An LAO Report

Improving CalWORKs Program Effectiveness:

Changing the Employment Services Budget Process

Background

The California Work Opportunity and Responsibility to Kids (CalWORKs) program provides cash grants and welfare-to-work services to families whose incomes are not adequate to meet their basic needs.

Prior to 2000-01, Department of Social Services (DSS) estimated the amount of monies needed by the counties for employment services based on a "statewide model" and then allocated funds to counties based largely on their historical spending patterns. Beginning in 2000-01, the system used by the DSS was changed significantly to a county-driven system based on "projected county costs." Under the new system, counties submit budgets to DSS who then reviews the proposals and makes reductions if it determines that the county requests are not "reasonable and consistent" with the purposes of CalWORKs.

LAO Findings

- The new system for budgeting CalWORKs welfare-to-work services is flawed. It has resulted in funding allocations per aided adult that range widely among counties from about $2,400 to $11,300. The wide variation in funding allocations raises two concerns. First, CalWORKs recipients residing in low-allocation counties may not have access to the services they need to become self-sufficient prior to reaching their five-year time limit. Second, counties have little incentive to control CalWORKs employment services costs because their share of these costs is fixed.

- Welfare-to-work services are potentially underfunded by as much as $120 million during 2000-01, and 10 counties do not have sufficient funds to provide necessary services for all families needing to become self-sufficient.

LAO Recommendations

- Enact legislation to (1) establish a base level of funding that is available to all counties thereby ensuring that all CalWORKs recipients have access to a base level of funding for employment services and (2) require counties that elect to expend more than the base amount to pay a fixed percent of the costs above the base level as an incentive to control costs.

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BACKGROUND

The CalWORKs Program

In response to federal welfare reform legislation, the Legislature created the California Work Opportunity and Responsibility to Kids (CalWORKs) program, enacted by Chapter 270, Statutes of 1997 (AB 1542, Ducheny). Similar to its predecessor, the Aid to Families with Depended Children (AFDC) program, the new CalWORKs program provides cash grants and welfare-to-work services to families whose incomes are not adequate to meet their basic needs. However, under CalWORKs, adults are generally limited to five years of eligibility for a cash grant. In order to receive a full grant, most recipients must participate in work or approved training activities for a minimum of 32 hours per week. Although grant levels are set by the state and the program is funded almost entirely with state and federal funds, counties control the delivery of welfare-to-work services.

The CalWORKs Budget System, 1997-2000

The CalWORKs program is financed by a combination of federal Temporary Assistance for Needy Families (TANF) block grant funds, the state General Fund, and county funds. To receive the annual TANF grant, a state must comply with a maintenance-of-effort (MOE) requirement that state spending on welfare for needy families be at least 75 percent of the federal fiscal year (FFY) 94 level, which is $2.7 billion for California. For 2000-01, California met the requirement with $2.6 billion in state spending and $154 million in county spending.

CalWORKs Grants Are an Entitlement. Grant payments to individual recipients are an entitlement (if grant costs are greater than budgeted, increased funding is automatically provided to the counties to pay grant costs). Counties pay 2.5 percent of grant costs. The remaining 98 percent is paid with a combination of state General Fund monies and federal TANF funds.

Block Grant for Employment Services and Administration. In contrast to grant payments, funding for CalWORKs welfare-to-work services, child care, and program administration are provided to the counties in a block grant known as the "single allocation." The single allocation consists of state and federal funds. Because the single allocation funds are a block grant, counties have the discretion to move funds across purposes to address actual need at the local level. For example, if a county has excess funds for administration, it may move such funds to child care or employment services.

How Was the Single Allocation Budgeted? Through the end of 1999-00, the Department of Social Services (DSS) used two different methods to budget the three main components of the single allocation. For child care and employment services, DSS developed a statewide model of total costs based on caseload estimates and the unit costs of providing various employment services. Conversely, the budget for administrative costs was determined through a system of county budget requests that were reviewed by DSS. This budgeting method was called the proposed county administrative budget (PCAB) process. Under PCAB, counties requested funds to support specific staffing levels, salaries, and direct services. The DSS then reviewed the county requests and made discretionary adjustments. Figure 1 summarizes how the three major components of the single allocation are determined under both the prior system and the new system that is described in the next section.

County MOE Requirement Replaces Cost Sharing System. Another important aspect of the CalWORKs budget system is that county costs for administration and employment services are fixed at their 1996-97 levels. Instead of paying a share total costs (as is the case with grants), counties must meet a MOE for CalWORKs and Food Stamps administration that is equal to their spending on these programs in 1996-97. We note that prior to CalWORKs, counties paid approximately 30 percent of the nonfederal costs of program administration and employment services. After accounting for federal funding, this represented a 15 percent share of marginal costs.

Other Funding Sources

The single allocation is not the only funding source for CalWORKs employment services, administration, and child care. Counties may also use performance incentives; Department of Labor (DOL) Welfare to Work funds; and for a limited time period, unexpended single allocation funds carried over from prior years. These funding sources are described in more detail in the shaded box on page 4.

Figure 1

State and County Control of CalWORKs Budget Components

Component	Prior System (1997-2000)	New System (2001-Present)
Administration	County budget request	County budget request
Child Care	Statewide model	Statewide model
Employment Services	Statewide model	County budget request

THE NEW SINGLE ALLOCATION BUDGETING SYSTEM

As shown in Figure 1, the key change in the budget process beginning in 2000-01 is that employment services moved from a statewide model controlled by DSS to a system driven by county requests. The specifics of this change are discussed below.

Employment Services Budget Becomes Part of PCAB. Budget trailer bill legislation, Chapter 147, Statutes of 1999 (AB 1111, Aroner), changed the budgeting system for CalWORKs employment services from a statewide model to a new county-driven system based on "projected county costs."

Funding Sources in Addition to the Single Allocation for CalWORKs Services

County Performance Incentives. In addition to the single allocation, counties receive performance incentives that may be used to provide services to needy families. The amount of performance incentives that counties receive is based on the savings attributable to exits due to employment or recipient earnings that result in reduced grant payments. Performance incentives may be spent on California Work Opportunity and Responsibility to Kids (CalWORKs) families and other low-income families that are not in CalWORKs. Effective July 2000, counties may expend up to 25 percent of their incentive funds on families not eligible for CalWORKs but with incomes below 200 percent of the federal poverty guideline. We note that the Governor's budget proposes no appropriation for performance incentives, however, counties retain balances in excess of $1 billion.

Carryover (Rollover) Funds. Unspent funds from prior years were another source of funding for employment services. As originally envisioned in the CalWORKs authorizing legislation (Chapter 270, Statutes of 1997 [AB 1542, Ducheny]), counties were to retain unexpended single allocation funds through 1999-00. Consistent with that legislation, counties were given new employment service funds in 1998-99 and retained the rollover of unexpended funds from 1997-98. However, in 1999-00, unexpended funds from 1998-99 were used an offset against the 1999-00 allocation of funds, effectively eliminating rollover. The loss of rollover funds raised county concerns about the reliability of funding sources for employment services. This uncertainty may have caused counties to hold their performance incentives in reserve as a hedge against potential future reductions in single allocation funding.

Department of Labor (DOL) Welfare-to-Work Funds. Under the federal Welfare-to-Work block grant program administered by the DOL, California will receive about $370 million in employment services funding over a six-year period. About 85 percent of these funds are allocated to local workforce investment boards (formerly known as private industry councils) to provide employment and training services to eligible individuals. The remaining funds are allocated on a competitive basis to various organizations around the state. Federal law requires that most of these funds be spent on Temporary Assistance for Needy Families recipients. To receive these funds, California must provide a one dollar match for every two federal dollars received. Most of the matching funds for this program have been appropriated to county welfare departments.

To implement this change, the employment services budget was added to the PCAB process described above. In other words, counties now estimated their employment services costs (consisting of their staff requirements and direct service costs, mostly contracts with various welfare-to-work service providers). These estimates were then submitted to DSS in the PCAB process.

The DSS Reductions to County Requests. After the PCAB requests are received in March, DSS makes two types of reductions: (1) discretionary and (2) statutory. First DSS reviews the proposed budgets for consistency with state law and workload needs. Based on this review, DSS makes discretionary reductions in county allocations if it determines the requests are not "reasonable" or "consistent" with state law. Second, DSS makes statutory reductions in order to account for other funding sources. Specifically, the administration proposed, and the budget assumes, that 75 percent of the DOL Welfare-to-Work funds allocated to local workforce investment boards are a funding source for employment services for CalWORKs recipients. Similarly, the budget assumes the state matching funds for the DOL funds (which are allocated to county welfare departments) are a funding source. Accordingly, each county's employment services allocation was reduced by about $360 per aided adult to account for these other funding sources. The effect of this action was a double reduction in the allocations to the counties which we address later in this report.

The Total Single Allocation. Once the employment services allocation is determined, it is combined with the funding for administration, the Cal-Learn program (for teen parents), and child care to arrive at the total single allocation. Counties receive additional funds for mental health and substance abuse treatment based on a statewide model. These funds are not part of the block grant and must be used for their designated purpose. The DSS notified counties of their final allocations in July 2000.

The* 2000-01 Budget Act *Authorizes Reconsideration Process. The Legislature appropriated $55 million into a reserve that may be used to provide funds to counties that "successfully appeal disallowances from their employment services budget requests." This appropriation resulted in a "reconsideration" process whereby DSS reviewed county appeals and forwarded their recommendations concerning these appeals to the Department of Finance (DOF). The DOF then may authorize the release of these funds to the counties. In October 2000, DSS approved $92 million of the county requests for additional funding pursuant to this process. However, because only $50 million remained in the reserve account established for this process, DSS prorated its recommendation to allocate funds to the counties down to $50 million. In January 2000, DOF approved the release of the these reconsideration funds.

SINGLE ALLOCATION RESULTS FOR 2000-01

In this section we review the results of the single allocation budget process for 2000-01. In order to facilitate comparisons among counties, we have standardized the funding allocations by dividing each county's allocation by the number of aided adults in that county. (Please see the shaded box below for a more complete description of our methodology.)

In 2000-01, the total single allocation was approximately $1.5 billion, or an average of $3,995 per aided adult. This compares to 1999-00 when the total allocation was $1.6 billion or $3,683 per aided adult.

Methodology For Evaluating County Single Allocations

The LAO Approach. In order to have a common base from which to review county single allocations, this report displays each county's allocations on a "per adult" basis. That is, total single allocations and the cost categories which comprise most of the single allocations (California Work Opportunity and Responsibility to Kids [CalWORKs] administration, employment services, and child care) are divided by an estimate of each county's number of aided adults. A per adult analysis provides a standardized unit of measurement which can generally be used to compare counties of similar sizes. The per adult amounts shown for 2000-01 are based on a statewide assumption that the aided adult caseload will decline by 10.8 percent in each county from 1999-00 to the current year.

We have generally limited our analyses to the 12 counties with the largest aided adult populations, which together receive about 75 percent of single allocation funds and serve about 90 percent of the aided adult population. However, data from all 58 counties are displayed in Figure 2 (see page 9) and Figure 3 (see page 10) to illustrate regional differences in allocations and to highlight statewide trends in the distribution of single allocation funds.

To complete our review, we interviewed fiscal and program staff in each of the 12 largest counties to obtain their perspectives on the CalWORKs funding process. Specifically, we discussed the proposed county administrative budget process and the projected fiscal impact of the final single allocations on the implementation of county CalWORKs programs.

Some Variation Among Counties to Be Expected. It is not surprising to find some variation in the per adult allocations across counties. This is so for a number of reasons. First, poverty and

Allocations in 2000-01 Compared to 1999-00

Not All Counties Were Winners. Although the majority of counties received more funding per aided adult in 2000-01 than in 1999-00, not all counties received a net increase in single allocation funding per aided adult. Fifteen of the state's counties (which comprise close to 50 percent of the total aided adult population) received *decreases* in funding in single allocation funding per adult ranging from 3 percent up to 40 percent. Most counties that received a lower per adult allocation in 2000-01 generally had caseloads under 1,000 adults. However, three large counties (which comprise close to 40 percent of the aided adult population) received decreases in single allocation funding per adult.

(continued)

unemployment levels are not constant throughout California. Thus, each county will need to provide a different set of services, based on the specific needs of its population. It is possible that a county may be serving a population with more barriers to employment, resulting in higher costs per adult than an otherwise similar county.

Second, counties have adopted different approaches to providing services. Some counties administer the entire program with their own staff while other counties contract out many services to private providers and community-based organizations. Coupled with varying county preferences for service levels, this can result in intrinsic cost differences.

Third, very small counties with caseloads under 1,000 adults generally face high fixed costs. Therefore, the per adult allocation in small counties will often be over three times the state average; but this does not necessarily mean that small counties are operating CalWORKs programs at significantly enhanced levels, as compared to larger counties with smaller per adult allocations.

Degree of County Variation Is Important. The point of our analysis is not that there is variation among counties—that is to be expected—but, rather the degree of the variation. If wide variations are found among similar counties, it raises question about the appropriateness of the allocation formulas.

Although there is no expectation that allocations per aided adult for each county should be the same, it is reasonable to use this standard to compare the resources that counties have available for meeting CalWORKs program goals. Though county situations differ, each county is trying to assist all aided adults in making the transition to self-sufficiency.

Allocations in 2000-01: Wide County Variation

Statewide. Figure 2 shows the large range in single allocations per aided adult among all California counties. The statewide single allocation per aided adult was about $4,000, but the allocation for individual counties generally ranged from $2,400 in Tulare County up to about $11,300 in San Luis Obispo County. This represents an increase in variation compared to 1999-00 when the allocation per adult ranged from $2,200 up to about $6,500.

The allocation per aided adult is as high as $23,000 among the smaller counties with caseloads under 1,000 adults. In 1999-00 the highest allocation was about $19,000. We note that the handful of large allocations may be due to the high fixed costs associated with providing services to relatively small aided populations.

The 12 Largest Counties. As shown in Figure 2, within the 12 counties with the largest caseloads (shown in black), there was substantial variation in the amounts allocated per adult, ranging from about $2,400 (Tulare) to $6,600 (Santa Clara). (This represents an increase in variation compared to 1999-00 when the allocation per adult ranged from $2,400 to $4,800.)

Among these 12 counties, some received increased allocations compared to 1999-00 while others received decreases. For example, Los Angeles County, which has the largest caseload, received a 9 percent decrease in funding per aided adult from 1999-00. In contrast, Contra Costa County, which has the smallest adult caseload among the 12 counties, received close to a 90 percent increase in funding per aided adult.

Allocations in 2000-01: Wide Regional Variation

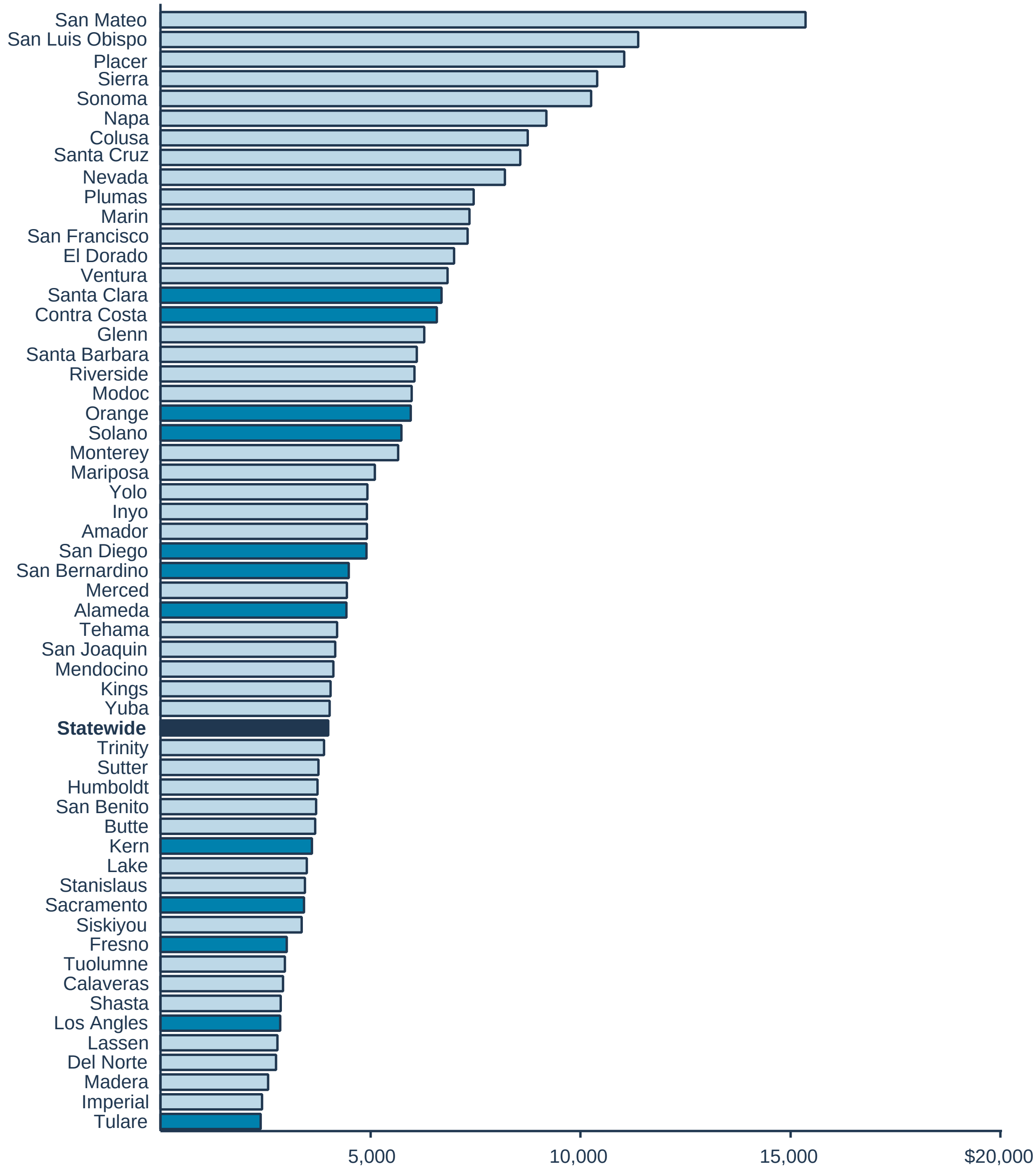
Allocations by Region. As can be seen in Figure 3 (see page 10), the range in single allocations per adult among regions is very large. As a group, counties in the Central Coastal and Bay Area regions received over $6,000 per aided adult. Although these counties received high allocations in part because of their status as "high-cost" counties, this is not the entire explanation. (In this context, high-cost refers to the 17 counties which pay higher CalWORKs grants due to higher rental housing costs.) Los Angeles County, which is also a high-cost county, received $2,800 per aided adult, which was one of the lowest allocations in the state. The "low-cost" inland and North Coast regions received allocations which were closer to the statewide allocation per adult.

Distribution of Allocations Compared to Caseload. Figure 4 (see page 10) provides regional information on the single allocation distribution. Specifically, it compares the percent of caseload in a region with the percent of single allocation funds distributed to each region. For example, although Los Angeles County has 37 percent of the aided-adult population, it received about 26 percent of the total single allocation funds. In contrast, the Bay Area region, which has about 11 percent of aided adults, received about 17 percent of the total single allocation funds. In addition, the Los Angeles Basin (excluding Los Angeles County) has about

Figure 2

Wide Variation in County[a][b] Allocations

Per Adult Single Allocation
2000-01



[a] Two counties excluded from this figure: Alpine, $19, 479; Mono, $23,334.
[b] Twelve largest counties shown in color.

Figure 3

Wide Variation in Regional Allocations

Per Adult Single Allocation
2000-01

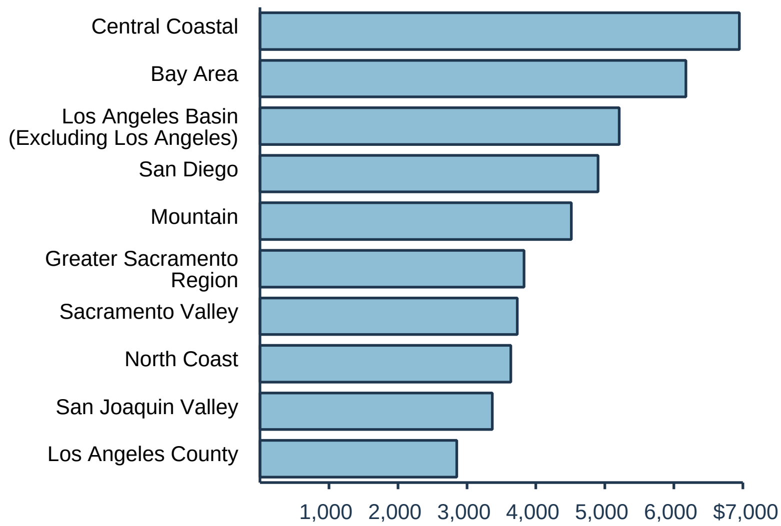
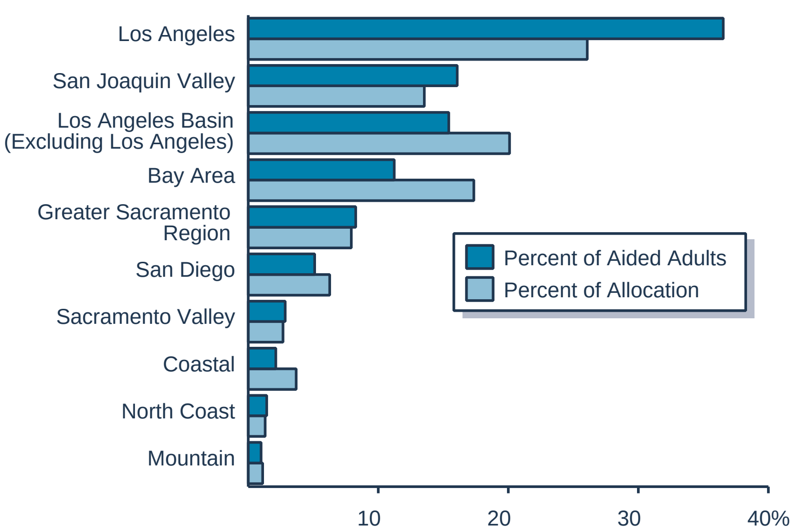


Figure 4

Distribution of Single Allocation Compared to Caseload, By Region

2000-01



about 20 percent of total single allocation funds. Inequalities between aided population and proportion of funds received are much less pronounced in the North Coast, Greater Sacramento, Mountain, and Sacramento Valley regions.

Concerns With Wide Variation

The preceding figures illustrate the wide variation in county single allocations per aided adult. Some variation in single allocations per adult is to be expected due to substantial differences in local economic conditions, costs of providing services, and program designs. These factors might explain variations among single allocations per adult if the magnitude of the differences were small or moderate in percentage terms. However, larger allocations are often 3 to 4 times that of the smaller allocations. In addition, as shown in the appendix, counties with higher unemployment rates, which may indicate a population with more barriers to employment, often received lower allocations than counties with lower unemployment rates. In short, the variance in single allocations seems to be too wide to be simply explained by program needs or local economic differences.

THE LAO CONCERNS

Based on our review of the CalWORKs employment services budgeting system, we have identified several concerns. First, many counties are potentially underfunded for CalWORKs employment services. This is important because counties lacking sufficient resources may be unable to achieve the program goal of helping recipients become self-sufficient prior to reaching their five-year time limits. Second, the new system lacks incentives to control costs at the county level because there is no fiscal link between a county's budget request for employment services funds and the county's share of costs for such funds. Given the wide variation in allocations per aided adult, we believe counties may ask for significantly more resources in the next budget cycle. Finally, current law makes no clear distinction between base program elements that should be funded by the single allocation and "enhancements" that could be funded by performance incentives and other sources.

Employment Services Potentially Underfunded

Based on our analysis, there is evidence to suggest that employment services are potentially underfunded in some counties. First, the counties requested an additional $121 million through the reconsideration process for employment services funding for 2000-01. After reviewing the requests, DSS determined that the counties needed an additional $92 million to fully operate their programs. Second, our review of CalWORKs participation data suggests that many counties were not serving all recipients in 1999-00. Specifically, county reports to DSS indicate that many adults are not participating in required activities in certain months. Third, we have found little programmatic or policy justification for the wide variation in county single allocations. This is of particular concern for counties with low per adult allocations becaue they may not be able to adequately serve their caseloads. Below we suggest an approach for determining whether a county is underfunded.

How Much Does a Fully-Implemented Welfare-to-Work Program Cost? We have identified two counties which may provide a benchmark for funding county welfare-to-work programs. Riverside and San Bernardino, two relatively large counties, were close to fully "ramped up" for all of 1999-00. They had relatively full participation for all families that were not exempt from work participation mandates and sanctions were applied to those that had not complied with repeated attempts to bring them into the program. Furthermore, neither Riverside nor San Bernardino are considered high-cost counties and we are not aware of any particularly high-cost components in their programs. Each of these counties had single allocation expenditures of approximately $4,200 per aided adult. Accordingly, we believe $4,200 per aided adult represents the minimum cost of operating a welfare-to-work program that meets the substantial participation requirements of Chapter 270.

How Many Counties Potentially Underfunded in 2000-01? Twenty four counties received less than $4,200 per aided adult in single allocation funding in 2000-01. The cost to bring these counties up to this standard would be about $283 million. We note that $189 million of this amount would be for Los Angeles County, which, in our opinion, is not fully ramped up and would be unable to expend this level of funding during the remainder of 2000-01. (In fact, Los Angeles County requested only $33 million in the reconsideration process.) Assuming Los Angeles needs just $33 million, the total program is potentially underfunded by about $127 million, assuming the $4,200 per aided adult standard.

The results of the reconsideration process are further evidence that CalWORKs employment services are underfunded. Under the reconsideration process, counties requested $121 million in additional funds. The DSS concurred with the need for $92 million of these requests. However, as noted earlier, due to limited funds in the reserve, only $50 million was available for allocation to the counties.

Why Were Counties Underfunded? There are two primary causes for underfunding. First, there are several problems with the PCAB process by which counties requested funds. Second, the policy decision to reduce single allocation funding by the amount of DOL Welfare-to-Work funds resulted in a "double" reduction to county budgets. Each of these issues is discussed below.

Problems With the PCAB Process. Applying the PCAB process to the employment services budget made it difficult for both DSS and the counties to determine the "right" amount of funds for the single allocation. Problems with the PCAB process include the following:

- ***Limited Program Information Requested From Counties in PCAB.*** The PCAB format has traditionally been used for budgeting administrative resources for CalWORKs and other social services programs. The accounting-oriented nature of the PCAB does not request necessary programmatic information that allows new employment service delivery proposals to be evaluated based on program merits. Our review of a sample of county proposals submitted to DSS found that the proposals generally did not contain adequate budget and program information to justify requests for staff and programs. In particular, counties were not required to submit any information on how many clients their proposed programs would serve. Without such caseload information, it is very difficult to determine the right amount of funds for employment services. (Nevertheless, we believe employment services are underfunded because 10 counties have allocations significantly below the $4,200 minimum discussed above.)

- ***Counties Had Limited Guidance***. Although counties have had several years experience with the PCAB process, the addition of the employment services component in 2000-01 was a substantial change. Several counties indicated that the training provided by DSS focused on the technical aspects of completing the PCAB and provided almost no information on the types of employment services programs that would be appropriate for single allocation funding and how proposed employment services programs would be evaluated. And as stated previously, counties were required to submit limited programmatic information about content and costs of their proposed employment services.

- ***Funding Reductions Not Based on Program Merits.*** Due to the lack of information requested and provided in the PCAB, we found that DSS adopted an "all or nothing" approach to evaluating requests. Program funding was approved based on a relatively narrow criterion of whether or not services were specifically allowed under the CalWORKS authorizing statute, as opposed to a broader approach of whether a proposal's costs and scope were likely to move clients from welfare to work. As a result, budget decisions by DSS were generally not tied to anticipated program outcomes.

- ***Staff Reductions Based on Faulty Assumptions.*** In addition, DSS generally reduced staffing requests based on the assumptions that CalWORKS caseloads were declining statewide and that counties were serving all eligible participants in 1999-00. However, while caseloads are declining statewide, some individual counties may not be experiencing substantial caseload reductions. Even where counties are experiencing caseload declines, the remaining participants are likely to have significant barriers to employment and, thus, are harder to serve and may require additional staff resources. In addition, several of the 12 largest counties indicated that they were not yet serving all eligible participants with a full scope of services.

The DOL Welfare-to-Work Funds Resulted in a "Double Reduction" in Allocations. As described earlier in this report, DSS reduced the single allocation for each county by $360 per aided adult to account for federal DOL Welfare-to-Work funds and corresponding state matching funds. These funds are available at the local level to provide employment services for CalWORKs recipients. The total reduction was $139 million—$95 million for DOL federal funds and $44 million for matching funds.

To the extent that county budget requests in the PCAB process did not account for employment services that would be available due to these funds, such a reduction would have made sense. Our interviews with counties indicate the opposite. That is, when counties submitted their budget requests for employment services, these requests were *net* of the availability of such funds. In other words, this DSS reduction to county requests resulted in a double reduction. Furthermore, county welfare departments do not directly control the DOL funds allocated to the local workforce investment boards. Later in this report, we recommend changing the PCAB process to properly reflect county use of these funds.

Budget System Lacks Cost Control Elements

No doubt there are a number of factors that account for the wide variation in county single allocations. One significant factor is that counties do not share in the marginal cost of the program. As described earlier, counties must meet a fixed MOE requirement (equal to their 1996-97 spending), but once this is met, they have no share of marginal costs. In making their budget requests, county Boards of Supervisors did not have to consider the impact on county resources. Given this environment, it is not surprising that many counties asked for substantial increases in employment services funding for 2000-01. Further, the wide variation in allocations in 2000-01 (the first year of the new budget system) suggests there may be added cost pressures in future years. For example, counties that received low allocations are likely to modify their future requests to match the requests of counties that received higher allocations.

Similarly on the state side, Chapter 147 did not provide DSS with much guidance to control costs. Rather the statute indicates DSS should determine if the budget requests are "reasonable and consistent" with CalWORKs purposes.

No Clear Distinction Between Base Program and Enhancements

In theory, welfare-to-work and administrative services included in each county's program should be funded through the single allocation. As stated previously, counties also receive additional CalWORKS funding such as performance incentives which are intended to fund enhancements to the base program. However, the statute governing CalWORKS provides limited guidance regarding the type of programs that should be funded under the single allocation and the programs which should be considered enhancements and, therefore, should be funded by fiscal incentives.

RECOMMENDATIONS

Establish a Base Level of Funding And a County Share of Costs

The current budgeting system for CalWORKs employment services is flawed. It has resulted in wide variation in county allocations with the potential of underfunding some county programs. At the same time, counties do not share in the marginal costs for CalWORKs administration or employment services above the MOE requirement. In order to address these problems, we recommend enactment of legislation to (1) establish a base level of funding for CalWORKs employment services and administration per aided adult that is available to all counties who meet their MOE requirement and (2) require counties that elect to expend more than the base amount to pay for a modest share of the costs above the base level.

Given the flaws that we have identified in this report in the CalWORKs budgeting process, we believe that the process should be modified to provide (1) a base level of funding that assures all recipients will have access to the services they need to become self-sufficient and (2) an element of cost control while avoiding an incentive for counties to underspend.

The first step in establishing this new system is to set a base level of funding. As discussed previously, our review of county budgets and the implementation of CalWORKs indicates that the minimum cost to provide CalWORKs services to all families is approximately $4,200 per aided adult in many counties. The base level of funding needs a technical adjustment to net out single allocation components that are not part of PCAB. After making this technical adjustment, the base level PCAB costs for employment services and administration are approximately $2,800 in most counties. Base level PCAB costs in very small counties (less than 500 aided adults) would be higher due to relatively high fixed costs.

Once the base levels are established, counties would be responsible for their MOE requirement if they elected to expend at the base level (as is the case under current law). However, counties electing to expend more than the base level would be responsible for a fixed percent of program costs above the base level. We suggest that the share of cost be modest, perhaps in the range of 5 percent. We note that this discretionary amount of county spending would result in a significant state match, effectively 19 state/federal dollars for every $1 invested by the counties. Counties could fund their share of costs with their performance incentive fund balances. Accordingly, we recommend enactment of legislation to establish base level program costs and a fixed percentage share of costs for counties that elect to expend above the base level.

The recommendation would not result in a reimbursable state mandate because (1) it does not require counties to provide any specific level of service and (2) any increased county cost share would be voluntary on the part of counties electing to spend above the base level. The fiscal impact of this recommendation is unknown because it depends on how different counties react to the new budgeting system.

To implement this recommendation, the Legislature could set base levels in statute, for example, $2,800 for medium and large counties and $5,600 for very small counties. Alternatively, the Legislature could direct a workgroup composed of DSS, the County Welfare Directors Association, DOF, and legislative staff to establish these levels by December 1, 2001 for use in the March 2002 PCAB process. Regardless of the approach taken, the base levels should be adjusted each year to account for inflation, with an in-depth review by DSS every three to five years. The purpose of these reviews would be to verify that the base level of funding appropriately accounts for changes in the economy, service delivery methods, and federal requirements.

In making this recommendation, we are not suggesting that costs above the base level should be considered "enhancements" that should only be funded by performance incentives. On the contrary, we believe that many of the county proposals for expenditures above the base level are for legitimate program needs such as providing training to aided recipients who are working in nonsubsidized employment or reducing case management ratios. Adopting this recommendation will allow such spending to continue, provided counties are willing to pay a modest share of cost. Finally, we note that adoption of this recommendation should begin to narrow the range of allocations received by each county.

Accounting for Federal Welfare-to-Work and State Matching Funds

Because counties may use DOL Welfare-to-Work funds and the corresponding state matching funds to pay for CalWORKs employment services, the budget reduced the single allocation by $139 million. This, however, resulted in a "double reduction" in employment services funding because most county budget requests in the PCAB process had already accounted for these funds. To avoid double reductions in the future, we recommend formally incorporating an accounting for these welfare-to-work funds into the PCAB process.

As noted previously in this report, counties have access to additional sources of funds for employment services besides the single alloction. Local workforce investment boards control approximately $148 million in federal DOL Welfare-to-Work funds and county welfare departments control $51 million in state funds used as the match for these federal funds. The 2000-01 budget recognized about 75 percent of these monies as a funding source for CalWORKs employment services. Accordingly, the single allocation was reduced by $139 million ($95 million for DOL federal funds and $44 million for matching funds). This budgeting approach was flawed because most counties had already taken these sources into account when they submitted their employment services budgets in the PCAB process. Thus, the reduction of $139 million represented a double reduction.

We believe that counties should continue to use both federal DOL funds and the state matching funds to provide employment services to CalWORKs recipients. We note however, that these funds may only be used for certain CalWORKs recipients facing specified barriers to employment. Due to these limitations, counties may not be able to use all of these funds for their CalWORKs recipients, even if the local workforce investment boards make them available.

Analyst's Recommendation. With respect to DOL Welfare-to-Work funds and the corresponding state matching funds, we recommend that the budget process be changed as follows. First, counties would specifically identify how they plan to use both the state matching funds and the federal DOL Welfare-to-Work funds to serve their CalWORKs clients. In making this identification, counties would note any barriers or limits on using these funds. All of this information would then be incorporated into the counties' PCAB submissions. We believe this approach will result in single allocations that correctly reflect the use of available federal DOL Welfare-to-Work funds and state matching funds for employment services.

Appendix

CalWORKs Single Allocations Per Adult by County

1999-00 and 2000-01

	1999-00 Single Allocation		2000-01 Single Allocation			
Counties	Per Aided Adult	Per Aided Adult (Net of Childcare and CalLearn)	Per Aided Adult	Per Aided Adult (Net of Childcare and CalLearn)	Estimated Aided Adults	1999 Annual Unemployment Rate
Alameda	$3,216	$1,894	$4,427	$2,274	15,722	3.4%
Alpine	15,454	14,808	19,478	17,733	18	9.0
Amador	5,253	4,366	4,915	3,433	184	4.6
Butte	2,447	1,713	3,682	2,930	4,067	6.8
Calaveras	4,853	4,169	2,922	2,258	358	6.9
Colusa	6,002	4,761	8,743	6,469	124	15.7
Contra Costa	3,491	2,064	6,581	4,684	6,431	3.0
Del Norte	3,733	2,778	2,751	1,844	678	8.0
El Dorado	4,566	3,289	6,996	5,470	701	3.8
Fresno	3,111	1,962	3,003	2,076	16,411	13.5
Glenn	3,814	3,047	6,282	5,403	405	10.9
Humboldt	2,518	1,790	3,737	3,192	2,074	6.4
Imperial	2,825	2,299	2,424	2,049	3,659	23.2
Inyo	4,879	4,118	4,918	3,202	186	5.6
Kern	2,891	1,649	3,606	2,204	12,408	11.4
Kings	2,967	1,991	4,053	3,021	1,615	13.0
Lake	3,672	2,881	3,485	2,795	1,430	7.7
Lassen	4,246	3,123	2,785	1,935	474	7.0
Los Angeles	3,640	2,361	2,851	1,992	140,270	5.9
Madera	2,221	1,483	2,564	1,908	2,288	11.6
Marin	5,128	3,494	7,354	4,830	555	1.9
Mariposa	4,431	3,964	5,101	4,384	181	7.4
Mendocino	3,029	2,135	4,117	3,059	1,272	6.7
Merced	3,310	2,401	4,435	3,601	4,610	13.3
Modoc	5,156	4,363	5,976	5,613	157	8.5
Mono	19,805	18,448	23,334	21,623	30	6.6
Monterey	4,404	3,227	5,662	4,155	2,722	9.5
Napa	7,365	5,759	9,189	5,502	330	3.3
Nevada	6,006	4,704	8,197	6,572	371	4.1
Orange	4,514	2,887	5,959	4,557	14,205	2.6
Placer	5,619	4,161	11,038	6,666	997	3.2
Plumas	5,688	4,789	7,451	6,089	171	9.0
Riverside	4,144	2,741	6,043	3,810	13,402	5.5

Continued

	1999-00 Single Allocation		2000-01 Single Allocation			
Counties	Per Aided Adult	Per Aided Adult (Net of Childcare and CalLearn)	Per Aided Adult	Per Aided Adult (Net of Childcare and CalLearn)	Estimated Aided Adults	1999 Annual Unemployment Rate
Sacramento	$2,536	$1,714	$3,423	$2,058	28,171	4.2%
San Benito	4,164	2,951	3,702	2,165	392	8.0
San Bernardino	4,083	2,500	4,486	2,768	24,378	4.8
San Diego	4,766	3,134	4,900	2,928	19,620	3.1
San Francisco	3,524	2,343	7,310	4,330	5,315	3.0
San Joaquin	4,478	2,625	4,164	2,754	8,755	8.7
San Luis Obispo	5,264	4,117	11,374	8,479	1,020	3.3
San Mateo	12,656	9,480	15,362	11,107	844	2.0
Santa Barbara	4,398	2,999	6,100	4,251	2,517	3.9
Santa Clara	5,168	3,910	6,694	4,904	8,594	3.0
Santa Cruz	4,407	2,810	8,570	4,827	1,481	6.3
Shasta	3,041	2,228	2,867	1,734	2,811	7.0
Sierra	12,499	10,946	10,397	8,745	31	9.5
Siskiyou	2,988	2,555	3,365	2,625	796	10.3
Solano	3,639	2,704	5,734	3,550	3,706	4.6
Sonoma	6,532	4,818	10,255	6,986	1,630	2.7
Stanislaus	3,303	2,319	3,436	2,987	6,793	10.6
Sutter	3,491	2,450	3,763	2,811	978	13.0
Tehama	3,912	3,155	4,208	3,475	890	6.7
Trinity	4,235	3,691	3,900	3,401	194	11.5
Tulare	2,598	1,889	2,390	1,717	8,882	16.4
Tuolumne	4,053	3,348	2,967	2,143	614	6.6
Ventura	4,960	3,429	6,837	4,077	3,582	4.8
Yolo	3,259	2,228	4,927	3,288	1,859	4.4
Yuba	3,101	2,214	4,026	3,705	1,688	11.4
Statewide	**$3,683**	**$2,428**	**$3,995**	**$2,689**	**384,048**	**5.2%**

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