerning product use, application sites, chemical composition of pesticides, and registration status.

Monitoring and Enforcement

The current-year budget provides \$2.5 million and 38.7 positions to monitor and enforce warning and discharge requirements. The DHS, SWRCB, and DFA are the three major departments involved in this activity. These three departments received a total of 31.7 positions, of which 3 have been filled. The departments indicate that they intend to hire the remaining staff in the second half of the fiscal year when the warning requirements of Proposition 65 first become effective. The Department of Justice received funding for seven positions that were not effective until January 1, 1988.

Designated Employee Reporting

The current-year budget allocates \$647,000 and 10.7 positions to six departments to support the measure's reporting requirements. Four of the 10.7 positions have been filled. It appears that the departments have made efforts to implement this activity. For example, the SWRCB has reported 2,950 hazardous waste discharges to county agencies since the program began.

ISSUES THE LEGISLATURE WILL FACE IN THE COMING YEAR

As noted above, the budget proposes to allocate in 1988-89 about the same level and distribution of state resources for the implementation of Proposition 65 as in the current year. Our analysis has identified five questions which the legislature should consider when making its allocation decisions.

1. *To what extent should the state take an active role in performing discretionary activities?* Of the total funds appropriated for Proposition 65, approximately \$10.5 million, or 90 percent, is for discretionary, or nonmandated, activities. The only state activities required by Proposition 65 are employee reporting and compiling the list of chemicals known to cause cancer and reproductive toxicity. The majority of the funding for discretionary activities is for SUDs and permit reviews (\$3,482,000), monitoring and enforcement (\$2,483,000), technical assistance (\$1,462,000), and health hazard assessments (\$1,400,000).

Proposition 65 places the burden of proof on businesses, not the state, to show that a discharge or release of a listed chemical meets the criteria established by the measure. As a result, the level of the state's involvement in conducting health hazard assessments and SUDs, and providing technical assistance is a policy decision for the Legislature.

In purely fiscal terms, the discretionary activity that appears to be the most costly in the long run is the preparation of health hazard assessments. The administration intends to use these assessments to develop "safe use numbers" for chemicals which are still in use and which do not have adequate standards currently in place. The process for developing safe use numbers will be similar to the process used for developing standards. This process is very time-consuming and costly. For example, the DHS has spent over \$5 million in the last three years to develop drinking water standards for 35 chemicals and has yet to propose one standard. As of April 1, 1988, there may be 218 chemicals on the Proposition 65 list. The administration has not indicated how many standards will be developed each year and how much it will cost.

There are disadvantages and advantages of having the state take an active role in discretionary activities. The major disadvantage is the significant General Fund cost. Another disadvantage is the potential for

lawsuits against the state. For example, if a lawsuit were filed against a business for releasing substances that posed a significant risk, the state might be included in the lawsuit if the state had developed a safe use number that the industry relied on. The primary advantage of having the state take an active role in discretionary activities is that the total cost to society would be less if the state, rather than each individual business, developed safe use numbers and determined how to apply the requirements of the measure. In addition, the implementation of the measure would be more uniform if the state took the lead, as businesses would be following the same standards.

2. *Are there other activities that should be funded?* The Legislature may want to fund additional activities that are not addressed in the budget. One such possibility is in the area of occupational exposures. In the 1987 Budget Act, the Governor vetoed legislative augmentations totaling \$399,000 to the DHS and the Department of Industrial Relations for technical assistance, monitoring and enforcement related to occupational exposures. The DFA is the only agency with regulatory authority over occupational exposures that received funding for technical assistance, monitoring, and enforcement. Outside of agricultural exposures to pesticides, the existing Proposition 65 program generally does not provide technical assistance or monitoring and enforcement for warning requirements in the workplace.

Another major area not addressed in the budget is the regulation of air pollution. The Governor vetoed a legislative augmentation of \$66,000 for technical assistance by the Air Resources Board. The existing Proposition 65 program does not take an active role in applying the measure's warning requirements to businesses that expose people to listed chemicals through air pollution.

3. *What are the appropriate funding sources for SUDs?* Currently, the funding for SUDs is split between the General Fund, the Hazardous Waste Control Account (HWCA), and fees. The exact split varies depending on the activity and department. For the DHS, funding for the preparation of SUDs is split between the General Fund (25 percent), HWCA (25 percent), and fees (50 percent). For other departments, the funding is divided between the General Fund (25 percent) and fees (75 percent).

As noted above, the SUDs are prepared specifically for individual industries and businesses at their request. Therefore, it is unclear why the General Fund should contribute to these SUD costs since Proposition 65 places the burden of complying with the measure on businesses. Further, the HWCA may also be an inappropriate funding source because SUDs do not necessarily involve the hazardous waste industry. It may be more appropriate to have preparation of SUDs 100 percent fee-supported. This

issue will be a significant one, however, only to the extent the private sector begins requesting these SUDs in substantial numbers.

4. Should the Department of Food and Agriculture enforce its own safety factor for reproductive toxicants? For listed chemicals that are reproductive toxicants, Proposition 65 defines no "significant risk" as an exposure that is 1,000 times less than the "no observable effect level."

The DFA indicates it generally considers safe any proposed use of a pesticide that would result in an exposure to humans at a level that is approximately *100 times less* than a chemical's "no observable effect level." The DFA indicates that the one-thousand-fold safety factor required by Proposition 65 for reproductive toxicants is "unrealistic" and that it does not intend to enforce pesticide use regulations on the basis of this more stringent safety factor.

Proposition 65 does not require state regulatory programs such as the DFA's pesticide program to be consistent with the measure. The Legislature, however, may wish to consider requiring the DFA to conform its regulatory program with Proposition 65 requirements. If the department does not enforce the thousand-fold margin of safety for reproductive toxicants, then its funding for Proposition 65 enforcement activities should be reduced accordingly.

5. Should the SWRCB impose Proposition 65 restrictions on all dischargers? The SWRCB is responsible for protecting and preserving water quality throughout the state. As one of its primary regulatory mechanisms for protecting water quality, the board issues permits that regulate discharges of wastes.

Proposition 65 specifically exempts (1) all public agencies and (2) businesses with fewer than 10 employees from its prohibitions on discharging carcinogens and reproductive toxicants into sources of drinking water. Nevertheless, the SWRCB indicates that in some circumstances, it intends to apply the Proposition 65 discharge prohibitions to *all* dischargers, whether or not they are exempted by the measure. Specifically, the board indicates that in cases where the HWA adopts a regulation under Proposition 65 which establishes a "safe use number" for a listed chemical (a level where the chemical will not pose a significant health risk), the board will incorporate that safe use number into *all* of its waste discharge permits under its more general authority to regulate water quality and protect public health pursuant to the Porter-Cologne Act.

The board's intention to apply the findings made by the HWA under Proposition 65 to those entities specifically exempted from the measure could result in major costs to local governments. It could, for instance, require municipal sewage treatment plants to modify or improve treat-

ment processes to meet its discharge requirements. The board's position also could result in increased costs for businesses in two ways. First, small businesses that discharge directly to sources of drinking water would become subject to the safe use number. Second, public sewer systems that discharge to drinking water sources might impose limits, similar to the safe use number, on businesses of any size which dispose of their waste through these sewer systems.

Given these potential public and private costs, and the responsibility of protecting and preserving water quality throughout the state, the Legislature may want to consider whether the board should apply the HWA's safe use numbers developed under Proposition 65 to dischargers exempted by the measure.

LEGISLATURE NEEDS A REVISED WORK PLAN

The budget proposes to continue the current-year funding level into the budget year. Our review indicates that the administration does not have a work plan that reflects current workload and addresses stated legislative priorities.

Since last spring, when the administration submitted its current-year funding request for Proposition 65, additional information has become available or soon will be available that affects the administration's original workload estimates and program costs. For example:

- Now that the list of chemicals has been expanded, a work plan can be developed that describes which chemicals require a risk assessment and when the risk assessment will be performed.
- The adoption of existing standards for food, drugs, cosmetics, and medical devices will probably reduce the monitoring and enforcement work originally anticipated by the DHS.
- The regulations that define "clear and reasonable warning" may affect the monitoring and enforcement workload for all departments.

In addition, certain workload has not materialized, such as requests for SUDs. If there are no requests for SUDs once the warning requirements take effect, funding and positions for this activity could be reduced.

There were also activities that the Legislature included as priorities in 1987 Budget Bill language for which the administration has not yet developed a work plan. For example, the Legislature's first priority for the scientific functions involves the DHS development of policies and guidelines regarding reproductive toxicity. However, the DHS has not filled positions authorized for this activity nor developed a work plan for completing a reproductive toxicity policy—a three-year job according to department staff.

A current work plan that reflects the Legislature's priorities and specifies what activities will be accomplished each year is necessary in order for the Legislature to review the funding request for Proposition 65. Therefore, we recommend the HWA submit a work plan to the fiscal committees prior to budget hearings that specifies what each department will accomplish in each of the five program areas with the proposed funding.

The State Impact Of Increasing the Minimum Wage

What Impact Will The Higher Minimum Wage Have On State Costs?

Summary

- *The California Industrial Welfare Commission recently took administrative action to increase the minimum hourly wage from \$3.35 to \$4.25, effective July 1, 1988.*
- *While the commission's action affects the wages of many low-income workers in private industry, the increase does not directly apply to workers in the public sector. In 1986, 320,000 persons in California worked for the minimum wage and many more—up to 500,000—worked at wages below \$4.25 an hour.*
- *The higher minimum wage will increase costs to private providers of state-funded services, resulting in potential annual General Fund costs of almost \$100 million. The budget proposes to fund two-thirds of these costs in 1988-89. The remaining costs are virtually all in the Medi-Cal program.*
- *In addition to the direct costs of increasing pay for those who earn less than the minimum wage, compaction costs—increases to employees earning wages higher than the minimum in order to maintain pay differentials between workers—generally are not reflected in the budget. We estimate that these annual General Fund costs for private providers of state-funded services could run as high as \$13 million.*

The California Industrial Welfare Commission recently increased the minimum wage in California to \$4.25 an hour beginning July 1, 1988. The last change in the minimum wage occurred in 1981, when the commission increased the wage to its current minimum of \$3.35.

This increase will apply only to workers in private-sector jobs, as public-sector wages are not subject to the commission's action. In 1986, 320,000 persons in California worked for the minimum wage and many more—up to 500,000—worked at wages below \$4.25 an hour. As a result, the higher minimum does not require any increase in state costs to pay state workers higher wages. The state, however, will incur additional costs as it pays for some services provided by the private sector.

In this analysis, we report on the impact of the higher minimum wage on state program costs. We also report on the extent to which the proposed 1988-89 Governor's Budget includes funds to meet the additional costs to state-funded programs.

What Is the Impact of the Higher Minimum Wage On State Program Costs?

Table 32 displays the programs that we have identified as being potentially affected by the increased minimum wage in 1988-89. The table indicates that the net General Fund impact will total \$89 million in the budget year, resulting from program cost increases of \$99 million, partially offset by cost reductions of \$11 million. Two programs—Medi-Cal and In-Home Supportive Services (IHSS)—account for virtually all of the cost increase.

Table 32
State Programs Affected by the Higher Minimum Wage
Potential 1988-89 General Fund Cost Impact
(in millions)

<i>Program Costs</i>	<i>Estimated Additional Costs</i>	<i>Amount Included in the 1988-89 Budget</i>	<i>Potential Shortfall</i>
Medi-Cal.....	\$32.0	—	\$32.0
In-home supportive services.....	63.0	\$63.0	—
Residential care facilities:			
Department of Developmental Services.....	unknown	—	unknown
Department of Mental Health.....	0.2	—	0.2
Child care programs.....	0.8	—	0.8
California Conservation Corps ^a	3.4	3.4	—
Totals, program costs.....	\$99.4	\$66.4	\$33.0
<i>Program Savings</i>			
AFDC.....	—\$10.7	—10.7	—
SSI/SSP.....	unknown	—	unknown
Totals, program savings.....	—\$10.7	—\$10.7	—
Net General Fund impact.....	\$88.7	\$55.7	\$33.0

^aDoes not reflect \$800,000 in funds from other sources.

Generally, additional costs result from programs that deliver services by contracting with private firms or facilities that pay workers wages that fall below \$4.25. This is true for the Medi-Cal, IHSS, Department of Developmental Services (DDS) and Department of Mental Health residential care, and Department of Education (SDE) child care programs. There is one exception to this rule. The California Conservation Corps (CCC) proposes to spend \$4.2 million to increase hourly wages of most corps members. Although the new minimum wage does not apply to government workers such as corps members, the CCC believes that the program needs to pay competitive wages in order to attract new members.

Program savings reflect the impact of higher wages on individual and family grants in the AFDC and SSI/SSP programs. Both programs reduce monthly grants to recipients in order to reflect earned income. The

estimate of AFDC savings assumes that the higher minimum wage will reduce welfare grants by \$10.7 million in 1988-89. No estimate of savings to the SSI/SSP program is currently available.

1988-89 Budget Reflects Only Some New Costs. As Table 32 shows, the 1988-89 Governor's Budget requests only \$66 million from the General Fund in order to cover costs in two of the affected programs. Of this amount, \$63 million has been budgeted to pay for the higher wages that home workers will receive under the IHSS program, and the California Conservation Corps requests \$3.4 million from the General Fund (\$4.2 million in all funds) to pay corps members the higher minimum wage. In addition, the budget reflects \$10.7 million in grant savings due to the higher earnings that AFDC recipients will receive as a result of the new minimum wage.

The proposed budget, however, does *not* request funds to offset all new state costs that would result from the higher minimum wage. Specifically:

- **Medi-Cal.** The budget does not request funds for \$32 million (General Fund) in nursing home cost increases that would result due to higher employee wages. The Department of Health Services believes it is likely that the state would be required to pay these costs even though the rate-setting formula for these facilities would not recognize the higher wage costs in the first year. As such, nursing homes would have to absorb these costs in the meantime. In our *Analysis of the 1988-89 Budget Bill*, we recommend that the revised Medi-Cal expenditure estimate issued in May contain funds to meet the higher costs caused by the new minimum wage (please see Item 4260).
- **Residential Care.** The budget does not propose to fund the higher wage costs for residential care facilities that serve the developmentally disabled and the mentally ill. The added costs to DDS are currently unknown (please see our *Analysis*, Item 4300 for more detail on this issue). The added costs to DMH are estimated at \$200,000. Rates for these facilities do not automatically adjust to reflect higher wage costs. If rates are not increased, these costs will be absorbed in other areas of the programs, and may result in service reductions.
- **Child Care.** The General Fund cost of maintaining child care services at current levels would be approximately \$800,000. The SDE reimburses local child care programs for care provided to certain low-income children. Like residential care services, if rates are not increased, costs will be absorbed and have a potential impact on services.

In addition to these unrecognized costs, the budget also does not reflect savings that will accrue to the SSI/SSP program due to increases in

income earned by beneficiaries. We have no estimate of the amount of benefits that will be saved due to higher earnings (this issue, however, is discussed in greater detail in Item 5180-101 of our *Analysis*).

Indirect Impact on IHSS Costs. The increased minimum wage will also have an additional indirect effect on IHSS costs. State law currently computes maximum hours of services available to eligible IHSS participants in terms of total *dollars* expended per person. Because the minimum wage will increase the cost of each hour of service, the number of service hours for individuals who receive at or near the maximum number of hours will decline. It would cost about \$2.4 million to maintain the existing level of hours. A statutory change would be needed, however, in order to accomplish this (please see the *Analysis*, Item 5180-181, for more details on this issue).

"Compaction Costs" Generally Are Not Included in Cost Estimates

The costs in Table 32 generally include only those costs associated with increasing the wages of individuals who now make less than \$4.25 an hour. With one exception, the estimates do not include funds to increase hourly rates for workers currently earning *more* than \$4.25 an hour.

Many programs, however, will incur these additional expenses, known as "compaction costs." This is because employers generally maintain pay differentials for workers of varying levels of experience. For example, an employer may currently pay workers \$3.35 an hour (entry level), \$4.25 an hour (one year's experience) and \$5.00 an hour (two or more years of experience). Because of the new minimum wage, entry-level workers would be paid \$4.25, the same as the group above them. In order to maintain wage differentials, the employer might set up a wage structure of \$4.25/\$4.75/\$5.25, resulting in additional wage costs above the amount needed to raise all employees to the new minimum.

The CCC is the only program that proposes funds in order to maintain differences in hourly rates. We calculate that only \$2.9 million of the \$4.2 million proposed by the CCC will actually be used to bring employee wages up to the new minimum. The remaining \$1.3 million would be used to maintain wage differentials between new employees, more experienced workers, and supervisors. Thus, compaction-related expenses increased the cost of minimum wage increases to the CCC by 45 percent.

Our analysis indicates that given the way the CCC calculated compaction costs, the 45 percent figure is a *high* estimate of what other programs may experience. It is suggestive, however, of the magnitude of additional costs that could result from the minimum wage increase. We estimate, using the 45 percent figure, that state programs would incur compaction costs of approximately \$13 million (these are in addition to costs indicated

in Table 32). The annual cost to the Medi-Cal program would be about \$9 million; the IHSS program, less than \$3 million (this is because most counties do not maintain pay differentials for in-home workers); and all other programs, about \$1 million.

Conclusion

The Industrial Welfare Commission's decision to raise the minimum wage in California has a number of implications for the 1988-89 budget. The Legislature will need to make decisions on which additional direct program costs to fund as well as the indirect effects of compaction costs and service reductions in the IHSS program.

State Transportation Policies

What Roles Should the State and Local Governments Play in Alleviating Highway Congestion?

Summary

- *Highway congestion is increasing in California's urban areas; for example, it is increasing at a rate of 15 percent annually in the Los Angeles area, and 25 percent annually in the San Francisco Bay area.*
 - *Coordinated approaches to alleviating congestion on the highway system are becoming increasingly important. The ability of regional transportation planning agencies to achieve such coordination, however, is limited by (1) constraints on how funds can be used, (2) limited authority over local governmental decisions, and (3) proliferation of new local agencies.*
 - *The Legislature should review the state's transportation policies to determine whether they provide an adequate institutional and financial framework to effectively address congestion. Alternatives the Legislature could consider are to (1) increase the state's role and responsibility or (2) increase regional authority and responsibility.*
 - *Regardless of the role the Legislature selects for the state, it will have to consider several factors when addressing the problem of urban congestion: (1) How should the state attempt to change federal laws to best achieve the state's priorities? (2) How should state laws be modified to enable state, regional and local governments to carry out their roles and responsibilities? (3) How can the Legislature foster greater coordination in transportation planning among the various levels of governments? and (4) What types of incentives can the Legislature create to increase the capacity of the transportation system and reduce travel demand?*
-

During the last few years, traffic congestion has emerged as a major, statewide concern. While congestion is not a new phenomenon, it is no longer confined to just Los Angeles or the San Francisco Bay area for limited periods of the day. Rather, it has increased in those areas and has become a problem in many other urban areas of the state. The extent of this congestion has made it difficult for California's transportation system to achieve its primary goal—the efficient and economical movement of goods and people. In turn, this has resulted in demands by citizens and public officials for an improved transportation system.

The existing transportation system was developed over the last thirty or more years, guided by policies which evolved over that period. This section discusses reasons for reexamining the state's transportation

policies and identifies some of the issues the Legislature may wish to consider in such a reexamination.

Current Transportation System

California's surface transportation system has three main components—state highways, local streets and roads, and local transit systems. In general, each component is the responsibility of that level of government that it is intended primarily to serve. For example, the highway system is designed to provide mobility among regions of the state and is the responsibility of state government. Local streets and roads, on the other hand, provide local mobility and are the responsibility of cities and counties. Transit is provided by local governments and special transit districts in order to furnish local or regional mobility for persons who cannot use, choose not to use, or do not have access to a vehicle; and to promote an alternative to travelling by automobiles.

Consistent with this division of responsibilities, each component is funded differently. *State highway* expenses are funded from the state gas tax (9 cents per gallon) and truck weight fee revenues. These funds are matched by federal funds, which are derived from a federal excise tax on gasoline. *Local streets and roads* are funded by a combination of state gas tax revenues and local funds. *Mass transit* systems are financed by a combination of federal, state and local funds and fare revenues.

Legislature Should Reexamine Its Transportation Policies

While this division of responsibilities and funding sources has resulted in a transportation system which has served California reasonably well in the past, these arrangements have failed to alleviate congestion on the state's highways and freeways. As noted above, congestion is increasing throughout the state and is particularly severe in California's major urban areas, where many highways now operate at or above their capacity. For example, Caltrans estimates that highway congestion—measured generally by the number of hours facilities operate *above* design capacity—is increasing at 15 percent annually in the Los Angeles area, and 25 percent annually in the San Francisco Bay area.

Increasing Use of Urban Highways for Local Travel. In part, congestion is the result of the overall growth in the state's population and economy. It also is due, in part, to a pattern of land use in California that frequently results in people living some distance from their jobs. This separation of employment centers from housing tends to increase the use of highways—rather than transit or streets and roads—for commuter trips.

The increased use of the state highway system for commuter and other local travel has strained the capacity of the system in many areas at peak commute times. This, in turn, reduces the effectiveness of the system in

achieving the *state's* primary objective of providing for efficient *interregional* transportation of people and goods. Furthermore, in some areas congestion is beginning to force choices between the types of travel which will be accommodated on the highway system in order to reduce the air pollution which frequently accompanies this traffic congestion. For instance, the Legislature has authorized the South Coast Air Quality Management District—which covers portions of Los Angeles, Orange, Riverside and San Bernardino Counties—to restrict truck traffic on the highway system during peak commute periods in an effort to reduce air pollution.

At the same time, a consensus has emerged among Caltrans, the California Transportation Commission and many regional transportation planning agencies that California cannot simply *build its way out* of the congestion problem. This is because of both the high cost of highway capacity improvements in developed areas and the related adverse environmental impacts (such as smog and displacement of housing and businesses) of such a strategy.

Expanded Local Financing Responsibility. Current state and local transportation agencies have been unable to alleviate traffic congestion, in part due to the limited availability of state and federal funds for transportation purposes. As a result of legislation enacted since 1984, however, counties are now authorized to impose an additional local sales tax of up to 1 percent to fund transportation improvements, including improvements on state highways.

Since 1985, four counties—Santa Clara, Alameda, Fresno, and San Diego—have enacted measures to impose a ½ percent local sales tax for transportation purposes. It is estimated that, for the five-year period 1988-89 through 1992-93, these four counties will generate about \$872 million for state highway improvements. This amount is almost *twice* the amount (\$440 million) of state highway improvements which have been scheduled to be constructed in these counties during the same period using state and federal moneys.

In addition to these four counties, six other counties may vote on similar sales tax measures this year. If all six counties adopt the proposed sales tax for transportation, about \$1.4 billion would be available for state highway improvements in the 10 counties from 1988-89 through 1992-93. This would be in addition to the \$990 million of state highway improvements which have been scheduled for construction in these 10 counties during the same period using state and federal moneys.

In addition to funds generated for state highway improvements, local sales tax measures also will generate significant amounts of money for

local streets and roads, and transit. Specifically, the four measures adopted to date will provide about \$600 million for these purposes from 1988-89 through 1992-93.

The increased use of local financing to address the problem of congestion offers advantages to both state and local governments. For the state government, it provides another source of revenues to make needed improvements to the state highway system. For the counties, it means that they are able to fund highway improvements that are important to them, but for which state and federal funds are not available.

While the use of local financing to address the problem of congestion offers some advantages, it also underscores the increased need for greater coordination among the various levels of government in dealing with congestion.

Increased Need for Coordination. Currently, regional transportation planning agencies (RTPAs) are responsible for coordinating transportation decisions on a regional basis. To do so, they prepare the regional transportation improvement programs (RTIPs) which schedule highway improvement projects according to (1) their regional and local priorities and (2) the amount of money available to each county. They also study transportation demand in particular corridors and evaluate alternatives to accommodate that demand.

The ability of the regional agencies to achieve coordination is limited in several ways. First, regional agencies are limited in their authority to affect how resources are directed among alternatives because of various categorical restrictions on the use of state, federal and local funds. These requirements frequently restrict the use of funds to a particular (1) component of the transportation system (highways versus transit versus streets and roads), (2) expenditure category (capital outlay versus operations), or (3) type of improvement (interstate highways versus primary highways). Given such categorical restrictions, an RTPA may not be able to fund the best alternatives, as identified in its corridor studies or other planning activities. Instead, the agency may be forced to fund the alternative for which funds are available.

Second, regional agencies have little authority over local governmental decisions—such as land use decisions—which cause or contribute to congestion. Third, new agencies are being established to administer the sales tax programs at the county level. Since in some areas RTPAs do not control these local sales tax revenues, these new agencies may compete with RTPAs to determine priorities for transportation improvements. These three trends may eventually reduce the authority of regional transportation planning agencies to determine priorities for regional transportation improvements.

In view of the increasing importance of coordinated planning, the current division of responsibilities and allocation of funding sources may no longer adequately serve California's needs. Consequently, we recommend that the Legislature review the state's current transportation policies to determine whether they provide an adequate institutional and financial framework to effectively address congestion on California's highways.

Basic Strategies for Addressing Congestion

The Legislature has essentially three alternative strategies it could pursue to alleviate traffic congestion in California's urban areas. First, it could leave the responsibilities and role of state and local governments relatively unchanged. However, for the reasons discussed above, current institutional and financial arrangements no longer appear to be adequate to address congestion in urban areas. The other alternatives the Legislature could consider are to (1) increase the state's role and responsibility, or (2) increase regional authority and responsibility.

Increase State Role and Responsibility. Currently, the state is responsible primarily for constructing, maintaining and operating the state highway system. To increase the state's role, the Legislature could give Caltrans and the California Transportation Commission greater authority to coordinate all transportation improvements. For example, the Legislature could establish a state program of cost-effective alternatives to highway construction which might involve coordinating and providing funds specifically for local streets and transit improvements as well as for commute management projects.

Increase Regional Role and Responsibility. Alternatively, the Legislature could continue its existing commitment to maintain and operate the state highway system, but enhance the authority of regional agencies to resolve congestion problems on urban highways. For example, the Legislature could consider the merits of establishing various urban transportation systems throughout the state. These systems would consist of a network of transportation elements—including specific components of the highway, transit, streets and roads systems—in a designated urban area. Regional agencies would then be assigned responsibility for coordinating improvements to those systems. This would, however, necessitate providing these agencies greater authority and flexibility to allocate funds among the components of this system.

The Legislature also could authorize the establishment of new regional funding sources to be used for a broad range of alternatives to reduce congestion. With greater control over how funds are used, these agencies could have greater leverage and influence on local land use policies which affect the transportation system. Furthermore, to the extent that

they are not also operators of the services, such regional agencies might be more likely to evaluate a wider range of alternatives when seeking to resolve transportation problems and accommodate increasing travel demand within their areas.

Regardless of the strategy chosen by the Legislature to enhance transportation coordination and to reduce congestion, the Legislature can take the following actions in support of that strategy:

- Identify those provisions in the federal highway program which, after the interstate system is completed, will enable the state's transportation problems to be addressed most effectively;
- Modify state laws and requirements so that they are consistent with the Legislature's priorities.

Federal Program After the Interstate System is Completed

Until now, the state highway program has been shaped by the availability of federal funds. Specifically, federal law has created incentives for state and local governments to use their funds on particular types of transportation improvements. For instance, 55 percent (up to \$572 million in 1988-89) of all federal highway funds available to California can be used only to (1) complete construction of the federal interstate system and (2) rehabilitate and rebuild the existing interstate system. The availability of these moneys induces the state to concentrate its matching funds on improvements on the federal interstate system, while improvements on other highways, which may be of a higher priority to reduce congestion, are delayed. In addition, the existing federal program earmarks funds to be used only for specific demonstration projects. This results in a reduction of the total amount of federal money which California can use for other improvements which it may consider more important.

The interstate system is scheduled to be completed by 1992, at which time the federal interstate construction program will expire. Prior to that time, the federal government will be reassessing its transportation role and responsibilities in order to determine the future shape and funding level of the federal highway program.

The end of the federal interstate program in 1992 offers the Legislature an important opportunity to influence how the future federal program is structured, and how funds are to be used to further California's transportation priorities. For instance, if the Legislature decides that the state's responsibilities should be increased, it could support a federal program which turns back most of the federal gas tax revenues to the *state* level or which provides block grants to the state. This would increase the state's ability to determine how these funds could be used

best. Similarly, California could advocate the use of federal funds, in lieu of state funds, for highway maintenance, thereby freeing up state funds for other transportation purposes.

On the other hand, if the Legislature wishes to increase the role of the regional transportation agencies, it could support a federal program that provides some funds to regional agencies in the form of block grants which would be used for various transportation alternatives, including highways, streets and roads and transit.

In this year's *Analysis* (please see Item 2660, page 230), we summarize the various options that are currently being discussed for the future federal program. We think that the Legislature should begin to identify the aspects of the federal transportation program in the post-interstate period which will be most advantageous to California, and formulate its policy accordingly. It should also provide direction to the California Transportation Commission and Caltrans in the formulation of a state transportation program consistent with this policy.

Modifying State Laws to Promote Mobility

The Legislature also should modify state laws so that they enable state and local governments to effectively carry out their transportation responsibilities. The Legislature ought to review statutory provisions to see how well they:

- Promote the use of funds to meet the Legislature's priorities.
- Promote coordination in transportation planning and the evaluation and implementation of transportation alternatives.
- Create incentives that reduce travel demand and increase system carrying capacity.

Improve Allocation of Funds According to the Legislature's Priorities. The Legislature has enacted various state laws which restrict how funds can be used for transportation purposes. While these restrictions are intended to promote the Legislature's priorities, they may fail to do so because of conflicting goals. For example, current law requires the state to match the maximum amount of federal funds available to the state. State law also requires that each county receive a minimum allocation of highway funds (referred to as "county minimum allocations"). Because most of the federal funds available to the state can be used only for the interstate system—which is concentrated in a limited number of counties—the state has not been able to meet the county minimum allocation requirement. The California Transportation Commission estimates that 30 counties will receive less than their minimum amount of funds, while 28 counties will receive more than their share of funds for the five-year period 1988-89 through 1992-93.

If the Legislature decides that regional agencies should assume a greater role in promoting mobility, the Legislature could broaden the geographical areas when applying the minimum allocation requirement. For example, instead of allocating amounts to counties, it could require that funds be allocated by regions. It also could broaden the types of expenditures which could be used to meet the minimum allocation requirement. For instance, instead of including only expenditures for highway capital outlay improvements as part of the minimum allocation, the Legislature could include highway maintenance and transit expenditures in the minimum allocation. Doing so could make it easier to meet the Legislature's priority of equity, and might increase the flexibility regions have in using the allocated funds to meet regional needs.

Increase the Emphasis on Coordination and Long-Range Planning. Current law requires Caltrans to carry out long-term state highway system planning. It does not, however, require the department to conduct corridor studies (that is, studies which project transportation demand by all transportation modes within a given area) and analyses to examine trade-offs among various modes of transportation. Such studies are currently performed on a selective basis by regional agencies. The Legislature could require that Caltrans or regional agencies increase corridor study efforts related to major transportation corridors, and that Caltrans take into consideration the trade-offs among transportation alternatives when it conducts highway system planning. This would have the benefit of encouraging (1) the implementation of the most cost-effective transportation alternatives and (2) better coordination between highway system planning and planning for other transportation systems.

Long-term planning of land use and transportation development can also identify means to affect the growth in future travel demand and to reduce congestion. For instance, Caltrans has proposed a demonstration project for 1988-89 to begin getting involved in local land use development project review at an earlier stage than under current practice. One objective of the demonstration project is to see whether doing so can help local agencies to identify the rights-of-ways they will need to preserve in order to meet future travel demand. Depending on the effectiveness of this demonstration project, the Legislature could expand Caltrans' planning activities accordingly.

However, as discussed above, to make long-range planning effective, the Legislature may need to eliminate or modify categorical funding constraints to encourage implementation of the most effective alternatives, rather than the alternatives for which the most funds are available.

Create Incentives to Reduce Travel Demand and Increase System Capacity. The state can increase the system's capacity by providing some level of new transportation resources, including the building of new

roads, highways and transit systems. However, because urban congestion cannot be resolved just by construction of additional highways, the Legislature could also create incentives which would result in (1) an increase in the people-carrying capacity of the existing system, and (2) a reduction in travel demand.

Governments could increase the system's people-carrying capacity in two ways. First, it could improve the use of existing facilities through the use of such mechanisms as carpools/vanpools, ramp metering, high occupancy vehicle lanes, flexible work hours, and the use of new technologies. As an example of new technologies, AB 457 would require Caltrans, in coordination with regional and local agencies, to study the feasibility of "smart" corridor technologies to reduce congestion. These technologies would link up a network of freeways and local streets via traffic monitoring devices so that traffic signals can be centrally controlled to expedite traffic flow and to facilitate diversion of traffic around congested areas.

Second, governments could attempt to alleviate congestion by reducing demand on the transportation system. For example, local governments could provide for closer proximity of jobs and housing through land use planning and zoning decisions. Governments also could create incentives for developers to bring about a more balanced combination of housing and employment/shopping centers in new land use developments.

As a way of reducing travel demand, the Legislature also could consider alternatives which impose prices on highway users which reflect more accurately the costs of using the system. For instance, it could examine the feasibility of implementing electronic road pricing technologies. Through a combination of road sensors and on-vehicle devices, electronic road pricing technologies would allow the government to charge different prices for use of congested versus uncongested highway segments. Alternatively, the Legislature could increase gas taxes, impose surcharges on parking fees in congested urban areas, or increase the use of toll roads.

Conclusion

Congestion on the state highway system is increasing in California's urban areas for a number of reasons. For example, it has become increasingly evident that decisions made by local governments, regarding such issues as land use, have an impact on the operation of the state's freeway system. In some cases, these decisions have the effect of reducing the system's ability to achieve its primary goal—the efficient and economical movement of goods and people.

The historical arrangements for financing transportation have been changing recently as local governments enact local sales taxes to finance transportation improvements, including improvements to the highway system. Enactment of local sales tax measures can provide additional resources for needed transportation improvements within a county. These measures by themselves, however, do not ensure adequate coordination in addressing traffic congestion locally or within the region.

Consequently, we believe that the Legislature should reexamine the state's transportation policies to ensure that they provide the institutional and financial framework within which California's current transportation problems can be addressed. As part of this review, the Legislature should consider what role the state and regional agencies should play in resolving urban and regional congestion. Two basic strategies—aside from maintaining the status quo—are available to the Legislature. First, the Legislature could enhance the authority of regional agencies to resolve urban highway congestion while the state would continue its existing role of maintaining and operating the state highway system. Second, the state could require Caltrans and the California Transportation Commission to be more responsible for planning and coordination for all modes of transportation, and for determining what alternative improvements or services should be made to reduce congestion. These strategies are not mutually exclusive and could be undertaken in combination with each other.

Regardless of the role the Legislature selects for the state, it will have to consider the following factors when attempting to alleviate urban congestion:

- ***Expiration of Federal Interstate Program.*** In view of the expiration of the federal interstate completion program in 1992, how should the state attempt to change federal law to best achieve the Legislature's priorities?
- ***Modification of State Laws.*** How should state laws be modified to enable state, regional, and local governments to carry out their respective roles and responsibilities most effectively? For instance, what type of financial arrangements—such as funding sources, levels, and allocation formulas—should state law provide, and how should the costs of transportation improvements and means to reduce congestion and travel demand be split among the levels of government and the private sector?
- ***Coordination and Long-Range Planning.*** How can the Legislature foster greater coordination in transportation planning among state, regional and local governments?

- ***Increase Capacity or Reduce Demand.*** What types of incentives can the Legislature create to increase the capacity of the system, and to reduce travel demand?

The Impact of Demographic Changes on California

How Will California's Population Change by the Year 2000, and How Can This Information Help the Legislature Make Informed Decisions?

Summary

- *Demographers project steady increases in the state's population over the period from 1980 through the year 2000, with total state population reaching 32.9 million in 2000.*
 - *Growth will move increasingly inland from coastal urban areas to suburban areas, the central valley and the foothill regions.*
 - *The ethnic mix in the state will change significantly. The nonwhite population will increase to 46 percent of the total population by 2000, due in large part to higher fertility rates and migration.*
 - *With the aging of the "baby-boomers," California's population will continue to grow older, with the median age increasing from 30 to 35 years between 1980 and 2000.*
 - *Demographic projections can assist the state and local governments in preparing and planning for growth and change. We examine two cases—growth in the central valley and the link between welfare and education—to illustrate how policymakers can use demographic data to make better decisions.*
-

California's population has always been a dynamic one: growing, changing, moving. Demographers have the difficult job of trying to forecast future changes in the population, both in terms of the extent of growth and how that growth will be distributed. Demographic projections, however, can be useful to decision-makers. By understanding the picture of the future drawn by demographers, the Legislature can decide how to prepare better for problems associated with demographic change. In short, demographics help serve as an important planning tool for the Legislature.

In this section, we discuss demographics and their potential impact on legislative decisionmaking. First, we describe what demographic trends hold in store for the state in the year 2000. Second, we discuss the implications of demographic trends on two specific policy issues: (1) the potential impact of population growth on transportation needs in the central valley and (2) the link between educational background and welfare costs.

CALIFORNIA IN THE YEAR 2000

Background

The Department of Finance (DOF) maintains a population research unit that periodically issues long-range population projections for the state. The most recent projection covered the period 1980 through 2020. This forecast includes detailed assessments of how the overall population changes affect county populations and the distribution of the population among age and racial, or ethnic, groups.

The department's model calculates these projections by following people through time. It uses fertility rates to project the number of births that we can expect each year and existing mortality rates to adjust the size of each age group—or cohort—to account for deaths that occur each year. In the same way, the model uses migration data—based on driver's license, school enrollment and other statistics—to adjust for people moving *into* and *out of* the state, as well as to account for movement *within* the state (between counties). Migration projections are perhaps the most difficult ones that demographers are required to make, as people move for a variety of reasons. For the discussion that follows, we have used DOF projections through the year 2000. While projections through the year 2020 are available, we will not look beyond the year 2000 because near-term projections are more reliable than longer-term figures.

What Are the Expectations for Future Growth?

Chart 45 illustrates the population growth that has occurred from 1940 through 1980 as well as the projected population in 1990 and 2000. The state's population is projected to increase 38 percent over the period 1980 to 2000, with growth adding 5 million more people during the 1980s, and 4 million people in the 1990s. As a consequence, the state's total population is projected to reach 32.9 million by the year 2000.

As Chart 45 also illustrates, the DOF projects the population growth *rate* to increase somewhat during the 1980s and then decline sharply during the 1990s. According to the department, the increase from 1.7 percent average annual growth during the 1970s to 2 percent in the 1980s is due to an increase in net migration into the state and an increase in births to the "baby-boom" cohort—the large group born in the late 1940s and 1950s. In the 1990s, baby-boomers will have aged beyond the years when most couples have babies, which will result in a sharp decline in internal population growth. This explains the drop to 1.3 percent in the projected average annual growth rate during the 1990s. Given the decline in internal growth, migration will play a more important role in the population increase that is projected for the next decade.

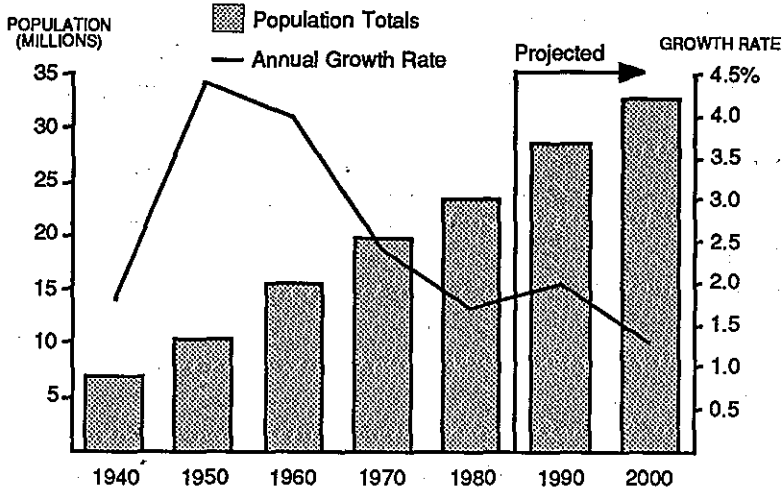
Growth Will Continue to Alter the Skyline

In this section we examine the geographical distribution of growth. Chart 46 displays projected regional populations and growth rates for

Chart 45

California Population Totals and Average Annual Growth Rate*

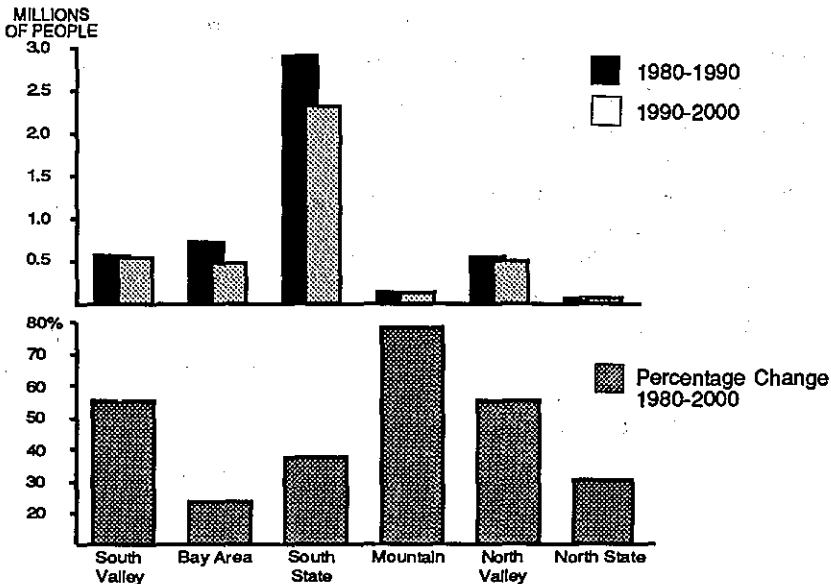
1940-2000



* Compounded annual growth rate for prior decade.

Chart 46

California Population Growth by Region, 1980-2000



the period 1980 to 2000. As indicated by the chart, we divided the state into six regions: *north state* (the seven counties in the northern tip of the state; *north valley* (the 12 counties that make up the Sacramento and northern San Joaquin valleys); *bay area* region (the nine counties that surround the San Francisco Bay); the *mountain* region (the 11 counties in the Sierra Nevada mountains and its foothills); *south valley* (the eight counties in the southern San Joaquin valley plus Monterey and San Benito); and *south state* region (Los Angeles and eight surrounding counties).

Rural Areas Will Grow Even Faster Than Urban Areas. In general, most of the additional population that DOF projects for the 1980 to 2000 period will locate in existing urban and suburban areas. The south state (which includes Los Angeles and San Diego counties) and bay area regions will account for 71 percent of the state's growth occurring between 1980 and 2000, an increase of 6.5 million additional people. In percentage terms, however, the growth in these urban areas over the 20-year period—34 percent—falls slightly below the statewide increase of 38 percent.

The remainder of the state—primarily areas that are more rural in character—will experience the larger *percentage* increases in population. By the year 2000, the population of the four rural regions will total 7.3 million, up 2.5 million, or 56 percent, from 1980. From a base share of 20 percent of the state's population in 1980, these four regions will garner 29 percent of the additional population within the state between 1980 and 2000.

Growth Rates Are Not Uniform. Population increases among urban regions or rural regions are not uniform, however. With regard to urban regions, the population of the bay area region is expected to grow by only 24 percent between 1980 and 2000, whereas the south state region is projected to grow 37 percent. Rural regions also will experience widely different rates of growth. An additional 300,000 people will live in the mountain region by 2000, for example, which represents a 79 percent increase over the 1980 levels. Similarly, the two valley regions are projected to increase a combined 56 percent over the 20-year period, accounting for 24 percent of the state's growth from 1980 to 2000. Rural counties at the very northern end of the state, however, are expected to grow more slowly than the state average.

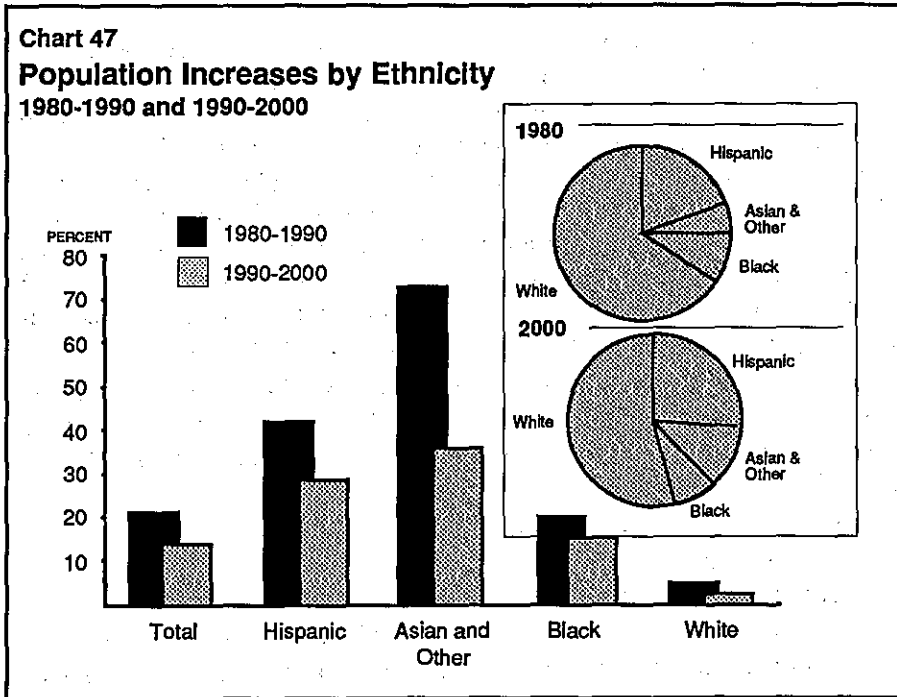
Growth rates *within* regions are not uniform either. Although the bay area region is anticipated to grow by 24 percent over the 20-year period,

San Francisco County's population is expected to *decline* slightly. The population of Santa Cruz County, on the other hand, is projected to increase by 51 percent. Population changes in the south state region are as diverse—Los Angeles County is expected to increase by 22 percent, while Riverside County's population is expected to double between 1980 and 2000.

Differences in growth rates also characterize the rural areas. Lake County, projected to be the fastest growing county in the state over the 20-year period, will grow 120 percent, while neighboring Glenn County is projected to grow only 31 percent. Similarly, in the mountain region El Dorado County is slated for 83 percent population growth, while Inyo County can anticipate growth of only 5 percent during the 1980s and 1990s.

The Ethnic Composition of the Population Will Continue to Change

The DOF projections show nonwhite populations growing much more quickly than the white population. Chart 47 displays the growth rates of the state's population by ethnic group. Growth of the white population is projected at 4.9 percent during the 1980s and 1.5 percent during the 1990s. In contrast, the nonwhite population is projected to grow 43



percent during the 1980s and 28 percent during the 1990s. As Chart 47 illustrates, the higher growth rate of the nonwhite population will reduce from 67 percent to 54 percent the share of the population that is classified as white in the year 2000.

The changing ethnic mix of the state's population is not a new trend. Indeed, DOF projections suggest the rate of change during the 1980s and 1990s will be *slower* than the experience of the 1970s. Specifically, from 1970 to 1980, the nonwhite population grew 80 percent, increasing by half again its total of the state's population (from 22 percent to 33 percent). In light of this past experience, future increases in the nonwhite population are relatively modest.

Two factors fuel the increase in the nonwhite population: higher migration and fertility rates. The DOF assumes that 85 percent of the net migration into the state are from ethnic backgrounds other than white. Most of these individuals come from other countries, such as the Philippines, Korea, and countries in Latin America. In addition, fertility statistics show that nonwhite families have more children on average than white families. These dual effects—faster growth of the immigrant and domestic nonwhite populations—result in significantly higher growth rates for the nonwhite population.

Contrary to some beliefs, the Latino population is not the fastest growing minority. As Chart 47 illustrates, Asian groups—primarily Filipino and Korean, but also including Japanese, Chinese, and Vietnamese—are projected to grow the fastest during the 1980s and 1990s. The DOF projections show the Asian population growing by 135 percent from 1980 to 2000, the Latino population growing by 83 percent, and the number of blacks in the state growing by 39 percent. By the year 2000, latinos will represent 27 percent of the state's citizens and Asians 12 percent. Blacks will become the smallest of these three groups, constituting 8 percent of the state's population by the year 2000.

Foreign Immigrants Will Not Settle Uniformly Throughout the State. Immigrants tend to locate near where earlier immigrants of the same ethnic group located. This is especially true for immigrants who do not speak English. For example:

- Chinese immigrants are concentrated in San Francisco and other bay area counties.
- Koreans generally have settled in Los Angeles and Orange Counties.
- Filipinos have located primarily in San Diego and bay area counties.

By examining the existing patterns of immigrant settlement, we can project where future immigrants probably will settle.

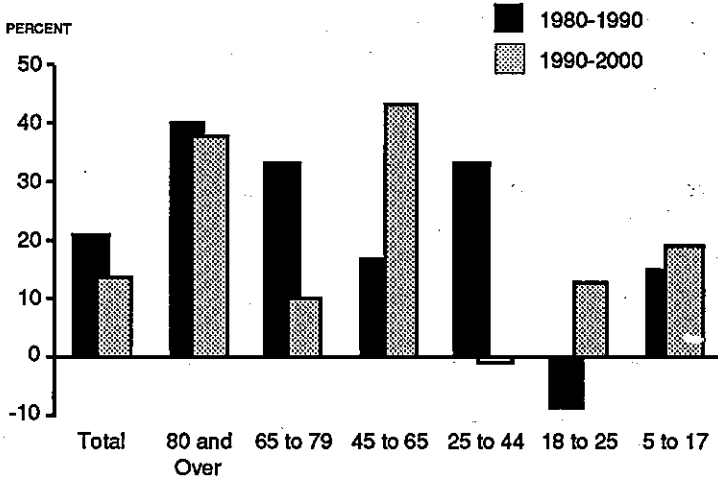
Aging of the Baby-Boom Cohort Will Change the Age Distribution of the Population

Just as the ethnic mix of the California population will change with growth, so will the age distribution. Chart 48 displays the change in the size of six age cohorts over the period 1980 to 2000. As the chart illustrates, there is no consistent growth trend for all groups. In general, however, the older age cohorts grow more quickly than the younger age groups during the 1980s and 1990s. The trends for the specific groups are as follows:

- The 80-and-over population will increase rapidly in both the 1980s (40 percent) and 1990s (38 percent). These increases will combine for a total 20-year jump of 94 percent, with the over-80 population reaching almost 1 million people in 2000.
- The 65 to 79 population will increase in proportion somewhat. After growing at a rapid 34 percent rate during the 1980s, growth in the younger senior citizen population will slow to 10 percent in the 1990s, a few percent lower than overall population growth.
- Growth of the 45 to 64 population will increase significantly due to the aging of the baby-boom cohort. Relatively slow growth during the 1980s (17 percent) will turn into very rapid growth in the 1990s (43 percent).
- After increasing significantly in the 1980s, the 25 to 44 year old group actually will shrink by 1 percent in the 1990s as the baby-boom cohort ages into the next older group.
- The college-age cohort grows only 3 percent from 1980 to 2000. As Chart 48 displays, a 9 percent reduction in people aged 18 to 24 that occurs in the 1980s is offset by a 13 percent increase in this cohort during the 1990s.
- K-12 population will increase at approximately the same rate as the overall population over the 20-year period. The growth of this group is due to the children of baby-boom members and the higher fertility rate of the growing minority population.

Clearly, the baby boom cohort will affect many of the demographic changes projected to occur during the 1980s and 1990s. For instance, one significant impact is that, by growing older, they increase the median age of the state's population from 30 years in 1980 to 35 years in 2000. This represents a significant aging of the state's population over a relatively short period of time.

Chart 48
Population Changes by Age
1980-1990 and 1990-2000



Time and Growth Will Change the Age Profiles of Counties. Time and population growth will change the composition of each county's population over the 20 years from 1980 to 2000. In general, *slower growing* counties (such as San Francisco, Humboldt and Inyo Counties) will experience faster growth in the senior citizen population than in the overall county population. Also, these counties generally are experiencing slower growth of the K-12 population and a falling college-age group during the 1980s. A growing older population and shrinking younger population is typical of slower growing areas because younger adults and families tend to move to areas of greater job opportunity or lower housing prices.

Faster growing counties are projected to experience different trends. Generally, growth in the 65-and-over and college-age populations in these counties (including San Luis Obispo, Riverside and Lake Counties) will fall well below the growth in overall county population during both the 1980s and 1990s. The K-12 cohort generally will grow more quickly than total population during the 1990s after lagging behind somewhat during the 1980s, and the working-age adult population consistently grows faster than the total population during the 20-year period. This pattern of faster growth in the younger adult and children cohorts generally conforms to

the notion that younger adults and families are more likely to move and be attracted to "growth" areas.

Age Distribution Also Is Projected to Change by Ethnicity. Because change in the ethnic mix is caused both by higher birth rates of nonwhite groups and migration (immigrants tend to be from the younger end of the age spectrum), representation of the different ethnic groups will change most quickly in the under-18 cohorts. The proportion of white children between the ages of 5 and 9 will decline 23 percent over the 20-year period, falling from 54 percent in 1980 to 42 percent in 2000. The over-65 cohort will change more slowly. The proportion of whites in that group is projected to decline only 11 percent, from 81 percent in 1980 to 72 percent in 2000.

DEMOGRAPHICS AND LEGISLATIVE DECISIONMAKING

Demographic projections tell us how the world will look in 10 or 20 years *if existing trends continue into the future*. In the discussion below, we provide two examples of how demographic projections can be used by decisionmakers to anticipate and react to policy problems. The first deals with transportation problems associated with growth in the central valley, and the second attempts to understand the linkages between education, a changing ethnic mix and welfare costs.

Accommodating Growth in the Central Valley

As we discussed above, the central valley is projected to grow 56 percent from 1980 to 2000, adding 2.1 million people to the 4 million individuals living there in 1980. Because of the valley's physical and other attractions, significant growth in the valley probably is inevitable. By understanding the magnitude of the growth that may occur in these areas, we can identify some of the decisions that government can make today that will address the problems that valley cities will face in the near future. Below, we focus on the issue of transportation.

Development and Transportation. Development in the valley cities generally will reflect the reasons people move there. As a result, growth probably will follow a suburban development pattern, characterized by affordable, low-density housing being built at the fringes of the urban area. Because low-density development needs a lot of room to expand, it often places a heavy burden on government to construct and maintain a larger road and highway network.

Some valley cities already are showing signs that transportation demands are greater than can currently be met by local government. Fresno County residents recently authorized an increase in local sales taxes in order to increase investments in local transportation capacity and maintenance. Sacramento County also plans to seek a sales tax increase

for transportation. How these counties use additional transportation funds will influence development in the 1990s.

The low density development in the valley will also result in the worsening of a significant transportation-related problem—air pollution. Currently, virtually all of the major valley cities are in “non-attainment” areas, meaning that they do not *now* comply with federal air quality standards. The air pollution generated by growth will make it difficult for valley cities even to maintain existing air quality.

What, then, can governments do in anticipation of the transportation and air pollution problems resulting from rapid growth? They basically have two strategies.

Increase Capacities. Clearly, the state and local governments will have to increase the capacities of transportation systems in the valley cities. This will be done by improving the use of *existing* facilities through such mechanisms as: metering, carpools, and high-occupancy-vehicle lanes. It will also require, however, the provision of some level of new transportation resources: the building of new roads and highways and increased transit services. In providing new capacity, perhaps one of the most important steps governments can take now is to secure right-of-ways while they are affordable and more easily attainable.

All of these steps will help reduce congestion, at least in the short run. Increasing capacities, however, encourages further growth at the urban “edge,” which may lead—ironically—to even longer commute times. Thus, remedies to existing congestion may ultimately create incentives that lead to future congestion.

Change the Demand for Transportation Services. In preparing for growth in the valley, governments may also want to take steps which lessen the demand for such services. This could be done in two basic ways. First, individuals could be charged the full costs of driving. Economists almost unanimously agree that individuals do not pay for the pollution costs caused by their vehicles or the “congestion costs” imposed on others during peak hour commutes. While there are ways to make people bear the costs of pollution (for example, requiring additional pollution control devices, increasing gas taxes) and congestion (for example, imposing tolls at road bottlenecks), implementing these steps can be controversial. If, however, these “public” costs of driving were borne by individuals, people would reduce their driving in a number of ways, including locating closer to their jobs.

This leads to the second way governments can reduce transportation demands—provide for closer proximity of jobs and housing. Through land use planning and zoning decisions, local governments can ensure that commercial and manufacturing centers have nearby housing of all price

levels to accommodate employees. The results would be reduced demand for transportation services and reduced levels of pollution.

In the case of the central valley, then, demographic projections can alert policymakers to the magnitude of growth which will take place and the resulting transportation and pollution problems that will result. That information, in turn, can help state and local governments both to plan for growth and—in some cases—take steps to mitigate the more serious consequences of that development.

The Link Between Welfare Costs and Education

The state currently spends over \$2 billion a year on the Aid to Families with Dependent Children (AFDC) program, which provides assistance primarily to young adults and children. In general, growth in this welfare population over the period 1980 to 2000 should slow because the cohort that currently receives the majority of welfare payments—females aged 18 to 35—is projected to grow more slowly than overall population. In 1983, this cohort accounted for 75 percent of all single heads of households receiving AFDC in California.

Other factors, however, will affect the size of the welfare rolls in the year 2000. An important one is the quality of education received by today's children. The link between education and need for assistance is well established. A study of welfare caseloads in California conducted in the 1970s showed that almost one-third of families whose head did not finish high school were on AFDC, but among the families whose head did finish, the rate on AFDC was less than 10 percent. More recent experience from the Greater Avenues for Independence (GAIN) program, which provides employment and training to AFDC recipients, confirms the importance of education. Between 60 and 70 percent of GAIN participants cannot read or solve math problems at the 9th grade level. Worst of all, many who failed the test *did* have a high school diploma.

The GAIN program may reduce future welfare costs by providing remedial help to participants. For instance, the long-term impact of GAIN education and training services provided during the 1990s may reduce assistance costs in the year 2000 because of the education and training investments resulting from the program. While these investments may reduce the amount of time recipients depend on state assistance, they cannot affect the number of persons who are on welfare at some point in their lives. This is because the GAIN program can help people only *after* they become welfare recipients.

What Will Happen to the Dropout Rate in the 1990s? If educational achievement affects a person's chances of ever receiving welfare, projecting the dropout rate of the 18 to 35 age group in the year 2000 may give us additional insight on the number of people who may need

assistance in the future. The Department of Education currently estimates that 26 percent of 10th grade students do not complete their high school education. Dropout rates vary by ethnic group. For blacks and hispanics, for instance, 39 percent of youths begin, but do not complete, high school. This is almost double the 20 percent rate of whites, Asians, and other groups.

Demographic changes occurring in the state suggest that if current dropout rates continue, the percent of high school students who will not receive a diploma will increase somewhat in the 1990s. Because the proportion of blacks and hispanics is projected to increase by the year 2000, current higher dropout rates of these two groups will increase the state average from 26 percent currently to 30 percent in 2000. The ethnic makeup of the group that drops out will change even more markedly. The share of dropouts who are white will fall from 45 percent in 1985 to 30 percent in 2000, while the share who are hispanic will increase from 34 percent to 44 percent. These figures suggest that hispanics will account for an increasing share of the AFDC caseload by the year 2000.

In addition to the serious social implications of these projections, these trends have significant fiscal consequences for the state. A higher proportion of adults lacking a high school diploma in the year 2000 suggests that welfare costs will not slow down as quickly as the number of adults aged 18 to 35. It also suggests that GAIN costs for remedial education and training will continue—and perhaps increase—in the 21st century.

The Legislature's basic options are clear: focus attention and resources on increasing the percentage of high school students who attain the skills associated with a high school diploma or pay increased welfare and remedial education costs in the future. While demographic-based analysis cannot provide information on the specific fiscal trade-offs involved with these choices or specific solutions to reducing the dropout rate, it does identify and highlight problems for legislative attention and action.

Conclusion

As these cases point out, demographics do not tell us how to solve the problems of urban growth or high school dropouts. The population projections simply give us a "snapshot" of the way the world will look at some future time. The Legislature has virtually no control over many factors that will shape the future (such as overall population growth and the distribution of that growth by age and ethnicity). It can, however, use demographic information—in combination with specific program knowledge—to prepare for the consequences of growth and change. In some cases, this information may allow actions that will mitigate negative impacts. As such, demographics is an important tool for the Legislature in its decisionmaking process.

State Programs for Older Californians

What Services and Benefits Does the State Provide to Seniors?

Summary

- *A variety of state agencies administer 39 separate programs that provide income support, employment services, health services, supportive social services, discounts, and other services to California's seniors. The budget proposes expenditures totaling \$3.7 billion from all funding sources for these programs in 1988-89.*
 - *State senior programs fall into three categories: programs available to low-income seniors, programs available to all seniors, and programs available to various age groups but which are predominantly used by seniors.*
 - *In real terms, spending on seniors' programs fell in the first half of this decade, but this reduction was more than offset by significant increases in recent years.*
 - *Real spending on state programs for older Californians has risen by about 6 percent during this decade, which is less than the 26 percent increase in the state's over-60 population.*
-

One of the important demographic changes that is occurring in California is the rapid growth of the senior population. During the 1980s, growth in the over-60 population has averaged roughly 3 percent each year, which is 30 percent faster than the growth in the general population. The proportion of older Californians will continue to increase in the 1990s. Given these increases, the Legislature will be faced with greater demands for state programs that provide services to seniors.

In this section, we discuss the wide array of programs that the state currently provides to seniors. We omit services where the state plays no administrative or policy role—such as Social Security and Medicare—because the Legislature cannot directly influence these programs.

State Programs Serving Older Californians

In California, 17 state agencies currently administer 39 separate programs that provide services and benefits to older individuals. These agencies are displayed in Chart 49. (The chart also shows the acronyms for these agencies, which are used in Table 33, below.)

Chart 49

State Agencies That Provide Services and Benefits to Older Californians*

Income Support	Health Services
Department of Social Services DSS	Department of Health Services DHS
Franchise Tax Board FTB	California Department of Aging CDA
Department of Economic Opportunity DEO	
Employment, Supportive Social, and Other Services	Discount Programs
Department of Rehabilitation DOR	Department of Food and Agriculture DFA
Department of Housing and Community Development HCD	California State University CSU
Employment Development Department EDD	Department of Motor Vehicles DMV
Department of Transportation Caltrans	Department of Parks and Recreation DPR
Department of Justice DOJ	Department of Fish and Game DFG
State Department of Education SDE	
Department of Veterans Affairs DVA	

* Some of these departments provide more than one type of service.

Table 33 lists these state programs for seniors and provides summary information on their eligibility requirements, caseloads, and costs in the current and budget years. The table indicates that the budget proposes to spend \$3.7 billion on these programs in 1988-89. The General Fund will finance about \$2.0 billion, or 52 percent, of these expenditures, and the federal government will fund \$1.7 billion, or 45 percent. The remaining \$90 million, or 3 percent, is supported by state special funds or local funds. (Expenditures from special funds and local funds are included in the totals columns, but are not separately displayed in the table.)

The budget-year total represents an increase of \$218 million, or 6.2 percent, above estimated current-year spending levels. The increases are due primarily to: (1) a \$62 million increase in funding for In-Home Supportive Services (IHSS), primarily resulting from the increase in the minimum wage; (2) a \$117 million increase in Medi-Cal costs due in part to the long-term care rate increases granted in 1987-88 and to increased costs of Medicare premiums (for seniors who are eligible for Medi-Cal, the state covers the costs of the Medicare part B premium so that the recipient can receive Medicare coverage for such nonhospital costs as

doctors office visits); and (3) a \$50 million increase in Supplemental Security Income/State Supplementary Program (SSI/SSP) costs related to increased caseload and an estimated 5.2 percent cost-of-living adjustment (COLA).

General Fund expenditures on services for older Californians in 1988-89 are proposed to increase at a 6.7 percent rate, as compared to a 5.6 percent increase in spending from federal and other funds. These different growth rates occur primarily because the General Fund will support almost the entire increased budget-year cost to the IHSS program.

The table groups senior programs into three categories based on the program's eligibility criteria: (1) programs available to low-income seniors, (2) programs available to all seniors, and (3) programs which have no age requirement but which predominantly serve seniors. Within these categories, the table groups individual programs into six major types—income support, health services, supportive social services, employment, other services, and discount programs.

- ***Programs Available to Low-Income Seniors.*** The budget proposes expenditures of \$3.5 billion in 1988-89 for the 13 programs in this category. Three of these programs constitute the overwhelming majority of expenditures in this category: SSI/SSP (\$1.6 billion), Medi-Cal (\$1.4 billion), and IHSS (\$390 million). Together, these three programs account for 99 percent of total expenditures in this category and 91 percent of all spending targeted on older Californians.
- ***Programs That Are Available to All Seniors.*** The budget proposes to spend \$165 million (\$18 million General Fund) in 1988-89 on 11 programs that provide services and benefits based solely on the client's age. The minimum age requirements of these programs range from 55 to 65 years. Two programs, the CDA's Nutrition program and Supportive Services and Centers program, account for 93 percent of total expenditures in this category. The Nutrition program provides meals to older people at community centers and in their homes. The Supportive Services and Centers program provides a wide variety of services, including transportation, in-home services, and case management.

Table 33
Programs Available to Older Californians
By Eligibility Type
1987-88 and 1988-89
(dollars in thousands)

Programs Available to	Services Provided	Requirement to Qualify	Estimated Number of Clients 1987-88	1987-88			1988-89		
				State	Federal	Total ^a	State	Federal	Total ^a
Low-Income Seniors Income Support Supplemental Security Income/State Supplementary Program (DSS)	Cash grants	Age 65 with (1) limited resources and (2) "countable" income that does not exceed the maximum grant	382,258 (average per month)	\$915,380	\$608,792	\$1,524,172	\$917,399	\$657,244	\$1,574,643
Senior Citizens Renters' Assistance Program (FTB)	Annual grant based on property tax equivalent	Renter age 62 or older and low-income (less than \$12,000) or disabled (all ages)	196,675	21,414	—	21,414	18,600	—	18,600
Senior Citizens Property Tax Assistance (FTB)	Direct reimbursements for portion of property taxes	Age 62 or older, or disabled; must own and occupy home; income less than \$12,000	54,625	4,836	—	4,836	4,900	—	4,900
Senior Citizens Property Tax Deferral (FTB)	Postponement of property tax payments	Age 62 or older; must own and occupy residence; income less than \$24,000	8,658	6,100	—	6,100	6,000	—	6,000
Foster Grandparents Program (CDA)	Stipends for seniors who provide supportive services to children with special needs	Age 60 or older and income less than the poverty level	112 (volunteers)	370	—	370	370	—	370
Senior Companion Program (CDA)	Stipends for seniors who provide supportive services to adults with special needs	Age 60 and older and income less than the poverty level	127 (volunteers)	321	—	321	321	—	321
Health Services Medi-Cal (DHS) ^b	Inpatient/outpatient acute medical services, long-term care, ancillary health services	Age 65 and older, and public assistance recipients or meet age, disability, and income requirements	306,540 (average per month)	664,114	664,114	1,328,228	722,721	722,721	1,445,442
Multipurpose Senior Services Program (CDA)	Case management to link clients to various health and social services	Age 65 or older, Medi-Cal eligible and certifiable for placement in nursing homes	8,800	10,322	— ^c	10,322	10,515	— ^c	10,515
Supportive Social Services Brown Bag (CDA)	Foodstuffs distributed to older persons	Age 60 or older and SSI/SSP eligible	42,200	780	—	780	780	—	780

In-Home Supportive Services (DSS)	Domestic and nonmedical services provided at home	SSI/SSP eligible	86,844 (average per month)	112,440	200,294	327,814	174,416	200,674	390,169
<i>Employment</i> Senior Community Employment Services (CDA)	Subsidized part-time jobs	Age 55 or older and income less than 125 percent of poverty level	1,048	—	4,995	4,995	—	4,995	4,995
<i>Discount Programs</i> Golden Bear Passes (DPR)	Reduced price on annual state park pass	Age 65 and older and below specified income level	3,000	150	—	150	150	—	150
Discount Fishing Licenses (DFG)	Reduced price on fishing license	Age 65 and older and receiving SSI/SSP or with specified income	15,307	252	—	252	267	—	267
Subtotals, Programs Available to Low-Income Seniors				(\$1,736,479) (\$1,478,195) (\$3,229,754) (\$1,856,339) (\$1,585,634) (\$3,457,952)					
<i>Programs Available to All Seniors</i>									
<i>Health Services</i>									
Preventive Health Care for Aging (DHS)	RNs provide health appraisals, counseling, referrals, education	Older adults (age 55 and older) in congregate settings who are well	1,647	\$1,303	—	\$2,606	\$1,303	—	\$2,606
<i>Supportive Social Services</i>									
Nutrition (CDA)	Meals provided at community centers or delivered at home	Age 60 or older (and spouses regardless of age)	263,900	11,970	\$47,773	99,891	11,970	48,815	100,933
Supportive Services and Centers (CDA)	Include in-home, transportation and case management services.	Age 60 or older	834,817	2,904	25,864	54,051	2,904	23,881	52,068
<i>Employment</i>									
Job Training Partnership Act/Older Workers (EDD)	Employment and training services	Age 55 and older	Unknown	—	10,345 ^d	10,345 ^d	—	5,633	5,633
<i>Other Services</i>									
Senior Citizens' Shared Housing (HCD)	Grants to nonprofit entities to assist seniors in finding a roommate	Age 60 or older	4,500	500	—	500	500	—	500
Volunteer Service Credit Program (CDA) ^e	Service credits for seniors who provide supportive services to other seniors	Age 60 or older	—	—	—	—	65	—	65
Health Insurance Counseling and Advocacy Program (CDA)	Assistance in understanding coverage provided through Medicare and private insurance	Medicare beneficiaries	123,618	—	—	1,248	—	—	2,248

<i>Discount Programs^f</i>									
Golden State Senior Discount Program (DCA/CDA) ^g	Cards issued for purchase of discounted goods and services from volunteer merchants	Age 60 or older	Unknown	72	—	72	72	—	72
California Exposition and State Fair (DFA)	Reduced State Fair admission	Seniors	22,800	23	—	23	33	—	33
California State University (CSU)	Student fee waivers	Age 60 or older	Unknown	499 ^h	—	499 ^h	499 ^h	—	499 ^h
Identification Cards (DMV)	Reduced price and extended period of validity on identification cards	Age 62 or older	85,100	333	—	333	355	—	355
Subtotals, Programs Available to All Seniors				(\$17,604)	(\$83,982)	(\$169,568)	(\$17,701)	(\$78,329)	(\$165,012)
Programs Predominantly Serving Seniors									
<i>Income Support</i>									
Low-Income Weatherization program (DEO) ⁱ	Low-cost home weatherization	Income less than 150 percent of poverty level	Unknown	—	\$5,071	\$5,071	—	\$3,563	\$3,563
Low-Income Home Energy Assistance program (DEO) ⁱ	Heating assistance grants	Income less than 150 percent of poverty level	Unknown	—	16,798	16,798	—	11,963	11,963
Emergency Crisis Intervention program (DEO) ⁱ	Emergency assistance to households unable to pay utility bills	Income less than 130 percent of poverty level	Unknown	—	2,069	2,069	—	2,069	2,069
<i>Health Services</i>									
Alzheimer's Research, Diagnostic and Treatment Centers (DHS)	Research, diagnostic and treatment services provided to patients and families	Symptoms or indications of Alzheimer's Disease	Unknown	\$2,214	—	2,214	\$2,249	—	2,249
Adult Day Health Care (CDA) ^j	Health and social services provided in nonresidential centers	Frail elderly and other adults	4,875	872	—	872	—	—	—
<i>Supportive Social Services</i>									
Alzheimer's Day Care-Resource Centers (CDA)	Supportive services provided to patients and caregivers	Symptoms of Alzheimer's disease or related disorders	639	800	—	800	800	—	800
Linkages (CDA)	Case management to link clients to various social services	Adults who are not certifiable for placement in nursing homes	4,037	3,900	—	3,900	3,900	—	3,900
Respite Care program (CDA)	Referral of clients and families to respite care providers	Health of caregiver at risk; client at risk of institutionalization	970	61	—	61	60	—	60
Senior Self-Reliance program (DOR)	Assistance in overcoming barriers to mobility	Age 55 or older, with limited visual acuity	Unknown	102	—	102	102	—	102

Counselor/Teacher program (DOR)	Mobility orientation and other habilitation services	Client of DOR	Unknown	283	—	283	283	—	283
<i>Other Services</i>									
Urban Mass Transportation Act 16b(2) program (Caltrans) ¹	Capital assistance to private nonprofit agencies to purchase specialized vehicles	Elderly and/or handicapped	Unknown	486	2,794	3,280	486	2,794	3,280
Adult Protective Services (DSS)	Investigation and prevention of abuse/neglect of elders	Not applicable	Unknown	16,302	—	22,225	16,568	—	22,641
Prevention of Crimes Against the Elderly (DOJ)	Information and technical assistance	Not applicable	Unknown	44	—	44	N/A ¹	N/A ¹	N/A ¹
Adult Education Courses for the Elderly (SDE)	Educational courses	Eligibility criteria established by local officials	216,000	32,000	—	32,000	33,573	—	33,573
California Veterans' Home (DVA)	Residential nursing and medical services	Veteran and qualifying resident	1,300	22,445	12,059	34,514	24,855	10,071	34,926
Subtotals, Programs Predominantly Serving Seniors				<u>(\$79,509)</u>	<u>\$38,791</u>	<u>(\$124,233)</u>	<u>(\$82,876)</u>	<u>(\$30,460)</u>	<u>(\$119,409)</u>
Totals, All Programs				<u>\$1,833,592</u>	<u>\$1,600,968</u>	<u>\$3,523,555</u>	<u>\$1,956,916</u>	<u>\$1,694,423</u>	<u>\$3,741,473</u>

^a Local expenditures not shown separately, but they are included in the totals.

^b Figures do not include amounts for recipients age 65 or older who receive aid to the blind or disabled.

^c Federal funds totaling \$10.3 million in both 1987-88 and 1988-89 are included in Medi-Cal figures.

^d Includes \$4.7 million in federal funds carried over from prior fiscal years.

^e Established January 1, 1988 by Ch 1199/87.

^f Estimated revenue loss, assuming older persons receiving discounts otherwise would have purchased full priced services (except for the Golden State program).

^g Transferred January 1, 1988 from the Department of Consumer Affairs to CDA. Expenditures are for program administration.

^h Assumes estimated revenue loss remains the same as in 1986-87.

ⁱ Expenditures for clients age 60 or older.

^j Except for \$872,000 in start-up grants, the amounts expended on this program (\$11.2 million in 1987-88 and \$12.3 million in 1988-89) are included in Medi-Cal figures.

^k Figures include amounts for handicapped as well as elderly.

^l Not available.

- **Programs That Predominantly Serve Seniors.** The budget proposes \$119 million to support 15 programs that predominantly serve seniors but that also provide services to the general population. The General Fund accounts for \$83 million, or 70 percent, of these funds. The eligibility criteria for these programs vary widely. For example, several energy assistance programs are available only to individuals with annual incomes less than 130 percent or 150 percent of the poverty level. Other programs, such as Adult Day Health Care and Linkages, serve older and disabled adults based on their ability to pay. As with the two groupings above, a few programs provide the bulk of the services included in this category. In this case, three programs provide 76 percent of the benefits: Adult Protective Services (\$23 million), adult education courses for the elderly (\$34 million), and residential nursing and medical services provided through the Department of Veterans Affairs (\$35 million).

Table 34 summarizes expenditures for senior programs by type of benefit or service. As the table indicates, income support programs and health services programs account for \$3.1 billion, or 82 percent of expenditures for the benefits and services that the state will provide to older individuals in 1988-89.

Table 34
Summary of Services Available to Older Californians
by Program Type
1987-88 and 1988-89
(dollars in millions)

Type of Program or Service	1987-88			1988-89		
	State	Federal	Total ^a	State	Federal	Total ^a
Income support.....	\$948	\$633	\$1,581	\$947	\$675	\$1,622
Health services.....	679	664	1,344	737	723	1,461
Supportive social services.....	133	274	488	195	273	549
Employment.....	—	15	15	—	11	11
Other services.....	72	15	94	76	13	97
Discount programs.....	1	—	1	1	—	1
Totals.....	\$1,833	\$1,601	\$3,524	\$1,957	\$1,695	\$3,741

^a Local expenditures are not shown separately, but are included in the totals. Detail may not add to totals due to rounding.

Trends in Expenditures for Major Senior Programs

In order to put the amounts displayed in Tables 33 and 34 in perspective, we reviewed expenditures for the five largest programs for seniors during the period 1980-81 through 1988-89. These programs, which account for 95 percent of total proposed expenditures for senior programs in 1988-89, consist of three programs for low-income seniors and two programs that serve seniors of all income groups. Table 35 shows the expenditure levels for these programs in fiscal years 1980-81, 1984-85, and 1988-89 in inflation-adjusted dollars (1980-81 dollars) and the percent changes in real expenditures during this period.

Table 35
Real Expenditures for Major Programs
Provided to Older Californians^a
Selected Years
(dollars in millions)

	1980-81	1984-85	Percent Change		Percent Change	
			from 1980-81	1988-89 (Proposed)	from 1984-85	from 1980-81
<i>Programs for Low-Income Seniors</i>						
IHSS	\$157.5	\$188.1	19.4%	\$340.5	81.0%	116.2%
SSI/SSP	991.9	845.2	-14.8	996.0	17.8	4
Medi-Cal	838.8	622.1	-25.8	780.1	25.4	-7.0
Subtotals.....	(\$1,988.2)	(\$1,655.4)	-16.7%	(\$2,116.6)	27.9%	6.5%
<i>Programs for All Seniors^b</i>						
Nutrition programs.....	\$55.1	\$68.4	24.1%	\$70.7	3.4%	28.3%
Supportive service programs.....	45.3	38.7	-14.6	35.1	-9.3	-22.5
Subtotals.....	(\$100.4)	(\$107.1)	6.7%	(\$105.8)	-1.2%	5.4%
Totals, all programs	\$2,088.6	\$1,762.5	-15.6%	\$2,222.4	26.1%	6.4%

^a Expenditures are adjusted for inflation so that all figures are in 1980-81 dollars. Inflation factors used for each program are: (1) IHSS, actual and estimated year-to-year changes in Individual Provider rates; (2) SSI/SSP, changes in the California Necessities Index (CNI); (3) Medi-Cal, Consumer Price Index component for medical care (Legislative Analyst estimate for California); (4) Nutrition programs, Consumer Price Index component for food purchased away from home (Legislative Analyst estimate for California); and (5) supportive services programs, U.S. Gross National Product deflator for state and local government purchases.

^b Expenditures for 1980-81 reflect Legislative Analyst estimates derived from data provided by CDA.

Programs for Low-Income Seniors. The table shows that real expenditures for the two largest programs for low-income seniors—SSI/SSP and Medi-Cal—decreased substantially during the first half of this decade. This decrease in real expenditures occurred primarily because (1) the state did not provide an SSI/SSP COLA in 1983 and provided only part of the statutorily required COLA in 1984, (2) there were SSI/SSP and Medi-Cal caseload reductions, (3) Medi-Cal long-term care rates—which are based on provider costs—did not increase as fast as the inflation index used in our calculations, and (4) Medi-Cal reform and provider COLA restrictions limited increases in Medi-Cal expenditures. The table also shows, however, that real expenditures for the IHSS program increased substantially between 1980-81 and 1984-85. This growth was due to increases in IHSS caseloads and in the average hours of service awarded to clients.

Programs for All Seniors. Table 35 also shows that total expenditures for programs that serve seniors of all income groups increased between 1980-81 and 1984-85. This is the net effect of an increase in nutrition program funding and a decrease in expenditures for supportive services. The increase in nutrition program expenditures is primarily the result of (1) increases in the state's share of funding for nutrition programs

beyond the federally required match, beginning in 1984-85, and (2) a \$5 million legislative augmentation of the budget for these programs during 1984-85. The decrease in supportive services expenditures is probably due to a reduction in one-time federal funds. Interpretation of these data is difficult, however, because some of the data may not include local administration costs. Nevertheless, if these costs were included, there would still be a reduction in spending during this period.

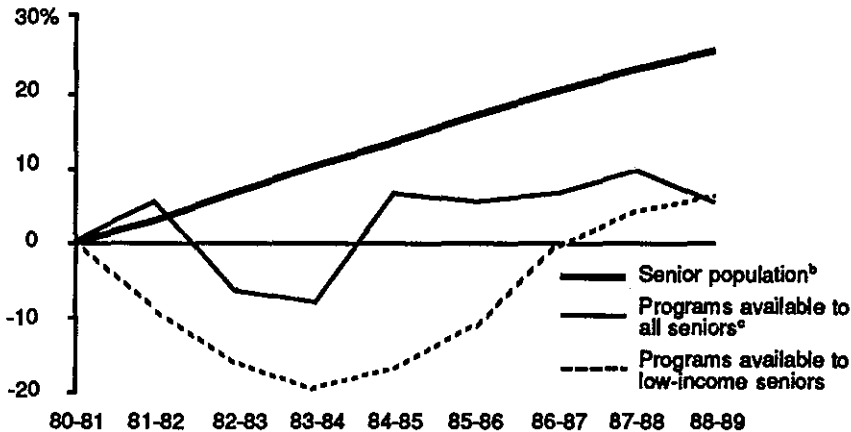
Reversal of Trends in Recent Years. The trends reflected in Table 35 for the first half of the decade have been reversed in recent years. As the table shows, the proposed real expenditure levels for the low-income senior programs in 1988-89 represent a substantial increase over 1984-85 levels. This increase is due to several factors: (1) caseload growth in all three programs, (2) the state's policy of fully funding the statutory SSI/SSP and IHSS COLAs during these years, (3) a continuing increase in the hours of service provided to the average IHSS client, and (4) cost increases in the Medi-Cal program due to nursing home reform legislation enacted in 1984.

At the same time, 1988-89 expenditures for programs that are available to all seniors decreased slightly, in real terms, as compared to 1984-85 expenditures. This occurred primarily because increases in funding for these discretionary, noncaseload driven programs have not been sufficient to offset the impact of inflation. The reduction in expenditures for supportive services is due to a change in state law that limited the amount of funds that local agencies could transfer from nutrition programs to supportive services programs.

Chart 50 compares the cumulative growth in real expenditures for the five programs shown in Table 35 with the growth in the senior population. Specifically, the chart shows that the projected state population in 1988-89 of persons 60 years of age and over is 26 percent higher than in 1980-81. As the chart also shows, however, the increases in real expenditures for the five major programs for seniors have not kept pace with the growth of the senior population. While expenditures were growing faster than the population during the second half of the decade, this growth has not offset the large decreases which occurred earlier in the decade.

Chart 50

Changes in Real Expenditures for Major Senior Programs Compared to Changes in Senior Population 1980-81 through 1988-89^a



^a Expenditure data are in 1980-81 dollars. Inflation factors used to adjust nominal expenditures vary across programs.

^b Population over 60 years of age.

^c Legislative Analyst estimate of actual expenditures in 1980-81 and 1981-82; based on CDA data.

Conclusion

The state spends a significant amount of resources on older Californians. In 1988-89, the Governor's Budget proposes to spend \$3.7 billion (state and federal funds) on 39 programs that deliver a wide array of services to seniors. While most of these funds provide income support and health services to low-income seniors, the state spends a significant amount (\$165 million in 1988-89) on services that are available to all older persons. Since 1980-81, real expenditures on the elderly have not kept up with the growth in the over-60 population. In programs available to all older persons, this reduction in real per-capita spending may have resulted in fewer services available to the average participant. For programs serving low-income seniors (especially SSI/SSP and Medi-Cal) these reductions reflect three factors: (1) a decline in the number of individuals eligible for services, (2) benefit reductions to those who are eligible, and (3) program economies. We cannot determine the net impact of these changes on program participants.