DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 4440-301 from the General Fund, Special Account for Capital Outlay; and Energy and Resources Fund, Energy Account — Budget p. HW 169

Requested 1982–83	$15,624,000
Recommended approval	14,407,000
Recommended reduction	183,000
Recommendation pending	$1,034,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Transfer to General Fund. Recommend that total recommended reductions of $88,000 to Item 4440-301-036 and $95,000 to Item 4440-301-189 be transferred from the Special Account for Capital Outlay and the Energy and Resources Fund, Energy Account, respectively, to the General Fund to increase the Legislature's flexibility in meeting high-priority statewide needs	986
2. Status Report—Fire, Life Safety and Environmental Improvements. Recommend that prior to budget hearings, the department advise the Legislature of its current plan for upgrading state hospital facilities.	986
3. Restoration of Funds Proposed for Reversion. Recommend that prior to budget hearings, the Department of Finance identify additional funds which may be needed to complete projects which have been deferred in the current year and for which funds are requested in the 1982–83 Budget Bill.	987
4. Security Improvements—Patton State Hospital. Recommend that, on a priority basis, the Department of Finance allocate planning funds in the current year to develop adequate engineering and cost information on proposed projects. Withhold recommendation on proposed amount, pending receipt of this information.	989
5. ***Minor Capital Outlay. Reduce by $88,000.*** Recommend deletion of projects at Metropolitan State Hospital to (1) install fire sprinklers because the work is not required by code and (2) replace existing equipment and repair water lines because this work should be accomplished using other funds.	990
6. Minor Capital Outlay. Withhold recommendation on $180,000 for projects at Atascadero and Patton State Hospitals, pending receipt of report on the future use of these hospitals.	990
7. ***Energy Conservation Projects. Reduce by $95,000.*** Recommend two projects be deleted because adequate information to substantiate the anticipated utility savings has not been provided.	991
8. Energy Conservation Projects. Withhold recommenda-	991

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

tion on $110,000 for installation of new boiler at Atascadero State Hospital, pending analysis by the department of the impact of cogeneration on this project.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total of $15,624,000 for capital outlay for the Department of Mental Health. This amount includes $15,395,000 from the General Fund, Special Account for Capital Outlay, which consists of (1) $14,363,000 to restore funds previously approved by the Legislature but proposed for reversion during the current year under Item 4440-495, (2) $744,000 for security improvements at Patton State Hospital, and (3) $288,000 for minor capital outlay projects. In addition, six energy conservation projects, totaling $229,000 are proposed for funding from the Energy and Resources Fund, Energy Account.

Transfer to General Fund

We recommend that the savings resulting from our recommendations on Items 4440-301-036 ($88,000) and 4440-301-189 ($95,000), from the Special Account for Capital Outlay and the Energy and Resources Fund, respectively, be transferred to the General Fund in order to increase the Legislature's flexibility in meeting high-priority needs statewide.

We recommend reductions amounting to $183,000 in the Department of Mental Health capital outlay proposal. Approval of these reductions, which are discussed individually below, would leave an unappropriated balance of tideland oil revenues in the Special Account for Capital Outlay and the Energy and Resources Fund, where they would be available only to finance programs and projects of a specific nature.

Leaving unappropriated funds in special purpose accounts limits the Legislature's options in allocating funds to meet high-priority needs. So that the Legislature may have additional flexibility in meeting these needs, we recommend that any savings resulting from approval of our recommendations be transferred to the General Fund.

A. STATUS OF RENOVATION PROGRAM

Status Report on Fire and Life Safety and Environmental Improvements—Mentally Disabled Programs

We recommend that prior to budget hearings, the department advise the Legislature of its current plan for upgrading state hospital facilities.

In recent years, the Legislature has appropriated substantial capital outlay funds in order to upgrade state hospital facilities to meet fire and life safety standards and licensing requirements. The initial planning covered buildings used for developmentally disabled programs and mentally disabled programs.

Upgrading to meet licensing requirements was required under the plan of corrections submitted by the state to the federal government in 1979. Although failure to comply with those provisions of the plan involving facilities for the mentally disabled would result in the loss of only a relatively small amount of federal funding, the Legislature approved funds for projects to upgrade these facilities. It did so on the basis that adequate housing should be provided to state hospital patients regardless of the amount of federal funds involved.

In 1979, the Department of Mental Health prepared a "Plan of Correction" for facilities anticipated to be needed to serve the mentally disabled population in the hospitals during 1982. This plan envisioned a reduction of 1,500 beds from the number occupied in 1979, bringing hospital capacity for mentally disabled patients to 3,600 by June 30, 1982. This included 2,000 beds for penal code clients.

The department, however, has not been able to affect substantial reductions in hospital utilization by the mentally disabled. Moreover, renovation of needed facilities has not progressed at an adequate pace. We recommend that prior to legislative hearings on the budget, the Department of Mental Health indicate its current plan for providing adequate, safe facilities for its projected client population. At a minimum, the department should indicate the specific buildings it plans to occupy on a continuous basis, and the anticipated cost to renovate these facilities to meet fire and life safety requirements.

B. PROPOSED CAPITAL OUTLAY PROGRAM

Restoration of Funds Proposed for Reversion in the Current Year

We recommend that prior to budget hearings, the Department of Finance indicate the amount and source of additional funds needed to complete the project previously approved by the Legislature.

The budget includes $14,363,000 in Item 4440-301-036 for five projects which previously have been approved by the Legislature. The funds previously approved for these projects, however, have not been expended and are proposed for reversion on June 30, 1982 under Item 4440-495. Table 1 shows the prior appropriations and proposed new appropriations. These projects include the following.

Cogeneration System—Atascadero ($1,001,000). This project was approved for preliminary plans, working drawings, and construction in the 1980 Budget Act. The project includes installation of gas-turbine generators and waste heat boilers to meet electrical and steam requirements at this hospital.

Fire and Life Safety and Environmental Improvements—Metropolitan ($6,835,000). This project would remodel the CTE building at Metropolitan State Hospital to meet fire and life safety and licensing requirements. The project was funded for working drawings and construction in the 1980 Budget Act. None of the funds previously appropriated have been expended.

Air Conditioning—Metropolitan ($104,000 working drawings and $1,873,000 construction). This project would provide for installation of air conditioning in the CTE building at Metropolitan. The proposed modifications would be undertaken in conjunction with fire and life safety and environmental improvements.

Cogeneration—Metropolitan ($4,550,000). This project would provide for installation of a cogeneration facility at Metropolitan State Hospital. This project was originally funded in the 1980 Budget Act in the amount of $3,592,000. The department determined that these funds were inadequate to accomplish the project. Consequently, the Legislature approved reversion of these funds and appropriated $4,550,000 for this project in the 1981 Budget Act.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Table 1
Department of Mental Health
1982–83 Project Funds to Replace Funds
Proposed for Reversion in 1981–82
(in thousands)

Year of Appropriation Location, Project Title	*Reversion Item 4440-495* Amount Appropriated	Amount Expended	Amount Reverting	*1982–83 Item 4440-301-036* Budget Bill Amount	Analyst's Proposal	Estimated Future Cost
Budget Act of 1979						
Metropolitan State Hospital—air condition patient-occupied buildings	$214 pw	$39	$175	$104	$104	—
Budget Act of 1980						
Atascadero State Hospital—build energy efficient improvements	1,423 pw	1,423	—	—	—	—
Atascadero State Hospital—install cogeneration system	1,098 pwc	98	1,000	1,001	1,001	Unknown
Metropolitan State Hospital—fire and life safety and environmental, units 401, 403, 405, 407, 409, 411, 413, and 415	6,835 wc	—	6,835	6,835	6,835	Unknown
Metropolitan State Hospital—environmental, air condition patient-occupied building (CTE) with conservation equipment	1,873 c	—	1,873	1,873	1,873	Unknown
Budget Act of 1981						
Metropolitan State Hospital—comfort conditioning patient-occupied building, units 402, 404, 406, 408, 410, 412, 414, and 416	124 pw	—	124	—	—	—
Metropolitan State Hospital—install cogeneration system with boiler facility	4,550 c	—	4,550	4,550	4,550	Unknown
Totals	$16,117	$1,560	$14,557	$14,363	$14,363	Unknown

[a] Phase Symbols Indicate: c—construction, p—preliminary plans, and w—working drawings.

Given the Legislature's previous action to approve funds for these four projects, we recommend the proposed replacement funds be approved.

The amounts included in the budget do not reflect any increase in costs as a result of the delay in implementation. For example, the amounts budgeted for fire and life safety and environmental improvements and air conditioning at Metropolitan were based on an estimate prepared in May 1980. According to the Department of Finance instructions to departments for preparation of the 1982–83 budget, capital outlay projects are to be indexed to a construction value for July 1, 1982. The calculated inflationary adjustment for this project is approximately $1.2 million. Consequently, it would appear that if this project is to proceed, substantial additional funds will be needed to fund the project as approved in the 1980 Budget Act.

Accordingly, we recommend that prior to legislative hearings on the budget, the Department of Finance identify any additional amounts that will be needed for these projects to proceed.

Security Improvements—Patton State Hospital

We recommend that the Department of Finance allocate planning funds available in the current year to develop adequate engineering and cost data on security improvements needed at Patton State Hospital. We withhold recommendation on the proposed amount, pending receipt of this information.

Program Changes at Patton. For a number of years, Patton State Hospital has housed programs for both the developmentally disabled (DD) and the mentally disabled (MD). In evaluating proposals to remodel the buildings occupied by developmentally disabled clients at Patton State Hospital, the Department of Developmental Services determined that it would be more cost-effective to discontinue the DD program at this hospital. Consequently, in 1980 the department initiated a program for community placement and transfer of DD clients to other state hospitals.

As of July 1982, Patton State Hospital will be occupied solely by MD clients. A substantial portion of these clients are judicially committed offenders and clients committed under the Penal Code. At the present time, the portion of the hospital which houses these offenders is seriously overcrowded. The building housing these offenders has a capacity of approximately 650 clients, but current occupancy exceeds 900 clients.

The department proposes to alter the building being vacated by the developmentally disabled program so that it will accommodate judicially committed offenders. This building has a capacity for 408 clients.

Budget Request. The budget proposes $744,000 to accomplish the following: (1) construct an interior fence around the new building to be occupied ($235,000), (2) demolish an existing building and construct a new visiting center ($139,000), (3) install security bars on windows ($100,000), (4) expand visitor/employee parking ($85,000), (5) review overall hospital security and evaluate the need for personal alarm systems ($50,000), (6) install closed-circuit television cameras on new interior fence ($60,000), and (7) provide security lighting on the grounds outside the new building to be occupied ($85,000). The department has requested $303,000 in support funds to operate the new facility.

Security Problems. The Legislature has been very concerned about the security at Patton State Hospital because the hospital has experienced a high offender escape rate. In an attempt to improve security, the Legislature has previously approved increases in the number of security staff along with funds for capital improvements. In addition, the department has recently entered into an inter-agency agreement with the Department of Corrections to secure correctional officers for the purpose of upgrading security at the hospital.

Future of the Hospital Uncertain. Under the provisions of Ch 928/81, mentally disordered sex offenders will no longer be committed to the state hospital system. Accordingly, existing mental health facilities, such as Patton or Atascadero State Hospital, may be transferred to the California Department of Corrections (CDC) in order to provide adequate capacity for the additional inmates that will be committed to the Department of Corrections under this act. Consequently, it is conceivable that Patton State Hospital may become part of the California correctional system. The administration is to report its plan for transfer of facilities between DMH and CDC by April 1, 1982.

Better Information Needed. Regardless of which department has responsibility for this facility, the security measures related to occupancy of the additional building should be addressed in the budget.

At the present time, however, adequate information on the measures proposed in the budget has not been supplied to the Legislature. In order to provide the Legislature with adequate information regarding the needed improvements, the Department of Finance should authorize preparation of schematic budget plans and estimates based on the recommendations of a professional security advisor. Funds for project planning in connection with 1982–83 capital outlay projects were appropriated under Item 986-301-036 of the 1981 Budget Act. These funds should be allocated on a priority basis to provide the information needed by the Legislature to adequately evaluate security measures needed to activiate additional buildings at Patton State Hospital. This information should be included in the department's April 1, 1982, report to the Legislature.

We withhold recommendation on the proposed security improvements, pending receipt of the April 1, report.

Minor Capital Outlay

We recommend Item 4440-301-036(g), minor capital outlay, be reduced by $88,000 by deleting one project to install fire sprinklers at Metropolitan State Hospital because the sprinklers are not required by code. Further, we withhold recommendation on $180,000 for projects at Atascadero and Patton State Hospitals, pending report to the Legislature on the future use of these hospitals.

The budget includes a total of $288,000 for eight minor capital outlay projects ($150,000 or less) for the Department of Mental Health.

Projects Recommended for Deletion. One project at Metropolitan State Hospital involves the installation of a fire sprinkler system in the central warehouse and plant operations office. The department indicates that the existing building does not meet code requirements. The fire and life safety code, however, does *not* require installation of sprinklers in this facility. The department is applying a new building code to an existing facility. The code, however, does not require retroactive upgrading to existing facilities. In any event, upgrading along the lines proposed in the budget should be based on State Fire Marshal requirements. The State Fire Marshal has not required that fire sprinklers be installed in this facility. Accordingly, we recommend deletion of $40,000 proposed for this project.

The budget also includes $48,000 for two projects at Metropolitan State Hospital which would replace existing kitchen refrigeration units and replace deteriorated hot water lines. These projects are of a maintenance nature, and should be funded—in priority with other maintenance requirements—using amounts appropriated for these purposes in the department's support and operations budget. Accordingly, we recommend deletion of the proposed funding under minor capital outlay.

Projects for Which Recommendation is Withheld. The budget includes $180,000 for five minor capital outlay projects at Atascadero and Patton State Hospitals. The projects include alterations to the main entrance and visiting processing area at Atascadero, and remodeling of nursing stations, medication rooms, and therapy rooms in the offender-occupied area at Patton State Hospital.

Recent legislation (Ch 928/81) directs that some sex offenders—who previously would have been committed to the stae hospitals—instead be remanded to the Department of Corrections. As a result, the capacity requirements of the Department of Corrections will be increasing while the need for mental health facilities for these offenders should be decreasing. Accordingly, the administration is preparing a report to the Legislature which will evaluate the feasibility of transferring an existing mental health facility to the Department of Corrections. The report is to be sent to the Legislature by April 1, 1982.

Until we have reviewed this report, we are not able to evaluate the necessity of proposed minor alterations at Atascadero and Patton State Hospitals. Accordingly, we withhold recommendation on $180,000 proposed for minor capital outlay at Atascadero and Patton State Hospitals.

Energy Conservation Projects—Energy and Resources Fund; Item 4400-301-189

We recommend that Item 4440-301-189, $229,000 for six energy conservation projects, be reduced by $95,000 because adequate justification has not been provided for some of these projects. Further, we withhold recommendation on $110,000, pending receipt of an analysis of the impact of cogeneration on one project.

Projects Recommended for Deletion. The budget proposes $67,000 under Item 4440-301-189(e) for installation of an energy management system (EMS) at Metropolitan State Hospital. An EMS system provides computer control of major energy-consuming equipment (such as ventilation fans) and lighting to minimize operation of these devices in order to reduce overall energy costs. The department indicates that the proposed system would save 459,000 kilowatt hours of electricity per year, or $32,500 at current electrical rates. The department, however, has not provided any information to substantiate the basis for the claimed savings. Accordingly, we recommend deletion of the proposed funds. Furthermore, any attempt to install EMS systems at state hospital facilities should take into account specific licensing requirements for adequate ventilation of patient-occupied areas. The hospital's proposal does not address this issue.

The budget proposes $28,000 to install solar heating for the swimming pool at Patton State Hospital. The department's proposal indicates that this system will replace entirely steam energy used to heat the existing pool. The proposal does not indicate the anticipated performance of the solar heating system or the *marginal* savings attributable to the installation. Accordingly, we recommend deletion of Item 4440-301-189(f), for a reduction of $28,000.

Projects for Which Recommendation is Withheld. Item 4440-301-189(a) proposes $110,000 for installation of a new boiler at Atascadero State Hospital. The department's proposal indicates that the three existing boilers are oversized for meeting low steam requirements which arise frequently during the year. As a result, the overall system is inefficient. Installation of a new boiler with the capacity of approximately one-half of the existing boilers would be more efficient in meeting these frequent low steam requirements.

The department's proposal does not address the impact of the proposed cogeneration project at Atascadero State Hospital (Item 4440-301-036(a)) on steam requirements. Cogeneration facilities must be sized to optimize efficiency, and it is anticipated that the cogeneration facility will meet a substantial portion of the steam requirements at this hospital. An analysis of the expected operating hours of the cogeneration facility, the existing

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

boilers, and the proposed new boiler is needed to evaluate the economic viability of the proposed new project. Pending receipt of this information, we withhold recommendation on the $110,000 proposed under category (a) of this item.

Projects Recommended for Approval. The budget proposes three conservation projects at Atascadero State Hospital totaling $24,000. The projects would provide insulation for steam and hot water lines ($9,000), replacement of lighting fixtures in the laundry facility ($1,000), and replacement of lighting fixtures in the gymnasium ($14,000). The proposed projects have payback periods of less than five years and will replace existing inefficient energy systems. The proposed projects are reasonable, and we recommend approval of the $24,000 under Items 4440-301-189(b), (c), and (d).

Projects by Descriptive Category

In the A-pages of our *Analysis,* we discuss the capital outlay funding problems resulting from the distribution of tidelands oil revenue in 1982–83. To aid the Legislature in resolving these problems, we have divided those projects which our analysis indicates are justified into the following categories:

1. Critical fire/life safety and security projects—includes projects to correct life threatening conditions.
2. Projects needed to meet code requirements—includes projects that do *not* involve life threatening conditions.
3. Essential utility, site development and equipment—includes projects needed to make new buildings usable or continue usability of existing buildings.

Table 2
Department of Mental Health
Major Projects Item 4440-301-036 by
Descriptive Categories
(in thousands)

Category/Project Title/Location	*Analyst's Proposal*[a]	*Estimated Future Cost*
1. None		
2. (b) Fire and life safety and environmental improvements—Metropolitan	$6,635 c	Unknown
3. None		
4. None		
5. (c) Air condition CTE—Metropolitan	104 w	—
(d) Air condition CTE—Metropolitan	1,873 c	Unknown
Subtotal (Category 5)	$1,977	—
6. (a) Cogeneration—Atascadero	$1,001c	Unknown
(e) Cogeneration—Metropolitan	4,550c	—
Subtotals (Category 6)	$5,551	—
7. None		
Totals	$14,363	Unknown

[a] Phase symbols indicate: c—construction, w—working drawings.

4. Meet existing instructional capacity needs in higher education—includes projects that are critical, and for which no alternatives are available other than reducing enrollments.

5. Improve program efficiency or cost effectiveness—includes new office buildings, alterations, etc.

6. Energy conservation projects—includes projects with a payback period of less than five years.

7. Energy conservation projects—includes projects with a payback period greater than five years.

Table 2 shows how we categorize the projects funded by this item that our analysis indicates are warranted.

DEPARTMENT OF MENTAL HEALTH—REVERSION

Item 4440-495 to the General Fund

We recommend approval.

The budget proposes reversions of the unencumbered balances of three appropriations to the Department of Mental Health. The funds would revert to the unappropriated surplus of the General Fund. These appropriations and our reasons for recommending approval of the reversions are summarized below.

(1) $71,936 from Chapter 1172, Statutes of 1979, Section 4(b). These funds were appropriated to support development of a preliminary design for a mental health information system. The project has been completed, and does not require continued support.

(2) $17,204 from Chapter 1172, Statutes of 1979, Section 4(c). These funds supported development of a statewide mental health prevention program. Funds to continue the program are included in the budget.

(3) $136,441 from Chapter 1194, Statutes of 1979, Section 5(a). These funds were intended to support staff who would develop a residential care rate system. Funds have been included in the budget to support the staff. (However, as we note on page 959 of the *Analysis,* the department proposes to redirect the positions to other functions in 1982–83.)

We recommend that each of the proposed reversions be approved.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 5100 from the General and various funds — Budget p. HW 172

Requested 1982–83	$116,617,000
Estimated 1981–82	98,899,000
Actual 1980–81	78,339,000
Requested increase (excluding amount for salary increases) $17,718,000 (+17.9 percent)	
Total recommended reduction	$14,132,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5100-001-001	—EDD—Support	General	$55,961,000
5100-001-185	—EDD—Support	Contingent	10,755,000
5100-001-588	—EDD—Support	Unemployment Compensation Disability	49,901,000
5100-001-870	—EDD—Support	Unemployment Administration	(423,048,000)
5100-001-871	—EDD—UI Benefits	Unemployment—Federal	(1,640,000,000)
5100-001-890	—EDD—UI Benefits	Federal Trust	(170,055,000)
Total			$116,617,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Notification to the Legislature. Recommend adoption of Budget Bill language requiring the Department of Finance to notify the Legislature if federal funds for employment programs are reduced by 5 percent or more below the amount appropriated by the Legislature. 1012
2. Public Works Employment Act (PWEA) Funds. Recommend that EDD advise the fiscal committees prior to budget hearings, on the amount of PWEA funds that may be available for legislative appropriation. Further recommend adoption of budget language directing that unexpended balances becoming available after the budget is enacted be used to offset EDD's 1982–83 General Fund appropriation. 1013
3. *Community Service Representatives. Reduce General Fund by $180,000.* Recommend deletion of community service representatives because (1) their effectiveness on behalf of the service centers has not been documented and (2) the 1981 Budget Act mandated that any additional funds requested for this purpose be included in the budget for the Governor's office. 1014
4. Work Incentive (WIN) Program Match. Recommend deletion of language earmarking $1.5 million of the General Fund match for services to AFDC applicants because language is no longer needed now that applicants can receive 1015

services from the WIN program.

5. Unemployment Insurance (UI) Benefits for Ex-Military Personnel. Reduce federal funds by $21.5 million. Recommend reduction in Item 5100-001-890 because changes in federal law prohibit UI benefits for ex-military personnel who leave the service voluntarily. 1015
6. Identification of UI Benefits. Recommend separate identification of Trade Readjustment Assistance Act and Redwood Employee Protection Plan benefits included in Item 5100-001-870 which is EDD federal administrative support. 1016
7. *California Work-site Education and Training Act (CWETA). Reduce General Fund by $4.0 million.* Recommend reduction because, based on past expenditure rates, $6.0 million plus carry-over funds should be adequate to continue the existing program level for training in occupations facing a shortage of skilled workers. 1016
8. ***Services to Displaced Workers. Reduce General Fund by $2 million.*** Recommend that (a) services for displaced workers be supported from EDD's Contingent Fund (Item 5100-001-185), rather than the General Fund and (b) the amount appropriated be reduced to $1,727,000 to correct for overbudgeting. 1017
9. ***Linking Vocational Education With Private Industry. Reduce General Fund by $1 million.*** Recommend deletion because there is no information on how funds would be spent. 1018
10. ***Employment Preparation Program Expansion. Reduce General Fund by $6,480,000.*** Recommend deletion of funds and 89.5 positions requested to expand the Employment Preparation program because statutory precondition for program expansion has not been met and other funds are available to serve target groups. 1019
11. California Welfare Employment Skills Training Act. Recommend approval with (a) adoption of Budget Bill language that would restrict the use of possible savings resulting from fewer placements and (b) adoption of supplemental report language requiring a progress report by December 15, 1982. 1020
12. ***Supported Work. Reduce General Fund by $144,000.*** Recommend approval with increased reimbursements of $144,000 to reflect properly amount available from AFDC grant diversion. 1021
13. ***Employment Services for Unemployed Parents. Reduce General Fund by $328,000.*** Recommend approval of total program cost of $600,000 supported with $445,000 in reimbursements from AFDC grant payments diverted to subsidize participants' wages and $155,000 from state or federal funds available for youth employment projects. 1022
14. Youth Employment Programs. Recommend Budget Bill language to require that federal funds be spent before the General Fund for youth employment projects, in order to maximize federal funds and reduce General Fund expenditures. 1024

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

GENERAL PROGRAM STATEMENT

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

In addition, the department administers the tax collection and benefit payments for the UI and DI programs. The department collects from employers (1) their unemployment insurance contributions and (2) employee contributions for DI and personal income tax withholdings. It also pays UI and DI benefits to eligible claimants.

The Budget Act authorized 14,248 positions in EDD for the current year. The department, however, is reducing its authorized positions by 1,000.7, due to federal fund reductions, for a revised total of 13,247.3 positions in 1981–82.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $116,617,000 from various state funds for support of the EDD in 1982–83. This is an increase of $17,718,000, or 17.9 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefits approved for the budget year.

General Fund Request

The budget proposes an appropriation of $55,961,000 from the General Fund. In addition, it proposes expending $1,468,000 which was appropriated for the California Work-site Education and Training Act (CWETA) by Chapter 1181, Statutes of 1979, for a total General Fund expenditure of $57,429,000. This represents an increase of $13,769,000, or 31.5 percent, over estimated current-year expenditures.

Table 1 details the proposed General Fund adjustments for the budget year. Major program increases totaling $21.6 million in 1982–83 consist of: (1) $10 million for CWETA, (2) $8.6 million for employment programs for welfare recipients, (3) $2 million for displaced worker programs, and (4) $1 million to strengthen labor and business input into local vocational education training programs. These increases are offset by reductions totaling $7.8 million in the baseline as follows: (1) $1.8 million in response to the Governor's directive that General Fund-supported state operations be reduced by 5 percent and (2) $6.0 million due to (a) the expenditure of funds for CWETA and youth employment programs appropriated separately by their enabling legislation and (b) the transfer of the Office of Economic Opportunity (OEO) to the Governor's Office by Ch 819/81.

Five Percent Baseline Budget Adjustment

To comply with the 5 percent reduction, the department reduced its baseline budget by $1,808,000. Of that amount $1.5 million is the state match for the Work Incentive (WIN) program. Despite this reduction, however, the department anticipates that it will have sufficient funds to match available federal funds. The remaining $308,000 will be saved by deleting funding for one youth employment project.

Table 1
Employment Development Department
Proposed General Fund Adjustments
1982–83
(in thousands)

	Costs	*Totals*
1981–82 Revised Expenditures		$42,912
1. Restoration of current year reductions		
A. Restoration of 2 percent reduction	$698	
B. Restoration of travel reduction	50	
Total Adjustments	$748	
2. Baseline adjustments to existing programs		$43,660
A. Governor's 5 percent reduction	−$1,808	
B. Increase in existing personnel costs		
(1) Office of Economic Opportunity (Transferred from EDD to the Governor's office effective January 1, 1982)	−$369	
(2) Merit salary adjustment	359	
(3) OASDI	27	
(4) Retirement	68	
(5) Workers' compensation	—	
(6) Unemployment compensation	—	
(7) Health benefits	—	
(8) Nonindustrial disability insurance	—	
Subtotal	$85	
C. Operating expenses and equipment		
(1) Support related	$446	
(2) Client related		
a. Work incentive and related programs	761	
b. CWETA	−6,831	
c. California Youth Employment and Development Act	−504	
d. Employment Preparation Program (EPP)	29	
Subtotal	−$6,099	
3. Program Change Proposals for 1982–83		
A. Employment and employment related services		
(1) EPP—payment component	591	
(2) CWETA	10,000	
(3) Employment programs for welfare recipients	8,000	
(4) Reemployment assistance for displaced workers	2,000	
(5) Educational linkages	1,000	
Subtotal, program change proposals	$21,591	
4. Total Budget Change Proposed for 1982–83		$13,769
5. Total General Fund 1982–83 Expenditures		$57,429

Total Revenues and Expenditures

Table 2 details the department's total revenues and expenditures in the current and budget year, by program. Total expenditures of $3,205,662,000 are projected in 1982–83, which is a decrease of $38,712,000, or 1.2 percent, below the current year. Of the $3.2 billion, $508 million (15.9 percent) is for programs and administration. The remaining $2.7 billion (84.1 percent) is for unemployment and disability insurance benefits.

The $508 million proposed for programs and administration is $43.6 million, or 7.9 percent, below current year expenditures. Reductions are due to (a) the transfer of the Office of Economic Opportunity ($50.8 million) from EDD to the Governor's office, effective January 1, 1982, as required by Ch 819/81, (b) $13.5 million in federal fund reductions, pri-

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 2
Employment Development Department
Expenditures and Revenues by Program
All Funds
1981–82 and 1982–83
(in thousands)

	1981–82	1982–83	Change Amount	Change Percent
Employment Programs:				
Employment services	$91,850	$91,858	$8	—
Work Incentive (WIN) program	43,104	43,007	−97	−0.2%
Food stamp recipients	3,580	3,573	−7	−0.2
Service centers	6,158	6,390	232	3.8
Job agent	2,546	2,614	68	2.7
California Work-site Education and Training Act (CWETA)	8,259	11,468	3,209	38.9
Youth employment	13,203	11,571	−1,632	−12.4
Employment preparation	1,144	9,789	8,645	755.7
Employment Assistance—displaced workers	—	2,000	2,000	100.0
Subtotals, Employment Programs	$169,844	$182,270	$12,426	7.3%
Comprehensive Employment and Training Act (CETA):				
Governor's special grant	$35,465	$33,360	−$2,105	−5.9%
Balance/state prime sponsors	21,490	22,892	1,402	6.5
Contracts with prime sponsors	19,740	19,937	197	1.0
State agency public service employment	48	—	−48	−100.0
Subtotals, CETA	$76,743	$76,189	−$554	−0.7%
Public Works Employment Act	$7,651	$52	−$7,599	−99.3%
Totals, Employment/Employment Related Services	$254,238	$258,511	$4,273	1.7%
Unemployment Insurance (UI)	$2,126,574	$2,082,096	−$44,478	−2.1%
Administration	(182,109)	(182,033)	(−76)	(0.04)
Benefits	(1,944,465)	(1,900,063)	(−44,402)	(−2.3)
Disability Insurance (DI)	793,192	845,443	52,251	6.6%
Administration	(47,442)	(50,363)	(2,921)	(6.2)
Benefits	(745,750)	(795,080)	(49,330)	(6.6)
Former Inmates Program	2,370	2,334	−36	−1.5%
Administration	(202)	(208)	(6)	(3.0)
Benefits	(2,168)	(2,126)	(−42)	(1.9)
Personal Income Tax	14,110	15,293	1,183	8.4%
General Administration:				
Distributed	(−28,692)	(−28,432)	(−260)	(−0.9)
Undistributed	1,856	1,985	129	7.0
Office of Economic Opportunity	52,034	—	−52,034	−100.0
Total Budget	$3,244,374	$3,205,662	−$38,712	−1.2%
Totals, Programs	($551,991)	($508,393)	(−$43,598)	(−7.9%)
Totals, Benefits	($2,692,383)	($2,697,269)	($4,886)	(0.2%)
Revenues:				
General Fund	$43,660	$57,429	$13,769	31.5%
Disability Insurance Fund	792,733	844,981	52,248	6.6
EDD Contingent Fund	8,256	10,755	2,499	30.3
School Employees Fund	32,502	28,483	−4,019	−12.4
Local Public Entity Employees' Fund	4,237	3,558	−679	−16.0
Federal Funds:	2,334,872	2,233,103	−101,769	−4.4
Federal Trust Fund	(173,419)	(170,055)	(−3,364)	(−1.9)
Federal Unemployment Fund	(1,675,155)	(1,640,000)	(−35,155)	(−2.1)
Federal Unemployment Administration Fund	(486,298)	(423,048)	(−63,250)	(−13.0)
Reimbursements	28,144	27,353	−761	−2.7
Totals	$3,244,374	$3,205,662	−$38,712	−1.2%

marily for public service jobs, CETA employment and training grants and unemployment insurance administration, and (c) $761,000 in reimbursements, primarily in OEO. These reductions are offset by increases from state funds, including (a) $13.8 million from the General Fund, primarily for increased support of employment programs proposed as part of the Governor's Investment in People initiative, and (b) $7.6 million from special funds, including the DI Fund and the Contingent Fund, for UI and DI tax collection efforts.

Position Adjustments

For 1982–83, the budget proposes to eliminate 1,441.7 positions due to reductions in federal funds. This reduction includes the elimination of 1,000.7 positions during the current year, which was made necessary by federal funding cutbacks. The budget year reductions are partially offset by 143.3 proposed new positions. The net effect of these proposals would be to reduce the number of positions to 12,840.4 in the budget year. The department projects it will have salary savings equal to 226.3 positions, resulting in a proposed staffing level of 12,614.1 personnel-years during the budget year. This is:

- 1,029.1 (7.4 percent) less than the actual number of positions in 1980–81.
- 1,527 (10.6 percent) less than the number of positions *approved* by the Legislature for 1981–82.
- 277.6 (2.2 percent) less than the number of positions *estimated* for 1981–82.

Table 3 details the changes in personnel-years, by program.

Table 3
Employment Development Department
Personnel Equivalents by Program
1981–82 and 1982–83

			Difference	
	1981–82	*1982–83*	*Number*	*Percent*
Employment services	2,564.3	2,536.1	−28.2	−1.1%
WIN	924.7	924.7	—	—
EPP	15.8	35.6	19.8	125.3
CETA	258.0	176.6	−81.4	−31.6
Public service employment	66.3	1.4	−64.9	−97.9
Other employment programs	926.0	921.7	−4.3	−0.5
Subtotals, employment services	4,755.1	4,596.1	−159.0	3.3%
Unemployment insurance	5,466.6	5,304.1	−162.5	−3.0
Disability insurance	1,413.5	1,453.7	40.2	2.8
Personal income tax	427.3	457.6	30.3	7.1
Former inmate program	5.5	5.5	—	—
Administration	823.7	797.1	−26.6	−3.2%
Totals	12,891.7	12,614.1	−277.6	−2.2%

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Federal Funding Levels are Uncertain

The budget estimates expenditures from federal funds for administration of employment and unemployment insurance programs totaling $435.5 million in 1981–82 (excluding OEO). Since the Governor's budget was prepared, however, Congress has reduced the appropriation for employment programs by 12 percent retroactive to October 1, 1981. (This reduction was made by the December 1981 continuing resolution.) If the final 1982 federal budget provides for a level of expenditures consistent with the level in the continuing resolution, the department's expenditures in 1981–82 would be $46.2 million less than the amount shown in the budget. According to the department, the effect of this reduction would be to require cutbacks in employment and training services provided through the department's field offices.

In 1982–83, the budget anticipates $423 million in federal funds, which is $12.5 million, or 2.9 percent, less than estimated current year expenditures of $435.5 million. This estimate does not reflect the 12 percent reductions in federal funds made by the continuing resolution. Therefore, if current year reductions are continued in the budget year, 1982–83 federal funds will be overestimated by at least $46.2 million, primarily in unemployment and training programs.

Disability Insurance Program

The state's Disability Insurance (DI) program provides benefits to workers who cannot work due to non-employment-related illness or injury. Benefits are funded by *worker* contributions. Coverage under the state program is mandatory for most private industry workers. Employers and self-employed individuals can elect to purchase coverage from the state at an experience-based rate.

The budget proposes total 1982–83 expenditures for the DI program of $845,443,000. Of this amount, $50.4 million is for administrative costs and $795.1 million is for benefits. This represents a total increase of $52.2 million, or 6.6 percent over current year expenditures. Of this amount, benefit expenditures would increase $49.3 million, or 6.6 percent over the current year, and administrative expenditures would increase $2.9 million, or 6.2 percent, due to increased workload.

Benefit Expenditures Are Underestimated. Disability insurance benefits are not appropriated by the Budget Bill because the DI Fund is a nongovernmental cost fund. The budget, however, estimates 1981–82 benefit expenditures to be $745.7 million and projects 1982–83 benefit expenditures totaling $795.1 million.

Chapter 793, Statutes of 1981 (SB 347), which became effective January 1, 1982, increased the minimum weekly disability insurance benefit payment from $30 to $50, and the maximum weekly benefit from $154 to $175. Our review of the budget's projection of benefit expenditures in 1981–82 and 1982–83 found that these additional benefit costs were not included.

The EDD has revised its estimate of benefit expenditures for 1981–82 and 1982–83, taking into account the provisions of Ch 793/81. The department now estimates that benefit expenditures will increase in 1981–82 to $813,653,000, or 9.1 percent over what is estimated in the budget. In 1982–83, the department projects it will pay $884,441,000 in benefits, an increase of $70,788,000, or 8.7 percent, over its *revised* current year estimated benefit expenditures.

Unemployment Insurance Program

The Unemployment Insurance (UI) program operates under state and federal laws. Its primary objective is to reduce economic hardship by providing benefit payments to eligible workers who, through no fault of their own, are temporarily unemployed. The program is financed through employer payroll taxes which vary according to (1) the experience of the individual employers in terms of benefits paid and (2) the size of the UI Trust Fund's reserves.

Administrative costs are paid by the federal government on the basis of projected workload. During periods of high unemployment, additional funds are made available to handle the increased number of UI claims.

In 1982–83, the budget proposes $182,033,000 for UI administration and $1,900,063,000 for benefits. The level of administrative expenditures proposed for 1982–83 is $76,000, or less than 0.1 percent, below the current year level. As a result of expenditure reductions reflected in the December 1981 continuing resolution, the levels of federal funds shown in the budget for UI administration in the current and budget years are overestimated by at least $4.4 million.

The $1.9 billion proposed for UI benefits in 1982–83 is $44.4 million, or 2.3 percent, below current year estimated expenditures. Of the $1.9 billion, (a) $1,640 million is for regular benefits paid from the state's UI Trust Fund, (b) $170 million is for claimants employed by the federal government who file claims in California, (c) $31 million is for local government and school employees and (d) $59 million is for individuals eligible for assistance under Trade Readjustment Assistance Act and the Redwood Protection Plan program.

The budget assumes that extended benefits (13 weeks beyond the 26 weeks of regular benefits) will not be paid during 1982–83. In the past, extended benefits have been paid during periods of high unemployment, and the costs have been shared with the federal government on a 50/50 basis. If the number of unemployed workers increases and extended benefits are paid, the amount included in the budget for UI benefits would increase by an amount equal to the state's share of extended benefits paid during 1982–83. These benefits would be payable from the UI Trust Fund, which EDD estimates will have a balance of $3.6 billion at the end of 1982.

Changes in Unemployment Insurance Program Made by the 1981 Reconciliation Act

Effective September 25, 1982, the 1981 Reconciliation Act (1) raises from 4 percent to 5 percent the *insured* unemployment rate at which the state would begin to pay extended benefits and (2) requires that recipients of extended benefits work at least 20 weeks during the base year before becoming eligible for the additional 13 weeks of benefits. The act requires that state law be amended to conform to these changes by September 25, 1982. Failure to comply would mean the loss of $182 million in federal UI administration funds expected in 1982–83 and an estimated loss to California employers of $1.5 billion annually in tax credits.

EMPLOYMENT AND TRAINING PROGRAMS IN CALIFORNIA

An Overview

There is a wide variety of employment programs administered by the federal, state, and local governments in California. The Employment Development Department (EDD) now conducts 16 programs, and funds for

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

four new ones are proposed in the budget year. Six other state departments and the community colleges provide a variety of additional employment and training services. The community colleges are a major source for occupational training.

These state agencies will spend about $590 million on these programs in the budget year. The General Fund will finance about 45 percent of these expenditures ($266 million) while the federal government will fund the remaining 55 percent ($324 million). Although EDD is the dominant state agency in the employment and training field, it accounts for only 39 percent of the total funds expended at the state level in this program area.

Local governments also receive funds directly from the federal government for employment and training programs. For example, the federal Comprehensive Employment and Training Act (CETA) will provide about $204 million to local governments in California during FFY 82.

Based on our review of employment and training programs, we conclude that:

- Because of the lack of adequate program performance measures and evaluations, the Legislature does not have adequate information with which to judge (1) the effectiveness of employment programs in addressing unemployment or (2) which services are the most cost effective in serving specific target groups.
- Because of the number and variety of programs, there is overlap and duplication in providing employment services. This makes it difficult for the Legislature to (1) monitor the programs' effects, (2) coordinate programs to maximize state expenditures, and (3) decide what is the appropriate level of effort to address the problem of unemployment.

A Summary of EDD Programs

Table 4 summarizes the 16 existing and four proposed employment and training programs that would be administered by EDD in 1982–83. This table indicates that:

- The federal government will finance 80 percent of the costs of these programs.
- The amount of federal funding available in 1982–83 will be $9.3 million less than the amount in the current year, primarily due to the elimination of the Public Service Employment program.
- General Fund expenditures are proposed to increase by $16.8 million. Most of this increase ($12.9 million) would result from augmentations of three existing programs—the Employment Preparation Program, CWETA, and coordinating employment programs with educational institutions. The remaining $3.9 million would be used to fund the four new programs to provide services to displaced workers and welfare recipients.
- The largest employment program conducted by EDD is job service, which is almost entirely federally funded.
- The next largest program is the Work Incentive (WIN) program with proposed expenditures of $39.3 million.

Table 4
Employment Development Department
Inventory of Employment Services
Expenditures in the Governor's Budget
1981–82 and 1982–83
(in millions)

Program	Services Provided	1981–82 General Fund	1981–82 Federal Funds	1981–82 Total	1982–83 General Fund	1982–83 Federal Funds	1982–83 Total	Population Served
1. Job Service	General employment services which include: (1) job referral, (2) job search workshops, (3) employment counseling, (4) vocational testing, (5) referrals to training, (6) job development, and (7) placements.	$0.2	$90.9	$91.1	$0.2	$90.8	$91.0	General population.
2. Disabled Veterans Outreach Program (DVOP)	(1) Community outreach, (2) job development, and (3) intensive employment services.	Included in Job Service						In order of priority, (1) disabled Vietnam-era veterans, (2) other disabled veterans, and (3) other veterans.
3. California Expanded Services Through Experienced Elderly Manpower (CAL-ES-TEEM)	General employment services.	Included in Job Service						Over 40 years old.
4. Rural Employment Services	General employment services.	Included in Job Service						Migrant and seasonal farm workers.
5. Food Stamp Recipient Registration Program	General employment services.	—	3.6	3.6	—	3.6	3.6	Food stamp recipients required to register with EDD.
6. Work Incentive (WIN) Program	Employment and supportive social services which include (1) group job search workshops, (2) individual employment counseling and testing, (3) referrals to [a] jobs, [b] training, [c] work experience, and [d] on-the-job training, and (4) child care, transportation and stipends.	4.6	34.8	39.4	4.0	35.3	39.3	AFDC recipients who are required to register with EDD. Since October 1, 1981, applicants may also be served.
7. Job Search Assistance Project (JSAP)	Employment and supportive social services (as in WIN) with emphasis on group job search workshops.	Included in WIN						AFDC applicants in 11 sites.

Table 4
Employment Development Department
Inventory of Employment Services
Expenditures in the Governor's Budget
1981–82 and 1982–83
(in millions)

		1981-82			1982-83			
Program	*Services Provided*	*General Fund*	*Federal Funds*	*Total*	*General Fund*	*Federal Funds*	*Total*	*Population Served*
8. Employment Preparation Program (EPP)	Employment and supportive services (as in JSAP and WIN) with emphasis on a two-week group job search workshop.	1.1	—	1.1	9.8	—	9.8	AFDC applicants and recipients.
9. California Work-Site Education and Training Act (CWETA)	Employer-sponsored vocational education that combines classroom instruction with on-site job training.	8.3	—	8.3	11.5	—	11.5	Priority given to: (1) economically disadvantaged persons, (2) youth, (3) displaced workers, (4) persons with inadequate or obsolete skills, and (5) Vietnam-era veterans (as of January 1, 1982).
10. Governor's CETA Special Grant	Grant funds are available for:							
	(1) vocational education programs through the Department of Education	—	15.8	15.8	—	14.7	14.7	Economically disadvantaged persons who are employed or in school are eligible for all CETA programs.
	(2) model demonstration training projects	—	11.6	11.6	—	10.5	10.5	
	(3) coordination between employment programs and educational institutions	—	3.2	3.2	1.0	3.5	4.5	
11. Contracts with local prime sponsors	Employment and training services including (1) work experience, (2) on-the-job training, (3) vocational training, and (4) job referral and placement services.	—	19.7	19.7	—	19.9	19.9	
12. Public Service Employment	Subsidized jobs in the public sector.	—	7.7	7.7	—	—	—	
13. Service Centers	Employment and training services by case workers in eight centers located in economically depressed areas.	6.2	—	6.2	6.4	—	6.4	Anyone who is "potentially employable" but has barriers to employment, including: (1) lack of skills, (2) limited education, (3) limited English, (4) criminal record, (5) physical or mental disability, or (6) poor work habits.

14. Job Agents	Case workers in 37 EDD field offices who provide intensive employment services.	2.5	—	2.5	2.6	—	2.6	Persons with "barriers to employment," who are economically disadvantaged and registered with an EDD job service office.
15. Youth Employment Services	Grants for locally-based youth employment and training services that include: (1) on-the-job training, (2) public and private sector work experience, (3) classroom and apprenticeship training, and (4) general employment services.	6.2	7.0	13.2	5.5	6.1	11.6	Youth 16–21 years old who are unemployed, underemployed, or in school. Priority to inner city youth and youth with "barriers to employment".
16. Job Corps	Recruitment and referral for the federal Job Corps program which provides remedial education and entry-level vocational training in a residential setting. General employment services for youth finishing their training.	—	1.4	1.4	—	1.5	1.5	Economically disadvantaged youth, 16–21 years old unable to benefit from programs in their own environment.
Subtotals		$29.1	$195.7	$224.8	$41.0	$185.9	$226.9	
New Services Proposed for 1982–83								
Reemployment Assistance for Displaced Workers	General employment services.	—	—	—	$2.0	—	$2.0	Persons who are unemployed because of plant closure or mass lay-offs, foreign trade competition, or other industrial and economic changes.
California Welfare Employment Skills Training Act (CWESTA)	Services through contracts for (1) vocational and skill training, (2) remedial education, (3) job-related English instruction, and (4) job placement services.	—	—	—	0.8	—	0.8	Long-term or potentially long-term AFDC recipients.
Supported work	Work projects that provide (1) intensive supervision, (2) gradual performance objectives and wages, and (3) training for entry level occupations.	—	—	—	$0.7 [a]	$0.2	$0.9	Long-term AFDC recipients.
Employment Training Program	On-the-job training or subsidized employment.	—	—	—	0.4 [a]	0.3	0.7	State-only AFDC-U parents.
Totals		$29.1	$195.7	$224.8	$44.9	$186.4	$231.3	

[a] Includes state's share of welfare grant diversion.

Table 5
Employment Services or Training Provided by Various State Agencies Expenditures in the Governor's Budget 1981–82 and 1982–83 (in millions)

Department	Services Provided	1981–82 General Fund	1981–82 Federal Funds	1981–82 Total	1982–83 General Fund	1982–83 Federal Funds	1982–83 Total	Population Served
1. Department of Rehabilitation	Vocational counseling, training and supportive services to help clients keep and/or find a job.	$14.3	$75.1	$89.4	$14.4	$75.5	$89.9	Physically or mentally disabled individuals.
2. State Personnel Board—Career Opportunities Development Program (COD)	On-the-job training in subsidized public sector jobs; grants to local agencies for employment and training programs.	6.9	(2.8) [a]	6.9	7.1	(2.9) [a]	7.1	Former, current, or potential welfare recipients and disabled individuals.
3. Department of Education:								
• Regional Occupational Centers and Programs	Vocational Training.	90.0	—	90.0	95.0	—	95.0	High school students and adults.
• Vocational Education	Vocational training through the state's high schools.	[b]	51.7 [c]	51.7	[b]	52.8 [c]	52.8	Secondary school students.
• Adult Education	Short-term vocational training.	41.0	—	41.0	43.0	—	43.0	Adults.

4. Community Colleges:								
• Occupational Training	Classroom instruction.	[d]	4.0 [e]	4.0	[d]	4.0 [e]	4.0	General population.
• Apprenticeship programs	Classroom instruction for certified apprenticeship programs.	9.9	—	9.9	9.9	—	9.9	General population.
• CWETA Average Daily Attendance (ADA)	Funds for increase in ADA due to CWETA-related classroom instruction.	—	—	—	7.5	—	7.5	CWETA participants.
• High technology training	Grants to establish instruction programs in high technology fields.	—	—	—	2.5	—	2.5	General population.
5. Department of Industrial Relations	Apprenticeship programs and on-the-job training.	4.2	.3	4.5	6.2	.2	6.4	General population.
6. Department of Aging	General employment, training, and job development services.	0.3	5.0	5.3	—	5.1	5.1	Over 60 years old with preference given to the "most needy".
7. California Conservation Corps	Vocational training, remedial education and employment in conservation projects.	27.1	2.8	29.9	36.0	—	36.0	Youth 18–23 years old.
Totals		$193.7	$138.9	$332.6	$221.6	$137.6	$359.2	

[a] Federal Funds included in EDD's WIN program and Department of Rehabilitation.
[b] Included in K–12 revenue limit.
[c] Excludes CETA funds shown in EDD for vocational education.
[d] Included in CCC apportionments.
[e] Federal Funds included in the budget for special vocational education projects. Excluded federal funds available directly to the community colleges.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Programs of Other State Agencies

Table 5 summarizes the employment services and training programs provided by six other state agencies and the community colleges. It indicates:

- The Regional Occupation Centers and Programs, vocational and adult education account for $190.8 million, or 53 percent of total expenditures in 1982–83. This does not include General Fund support for vocational education programs from the apportionments to the state's secondary schools and the community colleges.
- The Department of Rehabilitation, with $89.9 million, is the second largest training agency, in terms of total funding.
- The California Conservation Corps proposes to spend $36 million for employment and training in the budget year.
- The General Fund supports about 62 percent of the expenditures shown in this table, which is three times the General Fund's share of EDD programs.

Services Provided

Employment and training services available through the various programs shown in Tables 4 and 5 can be categorized as follows:

1. General employment services, including job referrals, employment counseling and vocational testing, job development, and referrals to training programs available from a community's educational institutions or local employment programs.

2. Training, including vocational education, classroom instruction, on-the-job training, work experience, apprenticeships, and work-site education that combines classroom instruction with on-the-job training.

3. Intensive employment services, including concentrated staff efforts during a limited period of time to provide employment services.

4. Group job search workshops to teach persons how to (a) contact potential employers, (b) arrange for an interview, and (c) sell themselves to prospective employers. These workshops vary in duration from one afternoon in EDD's job service field offices to two weeks in the Employment Preparation Program (EPP) or ongoing job clubs sponsored by the Department of Rehabilitation for disabled persons.

5. Supportive social services, including counseling, transportation, child care, medical assistance, aids for the disabled, and tools required for employment.

Populations Served

Eligibility requirements for employment services vary among programs. Many programs are open to the general population and do not have specified eligibility criteria. Eligibility for other programs is based on a variety of factors, such as age or income. Programs open to the general public include: (1) vocational education provided through the community colleges, regional occupational centers, and adult education programs, (2) EDD's job service, and (3) apprenticeships. Our tables identify *at least* \$236.5 million in 1981–82 and \$245.3 million in 1982–83 for programs that are available to the general public. Both amounts exclude an undetermined amount for vocational programs in high schools and community colleges which provide training in a variety of occupations.

Some programs are specifically targeted to the poor and economically disadvantaged, based on income criteria. These include:

1. State or local CETA-funded projects.
2. The Work Incentive (WIN) program and the Employment Preparation program for AFDC applicants or recipients.
3. The State Personnel Board's Career Opportunities Development (COD) program for current or potential welfare recipients.
4. The EDD's state-funded job agents for persons who are economically disadvantaged and have one or more "barriers to employment" (for example, a criminal record, limited education, lack of skills, or poor work habits).
5. Employment services for food stamp recipients within the job service. In 1981–82, support for these five programs totaled \$88 million. An additional \$203.7 million is available from CETA grants to local prime sponsors, bringing to \$291.7 million the amount available statewide for employment and training programs targeted on the poor and other economically disadvantaged persons. In 1982–83, the budget's request for these programs totals \$101.8 million—an increase of \$13.8 million, or 15.7 percent over the current year. The amount of federal funds that will be available to local governments in the budget year is unknown, because it will depend on the amount appropriated for CETA beyond FFY 82.

Other programs are available to the poor, but they do not have income eligibility criteria. Specifically, (1) CWETA serves the economically disadvantaged, but also trains displaced workers, persons who need retraining because their skills have become obsolete, or Vietnam-era veterans, (2) the EDD's service centers are available to anyone with a "barrier to employment," regardless of income, and (3) the budget requests support for a new program providing services for displaced workers. These programs are supported entirely with the General Fund. In 1981–82, estimated expenditures total \$14.5 million, and \$19.9 million is requested for 1982–83—an increase of \$5.4 million or 37.2 percent.

Some services are provided specifically to youth. These include: (1) vocational education in the high schools, (2) on-the-job training, work experience, and employment services through federally and state supported local employment projects, and (3) residential vocational training in the California Conservation Corps or the federal Job Corps. In 1981–82, state and federal expenditures for these programs are estimated to be \$112.0 million, excluding the amount for vocational education in the K–12 appropriation. For 1982–83, the budget requests \$116.6 million—an increase of \$4.6 million or 4.1 percent.

Older workers receive services from the Department of Aging and EDD. In 1981–82, support for these services totaled \$6.0 million, including a special CETA-funded project—California Expanded Services Through Experienced Elderly Manpower (CAL-ESTEEM)—in EDD's job service. In 1982–83, \$5.1 million is requested by the Department of Aging for employment services to the aged.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Finally, support for services to the disabled through the Department of Rehabilitation is estimated to be $89.4 million in 1981–82 and $89.9 million in 1982–83.

Program Effectiveness is Undetermined.

Because EDD has the primary responsibility for helping the unemployed and under-employed, we attempted to review how several of its programs address the problems of the unemployed. We found, however, that the information available is not adequate to determine program performance or cost effectiveness. Most of the performance measures used by the department are those prescribed by federal guidelines. Because the federal government uses these measures to award federal grants, the information collected relates to *workload* (for example, number of placements), rather than to effectiveness—that is how effective is the program in helping persons find and keep a job, and increase their earnings. In addition, it is difficult to make comparisons among programs providing similar services because performance measures differ from program to program. Therefore, there is a lack of comparable data on program results.

For example, the performance of EDD's job service is measured according to the number of "placements" made. Placements, however, can be in any job, regardless of job duration or type of job. In FFY 81, approximately 17 percent of the job services' placements were in jobs listed as requiring services for less than three days, and another 10 percent were in subsidized jobs supported primarily by CETA. (Only 18 percent of CETA's subsidized employees eventually entered employment in FFY 80, the last year for which there is data.) Neither of these types of placements offered long-term employment opportunities. While these placements are included in the programs' overall measures of success, they do little to address the long-term problem of unemployment.

The use of broad performance measures is not limited to federally funded programs. For example, success in the state's youth employment program is defined in terms of "positive terminations." A positive termination is defined as a participant who entered employment, or who remained or returned to school, went to other manpower programs, or joined the military. At the Legislature's direction, we attempted to measure the cost effectiveness of the California Youth Employment and Development Act program. While we found that 44.3 percent of youth participating in the program entered employment, we were unable to get from EDD's information what kinds of jobs or wages the youth obtained or how long they were employed. Therefore, we were unable to advise the Legislature on the effectiveness of the youth unemployment program. (See our report on this program, to be published in February 1982.)

Cost-Effectiveness of Programs for Specific Target Groups is Unknown. While "placement" or "positive termination" may provide adequate information for the federal government to use in making funding decisions, they provide the Legislature with very little information about the types of services that are most cost-effective for specific target groups. For example, the purpose of the state-supported youth program is to help inner-city youth who have difficulties finding employment. Our report indicated that youth who only received general employment services were more likely to enter employment than those in work experience or on-the-job training. In addition, general employment services were provided at the lowest average cost per participant.

Based on available data, we concluded that general employment services were most cost effective for youth to obtain employment. Because of a lack of data, however, we were unable to determine whether general employment services were successful with youth who lacked skills or an adequate education. Therefore, we were unable to advise the Legislature whether state funds are being used effectively for their intended purposes.

Insufficient Information to Determine What Services Should be Provided, Given Limited Resources. The lack of adequate performance measures hampers the ability of the Legislature to make decisions about the allocation of limited funds among employment and training programs. For example, the Legislature has adopted the policy that services should be made available to welfare recipients in order to help them obtain jobs and thereby reduce state welfare expenditures. The experience in the WIN program—a major program that exclusively serves AFDC recipients—provides little guidance to the Legislature with respect to the types of services that help recipients enter the labor market and therefore should be supported. In fact, we note that of the total number of WIN registrants entering employment during FFY 81 (48,000), approximately 52 percent found jobs *without participating in any of WIN's employment training programs.* As in the youth programs, however, the information is not available to determine which welfare applicant or recipient is likely to (1) enter employment anyway with little or no service from the program or (2) face ongoing difficulties finding stable employment and therefore needs specialized help. This distinction is critical in getting the most out of the state's investment in employment and training programs. Instead of targeting limited resources on those who are unable to find jobs without the state's assistance, the state may be providing services to people who are likely to find jobs on their own, even without state help.

EDD Has Failed to Provide Evaluations Requested by the Legislature. Since 1977, the state has begun several major employment initiatives, including the state's youth employment program, EPP, and CWETA. During the current session the Legislature will have to decide the level of state support for all three programs, and whether modifications to increase program performance are needed. The Youth Employment and Development Act expires December 31, 1982. Furthermore, the Governor is requesting a major augmentation for EPP and CWETA. Despite directives from the Legislature that EDD evaluate these programs to demonstrate their program and cost effectiveness, evaluations had not been completed when this analysis was written. Therefore, it is not known whether these programs address the problems that the Legislature intended them to address, whether they are achieving legislative objectives or whether the same results could have been achieved at a lower cost.

Legislative Oversight Further Hampered by Diffusion of Programs. In addition to the lack of information on program or cost effectiveness, the overlapping responsibilities and duplications of services among state departments make it difficult for the Legislature to monitor programs in the employment and training area. Examples of overlapping and duplicative programs include (1) on-the-job training available from WIN, CETA, COD, and the Department of Industrial Relations (DIR), (2) apprenticeships developed by DIR, local CETA-supported projects, and the CWETA, and (3) vocational education programs available from community colleges, adult education programs, and regional occupational centers and programs. This duplication makes it difficult for the Legislature to (1) monitor program performance, (2) coordinate programs to enhance the

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impact of state expenditures, and (3) decide what is the appropriate level of effort necessary to address the long-term problem of unemployment.

Overlap and duplication have been common among the federal government's efforts to develop employment and training programs. The federal government has been criticized for adding new programs on top of existing programs. Studies and evaluations point to overlap, duplication, recycling of individuals through program after program, and a proliferation of programs with similar goals attempting to serve the same group of unemployed or disadvantaged people. As the state's involvement in employment and training program increases, the Legislature should endeavor to avoid the mistakes made by the federal government.

TECHNICAL BUDGETING ISSUES

Notification to the Legislature if Federal Funds are Reduced

We recommend that Budget Bill language be adopted requiring the Department of Finance to notify the Joint Legislative Budget Committee and the fiscal committees if federal funds for any employment program or for unemployment insurance administration are reduced by 5 percent or more below the amounts appropriated in the 1982 Budget Act.

The budget projects that EDD will receive approximately $365 million in federal funds during 1982–83 for employment programs and unemployment insurance administration. These funds are likely to be less than anticipated for three reasons:

First, spending levels for FFY 82 are still uncertain, and may not be reliable indicators of the future level of appropriations in any case. EDD's 1982–83 budget assumes the continuation of 1981–82 expenditure levels, but recent congressional action reduced FFY 82 funds for a variety of employment programs by $46.2 million. If these reductions are continued in FFY 83, federal expenditures in the 1982–83 budget are overestimated.

Second, spending levels for FFY 83 are unknown because the President had not submitted his budget when this Analysis was written.

Third, the Comprehensive Employment and Training Act (CETA) will expire at the end of FFY 82. The 1982–83 budget includes $75.2 million in federal CETA funds, which is approximately 30 percent of the total budget for employment programs. Federal funding for the CETA Program in FFY 83 depends on congressional action to reauthorize the program. At the time this Analysis was prepared, a proposal to reauthorize the program had not been introduced.

Because these funding uncertainties will not be resolved by the time the Legislature must approve the 1982–83 budget, it is likely that significant changes will be made in the level of funding and services during the budget year.

Legislature Needs to be Notified if EDD's Federal Funds Are Reduced. Currently, Section 28 of the Budget Act requires that the Department of Finance notify the Legislature if services increase above levels authorized by the act. Section 28, however, does not require that the department notify the Legislature when federal funds are reduced and service levels fall below those approved by the Legislature.

To provide the Legislature with an opportunity to review changes in service levels made necessary by shortfalls in federal funding, we recommend that the following language be added to the Budget Bill (Item 5100-001-870).

"The Department of Finance shall notify the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the fiscal committees within 30 days after notification from the federal government, but no later than November 1, 1982, in the event that federal funds for employment programs or unemployment insurance administration are reduced by 5 percent or more below the amount appropriated in the 1982 Budget Act. Notification shall include an estimate of (a) the amount of federal funds available or anticipated, (b) 1982–83 expenditures for each program affected by the reduction, and (c) the effect of reduced funding on service levels approved by the Legislature."

Public Works Employment Act Funds

We recommend that EDD advise the fiscal committees, prior to budget hearings, on the amount of unexpended Public Works Employment Act (PWEA) funds that are available for appropriation by the Legislature. We further recommend the adoption of Budget Bill language reducing EDD's 1982–83 General Fund appropriation by the amount of any unexpended PWEA funds that become available after the budget is enacted.

Background. Title II of the Public Works Employment Act (PWEA) of 1976 provided $163 million in federal funds to California to finance public service employment jobs. The funds were administered by EDD who entered into contracts with state and local agencies.

Expenditures Exceed Budgeted Amounts. Our review indicates that the expenditure of PWEA/Title II funds has exceeded budgeted amounts during each of the most recent three fiscal years, as shown in Table 6.

Table 6
Expenditures From the Public Work Employment Act—Title II
1979–80 through 1981–82
(in thousands)

	1979–80	*1980–81*	*1981–82*
Budgeted	$4,132	$1,165	$595
Expended	20,869	6,805	7,651 [a]

[a] Estimated.

The administration was able to increase expenditures above the budget level because of the savings that became available when previous contracts ended. These uncommitted funds were then re-awarded by the administration for a variety of programs in state government, including the Governor's Committee on Wellness, the California Occupational Information Coordinating Committee, the state military department, the Office of Planning and Research, and California Expanded Services Through Experienced Elderly Manpower (CAL-ESTEEM).

The Administration notified the Legislature, through the Section 28 review process, of all projects supported with unexpended Title II funds. Viewed individually, these projects do not have a major fiscal impact. Taken together, however, the funds committed to these projects represent a significant outlay. Moreover, this outlay did not receive normal legislative review. Allocations were made by the executive branch, rather than by the Legislature.

Unexpended Title II Funds Available. As of December 8, 1981, the department reported that $852,000 of Title II funds were unobligated. In addition, several closed contracts were reporting unspent balances of ap-

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proximately $553,000, although the funds had not officially been returned to EDD.

We recommend that prior to budget hearings, EDD provide the fiscal committees with an updated report on the amounts of PWEA funds available or potentially available for expenditure during 1981–82 and 1982–83. This would provide the Legislature with an opportunity to fund projects it considers worthy of support.

In the event that additional funds beyond those to be identified by the department become available after the 1982 Budget Act is approved, we further recommend adoption of the following Budget Bill language in Items 5100-001-001 and 5100-001-890, which provides that unexpended Title II funds are used to offset EDD's 1982–83 General Fund appropriation.

"The General Fund appropriation shall be reduced by the amount of unexpended funds from the Public Works Employment Act of 1976 available during 1982–83."

Community Service Representatives

We recommend that $180,000 for community service representatives be deleted from EDD's budget because (1) the administration has not been able to document the effectiveness of the representatives on behalf of the service centers, and (2) the 1981 Budget Act required that if funding for these representatives is sought for 1982–83, it be included in the 1982–83 request for the Governor's office. We further recommend that Budget Bill language delaying the transfer to 1983–84 be deleted.

Background. Since May 1, 1969, EDD has reimbursed the Governor's office through an interagency agreement for community service representatives. The purpose of the representatives is to maintain liaison between the community, the Governor's office, and EDD's eight service centers. The representatives are employed and supervised by the Governor's office, but they advise service center managers of problems in their communities and assist in developing possible solutions.

Representatives Do Not Meet Service Centers' Needs. In our 1981–82 *Analysis*, we reported that the community service representatives did not meet the stated needs of the service centers. Of eight service center managers contacted during 1980, *only two were aware that the representatives still existed.* In addition, EDD was unable to provide copies of reports on the activities of the representatives as required by the interagency agreements. Therefore, we advised the Legislature that the community service representatives should not be supported with funds appropriated for the service centers.

1981 Budget Act Language Requires that the Budget Request for Representatives be in the Governor's Office. In response to our analysis, the Legislature adopted language in the 1981 Budget Act which required that, beginning in 1982–83, the General Fund support for community service representatives be requested as part of the budget for the Governor's office. Despite the Legislature's mandate, EDD's budget for 1982–83 includes $180,000 for eight community service representatives. In addition, Budget Bill language in Item 5100-001-001 would delay until 1983–84 the transfer of the positions from EDD to the Governor's office.

We asked representatives of the Department of Finance and EDD why the proposed 1982–83 Budget failed to comply with the Legislature's directive in the 1981 Budget Act to fund the community service representatives from the budget for the Governor's office. They were unable to give us a reason for failing to include the community service representatives in the request for the Governor's office. We can only conclude that funds for the community representatives remain in EDD's budget in order to keep the budget for the Governor's office below $5 million. (If the $180,000 were added to the existing request of $4.9 million, the total budget for the Governor's office would be $5.1 million.)

According to EDD, community service representatives are now meeting regularly with the service center managers and the department receives activity reports as required by the contract. These administrative changes were reported to the fiscal committees during the 1981–82 budget hearings, but the fiscal committees subsequently added Budget Act language noted above because the representatives' principal duties and responsibilities remained with the Governor's office.

Our analysis indicates that the circumstances have not changed since the Legislature added control language to the 1981 Budget Act. The effectiveness of the service representatives on behalf of the service centers has not been documented. Therefore, we recommend that $180,000 be deleted from EDD's General Fund request. We also recommend deletion of Budget Bill language in Item 5100-001-001 delaying the transfer to 1983–84. This recommendation is consistent with legislative action in the 1981 Budget Act.

WIN Match for Service to AFDC Applicants

We recommend deletion of Budget Bill language earmarking $1,500,000 from the General Fund to pay training-related expenses, allowances, and child care for WIN applicants, because new federal regulations permit the use of federal funds for these services.

The WIN program is financed with 90 percent federal funds and 10 percent state funds. Until October 1, 1981, services under the WIN program were limited to persons who had been found eligible for AFDC assistance and who were required to register for work with EDD. Since 1979, the state has been earmarking up to $1.5 million of the state's matching share to pay for supportive services for persons at selected sites who *applied* for welfare but have not yet been declared eligible.

Federal regulations now permit the use of federal WIN funds for this purpose. Since services are now available statewide to AFDC applicants under the WIN program, the Budget Bill language is no longer necessary, and we recommend that it be deleted.

Reduction in Benefits for Ex-Military Personnel

We recommend that Item 5100-001-890 be reduced by $21,500,000, because changes in federal law prohibit UI benefits to ex-military personnel who voluntarily leave the service.

The 1982–83 Budget Bill includes $170,055,000 for benefits to claimants who were employees of the federal government and who file their UI claims in California.

The 1981 Reconciliation Act prohibits UI payments to ex-military personnel who voluntarily leave the service after July 1, 1981. The EDD estimates that this change will result in a savings of $21.5 million to the Federal Trust Fund. The budget, however, does not reflect this savings. Therefore, we recommend that Item 5100-001-890 be reduced to $148,555,000, to reflect the benefits which can be paid under the federal

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statutes.

Identification of UI Benefits Included in Support Item

We recommend that Item 5100-001-870 be amended to identify separately benefits paid under the Redwood Employee Protection Plan (REPP) and the Trade Readjustment Assistance Act (TRA).

EDD pays unemployment insurance benefits to persons eligible under provisions of the Redwood Employee Protection Plan and the Trade Readjustment Assistance Act. These benefits are fully paid by the federal government. In order to distinguish these benefits from those paid by the regular unemployment insurance (UI) program or UI benefits paid to ex-federal employees in California, the federal government transmits funds for TRA and REPP as part of EDD's administrative support funds. The Budget Bill includes them in the Unemployment Administration Fund (Item 5100-001-870), thereby overstating funds available solely for programs and administration.

Because federal funds for EDD's program and administration have been declining, it is important that the Legislature be able to identify separately how much federal money is available for administration. To facilitate this, we recommend that the Budget Bill (Item 5100-001-870) be amended to include in its schedule a separate identification of REPP and TRA benefits.

EMPLOYMENT AND TRAINING PROGRAM PROPOSALS

California Work-site Education and Training Act

We recommend a reduction of $4.0 million from the General Fund request for the California Work-site Education and Training Act (CWETA) in order to reflect (1) the availability of carryover funds and (2) actual expenditure trends to date. We further recommend a General Fund appropriation of $6,000,000 for CWETA which would train over 3,000 persons in demand occupations.

Background. The California Work-site Education and Training Act (CWETA) provides funds for employer-sponsored projects that offer vocational training both on the job and in the classroom. Each project is designed to meet the needs of industry by (a) providing training to individuals that meet a participating employer's entry level requirements or (b) upgrading a firm's employees who lack the skill or training to move into jobs with career advancement opportunities. Classroom instruction is provided through community colleges or adult education programs, and on-the-job training is done at an employer's facility or simulated work-like environments.

Budget Proposal. The budget proposes to spend $11,468,000 from the General Fund for the California Work-site Education and Training Act (CWETA) during 1982–83. This consists of $1,468,000 available from the act's initial (1979) appropriation of $25 million and $10 million General Fund augmentation for 1982–83. According to the department, the $10 million General fund augmentation would train approximately 3,000 to 4,000 individuals for employers who are facing acute labor shortages.

Analysis. Our analysis indicates that the amount requested is more than what is needed to finance the probable level of expenditures for the following reasons:

1. Based on past expenditure patterns, the department is unlikely to

spend more than $8.3 million in CWETA funds during the budget year. During the first 21 months (October 1979 to June 1981) of this program, expenditures totaled $14.5 million, or an average of $8.3 million per 12-month period. During the current fiscal year, expenditures have continued at an $8.3 million annual rate.

2. The amount of carryover funds available for this program in the budget year will be larger than are estimated in the budget. The budget assumed that $1.5 million in carryover funds will be available. This amount however, has been reestimated upwards to $2.3 million. Therefore, use of the additional carryover funds will reduce the need for additional support from the General Fund and can be deducted from the budget request (−$2.3 million).

The budget request emphasizes that the program will train people in occupations which face acute labor shortages. The majority of CWETA contracts have been with employers in industries facing shortages of skilled workers, such as the electronics and health care industries. About 9 percent of expenditures to date, however, have been in connection with contracts for non-demand occupations. For example, CWETA has supported training in a wide range of occupations including (1) teaching several companies' supervisors the "essential elements of supervision," (2) sales and distribution representatives for a major bottling company, (3) tile layers, (4) fire fighters, (5) carpenters, and (6) window frame assemblers. In addition, one contract provided training for equipment operators in the depressed logging industry. If the $8.3 million were used only to meet the labor needs of industries facing labor shortages, approximately 400 more workers could be trained in a high demand occupation.

Recommendation. Because it addresses labor shortages in industries that have difficulties finding skilled personnel, we recommend that the Legislature continue General Fund support for CWETA. Because the program anticipates at least $2.3 million in carryover funds during 1982–83, the General Fund augmentation need be only $6.0 million to provide a total funding level of $8.3 million. As a result, the budget request can be reduced by $4 million. This amount will allow the department to provide training to 3,400 persons in demand occupations.

Services to Displaced Workers

We recommend a reduction of $2 million from the General Fund (Item 5100-001-001), requested to provide employment services to displaced workers. We further recommend that employment services to displaced workers be funded through EDD's Contingent Fund (Item 5100-001-185), at a cost of $1,727,000.

The budget proposes a $2 million augmentation from the General Fund to provide employment and training services to displaced workers who have lost their jobs due to plant closures or mass lay offs. EDD expects to serve approximately 8,000 displaced workers statewide in 15 to 20 sites. EDD also intends to request in-kind or cash contributions from employers to help EDD provide services to displaced workers. In addition, the department proposes to use local education agencies to develop short-term training programs for occupations that are in demand. Based on our review, it is difficult to distinguish between employment services proposed for displaced workers and services provided to other unemployed individuals.

Of the $2.0 million request, $1,583,000 will support 52.1 positions and associated operating expenses to provide general employment and job

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development services to displaced workers. An additional $183,000 is requested for 6.5 positions and operating expenses to assist eligible displaced workers apply for unemployment insurance (UI) benefits while enrolled in retraining. The remaining $234,000 will pay for EDD's administrative costs.

Request is Over Budgeted by $273,000. Our analysis indicates that the $2 million request is over budgeted by $273,000 because salaries for the new EDD positions were not budgeted at the entry level as required by the Department of Finance's budget instructions. If the budget instructions are followed, we estimate that the request should be reduced by $273,000 to $1,727,000.

EDD Contingent Fund Should Be Used. In addition, we recommend that services for displaced workers be funded from EDD's Contingent Fund instead of the General Fund. The EDD Contingent Fund consists of penalties and interest collected from employers for the unemployment and disability insurance programs. State law requires that $1.0 million remain in the fund to refund overpayments or erroneous collections. The balance of the fund, however, may be used for EDD administrative support and capital outlay, or may be transferred to the Unemployment Insurance (UI) or Disability Insurance (DI) Funds for benefit payments.

The budget projects that $13,590,000 will be available in the Contingent Fund in 1982–83. Of this amount, $10,755,000 is requested for support of UI- and DI-related activities and, therefore, this fund will have an unexpended balance of $2,900,000 in 1982–83. If the Contingent Fund is used to replace General Fund support proposed for services to displaced workers, the $2 million from the General Fund would be available for use by the Legislature in meeting its financial priorities for employment programs or for other parts of the state's expenditure plan. Accordingly, to increase the Legislature's fiscal flexibility and to correct for over budgeting, we recommend that $1,727,000 of the unexpended balance be used to fund the positions requested by the department to provide services to displaced workers. If our recommendation is accepted, the balance in the fund will be $1,173,000, which is sufficient to comply with the requirements of the law.

Linking Vocational Education With Private Industry

We recommend the reduction of $1 million from the General Fund requested to encourage labor and business input into local vocational education programs, because there is no information on how the funds will be spent.

The budget proposes $1 million to encourage labor and business input into local vocational education programs. The goal of the proposal is to insure that local vocational education programs provide training which meets the needs of industry.

Several reports, including our own report on vocational education (No. 77-13, published in 1977), have shown that the vocational education system has not been responsive to the demands of the labor market. Specifically, the vocational education system has failed to train sufficient numbers of individuals to meet the occupational demands of the private sector.

While we recognize the need for vocational education programs to provide training to meet the needs of the private sector, we have no basis on which to recommend approval of this request. The budget proposal does not provide the Legislature with information as to (a) how the $1.0 million will be spent, (b) whether lower cost alternatives that can accomplish the same objective are available, or (c) if the proposal has additional costs not reflected in the request. Because we have no analytical basis on which to document the potential cost-effectiveness of the proposal, we recommend the reduction of $1 million from the General Fund.

Employment Preparation Program

We recommend that 89.5 positions and $6,480,000 in General Fund and $519,000 in reimbursements be deleted from Item 5100-001-001 for expansion of the Employment Preparation Program because (1) the department has not demonstrated the program's cost effectiveness which under existing law is a precondition for program expansion and (2) services for AFDC applicants now can be provided by the Work Incentive (WIN) program.

Chapter 918, Statutes of 1980 (SB 1476), authorized the Employment Preparation Program (EPP) to provide job search assistance, employment training and supportive services to applicants for and recipients of AFDC. In 1981–82, the Legislature appropriated $1.1 million to implement the program in three pilot counties—Ventura, Lake, and San Mateo.

The budget proposes $6,999,000 ($6,480,000 from the General Fund and $519,000 from reimbursements) to expand the EPP to an *unspecified* number of sites during 1982–83. This represents a five fold increase over current year expenditures.

This budget request includes $2,493,000 for EDD's administrative costs (of which $2.3 million is being requested to establish 84.9 new positions in EDD field offices) and $4.5 million to provide employment training and social services to 22,775 AFDC applicants and recipients. These services include:

1. $1,594,000 for training and work-related expenses paid to participants for two weeks at $35 per week;
2. $1,085,000 to pay for county welfare staff assigned to EPP who provide supportive social services, counseling, and referrals to participants;
3. $683,000 for child care expenses for 50 percent of the participants;
4. $792,000 for a revolving fund that would allow EDD to divert AFDC grants to pay a portion of trainees' wages in private sector jobs. Of this amount, $519,000 is shown as reimbursements from the Department of Social Services from AFDC grants and $273,000 is from the General Fund;
5. $252,000 for AFDC applicants and recipients who enter Cooperative Agencies Resources for Education (CARE) (these applicants need not be EPP participants); and
6. $100,000 for telephone and additional space necessary to accommodate the group job search workshops.

Our analysis indicates that the proposed increase for EPP should not be approved for the following reasons:

1. ***The Department Has Not Been Able to Demonstrate the Effectiveness of EPP.*** Chapter 918 specified that expansion of EPP beyond the pilot projects funded in 1981–82 "shall be contingent upon demonstrated cost effectiveness." To date, EDD has not provided information which demonstrates EPP's cost effectiveness. Chapter 918 also required that the 1982–83 budget show net expenditure reductions reasonably attributable to EPP. The budget, however, has not reported any savings as a result of the program's first year of operation.

2. ***WIN Funds Can Be Used to Provide Same Services as EPP.*** Since October 1, 1981, federal guidelines have allowed the WIN program to

provide employment and supportive services to AFDC *applicants*. Previously, WIN program services were limited to AFDC *recipients*. This change in federal regulations allows the WIN program to serve the same population that EPP's expansion proposes to serve.

Although the types of services provided by EPP and WIN differ, WIN funds can be used to provide the same services as available in EPP. The budget for WIN includes $43.0 million, including $4.5 million for client-related training expenses. If the services proposed for the expansion are shown to be more effective than the training traditionally available from WIN, the department could reallocate its WIN resources and provide the proposed services.

Because the department has not demonstrated the program's cost effectiveness as required by statute, and because services to AFDC applicants and recipients are available through the WIN program, we recommend disapproval of $6,480,000 from the General Fund and $519,000 in reimbursements for expansion of EPP. If our recommendation is approved, $1,789,000 will be available to continue the EPP pilot projects. An additional $1 million will be available for programs for welfare recipients and applicants if AB 2x is approved.

California Welfare Employment Skills Training Act

We recommend approval with Budget Bill language restricting the use of possible savings resulting from fewer placements than anticipated, and supplemental report language requiring a progress report to the Legislature by December 15, 1982.

Background. Chapter 1078, Statutes of 1981, (AB 1182), authorized the California Welfare Employment Skills Training Act (CWESTA). The purpose of the act is to provide employment training and job placement to long-term or potentially long-term AFDC recipients who have failed to obtain employment through other employment programs. The statute allows EDD to enter into performance contracts with training programs to provide remedial education, job-related language instruction, and vocational skills.

Budget Proposal. The budget proposes $772,000 from the General Fund to support CWESTA in 1982–83. Of this amount, $104,000 is for EDD administrative costs and $668,000 is to reimburse contractors for providing employment services to 100 participants. Chapter 1078 provides that contractors shall be reimbursed for actual costs, plus 10 percent, for training clients who are employed at least 90 days. The act, however, limits the maximum amount of reimbursement to the annual grant for an AFDC family of 3 with no outside income. For 1982–83, the maximum reimbursement would be $6,679 for each successful participant. The budget proposal of $668,000 assumes that the maximum reimbursement rate will be provided to all contractors ($6,679 × 100 participants = $667,900).

Actual Costs May Be Less Than Projected. Our analysis indicates that the department may have overestimated the costs for this program. For example, to the extent that contractors are able to train and place individuals at less than the maximum allowable costs, the average cost per participant would be less than budgeted. In addition, actual expenditures may be lower than budgeted if contractors are reimbursed at the maximum allowable rate, but place fewer than 100 participants.

Because this is a new program, we do not have a basis upon which to project the program's *average* cost per participant or *projected* success rate. These factors individually or jointly could reduce expenditures below the budgeted request.

We recommend that the program be funded at the level requested. We recommend, however, that Budget Bill language be added to specify that in the event contractors request maximum reimbursements but do not place 100 individuals, the savings will revert to the General Fund. This language would not limit the use of funds to place more than 100 participants at a lower cost per participant.

The following Budget Bill language for Item 5100-001-001 is consistent with our recommendation.

"In the event that contractors' request maximum reimbursement for all placements but place less than 100 participants, any savings in funds appropriated for implementation of the California Welfare Employment Skill Act shall revert to the General Fund."

We also recommend that supplemental language be added requiring the department to submit a progress report by December 15, 1982, on the program's performance. The statute requires that an evaluation of program and cost-effectiveness be submitted to the Legislature February 1, 1985. If the department requests funds to continue this program in 1983–84, the Legislature will need information on the performance of the contractors. Therefore, we recommend the following language be included in the Supplemental Report to the 1982 Budget Act:

> "The EDD shall submit to the Joint Legislative Budget Committee by December 15, 1982, a report on the implementation of the California Welfare Employment Skills Training Act. The report shall include (a) reimbursement rates paid to individual contractors, (b) the number and characteristics of individuals placed by each contractor, and (c) the types of jobs and wages obtained by participants."

Supported Work

We recommend a reduction of $144,000 from the General Fund, offset by increased reimbursements of $144,000, to fund the supported work project because national evaluations have shown that supported work reduces welfare dependence of long-term AFDC recipients.

Chapter 1077, Statutes of 1981 (SB 958), authorizes a supported work program for long-term AFDC recipients. In order to be eligible to participate in the program, persons must have received assistance under the AFDC program at least 30 of the last 36 months and have little or no recent work experience. According to the statute, supported work projects are characterized by intensive supervision and increasingly difficult work assignments for participants. Participants must be paid the minimum wage initially, but their wages increase as they perform more difficult tasks.

Background. Supported projects have been tried at 15 sites as part of a 5-year national demonstration research effort. An extensive evaluation of the projects, conducted for the Manpower Demonstration Research Corporation, showed that supported work was effective in preparing long-term AFDC recipients for employment. Participants did significantly better than control groups in terms of increased employment, increased earnings, and reduced welfare dependence.

Budget Proposal. The budget requests a total of $893,000 to establish a supported work project to train 100 participants. Of this amount, $420,000 is from the General Fund for EDD administrative costs

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($155,000), and participants' wages ($265,000). The remaining $473,000 is the participants' AFDC grants, which will be used to pay part of their wages. This amount includes the federal and state share of the participants' AFDC grants which will be transferred from the Department of Social Services (DSS) to EDD. Diverting the federal share of the AFDC grants to pay wages, however, is contingent on the project receiving waivers from the federal government.

Reimbursements From AFDC Grant Diversion Are Underestimated. The budget proposes $738,000 for participants' wages, of which $473,000 is reimbursements from AFDC grants. Our analysis indicates that the department has underestimated the amount of AFDC grant funds available to pay the participants' wages. The department estimates that the average monthly AFDC grant will be $415 in 1982–83. More recent information from the Department of Social Services, however, indicates that the average monthly grant in 1982–83 will be $514 (excluding any cost-of-living adjustments).

Given this higher grant amount, the amount of AFDC funds available from the state and federal governments to fund participants' wages would be $584,000, instead of $473,000 an increase of $111,000. In addition, the department has not included $33,000 for the county's share of AFDC grant funds which would be available to pay the participants' wages. The combined effect of more accurately protecting available AFDC funds ($111,000) and including the county share of AFDC grant funds ($33,000) is to reduce General Fund costs by $144,000 ($111,000 + $33,000 = $144,-000).

We recommend, therefore, that the General Fund request be reduced by $144,000 and that reimbursements be increased by the same amount. This will reflect more accurately the amount of AFDC grant funds available to pay participants' wages.

Employment Services for Unemployed Parents Receiving State-Only AFDC-U

We recommend:

1. Deletion of $328,000 from the General Fund (Item 5100-001-001) for employment services programs to unemployed parents because other funds are available.

2. Reduction of $103,000 in reimbursements from the Department of Social Services and an increase of $48,000 in reimbursements from the participating county to reimburse employers for wages paid to employment training participants.

3. Approval of $600,000 for employment and training services to state-only AFDC-U parents as follows: (a) $155,000 from state or federal funds available for youth employment and training projects and (b) $445,000 in reimbursements from the Department of Social Services and the participating county for AFDC grant payments used to subsidize participants' wages.

Chapter 1080, Statutes of 1981 (SB 957), requires EDD to provide employment and training services to unemployed parents who are ineligible to participate in the federal Work Incentive program and who receive assistance under the state-only AFDC-Unemployed Parent program. In order to carry out the provisions of this act, the department intends to provide subsidized jobs in the private sector to a minimum of 170 unemployed parents between the ages of 16 and 22 during 1982–83. Unemployed parents would participate in four weeks of self-help job search training in a county which has either an EPP or a Job Search Assistance Project (JSAP). Those who are not able to find a job after the four weeks of job search training could volunteer for subsidized employment or on-the-job training (OJT) in the private sector. OJT participants would receive wages partly subsidized by their AFDC grants, instead of receiving an AFDC grant.

Budget Proposal. The budget proposes a total of $828,000 to provide employment and training services to those unemployed parents. This consists of $328,000 from the General Fund ($155,000 for EDD administration and $173,000 for participants' wages), and $500,000 in anticipated reimbursements from the Department of Social Services (DSS) for the state's share of costs of AFDC grants to program participants. We have the following concerns with the department's proposal.

General Fund Augmentation of $173,000 to Reimburse Employers is Not Justified. Our analysis shows that the request for $173,000 from the General Fund to subsidize jobs for participants is not justified for two reasons:

First, it proposes to reimburse employers at the rate of $660 per month, per participant, which is more than the average state AFDC-U grant ($556). According to Ch 1080/81, a portion or all of the aid payment to an unemployed parent shall be paid to the employer to offset the cost of wages. Reimbursements above the average AFDC grant creates additional General Fund costs not envisioned by the statute.

Second, it requests state funds to assume the county's share of the AFDC grant costs. The $173,000 requested from the General Fund includes $61,000 for the participating county's share of the participants' average AFDC grants. Our analysis indicates that the counties should continue to pay their share of grant costs for those AFDC-U recipients who participate in the program.

Amount from AFDC Grant Diversion is Overestimated. Our analysis also shows that the department's estimates of the costs for employer reimbursement are overestimated by $228,000. EDD used the average AFDC-U grant paid in September 1981 ($556) to calculate the grant diversion amount. For 1982–83, however, DSS estimates that the average AFDC-U grant (including the counties' share) will be $436. If employers are reimbursed only up to the amount of the participants' grant, the total cost to the state for 170 OJT placements during the six months would be $445,000, or $228,000 less than the $673,000 proposed in the budget.

EDD Administrative Costs Should Be Funded From Youth Employment and Training Programs. The budget proposes a General Fund augmentation of $155,000 to cover EDD's administrative costs of providing employment and training services to unemployed parents between the ages of 16 and 22. Our analysis indicates that these costs could be financed through funds made available through the Youth Employment and Development Act. The budget includes $5.5 million from the General Fund and $6.0 million in federal funds to provide employment services to youth pursuant to that act. Therefore, we recommend deletion of the $155,000 requested for EDD's administrative costs. We further recommend that the following Budget Bill language be added to Items 5100-001-001 and 5100-001-870:

> "Provided that $155,000 shall be available from either state or federal funds for employment and training services to parents of dependent children under paragraph (2) of subdivision (a) of Section 11201 of the Welfare and Institutions Code."

This recommendation is consistent with legislative intent that EDD

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

seek funds from existing programs. It also allows the department to implement the program at no additional cost to the General Fund.

Table 7 summarizes the fiscal impact of our recommendations. Our recommendations would result in a total reduction of $228,000 in the budget proposal because employer reimbursements would be limited to the amount of the AFDC grant. General Fund savings, however, would total $328,000 because there would be no general fund subsidy for employer reimbursements ($173,000) and administrative costs would be paid from available state or Federal Funds ($155,000).

Table 7
Employment Services to State-Only AFDC-U Parents
1982–83
(in thousands)

	Budget Request	*LAO Estimate*	*Difference Amount*	*Difference Percent*
Reimbursements to Employers	$673	$445	−$228	−33.9%
DSS reimbursements	(500)	(397)	(−103)	(−20.6)
County reimbursements	—	(48)	(48)	100.0
General Fund augmentation	(173)	—	(−173)	−100.0
EDD Administrative Costs				
General Fund augmentation	155	—	−155	(−100.0)
Funds available through youth employment and training programs	—	155	155	(100)
Total costs	$828	$600	−$228	−27.5%

Youth Employment Programs

We recommend that Budget Bill language be added to Item 5100-001-001 to require that federal funds be spent before General Funds are spent for youth employment projects, in order to maximize federal funds and thereby increase the Legislature's fiscal flexibility.

The budget request $5,464,000 from the General Fund for youth employment programs. In addition, the department anticipates expenditures from federal funds of $6,107,000, for a total program level of $11,571,000.

Federal Funds Saved at General Fund Expense. In our report (February 1982) on the California Youth Employment and Development Act, we found that total funds available for youth employment programs since 1977–78 have been consistently underspent. Between 1977–78 and 1980–81, the underspending totaled $5.3 million, and $5.1 million of this amount consisted of federal funds which could be carried over from one state fiscal year to the next. By contrast, annual *state* appropriations were fully expended to fund projects that could have been supported with available federal funds. *The effect of this fiscal practice has been to save federal funds at the expense of the General Fund.*

Maximize Use of Federal Funds. In order to (1) maximize the use of available federal funds and (2) pass on to the General Fund any savings due to the under expenditure of federal funds, we recommend that language be added to the Budget Bill which would require that (1) EDD spend federal funds for eligible youth employment projects before spending General Fund money, and (2) any savings from the state appropriation revert to the General Fund at the end of the fiscal year. To accomplish this, we recommend that the following language be added to Item 5100-001-001:

"State funds shall not be used to fund any youth employment and training program which is eligible for federal funds unless all such federal funds have been expended. Any unused portion of the state appropriation shall revert to the General Fund at the end of the fiscal year."

Health and Welfare Agency

DEPARTMENT OF REHABILITATION

Item 5160 from the General Fund and Federal Trust Fund — Budget p. HW 197

Requested 1982–83	$65,274,000
Estimated 1981–82	52,222,000
Actual 1980–81	19,510,000
Requested increase (excluding amount for salary increases) $13,052,000 (+25.0 percent)	
Total recommended reduction	$1,000,000
Recommendation pending	$8,280,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5160-001-001	Department of Rehabilitation—Support	General	$65,274,000
5160-001-890	Department of Rehabilitation—Support	Federal Trust	(76,906,000)
Total			$65,274,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Notification to the Legislature. Recommend adoption of Budget Bill language requiring the Department of Finance to notify the Legislature in the event federal funds for vocational rehabilitation programs are reduced 5 percent or more below the amount appropriated by the Legislature. 1033
2. Reader and Interpreter Services. Recommend adoption of Budget Bill language directing the Department of Rehabilitation (DOR) to reimburse the University of California, the California State University, and the California Community Colleges for up to $952,000 in reader and interpreter services provided to DOR clients. (Potential General Fund savings: $952,000.) 1034
3. Identification of Carry-Over. Recommend adoption of supplemental report language requiring separate identification of federal carryover funds in the 1983–84 Governor's Budget. 1035
4. Services to the Elderly Blind. Recommend approval of $95,000 for services to the elderly blind. Further recommend adoption of Budget Bill language requiring contractors to provide 50 percent match. 1035

DEPARTMENT OF REHABILITATION—Continued

5. Career Opportunities Development (COD) Program. Reduce by $64,000. Recommend that reimbursements from COD be reduced by $64,000 to reflect a 10 percent contribution from agencies training the disabled. 1036
6. ***Comprehensive Services Centers. Reduce by $1.0 million.*** Recommend deletion of $1.0 million from the General Fund proposed for implementation of five pilot centers because the department has not submitted the statutorily required feasibility study. 1037
7. Caseload Growth for the Work Activity Program. Withhold recommendation on $8,280,000 requested for caseload growth, pending receipt of information from the department substantiating caseload projections. Recommend that the department provide this information to the fiscal committees prior to budget hearings. 1039
8. Cost Controls for Work Activity. Recommend that the department advise the fiscal committees prior to budget hearings on options for effectively controlling cost of work activity center program. 1040
9. Cap on Cost-of-Living Increases. Recommend that the Department of Finance report to the fiscal committees prior to budget hearings on how 5 percent limitation on cost-of-living adjustments will be implemented. 1041

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation assists physically and mentally handicapped individuals to achieve social and economic independence by providing rehabilitation and habilitation services. Vocational rehabilitation services are aimed at placing disabled individuals in suitable employment. Habilitation services are aimed at helping individuals who are unable to benefit from vocational rehabilitation achieve and function at their highest levels.

Vocational rehabilitation services are provided by the department through counselors and by nonprofit organizations. Counselors (1) evaluate applicants for services, (2) work with clients to develop their rehabilitation plans, (3) authorize the purchase of services necessary to implement the plans, (4) supervise the progress of each client in their caseload, and (5) follow up to verify rehabilitation (defined as 60 days of continuous employment). Nonprofit organizations include sheltered workshops, facilities for the deaf and blind, and independent living centers. These facilities provide a range of counseling and supportive services. They are encouraged, however, to emphasize job development and placement of disabled individuals.

Habilitation services are provided primarily to adults who are developmentally disabled. The department purchases services from community-based work activity centers whose goals are to help clients achieve their highest level of functioning and live independently. The objectives of work activity centers are to (1) provide clients with work stability in sheltered employment, (2) increase their vocational productivity and earnings, and (3) to the extent possible, develop their potential for competitive employment. Clients may move into competitive employment either from the work activity centers directly or through the department's vocational rehabilitation services. Habilitation services also include daily living and adjustment skills for physically or mentally disabled persons who are not ready for, or who are unable to benefit from, vocational rehabilitation.

The 1981 Budget Act authorized 2,081.7 positions for the department in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $65,274,000 from the General Fund for support of the Department of Rehabilitation in 1982–83. This is an increase of $13,052,000, or 25.0 percent, over estimated current year General Fund expenditures. In addition, Item 5160-490 proposes the reappropriation of $129,000 from the General Fund for expenditure during 1982–83. As a result, the budget proposes a total of $65,403,000 from the General Fund for the department's activities during 1982–83.

Total program expenditures, including expenditures from federal funds and reimbursements, are projected at $147,724,000 in 1982–83, an increase of $11,653,000, or 8.6 percent, over total estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Table 1
Department of Rehabilitation
Proposed General Fund Adjustments
1982–83
(in thousands)

	Cost	*Total*
1981–82 Revised Adjustments		$52,222
I. Restoration of Current-Year Reductions		
A. Restoration of 2 percent reduction	$391	
B. Restoration of travel reduction	102	
Subtotal	$493	
II. Baseline Adjustments		
A. Governor's 5 percent reduction	–$993	
B. Changes in existing personnel costs		
1. Merit salary adjustments	72	
2. Reduction of comprehensive services center planning (Ch 1183/80)	–156	
Subtotal	(–$84)	
C. Operating Expenses and Equipment		
1. Support-related		
a. General	$110	
b. Comprehensive services center planning (Ch 1183/80)	–167	
2. Client-related		
a. General	$318	
b. Community facility grants	236	
c. Work Activity program	1,864	
Subtotal	($2,361)	
D. Total, Baseline Adjustment		$1,284
III. Program Change Proposals for 1982–83		
A. Comprehensive services center planning	$1,000	
B. Work Activity program	8,280	
C. Five percent cost-of-living adjustment for Work Activity program	2,124	
D. Total, Program Change Proposals		$11,404
IV. Total, General Fund Adjustments for 1982–83		$12,688
V. Total, General Fund Expenditures for 1982–83		$65,403

DEPARTMENT OF REHABILITATION—Continued

Table 1 details the proposed General Fund adjustments for 1982–83. Reductions totaling $1,316,000 reflect (a) the Governor's 5 percent reduction ($993,000) and (b) the one-time expenditure of funds during the current year that were appropriated by Ch 1183/80, for Comprehensive Services Center planning ($156,000 personnel costs and $167,000 operating expenses). These reductions are more than offset by increases totaling $14,004,000, as follows: (1) $8,280,000 for caseload growth in the Work Activity program; (2) $2,124,000 to provide a 5 percent cost-of-living adjustment (COLA) for work activity centers; (3) $1,864,000 for a baseline adjustment to continue the 1981–82 COLA for work activity programs; (4) $1,000,000 for comprehensive centers; and (5) $736,000 for personnel and price adjustments.

Chart 1 shows expenditures, by program component, in 1981–82 and 1982–83. It indicates that habilitation services account for $11.0 million of the $11.6 million increase in expenditures proposed for 1982–83. The remaining $600,000 results from minor changes in vocational rehabilitation services and administration. Chart 2 shows expenditures, by funding source, in 1981–82 and 1982–83. This chart shows that General Fund support will increase by $13.2 million and federal funds will increase by $200,000. These increases are partially offset by a decrease in reimbursements of $1.8 million.

Five Percent Baseline Budget Reduction

The budget proposes a decrease of $993,000 in the department's baseline General Fund support to comply with the 5 percent reduction required of many General Fund-supported agencies by the administration. This reduction would be achieved as follows:

1. Eliminate 27 positions costing $706,000 in three programs—vocational rehabilitation services (20 positions), habilitation (1 position), and administration (6 positions);
2. Reduce operating expenses by $84,000; and
3. Reduce client-related expenses totaling $203,000;

Of the 20 positions to be eliminated in rehabilitation services, 9 are counselors and the remaining 11 are administrative and clerical personnel. According to the department, the reduction in counselors would result in preparation of 270 fewer rehabilitation plans. We discuss the effects of this reduction later in this analysis.

The reduction in client-related expenses will be achieved by reducing grants to independent living centers and contracts for services to the elderly blind.

LEGISLATIVE FOLLOW-UP

The Department of Rehabilitation has submitted the following reports to the Legislature in response to requirements contained in the *Supplemental Report of the 1981 Budget Act:*

1. ***Program Policies and Costs of the Orientation Center for the Blind (OCB).*** The department was requested to evaluate the cost-effectiveness and program operations of the Orientation Center for the Blind (OCB). According to the report, the cost per client completing training in OCB during 1982–83 is estimated to be $16,600, a 32.8 percent decrease from the 1979–80 level. This is attributable mostly to higher utilization of

Chart 1

Department of Rehabilitation Expenditures by Program 1981–82 and 1982–83 (in millions)

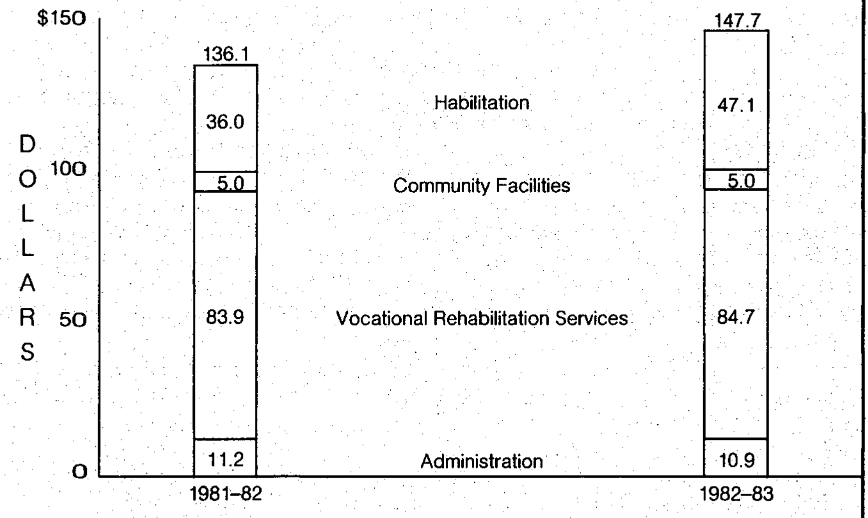
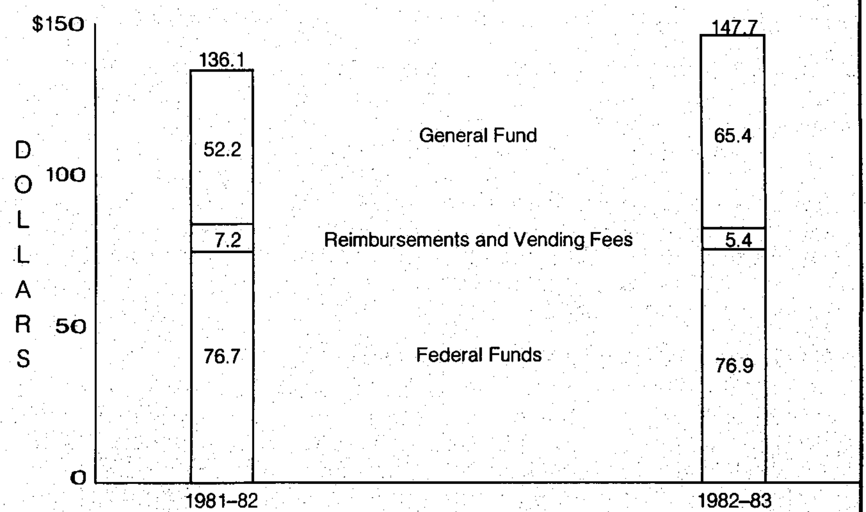


Chart 2

Department of Rehabilitation Funding Source 1981–82 and 1982–83 (in millions)



DEPARTMENT OF REHABILITATION—Continued

the facility. The report did not reach any conclusions about the program's cost-effectiveness. Instead, the department indicates that it intends to develop a program evaluation system that will allow valid cost comparisons among different types of residential programs supported by departmental funds. The department projects that information comparing the cost-effectiveness of residential programs will be available to the Legislature in June 1983.

The department also reviewed two other residential programs for the blind which are supported by departmental funds—the Living Skills Center and the Vocational Independent programs.

Based on its review, the department adopted the following policies for *all* residential rehabilitation centers for the blind: (1) clients will be required to contribute toward the cost of their rehabilitation, based on their ability to pay; (2) vocational training at OCB (required by the Health and Welfare Code) will be interpreted to mean pre-vocational services rather than specific occupational training, and (3) partial vision training will be available in all facilities to help individuals use their residual vision effectively.

2. *Financial Condition of Independent Living Centers (ILCs).* The Legislature requested that the department report on the financial condition of ILCs. According to the department, the total budgets for the 23 ILCs currently supported from the General Fund did not change from 1980–81 to 1981–82. Loss of federal funds and local government support during 1980–81 have been offset by increased (1) General Fund support in the current year and (2) revenues from fund raising activities and fees. All ILCs required to provide a 10 percent match in order to receive General Fund support have been able to do so.

VOCATIONAL REHABILITATION SERVICES

The federal government provides approximately 80 percent of all funds received for vocational rehabilitation services.

Because federal and state fiscal years overlap, federal funds available during 1981–82 and 1982–83 depend on the amount of federal funds appropriated during federal fiscal years (FFY) 1982 and 1983. The department allocates 73 percent of the total annual federal award in the first nine months of the fiscal year in which the funds are received (October through June) and 27 percent of the funds in the first three months (July through September) of the following fiscal year.

The budget projects federal funds available for both fiscal years based on the national *authorization* levels established by the Congress in the federal Omnibus Reconciliation Act of 1981. To the extent Congress *appropriates* less funds than the amount authorized in either FFY 82 or FFY 83, the department's current- and budget-year estimates of federal funds available may be overstated.

1981–82 Expenditures Lower Than Budgeted

For 1981–82, the Department of Rehabilitation anticipates that it will spend $6,246,000 *less* in federal funds for vocational rehabilitation services than the amount originally budgeted. This represents the difference between the amount of federal funds anticipated by the department when the 1981–82 budget was approved and the amount it now expects to spend given FFY 82 authorization levels contained in the federal Reconciliation

Act.

Table 2 shows a net reduction of $6.4 million, all funds, in support for vocational rehabilitation programs in 1981–82. This consists of a reduction in federal funds of $6.2 million and a reduction in General Fund support and reimbursements of $0.2 million.

Table 2
Comparison of Budgeted and Estimated Expenditures
Vocational Rehabilitation Program—All Funds
1981–82
(in millions)

	1981–82 Budget	*1981–82 Estimated*	*Difference Amount*	*Difference Percent*
Personal services	$43.6	$45.5	$1.9	4.4%
Purchased services for clients	33.4	25.9	−7.5	−22.5
Operating expenses	13.7	12.4	−1.3	−9.5
Administration	10.4	10.9	0.5	4.8
Totals	$101.1	$94.7	−$6.4 [a]	−6.3%

[a] A net decrease in General Fund support and reimbursements accounts for $200,000 of the reduction; the $6.2 million decrease in federal funds accounts for the balance.

Effect of Current-Year Expenditure Reduction on Client Services. The $6.4 million reduction shown in Table 2 is more than explained by the $7.5 million reduction in funds budgeted to purchase services for clients. This reduction has three components.

1. ***Overestimate of New Plans in 1981–82.*** The first component is largely technical, reflecting the fact that the department over budgeted for the number of new plans. Because the number of referrals to the department are less than in prior years the department estimates it will prepare 16.4 percent fewer plans than originally budgeted. As a result of fewer clients, the department was able to reduce expenditures for the purchase of services for clients.

2. ***Reduction in the Average Cost Per Plan.*** The department reduced the average cost per plan by adopting several policies during the spring of 1981. These new policies involved:

(a) Relying on other agencies for services to department clients, thereby transferring costs to other programs. For example, the department used Medi-Cal whenever possible to pay for medical services to its clients. This has resulted in major case service savings to the department. At the same time, however, this policy has *increased* costs to the Department of Health Services, and in some cases shifted a greater share of total costs for medical services to the General Fund. While the specific amount of increased General Fund costs attributable to this practice is not known, for every client referred to Medi-Cal, the state's share of cost increases from 20 percent (vocational rehabilitation) to 50 percent (Medi-Cal).

(b) Providing services directly, instead of purchasing these services from other parties.

(c) Adopting more restrictive service policies to minimize costs.

3. ***Fewer Clients With Approved Rehabilitation Plans.*** In the fall of 1980, the department instituted a freeze on new rehabilitation plans. As a result there were fewer clients needing continued services during 1981–82. Therefore, case service expenditures for ongoing plans were lower

DEPARTMENT OF REHABILITATION—Continued

than anticipated.

Estimated Federal Fund Expenditures in 1981–82 are Less Than Anticipated. The department estimates that it will not spend all federal funds available for expenditure during 1981–82, even though the amount of federal funds has been reduced. Table 3 compares the amount of federal funds which the Governor's Budget estimates the department will expend in 1981–82 with the amount of federal funds actually available to the department in 1981–82 under (1) the Reconciliation Act and (2) the December 1981 continuing resolution. Table 3 shows that, in 1981–82, the department will spend from $3.0 million to $6.0 million less than the amount of federal funds available. These possible savings would be available for expenditure in 1982–83.

Table 3
Comparison of Estimated Federal Expenditures
And Federal Funds Available to California
1981–82
(in thousands)

		Funds Authorized	
	Estimated Expenditures	*Reconciliation Act*	*Continuing Resolution* [a]
Basic support	$61,068	$67,058	$64,107
Other federal funds	5,563	5,563	5,563
Carryover	10,021	10,021	10,021
Totals	$76,652	$82,642	$79,691
Excess of available federal funds over estimated expenditures		$5,990	$3,039

[a] Based on December 1981 continuing resolution.

1982–83 Expenditures Anticipate Carryover.

In 1982–83, the budget anticipates spending $76.9 million in federal funds, including $4.9 million in carryover. As shown above, the amount of carryover will vary, depending on the final federal spending levels adopted by Congress. If the FFY 82 final appropriation is the same or less than currently authorized by the continuing resolution, the carryover would be less than the $4.9 million anticipated in the budget.

In 1982–83, the department anticipates awards based on the FFY 83 authorized levels. It proposes expenditures that are $1.0 million less than anticipated awards. This $1.0 million would be available as carryover in 1983–84. If Congress appropriates less than the amounts authorized, the anticipated FFY 83 award (and consequently the 1983–84 carryover) would be less than assumed in the budget.

Proposed Service Levels in 1982–83. The department proposes $26.7 million, all funds, for case services in the budget year. This is an increase of approximately $800,000 over estimated current-year expenditures, and reflects projected increases in the average cost per plan in progress and increases in the average cost per new plans. The budget estimates the number of new plans will decrease from 1981–82 by 270, to a total of 19,212 plans. This is due to the elimination of nine vocational rehabilitation counselor positions as a result of the Governor's 5 percent reduction.

Our analysis indicates that the department has underestimated the number of new plans that *could* be written in the budget year.

The number of new plans written depends on the number of counselors available and the number of new plans prepared per counselor per month. The budget assumes that counselors will write an average of 2.5 new plans per month, the same number of plans actually written in 1980–81. Using this average, however, understates potential output. This is because the 1980–81 average was artificially low, due to the freeze on new plans instituted by the department during the fall of 1980. Based on counselor productivity trends since 1976–77, we estimate that counselors can write an average of 3.0 new plans per month. A return to this output rate would allow an increase in the number of new plans prepared from 19,212 to 22,920, an increase of 19.3 percent. Because case services would have to be purchased for the additional plans, total costs for plan preparation would increase by $1,561,000. To the extent the number of new plans written exceeds the department's projection, total case service expenditures are likely to be higher in 1982–83 than the $26.7 million proposed in the budget.

Notification to the Legislature if Federal Funds are Less Than Anticipated

We recommend that language be added to the Budget Bill requiring the Department of Finance to notify the Joint Legislative Budget Committee in the event (1) federal funds for vocational rehabilitation programs are reduced by 5 percent or more below the amounts assumed in the 1982 Budget Act, or (2) the Department of Rehabilitation estimates that expenditures for such programs will be 5 percent or more below the amounts appropriated in the Budget Act. The required notification should include information on (a) the amount of federal funds available or anticipated, (b) estimated expenditures, and (c) the effect of reduced federal funding or expenditures from federal funds on service levels approved by the Legislature.

Federal grants provide 80 percent of the revenues available for vocational rehabilitation services. Expenditures and service levels proposed in the budget are based on the amounts authorized by the 1981 Reconciliation Act. These estimates of federal funds, however, represent the *maximum* amount that the department could receive in FFY 82 or FFY 83.

Federal Funds to California Likely to be Less Than Budgeted. Federal rehabilitation funds available to California in 1982–83 are likely to be less than the amount anticipated in the budget, for two reasons. First, the FFY 82 spending level authorized for vocational rehabilitation services in the December 1981 continuing resolution is less than the amount proposed in the Governor's Budget. If the final appropriation for FFY 82 is consistent with the funding level provided in the continuing resolution, the amounts proposed in the Governor's Budget are overstated.

Second, it is likely that the spending levels proposed for FFY 83 by the President will be below the level authorized by the Reconciliation Act. Any reduction in federal revenues for FFY 83, however, may be offset to the extent that there are federal carryover funds available in 1982–83.

Because the level of federal funding available for FFY 83 will not be known by the time the Legislature must approve the 1982–83 budget, it is possible that significant changes in the level of funding available for vocational rehabilitation services will occur after the 1982 Budget Bill is chaptered.

Legislature Needs to be Notified If the Department of Rehabilitation

DEPARTMENT OF REHABILITATION—Continued

Reduces Service Levels. Currently, Section 28 of the Budget Act requires that the Department of Finance notify the Legislature prior to *increasing* service levels above those authorized by the act. Section 28, however, does not require that the department notify the Legislature if a department acts to reduce service levels below the levels approved by the Legislature.

To assure that the Legislature will be notified of (and have an opportunity to comment on) significant changes in either the availability of federal funds or the level of expenditures in the budget year, we recommend that the following language be added to the Budget Bill Item 5160-001-890):

"The Department of Finance shall notify the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the fiscal committees within 30 days after notification from the federal government, but no later than November 1, 1982, in the event that (1) federal funds for vocational rehabilitation programs are reduced by 5 percent or more below the amount in the 1982 Budget Act or (2) the Department of Rehabilitation estimates that expenditures for vocational rehabilitation programs will be 5 percent or more below the amounts appropriated in the 1982 Budget Act. Such notification shall include an estimate of (a) the amount of federal funds available or anticipated, (b) 1982–83 federal expenditures, and (c) the effect of the reduced funding or expenditures on service levels authorized by this act."

Reader and Interpreter Services for Students in Colleges and Universities

We recommend that Budget Bill language be adopted directing the Department of Rehabilitation to reimburse the University of California, the California State University, and the community colleges up to $952,000 for reader and interpreter services provided to deaf and blind students who are clients of the Department of Rehabilitation.

In 1981–82, the state's institutions of higher education were given the statutory responsibility of providing interpreter and reader services for blind and deaf students who were clients of the Department of Rehabilitation. Previously, these services had been provided and paid for by the Department of Rehabilitation as part of the client's rehabilitation plan. The additional costs to the institutions of providing these services were funded by a $951,000 General Fund appropriation.

In 1982–83, institutions of higher education are requesting $952,000 from the General Fund to provide these services ($134,000 for the University of California, $455,000 for the California State University and $363,000 for the California Community Colleges).

Because the department proposes to spend less federal funds than it anticipates will be available in the budget year, we believe these funds should be used in lieu of General Fund money to pay for these services. By doing so, we increase the Legislature's fiscal flexibility in using limited state funds to meet high priority state needs. On this basis, we recommend that the Legislature direct the department to reimburse the institutions of higher education up to $952,000 for the costs directly associated with providing services to blind and deaf DOR clients who are students in these institutions. Specifically, we recommend that the following language be added to Items 5160-001-001 and 5160-001-890 in the Budget Bill:

"Up to $952,000 shall be used to reimburse the state's institutions of higher education for services to the department's clients as follows:

a. University of California—Item 6440-001-001—up to $134,000.
b. California State University—Item 6610-001-001—up to $455,000.
c. Community Colleges—Item 6870-101-001—up to $363,000."

If this recommendation is adopted, it would result in a General Fund savings of $952,000.

Identification of Carryover Funds

We recommend that supplemental report language be adopted requiring the Department of Finance to identify separately in the 1983–84 Governor's Budget (1) federal funds anticipated by the Department of Rehabilitation in the new federal fiscal year and (2) the balance of federal funds which will be carried over from prior years.

In response to supplemental report language, the 1982–83 budget separately identifies the amount of federal carryover funds available to the Department of Rehabilitation during the past, current, and budget years. Based on this information, we were able to determine that the department projects to underspend its FFY 82 award and serve fewer new clients in 1981–82 than the Legislature had approved in the budget. In addition, as noted above, the 1982–83 budget proposes to (1) spend less federal dollars than available and (2) serve fewer clients than otherwise would be possible.

Since the department anticipates carrying over federal funds into 1983–84, we recommend that this carryover be identified separately in the 1983–84 budget documents in order to allow the Legislature to continue monitoring the use of federal funds. Specifically, we recommend that the following supplemental report language be adopted:

"The Department of Finance shall separately identify, in the 1983–84 Governor's Budget, the amount of (1) federal funds expected to be awarded to the Department of Rehabilitation in federal fiscal years 1983 and 1984 and (2) any federal funds to be carried over from prior federal fiscal years into 1982–83 and 1983–84."

Pilot Project for the Elderly Blind

We recommend approval of $95,000 from the General Fund to continue contracts that provide services to the elderly blind. We further recommend the adoption of Budget Bill language that requires contractors to provide a 50 percent match for state funds from other sources.

Pilot Project. Chapter 1171, Statutes of 1980 (AB 2152), which became effective January 1, 1981, established a two-year pilot project to provide services to the elderly blind. The act required the Department of Rehabilitation to enter into contracts with private nonprofit organizations to provide services to persons over 55 years of age who are newly blind or visually impaired.

In December 1981, the department submitted a report to the Legislature which identified the results of the project's first six months of operation (January to June 1981). The department concluded that the project provided needed services to a population that otherwise would not have received services.

Funds for Project. Funding for the project was provided as follows: (1) $100,000 for 1980–81 was redirected from the department's habilitation services appropriation in the 1980 Budget Act and (2) $100,000 for 1981–82 was appropriated in the Budget Act of 1981 specifically for the project.

Funds provided from the Budget Act of 1980 were used to support the

DEPARTMENT OF REHABILITATION—Continued

project for the period January to June 1981. Funds provided in the Budget Act of 1981 were intended to provide services to 650 elderly blind during the period July 1981 to June 1982. Instead, the project used the $100,000 appropriation to provide services only for the period July to December 1981. By December 1981, the entire appropriation had been expended, and only one-half of the anticipated number of clients had been served.

A spokesperson for the community organizations which received funds indicated that at least three projects will continue to provide services during the remainder of the current fiscal year with grants from private foundations or funds from fund-raising efforts. Those organizations that have been unable to find new funding sources are terminating operations of the pilot.

Budget Proposal. The budget proposes $95,000 to continue services in 1982–83. Based on the pilot project's cost per client to date, the $95,000 would provide services to 346 clients, or 15 less than the number of elderly blind served during the July–December 1981 period.

We recommend that the $95,000 be approved because the services provided with these funds are needed and do not duplicate those provided by the department. We note that project experience to date has demonstrated that agencies are able to obtain other resources to serve the elderly blind. In order to maximize the number of persons served with state support and to ensure that sufficient funds are available to maintain services throughout the entire fiscal year, we further recommend that contracts be awarded only to organizations which can match state funds with other funds on a dollar-for-dollar basis. Specifically, we recommend that the following Budget Bill language be added to Item 5160-001-001:

> "Ninety-five thousand dollars shall be made available for services to the elderly blind through contracts with community organizations which are able to match state funds on a dollar-for-dollar basis."

Reimbursements for the Career Opportunities Development Program

We recommend that reimbursements from the State Personnel Board for the Career Opportunities Development (COD) program be reduced by $64,000, because the COD program is requiring agencies to provide 10 percent of the salaries of disabled trainees.

The State Personnel Board (SPB) administers the Career Opportunities Development (COD) program. The purpose of the COD program is to reduce public dependency by creating career opportunities in public sector employment for former, current, and potential welfare recipients and the disabled.

SPB annually provides General Fund reimbursements to DOR's budget for COD trainees. DOR, in turn, applies this amount toward its required state match for federal vocational rehabilitation funds. DOR then reimburses SPB from federal and state funds to pay for: (1) the salaries of disabled COD trainees and (2) the administrative costs of maintaining an affirmative action unit for the disabled in SPB. In 1982–83, DOR expects to receive $1,752,000 in General Fund reimbursements from the State Personnel Board for COD.

Our analysis of SPB's request (Item 188) shows that the board is requiring state agencies which hire disabled trainees through the COD program to contribute 10 percent of the trainees' wages. SPB's budget item, however, fails to reflect this 10 percent contribution, and thus is over budgeted.

We have recommended, in our discussion of the SPB budget item, that the board's request for General Fund support be reduced to $1,688,000.

Because these funds are transferred as reimbursements to DOR's budget item, DOR's reimbursements are overstated by $64,000. Consistent with our recommendation on the SPB budget, we recommend that the department's reimbursements be reduced by $64,000, leaving a balance of $1,688,000.

Comprehensive Services Centers

We recommend a deletion of $1,000,000 from the General Fund budgeted to implement five comprehensive services centers because the feasibility study report required by statute has not been approved.

Background. Chapter 1183, Statutes of 1980, provided funds to the Department of Rehabilitation to study the feasibility of establishing up to five comprehensive services centers. The centers are designed to test the possibility of changing and improving existing service delivery systems for the disabled by using case managers to coordinate or provide services to help disabled individuals live independently.

Specifically, Ch 1183/80 appropriated $129,500 in 1980–81 and $64,800 in 1981–82 to the department to prepare a feasibility report on whether to proceed with the implementation of five pilot centers. The act calls for the report to be submitted to the Governor and the Legislature by October 1, 1981.

Because the establishment of comprehensive services centers has major cost implications, Ch 1183/80 required the Department of Rehabilitation to address five issues in the feasibility report in order to assist the Legislature in determining whether to proceed with implementation: (1) who would be eligible for services, (2) how centers would avoid potential duplication of effort with existing service systems that would be utilized by the centers, (3) estimates of potential increases in caseloads in existing systems that would be utilized by the centers, (4) what additional services would be developed or provided by the centers, and (5) an estimate of statewide costs of the centers compared to existing services.

Chapter 1183 provides that if the required report recommends that the pilot projects be implemented and if the Department of Finance approves the report, the Department of Finance can release an additional $505,700 appropriated by the act after giving the Legislature 30 days' advance notice. These funds would be available to the Department of Rehabilitation to continue planning during 1981–82 for the implementation of the centers.

Budget Proposal. The Governor's Budget requests $1 million to (1) establish five pilot comprehensive services centers, (2) contract for an independent evaluation of these centers, and (3) establish a data-gathering system. The budget also requests a reappropriation of $129,000 from Ch 1183/80 to continue planning efforts through November 1982 for the implementation of the pilot projects.

Feasibility Report Has Not Been Submitted to Legislature. At the time this analysis was written, the Legislature had not received the feasibility report required by Ch 1183/80. The Department of Finance advises us that it is currently reviewing a preliminary report, but has not approved the report or released the additional $507,700 appropriated by Ch 1183/80.

Consequently, we believe the budget request is premature, since it proposes to proceed with the centers without the benefit of the information and analysis that the statute requires the department to provide.

DEPARTMENT OF REHABILITATION—Continued

Since the Legislature's requirement has not been satisfied, and since the information necessary to determine the cost implications of comprehensive services centers is not available, we recommend disapproval of the $1.0 million request. (We make a corresponding recommendation in Item 5160-490 regarding the proposed reappropriation of $129,000 for the comprehensive services centers.)

WORK ACTIVITY PROGRAM

Purpose of Program. The Work Activity program purchases services from community-based work activity centers for clients with developmental disabilities. The purpose of the program is to prepare clients for employment, help them live independently, and provide them with prevocational training.

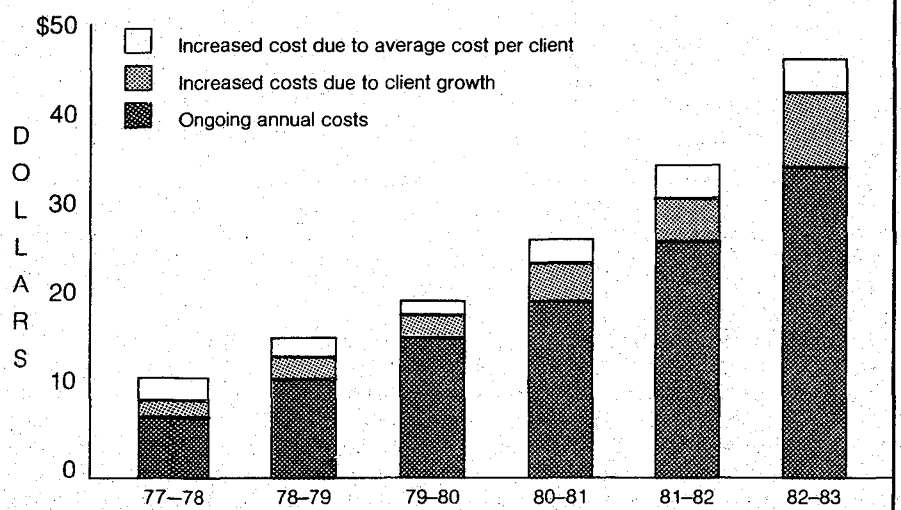
Prior to July 1980, regional centers purchased work activity services for their clients at rates prescribed by the Department of Developmental Services (DDS). Chapter 1132, Statutes of 1979 (AB 1164), transferred responsibility for the program from the DDS to the Department of Rehabilitation (DOR), effective July 1, 1980. In addition, Ch 1132/79 required DOR to change the rate structure to purchase services at "reasonable costs."

Growth in Program Costs Since 1977–78

Chart 3 shows the total annual program cost since 1977–78. The growth in program costs is due to increases in (1) client population and (2) average cost per client.

Chart 3

Department of Rehabilitation
Annual Costs for Work Activity Centers
1977–78 through 1982–83 (in millions)



Budget Proposal

The Governor's Budget proposes total expenditures of $45,494,000 from the General Fund for support of the Work Activity program. This amount represents a $10.4 million, or 29.7 percent, increase over estimated current year expenditures. It includes $8,280,000 to cover the cost of a 24.5 percent increase in caseload, as well as $2,124,000 for a 5 percent cost-of-living adjustment for work activity centers.

Caseload Growth

We withhold recommendation on $8,280,000 requested for projected caseload increases, pending receipt of information substantiating the caseload projections. Further, we recommend that prior to budget hearings, the department provide the fiscal committees with specific information necessary to develop caseload projections for work activity centers, including (1) the number of clients referred by regional centers, (2) average length of clients' stay, and (3) the number of clients who leave the program.

Projections of Caseload Growth Determine Funding Request. Funding for the Work Activity program is based, in part, on the department's projections of the number of clients who will need services in the budget year. In the past, the Legislature has expressed concern about the growth in expenditures under the program. The supplemental report language of the 1981 Budget Act required the Departments of Rehabilitation and Developmental Services to analyze, by January 1, 1982, trends in the client population and clients' service needs.

According to the report submitted by the departments, growth in the number of work activity clients is due to:

1. Increases in the number of adults with developmental disabilities living in the community.
2. Restrictions in DOR's policies to allow participation in sheltered workshop programs as part of a vocational rehabilitation program for developmentally disabled clients who could not reasonably be expected to compete for unsubsidized employment.
3. Reevaluation of regional center clients' need for service, as mandated by Ch 1132/79. This resulted in an unspecified number of clients moving from day training programs to work activity centers.
4. Increases in referrals during 1980–81 from state hospitals.

The report restates much of the information provided to fiscal committees by our office in a supplemental analysis of the Work Activity program dated May 20, 1981. In addition, the department's report identifies general changes in the larger population of developmentally disabled adults with service needs. It does not, however, specifically analyze how these changes will affect caseload growth in work activity centers in 1982–83 and future years, as requested by the Legislature.

Budgeted Increase. The budget proposes to serve an average of 13,010 clients in 1982–83. This represents an increase of 2,557 clients, or 24.5 percent, over the current year. We are unable to advise the Legislature at this time whether this is a reasonable projection because:

1. The department has failed to analyze the implications of recent population and policy changes for work activity center caseloads in future years, as requested by the Legislature.
2. The department's assumption that caseload will grow in the future

DEPARTMENT OF REHABILITATION—Continued

as it has in the past fails to take into consideration changes in DOR and regional center policies and operations that are identified in the department's report. It is unclear to what extent these changes will continue to contribute to future caseload growth.

3. The department's estimates may not take into account the full effect of a freeze imposed on caseloads, effective December 1, 1981. According to the department, the freeze was necessary because the 1981–82 appropriation was insufficient to pay "reasonable costs" to facilities for projected population growth. Therefore, the program will provide services to a reduced number of clients during the current year. While the caseload projections for 1982–83 include an estimate of clients likely to be waiting for services on July 1, 1982, it is too early to judge the full impact of the freeze on future caseload.

For these reasons, we withhold recommendation on the $8.3 million increase proposed for caseload growth. Further, we recommend that the Department of Rehabilitation provide the fiscal committees, prior to budget hearings, with information on client trends and projected growth in work activity centers. Specifically, the department should identify:

1. The number of clients referred by the regional centers each year and the number admitted to the program (including former clients who are returning to the program).
2. The average length of clients' stay in the program.
3. The number of clients who leave the program each year, including how many (a) enter unsubsidized employment or (b) progress to vocational rehabilitation programs.

Cost Controls for the Work Activity Program

We recommend that the department reevaluate its rate-setting procedures and advise the fiscal committees, prior to budget hearings, on how effective cost controls can be instituted.

Existing law requires the Department of Rehabilitation to purchase work activity services at "reasonable costs" and to develop procedures for specifying allowable costs.

Existing Rate-Setting Procedures. In order to establish rates based on "reasonable costs," DOR adjusts facilities' actual costs to reflect only those costs directly related to work activity (for example, program staff salaries). These adjusted costs are divided by client attendance to determine a daily rate. Since this rate is based on prior year costs, it is increased by an inflation factor established each year by the Department of Finance. The adjusted rate then becomes the approved reimbursement rate for the subsequent year.

The daily rate reimburses facilities for 100 percent of Work Activity program costs and for that portion of administration, production, and related costs attributable to work activity functions. The department disallows costs directly associated with (1) activities supported by other funding sources, (2) production of a marketable product, (3) services to clients provided by other programs, and (4) other business expenses or losses.

We have identified a number of problems with the existing rate-setting mechanism. Specifically:

1. ***There are no controls on total program costs.*** According to the department, the existing rate-setting process controls costs by (a) specifying allowable costs for habilitation services and (b) allowing for individual

review of what work activity costs are excessive or no longer reasonable.

This method controls those costs included in the rate determination process for a given year, but does not constrain *total* program costs. For example, a facility may use its funds from other sources to expand its work activity program within reasonable limits. This program expansion is an allowable cost and increases the base reimbursement rate for the following year. Or, a center could use *one-time* private contributions in order to expand staffing levels in one year, and then receive ongoing state support for the expansion in the next year. This is because when DOR establishes the center's rate for the following year, it would allow these salary costs and increase the base rate in the subsequent year.

2. ***There is no financial incentive for the facilities to economize.*** Since the rate is based on actual cost, a facility which reduces its expenditures will be penalized by having its new rate reduced for the next year.

3. ***There is no financial incentive for a facility to seek maximum use of its program.*** The daily rate is the quotient of costs divided by attendance. Thus, the lower the attendance, the higher the daily rate.

4. ***There is no financial incentive to increase client productivity.*** The rate reimburses centers for work activity production costs that result from low client productivity. The program's objective is to increase client productivity, but if client productivity increases, the facility's reimbursement rate is subsequently reduced. Thus, the rate-setting system creates a financial incentive that goes counter to the program's objective.

Attendance Patterns Can Affect Total Program Costs. Currently, daily rates for facilities range from $7.03 to $29.04. The actual amount facilities are reimbursed depends on client daily attendance.

While the established rates determine how much *facilities* will be paid per client, they do not determine the *program's* total *average cost per client.* If, for example, a large population of clients attend the more expensive facilities, the total average cost per client would increase since it would cost more to serve a given number of clients. Given limited resources, the result of this increase would be fewer clients served.

The Governor proposes Budget Bill language to cap the increase in reimbursement rates at 5 percent. This proposal would limit the rate increase to work activity centers. It would not, however, control total program costs because (1) total costs are determined by client attendance and (2) the existing rate structure has fiscal incentives that discourage facilities from saving or efficiently utilizing their program. Therefore, it does not address potentially higher costs inherent in the current rate structure.

We recommend, therefore, that the Department of Rehabilitation reevaluate the existing rate-setting procedures and advise the fiscal committees, prior to budget hearings, how effective cost controls on total program costs can be instituted. This would allow the Legislature an opportunity to consider what measures need to be taken to reduce the rate of growth in program costs and thereby assure that the maximum number of clients will be served within available resources.

Limit on Cost-of-Living Adjustments

We recommend that the Department of Finance report to the fiscal committees, prior to budget hearings, on how it intends to implement the 5 percent limit on cost-of-living adjustments.

The budget proposes control language in Item 5160-001-001 which limits the average rate increase for facilities to a 5 percent cost-of-living adjust-

DEPARTMENT OF REHABILITATION—Continued

ment. The budget anticipates that legislation will be enacted to limit future rate adjustments to the average cost-of-living increase allowed by the Legislature in the Budget Act.

It is unclear whether the intent of the control language is to limit the rate increases to the overall average increase of 5 percent or to limit the rate increase of *any* facility to 5 percent. If the intent is to limit the overall average by 5 percent, individual facilities could receive increases above or below 5 percent. We recommend that the Department of Finance clarify how it intends to implement the 5 percent limit on cost-of-living adjustments.

DEPARTMENT OF REHABILITATION—REAPPROPRIATION

Item 5160-490 from the General Fund

We recommend that the reappropriation of $129,000 from the General Fund for implementation of five pilot comprehensive service centers be denied because the statutorily required feasibility study for the project has not been completed.

Chapter 1183, Statutes of 1980, provided $570,500 to the Department of Rehabilitation for use in planning for the implementation of five pilot comprehensive service centers. The budget requests a reappropriation of $129,000 from Ch 1183/80 in order to allow planning for the implementation of the comprehensive service centers to continue in 1982–83.

Chapter 1183 required the department to submit by October 1, 1981, a study on the feasibility of establishing comprehensive service centers. Release of funds for continuation of the planning effort was made contingent upon the Department of Finance's approval of the feasibility study. Because the study has not been approved by the administration or submitted to the Legislature, as required by the statute, we have no basis for recommending that this planning effort continue. Accordingly, we recommend that the reappropriation request be denied. (We discuss this issue in our analysis of the Department of Rehabilitation, Item 5160-001-001.)

DEPARTMENT OF SOCIAL SERVICES
SUMMARY

The Department of Social Services is the single state agency responsible for supervising the delivery of cash grants and social services to needy persons in California. Monthly grant payments are made to eligible recipients through two programs—Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. In addition, welfare recipients, low-income individuals, and persons in need of protection may receive a number of social services such as information and referral, domestic and personal care assistance, and child and adult protective services.

Table 1 identifies total expenditures from all funds for programs administered by the Department of Social Services for 1981–82 and 1982–83. Total expenditures for 1982–83 are proposed at $7,116,439,000, which is an increase of $582,999,000, or 8.9 percent, over estimated current year expenditures.

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by the Department of Social Services. The department requests a total of $3,146,642,000 from the General Fund for 1982–83. This is an increase of $161,461,000 or 5.4 percent, over estimated current-year expenditures.

OVERVIEW OF ANALYST'S RECOMMENDATIONS

The analysis of the proposed 1982–83 budget for the Department of Social Services is divided into nine sections, as follows: (1) state operations,

Table 1
Department of Social Services
Expenditures and Revenues, by Program
All Funds[a]
1981–82 and 1982–83
(in thousands)

Program	*1981–82 Estimated*	*1982–83 Proposed*	*Change Amount*	*Change Percent*
Department Support	$152,541	$167,184	$14,643	9.6%
AFDC cash grants	2,897,686	3,129,552	231,866	8.0
SSI/SSP cash grants	2,139,220	2,325,424	186,204	8.7
Special adult programs	2,822	2,829	7	0.2
Social services programs	543,765	610,388	66,623	12.3
In-home supportive services	(272,196)	(281,809)	(9,613)	(3.5)
Other social services	(271,569)	(328,579)	(57,010)	(21.0)
Community care licensing	8,756	8,823	67	0.8
County welfare department administration	589,211	625,012	35,801	6.1
Local Mandates	(74)	(114)	(40)	(54.1)
Refugee and entrant cash grants	199,439	247,227	47,788	24.0
Totals	$6,533,440	$7,116,439	$582,999	8.9%
General Fund	*2,985,181*	*3,146,642*	*161,461*	*5.4*
Federal funds	*3,203,178*	*3,621,452*	*418,274*	*13.1*
County funds	*337,941*	*340,264*	*2,323*	*0.7*
Reimbursements	*7,140*	*8,081*	*941*	*13.2*

[a] Amounts shown include $637,190,000 proposed in Items 5180-181-001 ($459,947,000) and 5180-181-866 ($177,243,000) for cost-of-living increases.

DEPARTMENT OF SOCIAL SERVICES
SUMMARY—Continued

Table 2
Department of Social Services
General Fund Expenditures[a]
1981–82 and 1982–83
(in thousands)

Program	Estimated 1981–82	Proposed 1982–83	Change Amount	Change Percent
Department support	$51,755	$53,377[b]	$1,622[b]	3.1%[b]
AFDC cash grants	1,364,832	1,424,063	59,231	4.3
SSI/SSP cash grants	1,268,867	1,345,687	76,820	6.1
Special adult programs	2,733	2,740	7	0.3
County welfare department administration	119,014	116,615	−2,399	−2.0
Social Services	169,224	195,337	26,113	15.4
In-home supportive services	(142,874)	(159,241)	(16,367)	(11.5)
Other social services	(26,350)	(36,096)	(9,746)	(37.0)
Community care licensing	8,756	8,823	67	0.8
Local mandate	(74)	(114)	(40)	(54.1)
Cost-of-living increase	–	(459,947)	–	–
Totals	$2,985,181	$3,146,642	$161,461	5.4%

[a] $459,947,000 has been proposed in Item 5180-181-001 for cost-of-living increases. This amount is distributed throughout the proposed amounts for 1982–83—for local assistance programs only.
[b] This will increase by the amount of any salary or staff benefit increase approved for state employees in the budget year.

(2) aid to families with dependent children, (3) state supplementary payment program for the aged, blind, and disabled, (4) special adult programs, (5) county administration of welfare programs, (6) social services, (7) community care licensing, (8) local mandates, and (9) cost-of-living increases.

We are recommending reductions totaling $96,403,000 from proposed General Fund expenditures. Of this total, $31,091,000 reflects recommendations that unbudgeted federal funds be used in lieu of General Fund support, $62,503,000 reflects technical budgeting recommendations, and $2,809,000 reflects recommendations for programmatic changes. The major technical budgeting recommendation is to reduce the amount proposed for cost-of-living adjustments to reflect the most recent estimate of the amount necessary. Our estimate is based on the 8.2 percent increase in the California Necessities Index (CNI) projected by the Commission on State Finance in January 1982. The change in the CNI is used to calculate cost-of-living adjustments for the AFDC, SSI/SSP, and IHSS programs. The budget assumes an 8.8 percent increase in the CNI based on estimates made by the Department of Finance in early December 1981. Adoption of this technical recommendation would result in General Fund savings of $43,459,000 in the budget year.

We withhold recommendation on $208,008,000 proposed in the Governor's Budget, pending receipt of additional information. Table 3 summarizes our recommendations by program category.

Table 3
Department of Social Services
Summary of Legislative Analyst's Recommendations [a]
General Fund
(in thousands)

	Recommendations Pending	Reductions: Programmatic Issues	Technical	Increase Federal Funds	Total
1. State operations	($7,859)	−$397	−$816	—	−$1,213
2. AFDC cash grants	—	—	−26,208	−$3,049	−29,257
3. SSI/SSP cash grants	(41,013)	—	−34,393	−25,649	−60,042
4. Special adult programs	—	—	—	—	—
5. County administration of welfare programs	—	−2,412	−514	—	−2,926
6. Social services	(159,136)	—	−105	−2,393	−2,498
7. Community care licensing	—	—	−467	—	−467
8. Local mandates	—	—	—	—	—
Totals	($208,008)	−$2,809	−$62,503	−$31,091	−$96,403

[a] These recommendations include the fiscal impact of reducing cost-of-living increases in Item 5180-181.

Health and Welfare Agency

DEPARTMENT OF SOCIAL SERVICES DEPARTMENTAL SUPPORT

Item 5180 from the General Fund and Federal Trust Fund — Budget p. HW 209

Requested 1982–83	$53,377,000
Estimated 1981–82	51,755,000
Actual 1980–81	47,238,000
Requested increase (excluding amount for salary increases) $1,622,000 (+3.1 percent)	
Total recommended reduction	$1,213,000
Recommendation pending	$7,859,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-001-001	—Department of Social Services—Support	General	$53,377,000
5180-001-866	—Department of Social Services—Support	Federal	(105,726,000)
Total			$53,377,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Community Care Licensing. Reduce by $397,000.*** Recommend deletion of 14 positions and $397,000 in General Fund support, to reflect reduced statutory requirements for day care center licensing. 1050
2. ***In-State Travel. Reduce by $61,000.*** Recommend General Fund reduction of $61,000 to correct overbudgeting. 1051
3. ***Postage. Reduce by $54,000.*** Recommend General Fund 1051

DEPARTMENT OF SOCIAL SERVICES—Continued

reduction of $54,000 to correct overbudgeting.

4. Facilities Operations. Withhold recommendation on $5,786,000 ($2,071,000 General Fund, $3,504,000 in federal funds, and $211,000 in reimbursements) requested for facilities operations, because budget detail shows rent costs alone will exceed that amount in 1982–83. 1052
5. Statewide Public Assistance Network (SPAN) Project. Withhold recommendation on $19,230,000 ($5,788,000 General Fund, $11,400,000 in federal funds, and $2,042,000 in reimbursements) requested for SPAN, pending receipt of amended feasibility study report. 1053
6. ***SPAN-Unjustified Expenditures. Reduce by $701,000.*** Recommend deletion of $2,083,000 ($701,000 General Fund and $1,382,000 in federal funds) for unjustified expenditures proposed for SPAN project. 1058

GENERAL PROGRAM STATEMENT

The Department of Social Services administers income maintenance, food stamps, and social services programs. In addition, the department is responsible for licensing and evaluating nonmedical community care facilities, determining eligibility for supplemental security income and medically needy (Medi-Cal) programs through disability evaluations, and implementing a statewide automated public assistance delivery system. These responsibilities are divided among nine operating divisions within the department.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $53,377,000 from the General Fund for support of the Department of Social Services in 1982–83. This is an increase of $1,622,000, or 3.1 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget proposes total expenditures of $167,184,000 from all funds for support of the department in 1982–83. This is an increase of $14,643,000, or 9.6 percent, over estimated 1981–82 expenditures. Table 1 shows total expenditures and personnel-years by major program category.

As shown in Table 1, the major increase proposed in this item is $13,005,000 for the Statewide Public Assistance Network (SPAN) project. Our analysis indicates that, without the SPAN project, the General Fund request for the Department of Social Services would actually be $2,909,000, or 5.6 percent, *below* estimated 1981–82 expenditures.

Proposed General Fund Budget Changes

Table 2 details the changes in the department's proposed General Fund support expenditures for 1982–83. As shown in Table 2, General Fund expenditures are proposed to increase by $1,621,521, or 3.1 percent, over the current year. The net General Fund increase of $1,621,521 consists of reductions totaling $7,541,180 and proposed expenditure increases of $9,162,701. The major cost increases result from program change proposals ($6,991,276). The largest single program change proposal is for support of the SPAN project. In addition, the budget proposes $456,653 from the General Fund to restore a reduction to the department's travel budget made for the current year and $706,000 to restore funds unallotted by the

Table 1
Summary of the Department of Social Services Support Budget
1981–82 and 1982–83
(dollars in thousands)

	Estimated	Proposed	Change	
Funding	*1981–82*	*1982–83*	*Amount*	*Percent*
General Fund	$51,755	$53,377	$1,622	3.1%
Federal funds	95,090	105,726	10,636	11.2
Reimbursements	5,696	8,081	2,385	41.9
Totals	$152,541	$167,184	$14,643	9.6%
Program				
AFDC	$20,070	$24,694	$4,624	23.0%
Personnel-years	444.7	440.1	−4.6	−1.0
Child Support Enforcement	$5,216	$5,639	$423	8.1
Personnel-years	100.1	104.9	4.8	4.8
SSI/SSP	$1,282	$1,313	$31	2.4
Personnel-years	31.8	31.0	−0.8	−2.5
Special Adult Programs	$1,296	$1,881	$585	45.1
Personnel-years	37.2	38.4	1.2	3.2
Food Stamps	$11,114	$13,057	$1,943	17.5
Personnel-years	303.6	302.7	−0.9	−0.3
In-Home Supportive Services	$4,374	$5,178	$804	18.4
Personnel-years	110.4	110.1	−0.3	−0.3
Other County Social Services	$3,899	$4,498	$599	15.4
Personnel-years	114.9	115.4	0.5	0.4
Adoptions	$4,384	$4,459	$75	1.7
Personnel-years	125.2	120.7	−4.5	−3.6
Other Social Services	$2,145	$2,185	$40	1.9
Personnel-years	57.5	54.2	−3.3	−5.7
Community Care Licensing	$15,785	$15,861	$76	0.5
Personnel-years	426.9	403.3	−23.6	−5.5
Refugee Programs	$4,038	$5,043	$1,005	24.9
Personnel-years	84.4	95.6	11.2	13.3
Disability Evaluation	$71,911	$76,345	$4,434	6.2
Personnel-years	1,566.8	1,566.0	−0.8	−0.1
Services to Other Agencies	$7,027	$7,031	$4	0.1
Personnel-years	95.3	99.7	4.4	4.6
Statewide Public Assistance Network Project	(8,308)	(21,313)	(13,005)	(156.5)
Personnel-years	(215.0)	(266.5)	(51.5)	(24.0)
Total	$152,541	$167,184	$14,643	9.6%
Personnel-years	3,498.8	3,482.1	−16.7	−0.5%

Department of Finance as part of the 2 percent across-the-board reduction imposed during the current year.

The major decreases in anticipated expenditures include $2,469,000 to achieve a 5 percent reduction, as required in the Department of Finance budget instructions, and $3,066,085 to reflect the expiration of limited term and administratively established positions.

Proposed New Positions

The department is proposing 549.1 new positions and a reduction of 88.5 positions for 1982–83, as shown in Table 3. These changes result in a proposed total of 3,808.6 authorized positions. The largest single request is for 257.3 positions to expand disability evaluation services throughout the state. These positions, which were established administratively during the current year following notification of the Legislature as required by

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 2
Department of Social Services—Support Budget Proposed General Fund Adjustments (in thousands)

	Total	*Cost*
1. 1981–82 Current Year Revised Expenditures		$51,755
2. Restoration of Current Year Reductions		
A. Restoration of 2 percent reduction	$706	
B. Restoration of travel reduction	457	
Subtotal		1,163
3. Baseline Adjustments		
A. Increase in existing personnel costs		
(1) Merit salary adjustments	$218	
(2) OASDI	29	
(3) Workers' Compensation	18	
Subtotal		265
B. Decrease in existing personnel costs		
(1) Limited-term positions		
(a) Title XX training	−$18	
(b) Child protection	−100	
(c) Adoptions	−184	
(d) Child support	−47	
(e) Administrative accounting	−21	
(f) Increased maintenance workload	−114	
(g) Legal support	−167	
(h) SPAN	−320	
(i) SSI/SSP quality control	−113	
Subtotal		−1,084
(2) Administratively established positions		
(a) AB 1111—Office of Administrative Law	−$250	
(b) Community care licensing	−1,617	
(c) Family protection act	−115	
Subtotal		−1,982
C. One-time expenditures		
(1) 1981–82 disaster relief	−$2,000	
(2) Equipment	−6	
Subtotal		−2,006
D. Operating expenses and equipment		
(1) 7 percent price increase		$744
Total, Baseline Adjustments		(−2,900)
4. Program Change Proposals		
A. SPAN project	$4,069	
B. Community care licensing	1,888	
C. Other	1,034	
Total, Program Change Proposals		6,991
5. 5 Percent Reduction		
A. Personal services	−$1,304	
B. Operating expenses and equipment	−1,165	
Total, 5 Percent Reduction		−2,469
6. Total General Fund Change Proposed for 1982–83		($1,622)
7. 1982–83 Proposed General Fund Expenditures		$53,377

Control Section 28 of the 1981 Budget Act, are supported entirely by federal funds.

The department is also requesting (a) 152.5 positions to continue development of the Statewide Public Assistance Network (SPAN) project, (b) 59 positions to assume increased community care licensing responsibilities at the state level, due primarily to caseload transfers from county licensing agencies, and (c) 10 new positions for state administration of refugee programs. The remaining 70.3 proposed positions are for various functions throughout the department.

Table 3
Department of Social Services
Position Changes Proposed for 1982–83

	Existing Positions	*Workload and Administrative Adjustments*	*Requested New Positions*	*Total Positions*	*Net Change Number*	*Net Change Percent*
Welfare program operations	134.5	−5.0	5.5	135.0	0.5	0.4%
Social services	241.0	−12.0	5.0	234.0	−7.0	−2.9
Community care licensing	319.5	−24.0	59.0	354.5	35.0	10.9
Disability evaluation	1,354.9	—	257.3	1,612.2	257.3	19.0
Management and administration	1,184.1	−47.5	69.8	1,206.4	22.3	1.9
SPAN	114.0	—	152.5	266.5	152.5	133.8
Totals	3,348.0	−88.5	549.1	3,808.6	460.6	13.8%

	Requested New Positions	*Fiscal Effect of Requested New Positions (in thousands)* General Fund	*Federal Funds*	*Reimbursements*	*Totals*
Welfare program operations	5.5	$34	$155	—	$189
Social services	5.0	163	—	—	163
Community care licensing	59.0	1,888	—	—	1,888
Disability evaluation	257.3	—	15,944	—	15,944
Management and administration	69.8	629	1,081	$380	2,090
SPAN	152.5	4,069	7,388	1,791	13,248
Totals	549.1	$6,783	$24,568	$2,171	$33,522
Percents	—	20.2%	73.3%	6.5%	100.0%

REDUCTION IN STATE OPERATIONS

Five Percent Reduction

The budget proposes reductions of $2,469,000 to the General Fund departmental support Item in order to comply with the Governor's directive to reduce the baseline budget for 1982–83 by 5 percent. Because many of the individual reductions are proposed in programs which are jointly funded from federal funds and the General Fund, the General Fund reduction of $2,469,000 results in an additional reduction of $1,204,000 in the federally funded portion of the department's support budget.

The proposed General Fund reduction consists of: (a) $1,304,000 from salaries and wages due to the elimination of 73 positions and (b) $1,165,000 from operating expenses and equipment, of which $285,000 is a reduction in funding for contracts with the Health and Welfare Agency, the Department of Justice, the State Personnel Board, and the State Controller.

Our analysis indicates that most of the 5 percent reductions are proposed in low priority functions and will not result in decreases in the

DEPARTMENT OF SOCIAL SERVICES—Continued

department's ability to comply with state or federal law. Two of the reductions, however, are proposed for the Title XX training and food stamp outreach programs, both of which were scheduled for elimination independent of the 5 percent reduction. This appears to be inconsistent with the Department of Finance instructions that "programs already scheduled or marked for reduction or elimination must not be included as a (5 percent) reduction."

IMPACT OF RECENT LEGISLATION

Community Care Licensing

We recommend approval.

The budget proposes 59 new positions for the Community Care Licensing Division. Of these positions, 41 were administratively established during the current year because of caseload transfers from the counties to the department. The remaining 18 positions were administratively established for the Family Day Care Licensing program created by Chapter 102, Statutes of 1981 (AB 251).

The budget also proposes eliminating 24 positions in the Community Care Licensing Division. Of this total, 11 positions are proposed for elimination because the licensing fee program for which they were originally established was eliminated by AB 251. The remaining 13 positions are proposed for elimination as part of the department's 5 percent reduction.

Thus, the budget proposes a net increase of 35 positions for community care licensing. Table 4 displays the proposed changes in authorized positions in the Community Care Licensing Division. We recommend approval of these changes.

Table 4
Department of Social Services
Community Care Licensing Division
Changes in Authorized Positions

	Number of Positions
1981–82 authorized positions	319.5
Family day care licensing positions administratively established during 1981–82 to conduct the family day care licensing program created by AB 251	18.0
Family day care licensing positions administratively established in the current year because Los Angeles County returned the licensing of these homes to the state	18.5
Adult group and family home licensing positions administratively established in the current year because various counties returned the licensing of these homes to the state	22.5
License fee positions deleted because positions are not needed due to the elimination of the license fee program	−11.0
Five percent reduction	−13.0
Proposed total authorized positions	354.5

Statutory Requirements Reduced

We recommend a reduction of 14 positions for the Community Care Licensing Division to reflect the reduced workload which will result from the department's compliance with the day care provisions of Chapter 102, Statutes of 1981, for a General Fund savings of $396,686.

Chapter 102, Statutes of 1981 (AB 251), made several changes in the day care center licensing program. Specifically, it extended the day care center license renewal period from two years to three years, and required the Department of Social Services to make unannounced visits at one-third of licensed day care centers each year on a random basis.

The department has failed to change its regulations and practices to comply with these provisions of AB 251. The department continues to issue licenses to day care centers, which must be renewed every two years, and to make regular unannounced visits to each day care center in its nonrenewal year. The budget proposes continuing these policies during 1982–83.

The department estimates that implementation of the provisions of AB 251 would result in reduced workload for the Community Care Licensing Division and permit the elimination of 14 positions, for a General Fund savings of $396,686 in 1982–83.

We recommend, therefore, that this amount be deleted from the budget for community care licensing to reflect the savings the department will incur as a result of complying with AB 251.

TECHNICAL BUDGETING ISSUES

In-State Travel

We recommend deletion of $61,000 in General Fund support to correct overbudgeting for in-state travel.

Budget instructions from the Department of Finance authorized state departments to increase by 7 percent current year base expenditures for each category of operating expenses, in putting together their 1982–83 budget. The DSS's current year base budget for in-state travel is $2,951,-000. Thus, a 7 percent increase should be $207,000.

The total in-state travel budget proposed by the department for 1982–83 is $3,947,000. This is an increase of $996,000, or 33.8 percent, over estimated current year expenditures. Of the increase, $268,000 has been proposed to adjust base expenditures for inflation. This is $61,000 more than the increase authorized by the Department of Finance. We recommend that this amount be deleted. In order to maximize the use of federal funds for departmental support, the reduction in in-state travel should be made in the General Fund-supported portion of the travel budget, for *General Fund* savings of $61,000.

Postage

We recommend deletion of $54,000 in General Fund support for postage price increases to correct for overbudgeting.

The budget proposes a total of $128,000 for postage price increases in 1982–83. This amount consists of $74,000 budgeted specifically for a postage price increase, plus $54,000 for a 7 percent general increase over the 1981–82 base budget for postage. Our analysis indicates that this represents double budgeting for a postage price increase. Therefore, we recommend deletion of $54,000.

In order to maximize the use of federal funds for departmental support, this reduction should be made in the General Fund-supported portion of the postage budget for General Fund savings of $54,000.

DEPARTMENT OF SOCIAL SERVICES—Continued

Underfunded Facilities Operations

We withhold recommendation on $5,786,000 ($2,071,000 General Fund, $3,504,000 in federal funds, and $211,000 in reimbursements) requested for facilities operations because the anticipated cost of rent alone exceeds the total amount requested for facilities operations.

The budget proposes $5,786,000 ($2,071,000 General Fund, $3,504,000 in federal funds, and $211,000 in reimbursements) for facilities operations in 1982–83. The individual components of this amount are as follows:

1. Rent	$5,253,000
2. Security services	165,000
3. Work orders and alterations	132,000
4. Facilities planning	118,000
5. Relocation of offices	112,000
6. Janitor and maintenance services	4,000
7. Miscellaneous storage	2,000
Total	$5,786,000

DSS's schedule of rental costs indicates that the department anticipates that its total expenditure for rent in 1982–83 will be $6,899,000. This amount is $1,646,000 more than the amount included in the budget proposal for rent, and $1,113,000 more than the request for *all* components of facilities operations.

Increased Costs for Disability Evaluation. The department advises that, due to federal security requirements, state-operated disability evaluation (DE) offices must be separated from federally operated DE offices. Consequently, increased facilities operations costs for moving and rent will be incurred for disability evaluation offices located in the Los Angeles area during 1982–83. The fiscal impact of this relocation will be supported "mostly" by federal funds, according to the department, but a final estimate of new costs was not available at the time this analysis was prepared.

We withhold recommendation on $5,786,000 ($2,071,000 General Fund, $3,504,000 in federal funds, and $211,000 in reimbursements) requested by the Department of Social Services for facilities operations in 1982–83, pending the receipt of detailed information on funding sources for, and estimates of increased costs anticipated in, the budget year.

STATEWIDE PUBLIC ASSISTANCE NETWORK PROJECT

Chapter 282, Statutes of 1979 (AB 8), requires the Department of Social Services to implement a Centralized Delivery System (CDS) in all counties by July 1, 1984. The system, which is known as the Statewide Public Assistance Network (SPAN), is mandated to assist in the delivery of benefits to participants in the following programs: aid to families with dependent children (AFDC), food stamps, Medi-Cal, aid for the adoption of children, special adult programs and, to the extent feasible, social services and child support. In addition, AB 8 authorizes counties to contract with the state to determine benefits for other public assistance programs (for example, general relief).

Proposed Expenditures for 1982–83. The budget proposes 266.5 positions and a total of $21,312,739 (all funds) for the SPAN project in 1982–83. Of this amount, General Fund expenditures are proposed at $6,488,422, an increase of $4,530,873, or 231.4 percent, over current-year expenditures.

Total Expenditures of $36.5 Million Since 1979–80. Table 5 shows the number of positions and expenditures committed to the SPAN project during the past, current, and budget years. The department estimates that $15.1 million has been spent on the SPAN project during the last three years (1979–80 through 1981–82). Of this amount, the General Fund share is $5.7 million. By the end of 1982–83, total expenditures will reach $36.5 million, of which the state share will have been $12.2 million.

These estimates of General Fund costs assume additional federal funds above the normal sharing ratio of 50 percent. As we discuss later in the analysis, the state may not receive additional federal funds beyond the usual 50 percent level. To the extent that increased federal financial participation is *not* available, General Fund costs will increase.

Table 5
SPAN Project Positions and Expenditures
1979–80 through 1982–83
(dollars in thousands)

						Proposed 1982–83 Increase Over 1981–82	
	1979–80	*1980–81*	*1981–82*	*1982–83*	*Total*	*Amount*	*Percent*
Positions	41.8	124.6	215.0	266.5[a]	N/A	51.5	24.0%
SPAN project	—	(95.1)	(186.0)	(237.5)	N/A	(51.5)	(27.7)
Other department units	—	(29.5)	(29.0)	(29.0)	N/A	—	—
Total Expenditures	$1,454	$5,382	$8,309	$21,312	$36,457	$13,003	156.5
General Fund	758	2,950	1,958	6,488	12,154	4,530	231.5
Federal funds	696	2,331	6,093	12,782	21,902	6,689	109.8
Reimbursements	—	101	258	2,042	2,401	1,784	691.5%

[a] In addition to these positions in DSS, the 1982–83 budget proposes 107 positions in the Health and Welfare Data Center, 10 positions in the State Controller's Office, and 4 positions in the Department of Health Services.

Feasibility Study Report Required

We withhold recommendation on $19,230,000 ($5,788,000 General Fund, $11,400,000 federal funds, and $2,042,000 in reimbursements), pending review of an amended feasibility study report for the SPAN project.

The budget proposes $21.3 million (all funds) and 266.5 positions in 1982–83 for the SPAN project. This level of support assumes that the SPAN project will be modeled after the Case Data System (CDS) currently in place in 13 California counties. At the time this analysis was prepared, the Department of Social Services had not issued an amended feasibility study report (FSR) which substantiates this project approach.

The Department of Social Services advises that an amended FSR will be issued January 31, 1982. Such a report should, at a minimum, provide: (a) a rationale for the selection of the CDS alternative, (b) a revised cost-benefit analysis, including estimates of conversion costs for counties, such as Los Angeles, with existing automated eligibility determination and data base systems, and (c) an assessment of the costs and benefits of alternatives for computer equipment procurement. Until we have reviewed this report, we are unable to make a recommendation on the budget request for the revised SPAN project.

DEPARTMENT OF SOCIAL SERVICES—Continued

Lack of Accomplishments to Date—A Major Disappointment

We believe the Legislature has little reason to be satisfied with the accomplishments of the SPAN project to date. Based on our analysis, we believe the following should be of particular concern to the Legislature.

1. ***Department Has Proposed Three Different Approaches to SPAN During Last 12 Months.*** During the last 12 months, the department has significantly modified its approach to the SPAN project. In January 1981, the department issued an FSR which identified the Welfare Case Management Information System/Integrated Benefit Payment System (WCMIS/IBPS) as the preferred alternative for an automated welfare system in California. Five months later, in May 1981, the department informed the Legislature that due to development problems, the WCMIS/IBPS alternative was being replaced by another alternative—Welfare Case Management Information System/Case Data System (WCMIS/CDS). In December 1981, the department abandoned the WCMIS/CDS alternative and proposed a third alternative, referred to as the Case Data System (CDS).

The department has stated that CDS represents the most cost-effective alternative to achieve the mandates of AB 8. To date, however, the administration has been unable to provide an analysis which documents this claim. This is the third time in the last 12 months that the department has identified the most cost-effective approach and each time a different alternative has been proposed.

2. ***Little Progress Has Been Made During 1981.*** As a result of the changes in direction cited above, little progress was made on the SPAN project during 1981. This has occurred despite the fact that for each year since 1979–80, the Legislature has appropriated the amount of funds and authorized the number of positions, with minor exceptions, that were requested by the department for the SPAN project. These appropriations have resulted in a current year staffing level of 215 positions, *or 5.6 percent of total DSS staff.* The proposed expenditures for 1982–83 amount to 13.4 percent of the total DSS support budget. The major product generated by the project to date, however, has been the FSR issued in January 1981, and the major amendments to it that have been made on two subsequent occasions.

In our *Analysis of the 1981 Budget Bill,* we withheld recommendation on the SPAN project pending receipt of the January 1981 FSR. A full year later, the Legislature is faced with the identical situation of waiting for a feasibility study to document the selection of the most recently proposed SPAN alternative.

3. ***Pilot Project Start-Up Has Been Delayed 14 Months.*** Our analysis indicates that completion of the tasks necessary for implementation of SPAN has been delayed significantly. For example, the January 31, 1981, FSR indicates that a pilot project to test the welfare components of SPAN would occur from October 1981 to December 1982. The 1982–83 budget proposal, however, indicates that the welfare pilot project will not begin until January 1983, 14 months later than anticipated. Moreover, it appears that actual county operation may not commence until April 1983, after scheduled system development activities are completed. In the meantime, the budget proposes a scaled-down demonstration project in two small counties.

In the original FSR, pilot projects to test the child support and social services components of the SPAN project were scheduled for completion by July 1983. The current budget proposal indicates that those two pilots will not *begin* operation until after 1982–83. These schedule slippages may hamper the achievement of statewide implementation by July 1, 1984, as required by AB 8, and thus delay the savings anticipated as a result of statewide implementation of the project.

4. ***Despite Limited Progress, Expenditures Are Higher Than Planned and Positions Requested Exceed Earlier Estimates.*** Even though major planned activities have not been performed on schedule, estimated expenditures for the period 1979–80 through 1982–83 exceed those identified in the initial FSR, as shown in Table 6. The department estimates that a total of $36.5 million, or $949,000 more than projected in the FSR, will have been expended for this project by the end of 1982–83.

Table 6

Statewide Public Assistance Network Project
Comparison of Planned Expenditures With Estimated Expenditures
1979–80 through 1982–83
(all funds)

	Planned Expenditures [a]	*Estimated Expenditures*	*Difference*
1979–80	$1,454,000	$1,454,275	$275
1980–81	3,936,000	5,381,846	1,445,846
1981–82 (Estimated)	9,819,000	8,308,164	−1,510,836
1982–83 (Proposed)	20,299,000 [b]	21,312,739	1,013,739
Totals	$35,508,000	$36,457,024	$949,024

[a] Source: Feasibility study report, January 31, 1981.
[b] Initial estimate includes $17,174,000 for development and overhead and $3,125,000 for ongoing costs.

Our analysis indicates that actual programmer/analyst positions for the SPAN project exceed the department's original estimate by nearly 100 positions. The January 1, 1981 FSR charted the need for programmers and analysts throughout the six-year life of the project. According to the FSR, the project would require an average of 39.75 programmers and analysts during 1982–83. The department, however, proposes to fill 138.7 programmer and data processing analyst positions in the budget year. Because the department has not submitted an amended FSR, we are unable to determine if this discrepancy in staff size is reasonable or essential to meet the project's goals.

5. ***Amount of Savings to Be Realized Is Uncertain.*** The original FSR submitted in January 1981 estimates annual ongoing *net* savings of $96,547,000 (all funds), starting in 1985–86, as a result of implementing SPAN. This is the net result of $123,197,000 in savings and $26,650,000 in system costs.

We are unable to advise the Legislature as to the amount of savings which would result from the SPAN project for three reasons. First, although the department has revised its approach twice to the SPAN project, it has not updated its estimates of savings to reflect these changes. The department states that it will not revise its savings estimates until after the pilot project test.

Second, it is not clear that some of the expected savings will materialize. The department originally estimated that approximately 55 percent ($68.0

DEPARTMENT OF SOCIAL SERVICES—Continued

million) of the annual savings ($123.2 million) would result from reducing the amount of time required by county staff to perform specified administrative functions. It is questionable, however, that reduced worker time will result in dollar reductions. The FSR acknowledges, for example, that staffing levels, and in turn staffing costs, may not be reduced when SPAN is implemented. Rather, county staff may simply be reallocated to perform other functions. To the extent this occurs, cost savings will be reduced.

Third, the department maintains that the state and federal share of administrative savings will be recouped through a cost avoidance/recoupment plan which has not been developed. The department has been unable to advise us when this plan will be completed.

6. ***Federal Funding for the Project Is Being Withheld.*** Effective October 31, 1981, the federal government discontinued federal support for the SPAN project, pending adequate responses from the Department of Social Services regarding a number of outstanding issues. In a letter dated December 18, 1981, the assistant secretary of HHS notified the secretary of the California Health and Welfare Agency that, "I am withholding approval of HHS's participation in the next phase of the SPAN project, pending resolution of several issues, only one of which is discussed in this letter."

The major issue raised by HHS was the relationship between the SPAN project and the Medi-Cal Eligibility Data System (MEDS) in which the federal government had already invested $5.9 million. The assistant secretary stated that, "from the start of the SPAN project, HHS has been unable to determine precisely what will be the relationship between SPAN and MEDS." The assistant secretary pointed out that, "numerous requests to the DSS have not answered our concerns as to whether the state is asking to fund portions of the SPAN project which will duplicate existing MEDS functions or processes." The Department of Social Services advises it will respond to the questions raised by the HHS during the week of January 25, 1982.

7. ***Enhanced Federal Financial Participation Is Uncertain.*** As a result of Public Law 96-265, states which qualify may receive enhanced federal funding for the development of automated data processing systems. Table 7 shows the fiscal impact of normal and enhanced federal funding ratios. As shown in Table 7, the budget assumes that $14,824,000 in federal funds will be available for the SPAN project in 1982–83, based on enhanced federal sharing ratios. If these enhanced ratios are not approved by the federal government and total costs remain as proposed, the most that the state could receive in federal funds would be $8,950,000, or $5,874,000 less than proposed by the budget.

The budget anticipates that federal financial participation above the normal 50 percent share will be available during both 1981–82 and 1982–83. The original FSR issued by the department in January 1981 stated that "federal financial participation will be at the rate of 90 percent in AFDC, child support, and Medi-Cal, and 75 percent in food stamps." Given recent federal action to withhold funding for the SPAN project, it is unclear how realistic it is to assume enhanced federal funding for the SPAN project in 1982–83.

As of January 15, 1982, the federal government had not approved enhanced federal financial participation for the development costs of the SPAN project.

Table 7
Comparison of Enhanced Federal Funding with Normal Ratios
1982–83
(in thousands)

	Normal Ratios		*Enhanced Federal Share*[a]		
	Percent	*Amount*	*Percent*	*Amount*	*Difference*
AFDC	50%	$3,315	90%	$5,957	$2,642
Food stamps—AFDC	50	1,438	90	2,585	1,147
Food stamps—nonassistance	50	771	75	1,156	385
Medi-Cal	45	1,440	90	2,878	1,438
Refugees	100	580	100	580	—
Child support	75	1,406	90	1,668	262
Totals		$8,950		$14,824	$5,874

[a] Assumed in Governor's Budget

8. ***Equipment Acquisition Has Been Erratic.*** In April 1981, DSS submitted a report to the Legislature on equipment requirements for the SPAN project. The report indicated that a Request for Proposal (RFP) for computer equipment for the pilot project and statewide implementation would be issued and a contract awarded during 1981–82. In SPAN newsletters, DSS confirmed that the RFP was issued in October 1981 and that the department anticipated awarding a contract in May 1982.

Our analysis indicates that DSS has abandoned its plan for equipment acquisition which included a competitive bidding process, and instead has pursued two separate unplanned noncompetitive acquisitions. In at least one instance, this has resulted in increased costs with *no* visible product.

- ***Contract with Department of Justice.*** The Department of Social Services entered into an agreement with the Department of Justice to lease equipment for a two-county demonstration project scheduled to begin March 1982. This agreement was executed August 1, 1981, at an annual cost of $1,580,894. The agreement was subsequently canceled, effective January 4, 1982, before the equipment began production for SPAN. As of January 15, 1982, the DSS is unable to advise us what the actual cost of this short-lived agreement will be. Whatever the cost, the expenditure of these funds resulted in no progress toward implementation of the demonstration project.
- ***Budget Year Proposal.*** Currently, the DSS proposes to utilize equipment at the Health and Welfare Data Center for the demonstration project and to use "surplus" state equipment for the pilot project and statewide implementation of SPAN. This surplus equipment is anticipated to become available at the Teale Data Center and will be transferred to the Health and Welfare Data Center. Our analysis indicates that this surplus equipment may not be approved for release in time for use by SPAN in the budget year. Until the DSS prepares a revised FSR, we are unable to determine the cost effectiveness of the proposed use of surplus state equipment. Furthermore, if the state equipment at the Teale Data Center is not made available for SPAN, this project may suffer additional delays in implementation.

9. ***Inadequate Response to 1981 Budget Act Language.*** The 1981 Budget Act states that only 25 percent of the 1981–82 appropriation for the

DEPARTMENT OF SOCIAL SERVICES—Continued

SPAN project may be expended prior to submission to the Chairperson of the Joint Legislative Budget Committee (JLBC) of an amended FSR by the Department of Finance. The language in the 1981 Budget Act specifies a number of items to be addressed in the submission.

The Director of the Department of Finance notified the Legislature on August 28, 1981 of her intent to release the remaining 75 percent of funds appropriated for the SPAN project. In a letter dated September 30, 1981, the Chairman of the JLBC identified several inadequacies in the Director's response and requested additional detail prior to expenditure of more than 50 percent of the total appropriation. The Department of Finance responded to the September 30 letter on December 1, 1981. The response, however, did not address the revised project approach. Due to the abandonment of the selected alternative discussed in hearings on the 1981 Budget Act and in the Director's two letters during 1981–82, the Chairman of the JLBC was unable to concur with the Director's intent to expend the remaining 50 percent of the 1981–82 SPAN appropriation. In a letter dated December 28, 1981, the Chairman requested a current plan for the SPAN project and a revised current year expenditure plan. As of January 25, 1982, no response to these requests had been received.

Our analysis indicates that responses to the Legislature during the current year have not adequately addressed the concerns expressed through Budget Act language.

Unjustified Expenditures for SPAN

We recommend deletion of unjustified expenditures proposed for the SPAN project, for a reduction of $2,083,000 ($701,000 General Fund and $1,382,000 federal funds).

Although we will be unable to assess the total need for the SPAN project in 1982–83 until we have reviewed the revised FSR, we have identified a number of instances where proposed funds for the SPAN project appear to have no supporting justification. Table 8 summarizes these unjustified expenditure proposals.

Table 8

Analyst's Recommended Reductions of Unjustified Proposed SPAN Expenditures

1982–83

	General Fund	*Federal Funds*	*Total Reduction*
Contractual Services			
County file conversion	$49,831	$98,169	$148,000
Network and communication	74,073	145,927	220,000
Other contracts	268,348	528,652	797,000
Health and Welfare Data Center	176,000	348,000	524,000
State Controller's Office	78,450	154,550	233,000
Reimbursements for Data Center	54,208	106,792	161,000
Totals	$700,910	$1,382,090	$2,083,000

Contractual Services. The budget proposes $5,121,838, all funds, for contractual services for the SPAN project in 1982–83. This amounts to 24 percent of total proposed expenditures in the budget year. Of this total, DSS advises that (a) $2,979,800 will be expended for county file conversion, beginning January 1983, (b) $220,000 will be expended for consultant services related to network and communication facilities, (c) $1,125,000 will be expended for a variety of design consultation contracts, and (d) $797,038 is for unspecified purposes.

During the current year, the SPAN project has four fully executed contractual agreements in effect, at an annual cost of $53,690. Five additional contracts totaling $439,929 are in the review process as of January 20, 1982. Not counting the proposed costs of $2,979,800 for county conversion, the budget proposal calls for an increase of $1,648,419, or 234 percent, above current year expenditures for existing and anticipated contracts. This significant increase in contractual services is proposed even though the department is requesting 266.5 data processing positions in DSS and 107 positions in the Health and Welfare Data Center for the SPAN project. Given the uncertainty regarding actual project needs, we cannot assess the entire contractual services request at this time.

Three portions of the contractual services request, however, appear to be unjustified.

1. ***County File Conversion.*** The budget proposes $2,979,800 for conversion of county data files as part of the four-county pilot project scheduled to commence January 1983. Detailed county specific estimates provided by DSS, however, total only $2,831,800. Therefore, we recommend a reduction of $148,000.

2. ***Network and Communication.*** Within the amounts proposed for contractual services during 1982–83 is $220,000 for network and communication facilities. Over $350,000 in additional funds for SPAN network and communication facilities is also proposed within the amounts budgeted for Health and Welfare Data Center services to SPAN. After requesting additional information concerning these contracts, the DSS advised us that this $220,000 is double-budgeted. We, therefore, recommend these funds be deleted.

3. ***Other Contractual Services.*** The Department of Social Services has provided us with a listing of contracts with proposed expenditure requirements totaling $1,125,000. The DSS has also provided us with information which indicates that the DSS base budget for support of SPAN includes this $1,125,000 for contractual services. The DSS has not been able to produce even a list of proposed contracts to suggest the need for an additional $797,038 in funds proposed to be added to the 1982–83 budget for SPAN contractual services. Therefore, we recommend a reduction of $797,000.

Health and Welfare Data Center. The budget proposes $7,965,000 and 107 positions for Health and Welfare Data Center services to the SPAN project. Of this amount, $350,000 is proposed for communications consulting. This funding is based on information provided by the Department of Social Services in support of its budget. The information reveals, however, that the technical specifications which are necessary before pilot county operations can begin, will not be completed until April 30, 1983. Consequently, there will be insufficient actual communications experience available to the consultant in 1982–83. For these reasons, we recommend deletion of the $350,000 budgeted for communications consulting.

In addition, the data center's budget to support SPAN includes $174,468 to provide for the acquisition of a computer which would be used to test computer system control programs. The amount which has been budgeted is one-half the cost of the computer. No additional funds have been budgeted to pay for the other half. Further, no justification has been

DEPARTMENT OF SOCIAL SERVICES—Continued

provided which would support the need for the type of computer being proposed. For these reasons, we recommend a reduction of $174,468. The total recommended reduction to data center services, at this time, is $524,000.

State Controller's Office (SCO). In our analysis of proposed 1982–83 funding for the office of the State Controller (SCO) (Item 0840), we recommend a reduction of $233,000 in funds proposed for the SPAN Project. The DSS proposes $600,000 to reimburse the SCO for development and liaison work in the budget year leading to eventual SCO disbursement of public assistance warrants. (No funds are proposed for actual disbursement.) The staff of SCO advise that $233,000 of this amount is proposed to develop foreign language software programs for mailings to recipients. The SCO is unable to advise, however, what these funds would be expended for or how the amount was derived. Therefore, we recommend deletion of this $233,000.

Over Budgeting for Data Center Reimbursements. The proposal for additional funds to reimburse the Health and Welfare and Teale Data Centers for SPAN equipment and services in the budget year identifies the total need for such expenditures at $7,975,122. The proposal states that this amount is an increase of $6,534,819 over funds currently in the DSS support base budget. Thus, we conclude that $1,440,303 is required from the DSS support budget to meet the data center needs of the project in 1982–83. In other budget detail information provided by the Department of Social Services, an amount of $1,600,803 is identified as available in the SPAN base budget for consolidated data center expenditures. Because the combined total of base budget funds and proposed increase funds ($8,135,622) exceeds the identified need, we recommend that $160,500 be deleted from the 1982–83 budget.

Department of Social Services
LOCAL ASSISTANCE SUMMARY

Items 5180-101 through 5180-181
from the General Fund and
Federal Trust Fund — Budget p. HW 209

Requested 1982–83	$3,093,265,000
Estimated 1981–82	2,933,426,000
Actual 1980–81	2,818,581,000
Requested increase $ 159,839,000 (+5.4 percent)	
Total recommended reduction	$95,190,000
Recommendation pending	$200,149,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-101-001—AFDC cash grants		General	$1,293,750,000
5180-101-866—AFDC cash grants		Federal	(1,431,288,000)
5180-111-001—SSI/SSP cash grants		General	1,039,316,000

5180-121-001—Special adult program	General	2,740,000
5180-121-866—Special adult program	Federal	(89,000)
5180-131-866—Refugee programs	Federal	(234,903,000)
5180-141-001—County welfare department administration	General	110,973,000
5180-141-866—County welfare department administration	Federal	(337,697,000)
5180-151-001—Social services programs	General	178,022,000
5180-151-866—Social services programs	Federal	(354,769,000)
5180-161-001—Community care licensing	General	8,403,000
5180-171-001—Local Mandates	General	114,000
5180-181-001—Cost-of-living increase	General	459,947,000
5180-181-866—Cost-of-living increase	Federal	(177,243,000)
Total		$3,093,265,000

Items 5180-101-001 through 5180-181-001 appropriate the General Fund share of the local assistance programs administered by the Department of Social Services. We discuss the programs and the proposed cost-of-living increase for local assistance in the following sections.

The budget proposes General Fund expenditures for local assistance, including COLA, of $3,093,265,000. This is an increase of $159,839,000, or 5.4 percent, over estimated current year expenditures. Total expenditures —including federal funds, county funds (not appropriated by the Budget Bill), and reimbursements—are proposed at $6,949,255,000. This is an increase of $568,356,000, or 8.9 percent, over estimated current year expenditures.

Department of Social Services

AID TO FAMILIES WITH DEPENDENT CHILDREN

Item 5180-101 from the General Fund — Budget p. HW 210

Requested 1982–83 ....$1,424,046,000 [a]
Estimated 1981–82..1,364,814,000
Actual 1980–81 1,214,878,000
Requested increase $59,232,000 (+4.3 percent)
Total recommended reduction Item 5180-101.......................... $17,782,000
Total recommended reduction Item 5180-181-001(a) ....($11,475,000)

[a] Includes $130,296,000 proposed in Item 5180-181-001(a) to provide an 8.8 percent cost-of-living increase to maximum AFDC grants.

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-101-001	—Payments for Children	General	$1,293,750,000
5180-181-001(a)	—Cost-of-Living Increases	General	130,296,000
5180-101-866	—Payments for Children	Federal Trust	(1,431,288,000)
5180-181-866(a)	—Cost-of-Living Increases	Federal Trust	(144,609,000)
Total			$1,424,046,000

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. CNI Estimated at 8.2 percent. Reduce Item 5180-181-001 (a) by $8,961,000. Recommend Commission on State Finance estimate of CNI be applied to AFDC grants for a savings of $19,065,000 ($8,961,000 General Fund and $10,104,000 federal funds).	1070
2. Child Support Incentive Payments. Recommend enactment of legislation which revises the current incentive payment structure in order to encourage improved county performance in child support enforcement and collection.	1087
3. *Data Processing Savings. Reduce Item 5180-101-001 by $11,302,000 and Item 5180-181-001 (a) by $1,051,000.* Recommend reductions of $29,466,000 ($12,353,000 General Fund and $17,113,000 federal funds) to reflect savings anticipated from four data processing projects.	1088
4. *Federal Foster Care Funding Ceiling. Reduce Item 5180-101-001 by $2,002,000 and Item 5180-181-001 (a) by $1,047,000.* Recommend reduction of $3,049,000 because federal government has not established a cap on foster care maintenance payments for federal fiscal year 1982.	1090
5. *Supplemental Payments. Reduce Item 5180-101-001 by $4,478,000 and Item 5180-181-001 (a) by $416,000.* Recommend reduction of $11,431,000 ($4,894,000 General Fund, $5,941,000 federal funds, and $596,000 in county funds) to eliminate funds budgeted in basic costs for discontinued payments.	1091

GENERAL PROGRAM STATEMENT

The Aid to Families with Dependent Children (AFDC) program provides cash grants to children and their parents or guardians whose income is insufficient to meet their basic needs. Eligibility is limited to families with children who are needy due to the death, incapacity, continued absence or unemployment of their parents or guardians.

The Budget Bill contains an in-lieu appropriation for the Aid to Families with Dependent Children (AFDC) program. This does not limit program expenditures because the Welfare and Institutions Code provides a continuous appropriation to finance cash grants to eligible children, and their parents or guardians, under the program. In addition, language in the Budget Bill provides that the Director of Finance can increase AFDC expenditures due to (1) changes in caseload or payment standards, (2) enactment of a federal or state law or (3) a final court decision on the merits of a case.

ANALYSIS AND RECOMMENDATIONS

Current Year Deficiency

The budget estimates that the AFDC program will incur a General Fund deficiency of $5,508,000 in the current year. This deficiency reflects a number of separate increases and decreases to the 1981 Budget Act appropriation for this program.

Cost Increases. The major unanticipated cost increases result from (a) reduced estimates of the savings to be realized from Chapter 69, Statutes of 1981 (SB 633), ($4,910,000), (b) reduced federal funds caused by the state being out of compliance with the provisions of the Omnibus Reconciliation Act of 1981 ($36,540,000), (c) six court rulings ($12,598,000), and (d) higher caseload and average grant levels than provided for in the 1981 Budget Act ($6,604,000).

Savings. The major offsetting savings identified in the budget result from state implementation of the program changes included in the Omnibus Reconciliation Act of 1981 ($36,537,000) and are attributable to two measures considered by the Legislature during the special session: AB 2x (Lockyer), which had not been enacted at the time this analysis was prepared, and Ch1x/81.

The estimated deficiency will be subject to change as part of the May revision of expe' 'iture estimate.

Court Rulings Increase State Costs by Over $12 Million. Six court rulings, including four decisions handed down during the current year, result in significant increases in state costs during 1981–82.

Five of these rulings are expected to increase costs in the budget year as well. The cost of complying with these rulings in 1982–83 are included in the budget. Two of these rulings (*Green v. Obledo* and *Lowry v. Woods*) also call for retroactive payments to groups of affected recipients. The Department of Social Services (DSS) advises that the method for determining damages has not been decided by the courts. As a result, our analysis indicates that the cost of making these retroactive payments may be deferred until 1982–83. Another court case, *Westcott v. Califano,* will result in increased grant costs of $760,000 in the current year above the amount included in the 1981 Budget Act.

The sixth ruling causing state costs to exceed the amounts provided by the Legislature for 1981–82 dates back to 1979–80. In the *Vaessen v. Woods* court case, the court issued an injunction prohibiting the state from treating income tax refunds as income for grant purposes. The budget assumes that this injunction will be lifted prior to the beginning of 1982–83. The DSS, however, has advised us that this injunction may remain in effect through 1982–83.

Because of uncertainties regarding judicial action in three of these six cases, total General Fund expenditures in 1982–83 may be higher than the amount proposed in the Governor's Budget. Table 1 shows the estimated costs of the four court rulings issued during the current year, and the *Vaessen v. Woods* injunction and *Westcott v. Califano* ruling.

Budget Year Proposal

The budget proposes expenditures of $1,424,046,000 from the General Fund for Aid to Families with Dependent Children (AFDC) cash grants in 1982–83. This amount, which is shown in Table 2, includes $130,296,000 requested in Item 5180-181 to provide an 8.8 percent cost-of-living increase in the maximum AFDC payments. In addition to these funds, the budget requests $17,000 from the General Fund in Item 5180-171 to reimburse local governments for costs related to the AFDC program which were mandated by executive regulations. Thus, the cost to the state's General Fund for AFDC grants and local mandates is budgeted at $1,424,063,000 in 1982–83. This is an increase of $59,231,000, or 4.3 percent, over estimated 1981–82 expenditures.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 1
Impact of Recent Court Rulings on the General Fund [a]
1981–82 and 1982–83
(in thousands)

	1981–82	*1982–83*	*Difference*
Angus v. Woods	$535	$553	$18
Lowry v. Woods			
Prospective	746	550	−196
Retroactive [b]	2,134	—	−2,134
Green v. Obledo			
Prospective	—	—	—
Retroactive [c]	5,599	—	−5,599
Davis v. Woods	3,708	3,802	94
Vaessen v. Woods [d]	2,244	—	−2,244
Westcott v. Califano	19,580	23,120	3,540
Totals	$34,546	$28,025	−$6,521

[a] Includes both grant and administrative costs.
[b] Retroactive grant payments to families who have not been allowed to deduct the cost of child care provided by nonrecipient members of the household. Actual number of potential recipients and period of retroactivity has not yet been determined by the courts.
[c] Retroactive payments to AFDC recipients who can document actual work-related transportation costs in excess of those deducted based on standard 15 cents-per-mile. Court has not determined documentation required or the final retroactive settlement.
[d] Budget assumes an injunction placed in this case will be lifted during 1981–82.

Total expenditures from all funds for AFDC cash grants in 1982–83 are budgeted at $3,129,535,000. This is an increase of $231,867,000, or 8.0 percent, over estimated current year expenditures. Included in this amount is $181.2 million, all funds, for cash grants to refugees.

Chart 1
Proposed AFDC Expenditures by Funding Source
1982–83 (in millions)

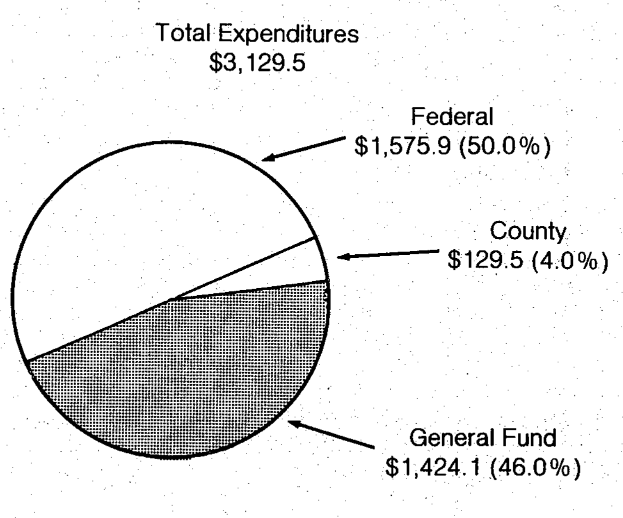


Table 2
Expenditures for AFDC Grants by Category of Recipients
(in millions)

Recipient	Estimated 1981–82				Proposed 1982–83				Percent Change			
	Total	Federal	State	County	Total	Federal	State	County	Total	Federal	State	County
Family group	$2,314.0	$1,140.1	$1,045.2	$128.7	$2,448.1	$1,256.5	$1,062.9	$128.7	5.8%	10.2%	1.7%	—
Unemployed parent	496.6	252.3	217.9	26.4	608.4	313.0	263.5	31.9	22.5	24.1	20.9	20.8%
Foster care	208.9	52.1	148.6	8.2	213.2	56.4	148.6	8.2	2.1	8.3	—	—
Aid for adoption of children	4.3	—	4.3	—	4.9	—	4.9	—	14.0	—	14.0	—
Child support incentive payments to counties	0.4	18.5	6.9	−25.0	0.5	21.3	10.6	−31.4	25.0	15.1	53.6	−25.6
Child support collections	−126.5	−61.6	−58.1	−6.8	−145.6	−71.3	−66.5	−7.8	15.1	15.7	14.5	14.7
Subtotals	$2,897.7	$1,401.4	$1,364.8	$131.5	$3,129.5	$1,575.9	$1,424.0	$129.6	8.0%	12.5%	4.3%	−1.4%
Local mandates	—	—	0.02	−0.02	—	—	0.02	−0.02	—	—	—	—
AFDC cash grants to refugees	(138.3)	(130.3)	(7.2)	(0.9)	(181.2)	(169.8)	(10.2)	(1.4)	(31.0)	(30.3)	(41.-7)	(56.2)
Totals	$2,897.7	$1,401.4	$1,364.8	$131.5	$3,129.5	$1,575.9	$1,424.1	$129.5	8.0%	12.5%	4.3%	−1.4%

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Chart 1 shows the funding sources for proposed AFDC expenditures in 1982–83. The state's share of these costs is estimated at 46 percent, the federal share is 50 percent, and the county share is 4 percent.

Expenditures by Category of Recipient

AFDC grant payments are provided to four categories of recipients within the traditional AFDC program, as shown in Table 2. Total payments from all funds for the family group component—typically a mother with one or more children—are proposed at $2,448.1 million in 1982–83, an increase of 5.8 percent over the current year.

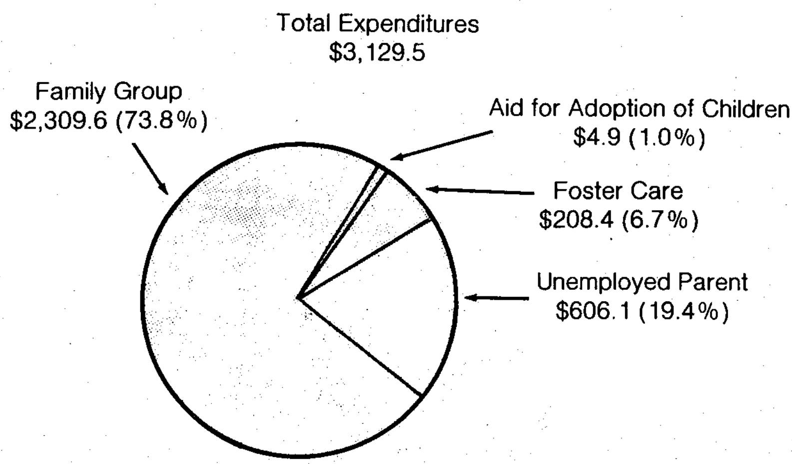
In addition, the 1982–83 budget proposes an expenditure of $608.4 million, from all funds, for cash grants to unemployed parents and their dependent children. This is an increase of 22.5 percent over the current year. The budget also proposes an expenditure of $213.2 million in 1982–83 for grants to children receiving foster care in boarding homes and institutions, which is an increase of 2.1 percent over the current year.

The fourth assistance category consists of grants to adoptive parents to help cover the cost of adopting children who have been determined "hard to place" using specified criteria. The budget contains $4.9 million for aid for adoption of children in 1982–83, which is 14.0 percent over estimated current-year expenditures.

Chart 2 shows the relative distribution of expenditures by recipient category. The largest expenditure category is the family group (73.8 percent), followed by unemployed parent (19.3 percent), foster care (6.7 percent), and aid for adoption of children (0.2 percent).

Chart 2

Proposed AFDC Expenditures by Category of Recipient
All Funds
1982–83 (in millions)



Proposed General Fund Budget Increases

Table 3 shows the components of the $59.2 million General Fund increase in expenditures proposed for the AFDC program in 1982–83. This amount reflects $184,838,000 in proposed increases which are partially offset by $125,606,000 in anticipated reductions. Seventy percent of the proposed increase—$130,296,000—is requested to fund an 8.8 percent cost-of-living increase in 1982–83.

The anticipated $125.6 million in reductions reflect (a) implementation of program changes required by state and federal legislation and (b) deletion of amounts for non-recurring one-time costs provided in 1981–82 for the AFDC program. Increased savings are anticipated from program changes made by Ch 1166/80 ($9.9 million) and Ch 69/81 ($4.3 million). In addition, implementation of the provisions of the federal Omnibus Reconciliation Act of 1981 (PL 97-35) is expected to result in increased savings of $55,056,000 during 1982–83. These savings are in addition to the $38.9 million in savings expected to be realized in 1981–82 and reflected in the 1982–83 baseline budget. The non-recurring costs that the budget shows for 1981–82 include $36.5 million to replace funds withheld by the federal government due to delayed state implementation of provisions in PL 97-35 affecting the AFDC program, and $7.1 million to satisfy court settlements which require retroactive payments.

Cost-of-Living Increase

The budget requests $130,296,000 for the statutory cost-of-living increase to maximum AFDC grant payments. State law requires that recipients of assistance under the AFDC family group and unemployed parent programs receive an annual cost-of-living increase to their grants, effective each July 1. Historically, AFDC grant levels for children residing in foster care have been established by county boards of supervisors. On occasion, the counties adjusted the grant amounts without taking inflation index changes into consideration. AB 8 limited state reimbursement for increases in AFDC foster care grants to the same percentage increase applied to grants for the AFDC family group and unemployed parent program. In 1982–83, under current law, state reimbursement for cost-of-living increases for foster care are proposed to be the same (8.8 percent) as that provided for the family group and unemployed parent grants.

Under existing law, the cost-of-living adjustment required on July 1, 1982, must be based on the change in the California Necessities Index (CNI) from December 1980 to December 1981. The Department of Finance estimated in December 1981 that the required cost-of-living adjustment would be 8.8 percent. The budget proposes to increase maximum payments by the estimated 8.8 percent CNI increase.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 3
Proposed General Fund Budget Increases for AFDC Grants 1982–83 (in thousands)

	Cost	Total
1981–82 Current Year Revised		$1,364,814
A. Baseline Adjustments		
1. Basic caseload		43,265
2. Cost-of-living increase		
a. 1981–82 cost-of-living adjustment applied to caseload increase	$3,417	
b. 1982–83: 8.8 percent increase	130,296	
Subtotal		133,713
3. Court cases		
a. *Westcott v Califano*	3,352	
b. *Vaessen v Woods*	−2,244	
c. *Angus v. Woods*	10	
d. *Lowry v. Woods*	550	
e. *Davis v. Woods*	294	
Subtotal		1,962
4. State legislation		
a. Ch 69/81 (SB 633)	−4,348	
b. Ch 703/81 (SB 620)	−902	
c. Ch 1166/80 (AB 2749)	−9,907	
d. Ch 810/81 (AB 344)	110	
e. Ch 619/81 (AB 634)	29	
Subtotal		−15,018
5. Federal program changes in Omnibus Reconciliation Act of 1981 (PL 97-35)		
a. Implemented in Ch 1/81 (SB 1x)	−41,460	
b. Included in AB 2x	−13,596	
Subtotal		−55,056
6. One-time costs during 1981–82		
a. Retroactive payments in court suits		
Lowry v. Woods	−2,101	
Green v. Obledo	−5,014	
b. Lost federal aid due to delayed implementation of PL 97-35	−36,540	
Subtotal		−43,655
7. Reduced grant costs due to increases in retirement, survivors, disability, and health insurance		−$1,421
8. 80 percent supplemental payments		191
9. Elimination of county sanction		2,000
10. Reduced costs due to increased child support collections		−8,371
11. Increased child support incentive payments		3,707
12. Foster care audit recovery		−102
13. Federal fund ceiling on foster care payments		−1,983
B. Total Budget Increase		($59,232)
C. Proposed 1982–83 Expenditures		$1,424,046

Maximum Payment Levels. Table 4 shows the maximum AFDC grant levels for the unemployed and family group caseloads, for selected family sizes, assuming the estimated 8.8 percent increase. As the table shows, the maximum aid payment for a family of three is proposed at $551, an increase of $45 over the 1981–82 payment level. Maximum AFDC foster care rates are determined in each county and vary by type of placement.

Table 4
Maximum AFDC Grant Levels
1981–82 and 1982–83

Family Size	*1981–82*	*1982–83*	*Difference*
1	$248	$270	$22
2	408	444	36
3	506	551	45
4	601	654	53
5	686	746	60

Previous Increases to AFDC Grants. Prior to July 1973, AFDC grants were not increased on a regular basis to reflect the impact of inflation. Thus, during the nearly 22-year period between October 1951 and June 1973, the grant for a family of three was increased six times.

The Welfare Reform Act of 1971 (Ch 578/71) required, effective July 1, 1973, that AFDC grants be increased annually based on the change in the Consumer Price Index. Table 5 shows the increases in the AFDC grant for a family of three since July 1973, as well as changes in the California Necessities Index (CNI) over this nine-year period. This table shows that:

- Since July 1973, cost-of-living adjustments have been provided in each year except 1978–79. Cost-of-living increases were suspended during 1978–79 after the passage of Proposition 13.
- Effective January 1977, AFDC grants were increased by 6 percent. This increase was in addition to the annual cost-of-living adjustment required by the Welfare and Institutions Code.
- For the first six months of 1980–81 (June–December 1980), grants were increased 15.48 percent above the grant amounts provided in 1979–80. During the last six months of 1980–81 (January–June 1981), grants were reduced to a level which was 13 percent above the amounts provided in 1979–80.
- The average annual increase in maximum AFDC payments to three-person families between 1973–74 and 1982–83 was 9.4 percent. During this same period, the current statutory index governing grant level adjustments, the CNI, increased at an average annual rate of 9.1 percent.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 5

AFDC Grant Increases for a Family of Three
1973–74 through 1982–83

Grant Period	*Amount*	*Change Amount*	*Change Percent*	*California Necessities Index*
1973–74	$243	—	—	—
1974–75	262	$19.00	7.8%	9.3%
1975–76	293	31.00	11.8	6.5
1976–77				4.8
July–December 1976	319	26.00	8.9	
January–June 1977	338	19.00	6.0	
1977–78	356	18.00	5.3	7.9
1978–79	356	—	—	8.7
1979–80	410	54.00	15.2	13.0
1980–81				12.0
July–December 1980	473	63.00	15.4	
January–June 1981	463	−10.00	−2.1	
1981–82	506	43.00	9.2	11.1
1982–83 (Proposed)	551	45.00	8.8	8.8

California's AFDC Grants Compared to Other States. Table 6 compares the maximum grant levels provided by the 10 most populous states for family sizes two, three, and four as of July 1, 1981.

Table 6

State Comparison—Maximum AFDC Grant Levels [a]
October 1, 1981

State	*Family Size Two*	*Family Size Three*	*Family Size Four*
California	$408	$506	$601
New York	333	424	476
Texas	86	118	140
Pennsylvania	273	332	395
Illinois	225	302	331
Ohio	216	263	327
Michigan	361	421	513
Florida	150	195	230
New Jersey	273	360	414
Massachusetts	314	379	445

[a] In decending order by state population.

Commission on State Finance Estimates California Necessities Index at 8.2 Percent

We recommend a General Fund reduction of $8,961,000 from Item 5180-181-001 (a) to reflect the most recent estimate by the Commission on State Finance of the change in the California Necessities Index (CNI).

The Department of Finance estimated in December 1981 that the CNI increase from December 1980 to December 1981 would be 8.8 percent. Based on more recent information, however, the Commission on State Finance estimated in late January 1982 that the actual CNI increase would be 8.2 percent rather than 8.8 percent. In our analysis of Item 5180-181, we recommend that the Commission on State Finance's more recent estimate be used for calculating cost-of-living increases for the AFDC, SSI/SSP, and IHSS programs. This recommendation, discussed on page 1172 of this *Analysis,* would result in a General Fund savings of $8,961,000 in the AFDC program.

Caseload Likely to Exceed Budget Projections

The budget projects a net increase in the AFDC caseload of 11,694, or 0.8 percent, over 1981–82. Included in this overall increase are 19,332 additional refugees projected to receive AFDC in 1982–83. Table 7 shows the projected AFDC caseload for each of the four major AFDC programs.

Table 7

AFDC Average Monthly Persons Receiving Assistance

1981–82 and 1982–83

Program	*Estimated 1981–82*	*Proposed 1982–83*	*Number*	*Percent*
AFDC—Family group	1,213,420	1,177,200	−36,220	−3.0%
AFDC—Unemployed	324,520	374,010	49,490	15.3
AFDC—Foster Care	27,880	26,180	−1,700	−6.1
Aid for Adoption of Children	2,263	2,387	124	5.5
Refugees [a]				
Time-eligible	(67,914)	(84,404)	(16,490)	(24.3%)
Time-expired	(7,870)	(10,712)	(2,842)	(36.1)
Totals	1,568,083	1,579,777	11,694	0.8%

[a] Grants to refugees who have been in the United States less than 36 months (time-eligible) are supported entirely by federal funds. If eligible for AFDC after the 36 months have elapsed, individual refugees may receive grants supported at the normal AFDC sharing ratio of 50 percent federal, 44.6 percent state, and 5.4 percent county.

AFDC Caseload Growth Reflects Trends in the Unemployment Rate. Caseload projections for family group and unemployed parent programs in 1982–83 are based largely on the anticipated performance of the economy, as measured by changes in the unemployment rate. Based on past experience, fluctuations in the unemployment rate are expected to result in a direct increase in caseload in the unemployed parent component during the budget year. Experience shows that increases in the unemployment rate are closely followed by increases in the number of unemployed parent cases added to the AFDC caseload. Declines in the unemployment rate, however, have not brought about immediate reductions in the AFDC unemployed parent caseload.

In contrast, the family group caseload, the largest component of AFDC, does not show as close a relationship to the unemployment rate for individual months. Over time, however, this caseload does appear to reflect changes in the unemployment rate. For this reason, the budget projects that the family group caseload will increase at a slower rate during 1982–83 than in 1981–82, in response to an economic recovery that is expected to begin during the first quarter of 1982.

Continued Higher Unemployment Rates are Likely to Mean Increased AFDC Caseloads. The budget projections of AFDC caseload are based on unemployment rates which are lower than those now anticipated by the Employment Development Department (EDD). Based on projections prepared in October 1981 by the EDD, the Department of Social Services assumed that the unemployment rate would peak at 7.3 percent in March 1982 and decline steadily thereafter.

The assumption used by the department is not consistent with actual experience to date or with subsequent EDD projections. The most recent

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

EDD projections (January 1982) show continued high rates of unemployment throughout the remaining months of the current year and into 1982–83. Table 8 compares the quarterly unemployment rates used to project AFDC caseload in the budget with recent EDD projections. As Table 8 shows, the revised unemployment rates are higher for each quarter and the recovery, which the budget anticipates will begin in the second quarter, is now expected to begin during the third quarter of 1982.

Table 8

Quarterly Unemployment Rates [a] in California AFDC Budget Projection Compared with January 1982 EDD Projection

Period	*AFDC Budget Projection*	*EDD Projection January 1982*	*Difference*
October–December 1981	7.2%	8.4% [b]	1.2%
January–March 1982	7.3	9.0	1.7
April–June 1982	7.2	9.1	1.9
July–September 1982	7.0	8.8	1.8
October–December 1982	6.8	8.6	1.8
January–March 1983	6.7	8.4	1.7
April–June 1983	6.5	8.2	1.7

[a] Percentage of civilian labor force that is not working but is actively seeking a job.
[b] Actual unemployment rate: October 1981 8.1%
November 1981 8.2%
December 1981 8.9%

Both family group and unemployed parent caseloads are projected in the budget based on October 1981 unemployment rate projections. The EDD has revised this projection to show a less optimistic economic picture. Increased AFDC caseloads based on the revised employment rate projections may result in expenditures significantly above those proposed by the budget. The May revision of expenditures will include consideration of more recent projections of the state's economic performance.

IMPACT OF RECENT LEGISLATION

Implementation of New Federal Requirements

Chapter 1, Statutes of 1981, First Extraordinary Session, required the Department of Social Services to file emergency regulations to partially conform state AFDC regulations with the provisions of the federal Omnibus Reconciliation Act of 1981 (Public Law 97-35). This act also amended state law to conform to a new federal limit on the amount of child care expenses which may be deducted from a recipient's monthly income when calculating the amount of the AFDC grant.

Court Delays. The Superior Court of Los Angeles County and a federal District Court in San Francisco have separately enjoined the Department of Social Services and county welfare departments from reducing or eliminating grants to AFDC recipients pursuant to the regulations implementing Chapter 1, because the notices of action given by the Department of Social Services were deemed by the courts to be inadequate. The result of these court injunctions has been that the program savings anticipated from these regulations did not begin December 1, 1981 as the Legislature had expected.

The Los Angeles court ruling prohibited all counties from implementing these changes. This ruling was lifted after revised notices of action were approved by the court. Subsequently, the federal court has reexamined notices of action sent to individual recipients and required counties to reissue those found to be inadequate based on a model notice. As of January 15, 1982, many counties had issued what the courts consider to be adequate notices, and had adjusted recipients' January grants and eligibility requirements pursuant to the changes made by Chapter 1. Because the counties had not implemented the program changes in all affected cases, an undetermined portion of the savings that the Legislature expected to be realized in January will not materialize.

Program changes made pursuant to this act will result in savings to the federal, state, and county governments during 1981–82 and 1982–83. These savings are attributable to the following provisions.

Earned Income Disregards. Under prior state and federal regulations, the amount of earned income, less certain disregards, was deducted from the maximum aid payment to determine the monthly AFDC grant level for a family. Regulations promulgated pursuant to PL 97-35 limit the amount of these deductions to $75 for work-related expenses and $160 per child for child care expenses. The new federal law also limits to four months the period during which individual AFDC recipients may receive a standard deduction of $30 from gross income plus one-third of the remainder.

Income: Limit Eligibility at 150 Percent of Need Standard. Under previous state law, there was no limit on the amount of *gross* income a family could have and still be eligible for AFDC, provided the *net* income, after allowable deductions were made, was below the state's need standard. New federal law provides that families with gross income in excess of 150 percent of the need standard are ineligible to receive AFDC. (Pursuant to Ch 69/81, California's need standard is equivalent to the maximum aid payment for each family size.)

Unemployed Parent: Limit Eligibility to Principal Wage Earner. Under previous AFDC program regulations, a family could receive aid due to either parent's unemployment. The new federal law stipulates that, for purposes of federal aid, deprivation may be established only if the "principal wage earner" of the family is unemployed. The principal wage earner of the family is defined as whichever parent earned the greater amount of money during the preceding 24-month period.

Retrospective Budgeting: Elimination of Supplemental Payments. Regulations issued pursuant to Chapter 1 and PL 97-35 prohibit the issuance of supplemental payments. Due to the method by which AFDC grants are calculated, a family which had a significant amount of earned income in one month could receive a grant in the following month which was less than 80 percent of the maximum payment level. In such cases, the state issued a supplemental payment to the recipient to cover the difference, up to a maximum of 80 percent of the maximum aid payment. Budgeting for these payments for the current year is discussed more fully below.

Caseload and Fiscal Impact of Changes. The budget estimates General Fund savings of $28.1 million during 1981–82 resulting from implementation of Chapter 1. During 1981–82, the Department of Social Services (DSS) estimates that AFDC grants to 23,280 cases will be reduced, and 25,550 cases will no longer be eligible for grants.

The full year savings anticipated by the budget in 1982–83 is $61.0 million. According to DSS, 60,160 cases will experience grant reductions and an additional 32,660 will no longer be eligible for assistance during 1982–83. A portion of the ineligible cases and grant reductions shown in 1982–83 are

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simply the continuation of actions anticipated in 1981–82. The major increase in savings in 1982–83 is due to restrictions on the $30 plus one-third earned income disregard for individual AFDC recipients, which takes effect gradually. Tables 9 and 10 display the estimated caseload and fiscal impact of the provisions enacted pursuant to Ch 1x/81.

Table 9
Number of Cases Affected
AFDC Program Changes
Contained in Chapter 1, Statutes of 1981, First Extraordinary Session
1981–82 and 1982–83

	1981–82[a]		*1982–83*		*Difference*	
Provision	*Grant Reductions Cases*	*Ineligible Cases*	*Grant Reductions Cases*	*Ineligible Cases*	*Grant Reductions Cases*	*Ineligible Cases*
Earned income disregards	17,300	3,160	54,220	9,790	36,920	6,630
Income: Limit eligibility to 150 percent of need standard	—	21,480	—	21,890	—	410
Unemployed parent: principal wage earner	—	910	—	980	—	70
Retrospective budgeting: eliminate supplemental payments	5,980	—	5,940	—	−40	—
Totals	23,280	25,550	60,160	32,660	36,880	7,110

[a] Assumes January 1, 1982 effective date for all grant and eligibility adjustments. Therefore, cases shown in 1981–82 are only affected for six months.
Source: Department of Social Services.

Table 10
General Fund
Fiscal Impact of AFDC Program Changes[a]
Contained in Chapter 1, Statutes of 1981, First Extraordinary Session
1981–82 and 1982–83
As Estimated in the 1982–83 Budget
(in millions)

	1981–82			
Provision	*State Savings*	*Additional State Cost Due to Lost Federal Funds*[b]	*Net General Fund Fiscal Impact*	*1982–83*
Earned income disregard	−$11.4	$25.2[c]	$13.8	−$33.4
Income: Limit eligibility to 150 percent of need standard	−13.3	4.3	−9.0	−21.9
Unemployed parent: principal wage earner	−0.8	0.2	−0.6	−1.2
Retrospective budgeting: elimination of supplemental payments	−2.7	0.9	−1.8	−4.5
Totals	−$28.2	$30.6	$2.4	−$61.0

[a] Budget assumes all counties fully implemented grant and eligibility changes so that savings began on January 1, 1982. All numbers include both grant and administrative costs.
[b] Potential cost to replace federal funds based on assumption that federal government will not share in the cost of these portions of the AFDC program.
[c] Assumes that the federal government will discontinue all aid to all cases with earned income disregards whether or not the new limits are exceeded. Because a large proportion of those receiving earned income disregards are below the ceiling for deductions, this assumption may overstate the amount of federal aid lost.

Lost Federal Aid. The budget assumes that federal financial participation in the cost of benefits that exceeded the levels authorized by PL 97-35 will be denied for the months of November and December 1981. This will require corresponding increases in General Fund grant and administration expenditures, amounting to $30.6 million, and increases in county costs totaling $9.6 million during 1981–82. Federal officials advise that "compliance proceedings" may be initiated against states which failed to comply with the provisions of PL 97-35 by the beginning of January 1982. The Department of Social Services advises, however, that no formal notification of intent to withhold or withdraw federal funds has been received by the state. Until the federal government takes such action, we are not able to determine the extent to which additional General Fund costs will actually be incurred due to lost federal aid, nor are we able to identify the time period to be covered by any recoupment effort.

Additional Changes Required by PL 97-35. The provisions of Ch 1x/81 do not provide for several program changes needed to conform with PL 97-35, and which require amendments to state law. These additional changes would be made by AB 2x (Lockyer) which was in Conference Committee on January 15, 1982. The 1982–83 budget assumes passage of this or similar legislation in time to permit counties to fully implement the program changes by April 1, 1982. The budget reflects estimated 1982–83 General Fund savings of $22.6 million from the implementation of these additional provisions. During the current year, the budget anticipates savings from this legislation of $10.7 million, offset by anticipated General Fund costs of $13.5 million to replace lost federal aid from November 1981 through March 1982.

Modified Cost-of-Living Increases to Public Assistance Programs

Chapter 69, Statutes of 1981 (SB 633) temporarily suspended statutory cost-of-living increases for the AFDC, Supplemental Security Income/State Supplementary Payment (SSI/SSP), and In-Home Supportive Services programs for 1981–82, and made a number of amendments to state law which were expected to result in General Fund savings of $174.3 million. Chapter 69 provided a 9.2 percent cost-of-living increase to public assistance programs for 1981–82, in lieu of the 11.1 percent increase called for by the formula in existing state law. Due primarily to implementation delays and subsequent actions taken by the federal government and the courts, some of the savings anticipated from this measure will not occur. Table 11 summarizes the major provisions of Ch 69/81 related to AFDC cash grants and county administration. Amendments to other programs affected by Chapter 69 are discussed in our analyses of the respective budget items.

Cost-of-Living Increase. The 1981–82 budget requested funds to provide a 4.75 percent increase in maximum aid payments, in lieu of the 11.1 percent increase required by state law. Chapter 69 provided a 9.2 percent increase instead which resulted in additional General Fund costs of $63.6 million over the amount proposed by the Governor. Because the 9.2 percent increase was less than required under current law however, Ch 69 resulted in savings of $28.2 million in 1981–82.

Limit AFDC-U. This measure limited eligibility for the state-only AFDC-U program to families where neither parent is employed full-time and neither parent qualifies for assistance under the federal program. The Department of Social Services estimates that 1,220 cases in 1981–82 and 1,440 cases in 1982–83 will be ineligible for AFDC as a result of this provision. (Chapter 1, Statutes of 1981, First Extraordinary Session, further restricted eligibility for the AFDC-U program to those families where the "primary wage-earner" is unemployed.)

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Table 11
General Fund Annual Fiscal Impact of Chapter 69, Statutes of 1981[a] AFDC Program Changes 1981–82 and 1982–83 (in millions)

	1981–82			
	1981 Budget Act Appropriation	*Governor's 1982 Budget Estimates*	*Difference*	*1982–83*
Provide 9.2 percent COLA[b] in lieu of 11.1 percent required by state law	−$28.2	−$29.8	−$1.6	−$31.1[c]
Limit state AFDC-U	−7.3	−7.2	0.1	−8.6
Mandate recipients to apply for unemployment insurance	−5.0	−3.6	1.4	−3.9
Reduce need standard	−3.4	−3.3	0.1	−3.3
Limit aid to specified essential persons	−0.5	−0.3	0.2	−0.3
Limit aid to 18–20 year olds	−26.9	−19.6	7.3	−22.7
Monthly payment issuance	−0.4	—	0.4	—
Reduce child support incentive payments	−7.2	−7.4	−0.2	−7.5
Establish emergency assistance payments	−7.5	−7.5[d]	—	−7.5[d]
Totals	−$86.4	−$78.7	$7.7	−$84.9

[a] Source: Governor's Budget and enrolled bill analysis of Department of Finance. Includes both grant and administration costs.
[b] 1981–82 budget proposed 4.75 percent COLA to AFDC maximum aid payments. Therefore, the 9.2 percent increase provided by this measure resulted in increased General Fund costs above the level proposed in the Governor's Budget.
[c] Estimated, based on the rate of increase in General Fund costs for AFDC between 1981–82 and 1982–83.
[d] Although this savings is included in the Governor's Budget estimates for 1981–82 and 1982–83, the federal government has not approved the transfer of these funds to the state.

Unemployment Insurance. Chapter 69 required all eligible AFDC recipients to apply for and receive unemployment insurance benefits (UIB). Under existing state regulations, monthly AFDC grants are reduced by the amount of any unemployment insurance benefits received. The 1981 Budget Act estimated that the sum of these individual grant adjustments would result in General Fund savings of $5.0 million during 1981–82. This estimate, however, assumed unemployment insurance benefits (UIB) would be received beginning July 1, 1981. In practice, AFDC recipients who applied for UIB in July received payments in August. Due to the prior month budgeting system, income received by AFDC recipients in August was reported in September for purposes of calculating the October 1981 monthly grant. As a result of this three-month delay, DSS has reestimated 1981–82 General Fund savings to be $3.6 million, a reduction of $1.4 million from the earlier estimates.

Limit Aid to Children Over 17. Chapter 69 allows AFDC benefits to minors aged 18, 19, and 20 only if the child is a full-time high school student. This provision was modified by the court's ruling in the *Davis v. Woods* case, which restored eligibility to 18, 19, and 20 year-olds if they were enrolled in vocational or technical schools. As a result of this ruling and the fact that fewer-than-anticipated 18, 19, and 20 year-olds are in foster care, the General Fund savings estimate has been reduced by $7.3

million. Pending legislation, AB 2x would conform state law to the provisions of PL 97-35 by prohibiting aid to any minor aged 19 or over, and allowing aid to 18 year-olds only if they are enrolled in high school or equivalent training programs and are scheduled to complete the program before they reach the age of 19.

Child Support Incentive Payments. Chapter 69 provided that the counties would receive incentive payments of 15 percent of child support collections. This was less than the 27.75 percent incentive payment provided to the counties during 1980–81 by the state (12.75 percent) and federal (15 percent) governments. Chapter 69 further stipulated that the state would not provide General Fund support for the incentive payments unless the federal government required a state match. Deletion of the state incentive payment was estimated to save $13.3 million from the General Fund if no state match was required, and $7.2 million if a state match was required. The federal government did not require a state match during 1981–82. Subsequent state legislation (Ch 968/81), however, reinstated the 7.5 percent state incentive payment to counties.

Emergency Assistance Program. Chapter 69 provides that $10.0 million in federal funds from an anticipated federal emergency assistance block grant would be expended for emergency assistance payments to children who normally would not qualify for federal assistance during the first 30 days of placement in foster care. In legislative action on the 1981 Budget Act, this $10.0 million in anticipated federal funds was used to replace $7.5 million from the General Fund initially proposed for AFDC-foster care payments and $2.5 million from the General Fund proposed for social services to children. The $7.5 million savings to the General Fund is identified in the proposed budget for both 1981–82 and 1982–83. The Department of Social Services, however, advises that the federal government has denied the proposed state plan for emergency assistance payments to children in foster care. Unless the federal government reverses this decision, the amount of General Fund Support required for AFDC grant payments in 1982–83 may be understated by $7.5 million.

BENEFITS AVAILABLE TO AFDC RECIPIENTS

In addition to the monthly cash grant, AFDC recipients may qualify for and receive a variety of other benefits. Some of these additional benefits, such as Medi-Cal and child care services, are available to AFDC recipients because they are categorical public assistance recipients. Other benefits, such as public housing and social security benefits, are available to AFDC recipients to the extent that they meet specific eligibility criteria and, in the case of public housing, that recipients are accepted into the program.

The following is a discussion of the major benefits available to AFDC recipients in addition to their monthly cash grants. The discussion focuses on the benefits as they were in 1980–81, the latest year for which data is available on actual utilization. It should be noted that, in addition to the benefits discussed below, AFDC recipients may:

- utilize a variety of social services, including family planning, provided by local agencies,
- participate in the Work Incentive (WIN) program and other employment related services,
- participate in the Women, Infants, and Children Nutrition program if pregnant or if they have children under five years of age.

In addition, approximately 50,000 AFDC families shared their household with a recipient of SSI/SSP grants during 1980–81.

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Medi-Cal. The Medi-Cal program, administered under Title XIX of the federal Social Security Act, provides funds to health care providers for the cost of care delivered to public assistance recipients, and other medically needy or medically indigent persons. All AFDC recipients are eligible for Medi-Cal health care. During 1980–81, 550,910 persons, or 37.0 percent of all AFDC recipients, utilized Medi-Cal reimbursed fee-for-service care. An undetermined number of additional AFDC recipients utilized other Medi-Cal services provided through prepaid health plans, dental plans, and other categories of service paid for on a per-capita basis. The average monthly cost of fee-for-service Medi-Cal services utilized by AFDC recipients during 1980–81 was $125.

Unemployment Insurance. Unemployment Insurance (UI) supported by employer contributions provides weekly cash payments to unemployed persons who are actively seeking work. Approximately 37,610 AFDC recipients also received UI benefits in 1980–81. Of this number, 87 percent qualified for AFDC due to the unemployment of the parent of a dependent child.

The amount of weekly UI benefits depends upon the amount of earnings received during a base period of employment. The average weekly benefit for *all* unemployment insurance beneficiaries was $85 in 1980–81. The average weekly UI benefit received by AFDC recipients in 1980–81 was $61 ($245 per month).

Food Stamps. The purpose of the food stamp program is to ensure an adequate level of nutrition among low-income households by providing food stamps at no cost to eligible households. Eligibility for food stamps is based on net income and resources available to the household after allowable deductions. The amount of food stamps awarded is based on monthly income and household size. Because of low household income, most AFDC households qualify for food stamps. In 1980–81, 1,070,601 persons receiving AFDC also benefited from the food stamp program. The average cash value of food stamps used by each of these 1,070,601 individuals was $27 according to the Department of Social Services.

AFDC Special Needs. This small program provided average allowances of $17 to 24,420 AFDC recipients during 1980–81 for special needs such as prenatal nutrition.

Social Security. The retirement, survivors, disability, and health insurance (RSDHI) program provides benefits to retired and disabled workers and their dependents and to survivors of insured workers. It also provides health insurance benefits for persons aged 65 and over and for the disabled under age 65. According to statistics compiled by the Department of Social Services, 55,940 AFDC recipients also received RSDHI payments averaging $49 per month during 1980–81. RSDHI payments are counted as income for AFDC grant purposes. As a result, individual AFDC grants are reduced by the amount of the RSDHI payment, less specified deductions.

Child Care. Several alternative child care programs may be available to AFDC recipients depending on where they live. The Office of Child Development (OCD) in the Department of Education provides subsidies on behalf of children from AFDC families to a network of child care centers throughout the state. In 1980–81, an estimated 42,861 children received subsidized child care in OCD-supported centers, at an average cost of $117 per child per month.

Another child care resource available to AFDC families in 1980–81 was the "income disregard" mechanism. Under this arrangement, individual

AFDC families select and pay for child care, and are then allowed to deduct the cost of the care from net countable income for puposes of AFDC grant calculation.

In 1980–81, approximately 130,000 children received child care through this indirect subsidy. These families reduced their countable income an average of $119 per month. The federal Omnibus Reconciliation Act of 1981 limits these child care deductions to a maximum of $160 per child, effective October 1, 1981.

Housing Programs. Several housing assistance programs are available to low- and moderate-income households. Based on median income figures calculated annually for each county by the federal Department of Housing and Urban Development, these households may receive (a) subsidized shelter as tenants in public housing complexes owned and operated by local public housing authorities or (b) rental assistance in new or rehabilitated units owned by public or private agencies. The availability of housing assistance and income eligibility thresholds vary among the counties. It is estimated that in 1980–81, approximately 25,077 AFDC recipients resided in public housing and an additional 143,970 individuals receiving AFDC also received rental assistance.

Low-Income Energy Assistance. During 1980–81, $74.8 million was made available in California to provide cash assistance to low-income households to help pay the cost of energy. Categorical public assistance recipients, such as AFDC recipients, are automatically eligible for this assistance, which is not counted when calculating the amount of the cash grant. During 1980–81, approximately 139,846 AFDC recipients received a cash grant under this program. The average annual benefit received in 1980–81 was $158. This program was converted to a block grant by the Omnibus Reconciliation Act of 1981 (PL 97-35), which requires that a "reasonable" amount be earmarked for energy crisis assistance and allows the state to use up to 15 percent of the block grant for weatherization in 1981–82 and 1982–83.

Other Cash Income. In addition to the benefits described above, some AFDC recipients receive other cash income in the form of child support payments, contributions from members of their households who do not receive AFDC and from their own earnings. This other income is available to the recipient in addition to the actual AFDC grant awarded each month, even though the actual cash grant may be reduced from the maximum aid payment by some portion of the other income received.

Value of Benefits Available by Household Size. Table 12 identifies the cash value of selected benefits for three-, four-, and five-person households. The table assumes that no cash income other than the maximum AFDC grant was available to the household. Other noncash benefits, however, have been added to the maximum grant. As shown in Table 12, a three-person AFDC family could have received annual assistance totaling $10,958, not counting a rental subsidy. Because no reduction is made to the AFDC grant to account for housing assistance, a similarly situated family in an area where subsidized rental housing was available could have received $2,784 in additional assistance, for a total assistance package of $13,742. Table 12 also shows that a five-person household could have received $21,014 (including a rental subsidy) in 1980–81.

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Table 12
Monthly Value of Benefit Package Available to AFDC Recipients
Selected Household Sizes
1980–81

	Three-Person Household		*Four-Person Household*		*Five-Person Household*	
	With Rental Subsidy	*Without Rental Subsidy*	*With Rental Subsidy*	*Without Rental Subsidy*	*With Rental Subsidy*	*Without Rental Subsidy*
AFDC cash grant [a]	$468	$468	$557	$557	$635	$635
Medi-Cal [b]	139	139	185	185	232	232
Food Stamps [c]	59	59	79	79	98	98
Child care [d]	234	234	351	351	468	468
Rental subsidies [e]	232	—	305	—	305	—
Total monthly benefits	$1,132	$900	$1,477	$1,172	$1,738	$1,433
Annual benefits	$13,584	$10,800	$17,724	$14,064	$20,856	$17,196
LIEAP	$158	$158	$158	$158	$158	$158
Total annual benefits	$13,742	$10,958	$17,882	$14,222	$21,014	$17,354

[a] Average of maximum aid payments effective during the first and second six-month periods of 1980–81. Assumes no income received above maximum aid payment.
[b] Based on $46.33 per person per month.
[c] Based on probable food stamp bonus value received in 1980–81 ($19.64 per month). Individual household food stamp awards may vary.
[d] Assumes single parent households, all children enrolled in child care, and average cost of child care of $117 per month.
[e] Assumes two bedroom rental unit for three-person household. Four- and five-person households would qualify for three-bedroom units.

Value of Benefits Actually Utilized. Table 13 displays the number of AFDC recipients who actually utilized each of the benefits discussed above and the cash value of the benefits. Individual recipients may receive all of the benefits listed in Table 13. Most recipients, however, will only qualify for certain of the benefits. In addition, even though all recipients may qualify for a benefit like Medi-Cal, not every recipient will utilize the benefit each month. On the other hand, some recipients utilize Medi-Cal services far in excess of the $125 average cost shown in Table 13. In order to identify the cash value of these benefits to AFDC recipients, Table 13 shows both *average value* and the *probable or expected value* of each benefit.

Average Monthly Cash Value. The average monthly AFDC grant received in 1980–81 was $139.79 per person. This average grant includes a wide range of monthly cash assistance payments to households of various sizes. Each individual AFDC recipient qualified for a specific monthly aid payment somewhere within that range, based on household size and countable income. The average value of the AFDC monthly grant paid to each of the 1,488,909 recipients during 1980–81, however, was $139.79 per person, based on total cost of grant payments divided by the average number of recipients each month.

Probable Monthly Cash Value. The total probable cash value shown in Table 13 represents the monthly benefit package each of the 1,488,909 AFDC recipients could be expected to have received in 1980–81. In practice, of course, specific individuals received more or less than the probable value, based on their particular circumstances. In the aggregate, however, these individual differences combine to offset each other and produce the probable values shown in Table 13.

Because all of the 1,488,909 AFDC recipients qualified for and received the AFDC payment, the probable value of the AFDC grant to each of the recipients was the average monthly cash grant of $139.79 or $419.37 for a family of three. Not all AFDC recipients utilized each of the other benefits to the same degree, however, due to specific eligibility criteria, regional variation in availability of some services (for example, public housing and child care) and individual characteristics (for example, pregnancy or deceased parent). To account for these variations in the utilization of each benefit, the cash value of each benefit was adjusted, based on incidence of use. For example, 71.9 percent of AFDC recipients received food stamps which averaged $27.32 in value per month. The incidence of food stamp benefits in the AFDC population is thus 71.9 percent and the probable value of such payments to each of the 1,488,909 AFDC recipients was $19.64 ($27.32 × .719 = $19.64).

Table 13

Monthly Utilization of Benefits Available to AFDC Recipients In Addition to Basic Cash Grant 1980–81

Benefit	*Number of Persons who Utilized Benefit*	*Percent of Total AFDC Caseload*[a]	*Average Cash Value of Benefit Received*[b]	*Probable Value of Benefit to Individual AFDC Recipients*	*Probable Value of Benefit to Family of Three*
AFDC cash grant	1,488,909	100.0%	$139.79	$139.79	$419.37
Medi-Cal[c]	550,910	37.0	125.22	46.33	138.99
Unemployment insurance	37,610	2.5	245.00	6.19	18.57
Food stamps	1,070,601	71.9	27.32	19.64	58.92
AFDC special needs	24,420	1.6	17.00	0.28	0.84
Social Security payments	55,940	3.8	48.67	1.85	5.55
Child care[d]	42,861	2.9	117.00	3.37	10.11
Public housing[e]	25,077	1.7	39.00	0.66	1.98
Rental subsidies[e,f]	143,970	9.7	77.33	7.50	22.50
LIEAP	139,846	9.4	158.00[g]	14.84	44.52
Other cash income[h]	97,826	6.6	60.67	3.99	11.97
Total probable monthly value of benefits (without LIEAP)	1,488,909	100.0%	N/A	$229.60	$688.80
Total probable annual benefits (with LIEAP)	1,488,909	100.0%	N/A	$2,770.04	$8,310.12

SOURCE: Department of Social Services, Office of Economic Opportunity, Department of Health Services, federal Department of Housing and Urban Development, State Department of Housing and Community Development.

[a] Percentage figures do not total 100 percent because some recipients utilized more than one benefit.

[b] These are the average cash values to *persons* who actually utilized each benefit. There are three persons in the average AFDC case.

[c] Fee-for-service users only. Other Medi-Cal service categories, such as dental and prepaid health plans, are paid for on a per-capita basis. Data on the utilization of these fee-for-service categories by public assistance recipients is not available at this time.

[d] Includes only subsidized child care provided through the Office of Child Development in the State Department of Education.

[e] Housing assistance caseloads are based on a two-bedroom household with three members with monthly income of $473. Housing authorities and state and federal departments do not maintain specific data on the number of public assistance recipients who reside in subsidized housing.

[f] Includes assistance under Sections 8 and 23 of the federal Housing and Urban Development Act and the Farmer's Home Administration's Rental Assistance program.

[g] This amount was received in lump sums rather than on a monthly basis.

[h] Includes contributions from absent parents and other persons in the households and earned income. Does not include in-kind income.

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Interrelationship of Cash Benefits. Table 13 includes several benefits which provide cash payments to AFDC recipients. Under current regulations, income received from most sources, less specified exclusions, is deducted from the maximum aid payment to determine the actual monthly grant award for each AFDC household. For example, gross earned income is reduced by allowable work-related and child care costs, as well as by a standard deduction amount, and then subtracted from the maximum aid payment for the specific household size to determine the appropriate grant level. These deductions, however, are not applied to income received in the form of unemployment insurance benefits, which result in dollar-for-dollar grant reductions. A third example of how income is treated in the AFDC program is illustrated by the Low-Income Energy Assistance program. Cash payments received under this program are not considered in the calculation of AFDC grant awards.

The effects of these interactions between the AFDC grant and other sources of income is captured in the amount of the average AFDC cash grant actually received in 1980–81. As a result, probable cash values of other income benefits, such as social security payments, are not double-counted when considered in addition to the AFDC grant.

CHILD SUPPORT ENFORCEMENT PROGRAM—REVIEW OF PROGRAM PERFORMANCE

Background. The Child Support Enforcement Program is a revenue-producing program administered by district attorneys' offices throughout the state. Through this program, the district attorneys locate absent parents, establish paternity, and obtain and enforce court-ordered child support payments. This service is available to welfare recipients and nonwelfare families. Child support payments collected on behalf of AFDC recipients are used to reduce state, county, and federal welfare costs. Collections made on behalf of nonwelfare clients are distributed directly to the client.

The Child Support Enforcement program has three fiscal components: (1) administrative costs, (2) welfare recoupments, and (3) incentive payments. The *administrative costs* of child support enforcement for both welfare and nonwelfare clients are paid by the federal (75 percent) and county (25 percent) governments. Welfare recoupments are shared by all three levels of government according to how the cost of AFDC grant payments are distributed among them. In addition to paying 75 percent of the administrative costs, the federal government makes additional *"incentive" payments* to counties for child support enforcement, equal to a standard percentage of AFDC collections. In California, the state provides a separate incentive payment to counties, in addition to the federal payment.

Table 14 shows proposed 1982–83 funding for the Child Support Enforcement program. As displayed in Table 14, this program is expected to result in net savings of $54,713,000 to the General Fund and $9,911,000 to counties during 1982–83. The federal government, on the other hand, is expected to spend $41,255,000 more than it receives from California's child support program during 1982–83.

Table 14
Fiscal Impact of the Child Support Enforcement Program Proposed in 1982–83 (in thousands)

	Federal	*State*	*County*	*Total*
County administration				
AFDC	$72,075	—	$24,025	$96,100
Nonwelfare	15,842	—	5,280	21,122
State administration	3,350	$1,165	—	4,515
AFDC grant recoupment	−71,310	−66,527	−7,814	−145,651
Incentive payments	21,298	10,649	−31,402	545
Totals	$41,255	−$54,713	−$9,911	−$23,369

Child Support Total Collections. The major objective of the Child Support Enforcement program is to assure the collection of support obligations. Therefore, one measure of the performance of this program is total collections. Table 15 shows that statewide collections of child support payments increased at an average annual rate of 12.0 percent between 1976–77 and 1980–81. Throughout this period, child support collections for AFDC cases comprised slightly more than 50 percent of all child support collections in the state.

Table 15
Total Statewide Child Support Collections [a] 1976–77 to 1980–81 (in millions)

	AFDC		*Non-AFDC*		*Total*	
Year	*Amount*	*Percent of Total*	*Amount*	*Percent of Total*	*Amount*	*Percent Increase*
1976–77	$68.8	54.1%	$58.4	45.9%	$127.2	—
1977–78	82.0	52.6	73.9	47.4	155.9	22.6%
1978–79	86.7	51.0	83.3	49.0	170.0	9.0
1979–80	93.8	50.3	92.7	49.7	186.5	9.7
1980–81	102.6	51.6	96.3	48.4	198.9	6.6

Source: Department of Social Services Child Support Management Information System.
[a] Excludes collections on behalf of children residing in other states.

Recoupment Rate. While total collections are one indication of the program's performance, this measure does not address a second objective of the program: to reduce the amount of public funds expended on public assistance. A commonly used measure of this objective is the percentage of total AFDC grant expenditures actually recouped through the program. Table 16 shows California's AFDC child support collections as a percent of AFDC expenditures during the period 1976–77 to 1982–83. During this period, California recouped an average of 4.3 percent of its AFDC expenditures through child support collections.

Estimates for 1981–82 and 1982–83 anticipate significant increases in AFDC child support collections, due to the implementation of new enforcement tools—primarily an automated income tax refund intercept system developed in conjunction with the Internal Revenue Service. Without this significant increase in collections, the recoupment percentage would invariably decrease annually as AFDC payments are adjusted upward by cost-of-living increases. While state law adjusts maximum aid payments for inflation, no such automatic adjustment is required for child support orders.

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Table 16
AFDC Child Support Collections as Percent of Statewide AFDC Expenditures—All Funds
1976–77 through 1982–83
(in millions)

	AFDC Child Support Collections	*Total AFDC Grant Expenditures*[a]	*AFDC Collections as Percent of Grant Expenditures*
1976–77	$68.8	$1,720.2	4.0%
1977–78	82.0	1,836.4	4.5
1978–79	86.7	1,838.1	4.7
1979–80	93.8	2,137.3	4.4
1980–81	102.6	2,709.1	3.8
1981–82 (Estimated)	126.6[b]	3,019.4	4.2
1982–83 (Proposed)	145.7[b]	3,269.7	4.5

Source: Governor's Budget, Child Support Management and Information System.
[a] Does not include grant payments to the Aid For Adoption of Children Program.
[b] Anticipates large increases in collections due to addition of new enforcement tools, primarily interception of income tax refunds by the Internal Revenue Service.

Comparison with Other States. It is difficult to assess California's annual recoupment rate of 4.3 percent over the past 7 years without comparing it with recoupment rates achieved by other states. Table 17 compares California's recoupment rate for FFY 78 (4.0 percent) with that of the nine other largest states. Among these states, Michigan (9.3 percent) had the highest recoupment rate and Illinois (1.5 percent) had the lowest. The average recoupment rate among the 10 largest states was 4.4 percent, and the nationwide average was slightly higher, at 4.5 percent. Not included in Table 17 is Utah (11.2 percent), the best performer in terms of AFDC recoupment. Based on this data, we conclude that California's performance was slightly below average in 1978.

Table 17
AFDC Child Support Collections as Percent of Total AFDC Grant Expenditures
10 Largest States
Federal Fiscal Year 1978

Michigan	9.3%
Massachusetts	5.6
Ohio	4.7
Texas	4.6
New Jersey	4.2
California	4.0
Pennsylvania	4.0
Florida	3.2
New York	2.4
Illinois	1.5
Average for 10 largest states	4.4
Nationwide average	4.5

Source: U.S. Senate, Committee on Finance, Committee Print 96-30.

County Comparisons. The statewide recoupment rate consists of the individual recoupment rates for all counties. There is, however, a great deal of variation in these rates among counties. This variation may be caused by a number of factors, including income levels, number of families receiving AFDC, population mobility, number of employees, program management, and court attitudes toward child support. The Department of Social Services (DSS) has developed a regression model which adjusts for social and economic characteristics, such as median income and AFDC caseload, and predicts the expected child support recoupment percentage for individual counties. In other words, the predictor model identifies the recoupment rate a county could be expected to achieve, given its demographic and economic characteristics. If the model functions accurately, any recoupment above the prediction indicates the county is performing better than could be expected. Lower recoupment rates than predicted indicate the county could collect a greater percentage of AFDC expenditures.

Table 18 compares the expected rates generated by the predictor model with the actual recoupment rates achieved by the 11 largest counties between October 1978 and September 1980. As shown by Table 18, Orange County actually collected 14.2 percent of AFDC payments during this period through its child support enforcement efforts. Because the predicted recoupment rate for Orange County was only 12.9 percent, this indicates that Orange County is more effective in collecting on AFDC child support obligations than one would expect it to be, given its demographic and economic characteristics. Three of the 11 counties, Los Angeles, Riverside, and Santa Clara, however, performed at a level lower than expected, given their social and economic characteristics.

Table 18

AFDC Child Support Collections as Percent of AFDC Expenditures 11 Largest Counties October 1978 to September 1980

	Actual Average	*Predicted Average*[a]	*Difference*
Alameda	5.1%	4.3%	0.8%
Contra Costa	8.0	7.7	0.3
Fresno	7.0	6.1	0.9
Los Angeles	3.5	5.2	−1.7
Orange	14.2	12.9	1.3
Riverside	5.5	7.7	−2.2
Sacramento	7.2	7.1	0.1
San Bernardino	8.8	8.1	0.7
San Diego	9.7	8.8	0.9
San Francisco	6.1	5.3	0.8
Santa Clara	6.6	10.1	−3.5

Source: Department of Social Services
[a] Predictions adjust for social and economic factors.

Effect of Low Recoupment Rates in Counties. Based on the DSS predictor model, 28 counties recouped a lower percentage of AFDC grant expenditures between October 1978 and September 1980 than could be explained by the counties' demographic make-up. Our analysis indicates that if the three counties shown in Table 19 with lower than expected recoupment rates increased their collections in 1982–83 to the predicted

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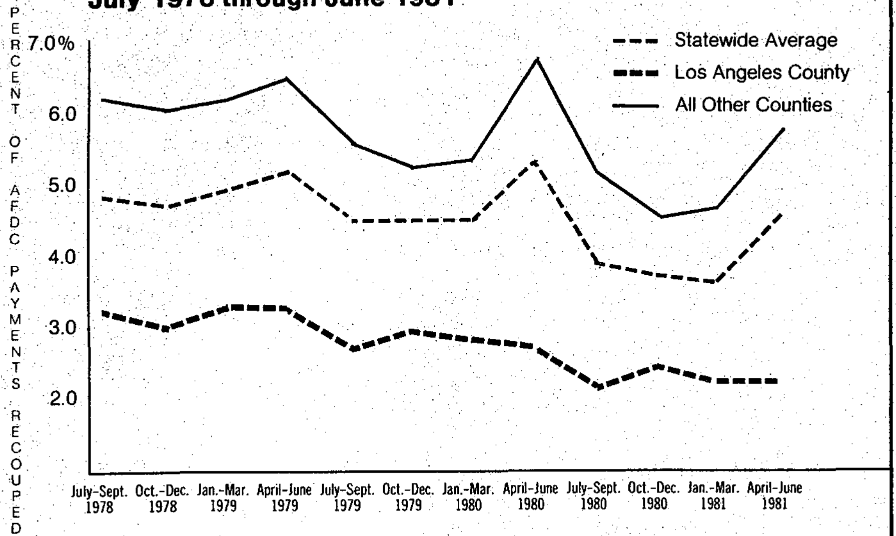
level, child support collections would increase by $28.5 million. The General Fund share of the increased collection from these three counties alone would be $13.4 million, based on current recoupment sharing rates.

Los Angeles County alone could increase revenues to the General Fund by $10.3 million, by increasing collections from 3.5 percent to 5.2 percent of its AFDC expenditures. Such an increase, however, would require a 49 percent increase in productivity for the county. Our analysis indicates that, historically, Los Angeles has pulled down the average statewide recoupment rate. Chart 3 displays this trend.

Chart 3

AFDC Child Support Recoupment Rates Statewide and Los Angeles County

July 1978 through June 1981



Other measures of productivity confirm this finding. In 1980–81, the state as a whole collected $1.40 for every dollar spent on AFDC child support administration; Los Angeles collected 88 cents. During 1980–81, the average collection per staff member throughout California was $15,978; in Los Angeles, the average collection per staff member was $10,249.

Incentive Payments. The performance of Los Angeles County is crucial to the statewide collection program, because of its size and the proportion of total AFDC grant expenditures made in this county. Los Angeles is not the only county, however, which performs at a level below expectations. Variations in county performance beyond that "explained" by the DSS predictor model can be attributed primarily to county program administration. Each county determines the allocation of resources among the major program functions of parent location, establishment of obligations, and enforcement of payment. Counties also vary in their attorney and nonattorney staffing patterns, and in their choice of enforcement tools, which range from wage assignment to criminal proceedings. Under existing law, each District Attorney's office has virtually complete discretion to determine which enforcement tools it will use.

The state and federal governments provide incentive payments to counties based on the percent of AFDC payments recouped in order to encourage AFDC collections. These incentive payments, however, are provided to all counties at the same rate (that is, the same percentage of AFDC payments), regardless of their performance. The current incentive payment structure has not induced district attorneys to use their discretion so as to improve child support collections.

Table 19 compares the percentage change in incentive payments with changes in statewide AFDC collections and recoupment rates. As shown in Table 19 there is no clear relationship between the percentage of incentive payments provided to counties and county performance, as measured by changes in total collections and the AFDC recoupment rate. For example, in 1979–80 the incentive payments increased from 15.0 percent to 30.0 percent and total AFDC collections increased by only 8.2 percent. In that same year, the AFDC recoupment rate actually decreased by 7.0 percent. The introduction of new enforcement tools, such as the IRS intercept in 1981–82, may have a more significant impact on total collections than shifts in the flat percentage incentive payments.

Table 19

Comparison of Fluctuations in Incentive Payment Percentage With Total AFDC Collections and AFDC Recoupment Rate 1977–78 through 1982–83

	Incentive Payment[a]		*AFDC Collections*	*AFDC Recoupment Rate*
	As Percent of Collection	*Percent Change*	*Percent Change*	*Percent Change*
1977–78	27.75%	—	19.2%	12.0%
1978–79	15.0[b]	−45.9%	5.7	5.6
1979–80	30.0	100.0	8.2	−7.0
1980–81	28.88[c]	−3.7	9.4	−13.7
1981–82 (Estimated)	18.75[c]	−35.1	23.4	10.6
1982–83 (Proposed)	22.75	21.3	42.0	6.4

[a] Combined state and federal incentive payments.
[b] Ch. 292/78 eliminated the state share of child support incentive payments and provided direct State funding of county administrative costs. State incentive payments were restored in 1979–80.
[c] Average of first six months and second six months.

We recommend legislation be enacted to revise the current incentive payment structure in order to encourage improved county performance in child support enforcement and collection.

The Child Support Enforcement Program in California is expected to result in General Fund savings of $54.7 million in 1982–83. If this amount is realized, it will represent 4.5 percent of all AFDC grant expenditures in the state during the budget year. Our analysis indicates, however, that child support enforcement activities, measured by the AFDC recoupment rate, could be improved in at least 28 counties.

The major policy tool at the state's disposal to encourage improved county performance is the incentive payment. A review of how the state

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has used this tool during the period 1977–78 to 1982–83 reveals that the current incentive payment structure has not served as an incentive to better performance. Discussions with county staff indicate that the incentive payment is regarded primarily as an additional funding source available to the county, rather than as an integral part of the Child Support Enforcement program. In fact, the incentive payments received by most counties are deposited directly in the county General Fund, and thus are treated much in the same manner as general fiscal relief.

Our analysis indicates that a revised incentive payment structure might increase statewide child support collections. Because the current incentive payment structure provides each county with the same percentage payment for every dollar collected, it in fact provides no real "incentive" for counties to achieve improvement. Therefore, we recommend legislation be enacted to implement a revised incentive payment structure capable of providing such an incentive. Such legislation should include the following components:

- A standard percentage payment for all AFDC collections, perhaps lower than the current 7.5 percent state share. (All counties should continue to receive the federal incentive payments—15.0 percent in 1982–83.)
- Isolation of each county's predicted recoupment rate and enhanced incentive payments for performance above the predicted level.
- Enhanced incentive rates for improved performance that, even though it may not bring the county up to the predicted level, does result in increased collections. For example, a county could receive the 15 percent federal incentive payment without meeting its predicted recoupment rate. If the county increased its recoupment rate but did not meet its predicted rate, it could receive, for example, an additional 2.5 percent incentive payment. If the county surpassed its predicted performance rate, it would receive an additional payment of 5.0 percent of AFDC collections received.
- Reduced incentive payments for counties which have recoupment rates less than the predicted level.

BUDGET ISSUES

Data Processing Savings Not Budgeted

We recommend funds proposed for AFDC grants and associated cost-of-living adjustments be reduced to reflect estimated savings related to four data processing projects for a reduction of $29,466,000 ($12,353,000 from the General Fund and $17,113,000 in federal funds).

In a November 5, 1981 report to the Legislature, the Department of Social Services identified $11,631,797 in General Fund savings related to four data processing projects in the AFDC program. These projects are designed to (a) verify information available to eligibility workers by accessing existing automated data bases and (b) intercept funds that would otherwise not be collected. Based on this report and subsequent conversations with DSS staff, all of these projects are expected to be completed during 1981–82 and fully operational throughout 1982–83. The DSS state operations budget proposal includes $119,006 for the operation of these systems during 1982–83. None of the identified savings, however, has been considered in the estimates of General Fund requirements for the AFDC program during the budget year. Table 20 shows the DSS estimates of costs and savings for each of the four major projects during 1982–83.

Table 20
General Fund Fiscal Impact of Four Data Processing Projects
1982–83

	Ongoing Operating Costs[a]	*Annual Savings*	*Net Savings*
Social security payment information system	$19,424	–$5,800,000	–$5,780,576
AFDC overpayments—FTB intercept	64,090	–201,797	–137,707
UI/DI payment verification	19,314	–1,230,000	–1,210,686
Child support-employer identification	346,178[b]	–4,400,000	–4,053,822
Totals	$449,006	–$11,631,797	–$11,182,791

SOURCE: Department of Social Services
[a] Included in funds proposed in Item 5180-001, Support of Department of Social Services.
[b] Includes additional General Fund costs of $330,000 due to anticipated higher child support enforcement incentive payments and $16,178 in data processing costs.

Social Security Payment Information System. This DSS computer system, scheduled for completion December 31, 1981, matches social security numbers of AFDC recipients with records from the Social Security Administration which identify the amounts and type of social security (Retirement, Survivors', Disability, and Health Insurance) payments received by individuals. Information generated by this match will be relayed to county eligibility workers to compare actual social security payments with those reported by AFDC recipients. The Department of Social Services estimates that this system will result in avoidance of $14.2 million in grant costs (all Funds) due to the identification of income and adjustments to individual grants. The General Fund share of this savings is identified as $5.8 million annually.

AFDC Overpayments—Franchise Tax Board Intercept. The Franchise Tax Board (FTB) has the capability to intercept tax refunds due individuals who owe money to the state. Currently, DSS uses this FTB capability to intercept tax refunds from absent parents who owe child support payments to the state. This computer system expands this approach to intercept tax refund checks destined for individuals who are under court orders to repay willful client-caused AFDC overpayments. This system, scheduled for completion in December 1981, is estimated to result in recoupments of overpayments totaling $201,797 in 1982–83.

Unemployment and Disability Insurance Payment Verification. This system, scheduled for completion in March 1982, will match social security numbers of AFDC recipients with EDD records of individuals who received unemployment insurance (UI) and disability insurance (DI) payments. This information will be forwarded to county eligibility workers who will compare the actual payments with the amounts reported. Based on the average of UI and DI payment reporting errors over four six-month quality control review periods, DSS estimates that annual grant adjustments totaling $3 million will result from this computer match. The General Fund share of this cost avoidance is $1,230,000.

Child Support—Employer Identification. This system matches existing records of absent parents who are delinquent in court-ordered child support payments with the EDD employer wage file. This match yields

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employer addresses which are forwarded to district attorneys' offices for use in wage attachments. Based on estimates submitted to DSS by Los Angeles County, this match will result in General Fund savings of $4.4 million in 1982–83, due to increased child support collections.

Conclusion. The Department of Social Services anticipates that these projects will be completed during 1981–82. The 1982–83 budget proposal contains funds necessary to support the ongoing operation of the projects. The proposed budget, however, does not include the cost of increased child support incentive payments ($330,000) or the General Fund savings anticipated in the AFDC program (–$11,631,797). Because the implementation of these projects is expected to result in cost avoidance in the AFDC program, we recommend a General Fund reduction in Item 5180-101 of $11,302,000 ($11,632,000 – $330,000 = $11,302,000) and a corresponding reduction of $15,657,000 in federal funds. We recommend an additional $1,051,000 General Fund reduction from Item 5180-181-001 (a) which provides for an 8.8 percent cost-of-living increase to AFDC maximum payment standards, because the cost-of-living amount was computed on a base expenditure level which included the identified savings. This recommendation will result in total reductions of $12,353,000 to the General Fund and $17,113,000 in federal funds.

Ceiling on Federal Aid for Foster Care Maintenance Payments

We recommend a reduction of $3,049,000 requested from the General Fund to offset lost federal funds, because the federal government has not established a ceiling for federal aid for foster care payments during FFY 82.

The budget assumes that a ceiling will be established on the total amount of federal financial participation in the cost of foster care maintenance payments available to the state during federal fiscal year 1982 (FFY 82). This assumption is reflected in the budget as a request for increased General Fund support amounting to $3,985,000 in 1981–82 (FFY 81 and 82) and $3,049,000 in 1982–83 (FFY 82 and 83).

Our analysis indicates that the federal government has *not* established a cap on the federal share of the cost of foster care payments made during FFY 82. As a result the 1982–83 budget overstates the need for General Fund support.

Prior to FFY 81, the foster care maintenance payment program was considered by the federal government to be an open-ended entitlement program. Under the provisions of the federal Adoption Assistance and Child Welfare Act of 1980 (PL 96-272), a ceiling was placed on federal expenditures for this program during the period October 1980 through September 1981. Under PL 96-272, two conditions must be met in order for federal aid for foster care payments to be capped in FFY 82 and subsequent years. Neither of these two conditions (discussed below) has been met for FFY 82.

Child Welfare Services Appropriation. First, the federal appropriation for child welfare services under Title IV-B of the federal Social Security Act must be at or above specified trigger levels for each year. In FFY 82, this trigger is set at $220 million. The appropriation contained in the Third Continuing Resolution on the 1982 Budget, however, is $163.6 million.

Advance Funding. The second condition, that Congress provide a *final* appropriation for child welfare services prior to the beginning of the fiscal year in which the funds will be spent, has not been met. In order to have met this condition, Congress would have had to appropriate child welfare services no later than September 30, 1981. At the time this analysis was prepared, Congress had yet to enact a final appropriations bill for this program.

Under the provisions of PL 96-272, no cap on federal foster care payment costs is effective during FFY 82. State and federal officials advise that the federal government may limit federal foster care costs prior to the end of FFY 82. Because no limitation has been established, we recommend deletion of $3,049,000 requested from the General Fund and a corresponding increase in federal funds. This amount includes $1,047,000 proposed in Item 5180-181-001(a) for cost-of-living increases and $2,002,000 proposed in this item.

Discontinuation of 80 Percent Supplemental Payments

We recommend funds for 80 percent supplemental payments be deleted because these payments are no longer available, for a reduction of $11,431,000 consisting of $4,894,000 from the General Fund, $5,941,000 in federal funds, and $596,000 in county funds.

Background. Prior to the enactment of Chapter 1, Statutes of 1981, First Extraordinary Session, state regulations allowed supplemental payments to AFDC recipients whose monthly grants would otherwise have been less than 80 percent of the maximum payment level. Such supplemental payments were issued to recipients to bring the total monthly grant and other income up to a maximum of 80 percent of the maximum aid payment. To conform with federal law (Omnibus Reconciliation Act of 1981), these payments were eliminated by Chapter 1. Both the costs of the past payments and the savings associated with Chapter 1 are identified separately in supporting detail to the 1982–83 Budget.

Funds Not Deleted from Basic Costs. Under current state law and practice, counties submit claims to the Department of Social Services which identify total AFDC grant payments during each three-month period. The cost of supplemental payments provided to AFDC recipients have been included in these quarterly totals. In addition, these payments have been identified on a separate statistical report series (CA 1000) submitted by the counties.

Basic costs projected for the AFDC program in 1982–83 are based on actual average grants in 1980–81 as reflected in the quarterly county claims. Distinct estimates of the cost of 80 percent supplemental payments and the savings associated with the Chapter 1 elimination of this provision are also included in the proposed 1982–83 budget, based on information from the statistical report series (CA 1000). The Department of Social Services advises, however, that no adjustment was made in the basic cost estimate to eliminate the contribution to total cost of supplemental payments issued during 1980–81. As a result, the cost of these payments is counted twice in the estimates of 1982–83 expenditures. To correct this double-counting, we recommend a reduction of $10,456,000, consisting of $4,478,000 from the General Fund, $5,436,000 in federal funds and $542,000 in county funds. Because these amounts were included in the base used to calculate the cost-of-living increase requested for maximum aid payments, we further recommend a reduction in Item 5180-181-001(a) of the following amounts: $416,000 from the General Fund, $505,000 in federal funds and $54,000 in county funds. Therefore the total recommended reduction is $11,431,000, consisting of $4,894,000 from the General Fund, $5,941,000 in federal funds and $596,000 in county funds.

Department of Social Services

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED

Item 5180-111 from the General Fund — Budget p. HW 213

Requested 1982–83	$1,345,687,000 [a]
Estimated 1981–82	1,268,867,000
Actual 1980–81	1,285,533,000
Requested increase $76,820,000 (+6.1 percent)	
Total recommended reduction Item 5180-111	
Total recommended reduction	$25,649,000
Total recommended reduction Item 5180-181-001 (b)	($34,393,000)
Recommendation pending	$41,013,000

[a] This amount includes $306,371,000 proposed in Item 5180-181-001 (b) for cost-of-living increases.

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-111-001—Payments to Aged, Blind and Disabled		General	$1,039,316,000
5180-181-001 (b)—Payments to Aged, Blind and Disabled—COLA		General	306,371,000
Total			$1,345,687,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Caseload projections. Withhold recommendation, pending the May revision of expenditures, on $16,734,000 from the General Fund proposed to fund projected caseload increases because actual caseload data shows a decline in the number of persons receiving SSI/SSP. 1102
2. Retrospective budgeting. Withhold recommendation on $24,279,000 from the General Fund, pending the May revision of expenditures, due to potential reversal of federal retrospective budgeting requirement. 1104
3. ***Federal Fiscal Liability, Interim Settlement. Reduce by $13,549,000.*** Recommend funds anticipated as a result of interim settlement on amounts due to the state for federal payment errors from January 1974 to September 1979 be deleted from the proposed budget, for a General Fund reduction of $13,549,000. 1105
4. ***Federal Payment Errors, October 1979 to March 1980. Reduce by $12,100,000.*** Recommend (a) funds identified by the federal government as paid in error during the period October 1979 to March 1980, be deleted, for a General Fund reduction of $12,100,000, and (b) Budget Act language instructing the Department of Social Services to withhold this amount from monthly advances to the federal government. 1106

GENERAL PROGRAM STATEMENT

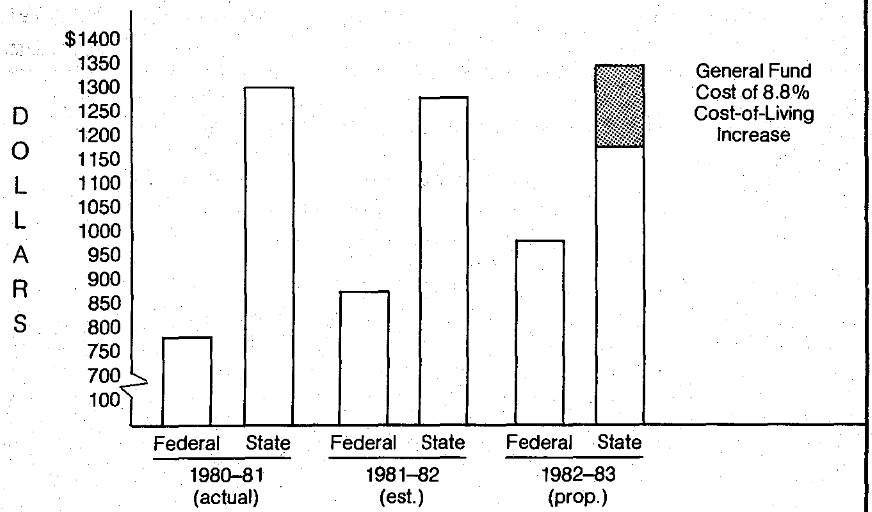
The Supplemental Security Income/State Supplementary Payment (SSI/SSP) program is a federally administered program under which eligible aged, blind, and disabled persons receive financial assistance. Eligibility for and the amount of cash assistance provided through the SSI/SSP program are determined on the basis of the income and resources of each elderly, blind, or disabled applicant, less specified exclusions. The federal and state governments share the grant costs of the SSI/SSP program. The federal government pays the cost of the SSI grant in all states, and the state pays the cost of the SSP program.

ANALYSIS AND RECOMMENDATIONS

Current-Year Deficiency

The budget estimates that there will be a General Fund deficiency in the SSI/SSP program of $8,195,000 during the current year. The deficiency is due primarily to higher-than-anticipated average monthly grant costs. Specifically, the 1981 Budget Act assumed an average monthly grant of $192.88 for 1981–82. The department's most recent estimate, however, is that the average monthly grant will be $199.03, or 3.2 percent higher than originally anticipated. The increase in average monthly grant costs is due to lower-than-anticipated average unearned income available to the total

Chart 1
SSI/SSP Expenditures
1980–81 through 1982–83
(in millions)



STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

SSI/SSP caseload. The amount of unearned income received by an individual reduces the amount of the cash grant. The estimate of the current-year deficiency is subject to modification during the May revision of expenditures.

Budget Year Proposal

The budget proposes an appropriation of $1,345,687,000 from the General Fund for the state share of the SSI/SSP program in 1982–83. This is an increase of $76,820,000, or 6.1 percent, over estimated current-year expenditures. Federal expenditures of $979,737,000 are proposed for 1982–83, an increase of $109,384,000, or 12.6 percent, over estimated current-year expenditures.

Total expenditures of $2,325,424,000 are proposed for the SSI/SSP program for 1982–83. This is an increase of $185,046,000, or 8.7 percent, over estimated current-year expenditures.

Chart 1 shows General Fund and federal expenditures for the SSI/SSP program during the period 1980–81 through 1982–83.

Table 1 shows 1981–82 and 1982–83 total expenditures, by funding source, for each of the three general categories of recipients. Total grants to aged recipients are proposed at $774.5 million, an increase of 5.3 percent above estimated current-year expenditures. In addition, the budget proposes $1,475.4 million, from all funds, for cash grants to disabled recipients. This is an increase of $138 million, or 10.3 percent, above estimated current-year expenditures. The budget also proposes $75.5 million for cash grants to blind recipients, an increase of 13.5 percent above estimated current-year expenditures.

Included within the amounts identified in Table 1 are SSI/SSP payments to refugees totaling $34.2 million in 1981–82 and $43.6 million in 1982–83. Of these amounts, $6.8 million from the General Fund would provide the state share of aid to refugees who are no longer eligible for 100 percent federal assistance in 1982–83. This is an increase of $2.1 million, or 44.7 percent, over 1981–82 General Fund expenditures for SSI/SSP payments to refugees.

Table 1
Total Expenditures for SSI/SSP
By Category of Recipient
1981–82 and 1982–83
(in millions)

Category of Recipient	*Estimated 1981–82*			*Proposed 1982–83*			*Percent Change*		
	Total	*Federal*	*State*	*Total*	*Federal*	*State*	*Total*	*Federal*	*State*
Aged	$735.4	$226.8	$508.6	$774.5	$254.8	$519.7	5.3%	12.3%	2.2%
Blind	66.5	24.5	42.0	75.5	28.0	47.5	13.5	14.3	13.1
Disabled	1,337.4	619.1	718.3	1,475.4	696.9	778.5	10.3	12.6	8.4
Refugees	(34.2)	(29.5)	(4.7)	(43.6)	(36.8)	(6.8)	(27.5)	(24.7)	(44.7)
Totals	$2,139.3	$870.4	$1,268.9	$2,325.4	$979.7	$1,345.7	8.7%	12.6%	6.1%

Proposed General Fund Budget Increases

Table 2 identifies the components of the proposed net increase of $76,820,000 in expenditures under the SSP program in 1982–83. This increase results from $211,278,000 in increased expenditures and $134,458,000 in offsetting reductions.

The major cost increase, $170,265,000, is the result of a proposed 8.8 percent cost-of-living adjustment to the maximum payment standards. In addition, caseload increases of 1.2 percent are projected to occur in the budget year, resulting in increased General Fund costs of $16,734,000. Finally, implementation of "retrospective budgeting" in April 1982, as required by the Omnibus Reconciliation Act of 1981 (Public Law 97-35), is expected to result in additional General Fund costs of $24,279,000 in 1982–83.

These increases are offset by anticipated reductions of $134,458,000 resulting from increases in recipients' unearned income and conversion of some community care facilities to intermediate care facilities. Increases in recipients' unearned income, which are due primarily to cost-of-living adjustments to social security payments, reduce individual recipients' monthly grants. In 1982–83, the net effect on the General Fund of these adjustments to individual grants is estimated to be a savings of $134,215,000. The budget also assumes a reduction in General Fund expenditures of $243,000 resulting from the establishment of a new health care facility category pursuant to Ch 59/81 (AB 2845), and the conversion of some community care facilities to the new category. Developmentally disabled residents of these facilities, which will be licensed as Intermediate Care Facilities for the Developmentally Disabled-Habilitative (ICF/DD-H), will no longer receive full SSI/SSP payments. Such payments will no longer be necessary because additional federal funds will be available for the care of these residents under the Medi-Cal Program.

Table 2
Proposed General Fund Budget Changes 1982–83
(in thousands)

	Amount	*Total*
1981–82 Current Year Revised		$1,268,867
A. Baseline Adjustments		
1. Basic caseload increase		16,734
2. Cost-of-living increase (8.8 percent)		
a. Total cost	$306,371	
b. Federal funds available for cost of living	−136,106	
Subtotal		$170,265
3. Reduced grant costs due to increased recipient unearned income		
a. 1981–82 increase adjusted for caseload	−$1,119	
b. 1982–83 increase	−133,096	
Subtotal		−$134,215
B. Program Changes		
1. Retrospective budgeting (PL 97-35)		24,279
2. Conversion to intermediate care facilities		−243
Total Budget Increases		$76,820
Proposed General Fund Expenditures		$1,345,687

Cost-of-Living Increase

The budget requests $170,265,000 from the General Fund to support an 8.8 percent cost-of-living increase to maximum SSI/SSP payments. These funds are proposed in Item 5180-181-001. The 1982 Budget Bill includes $306,371,000 from the General Fund for cost-of-living increases to SSI/SSP

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

recipients. Of this amount $136,106,000 will be offset by increased federal funds.

Current state law requires that total SSI/SSP maximum payment levels be increased each July 1, based on the change in the California Necessities Index (CNI) during the 12-month period ending the previous December. As a result, the SSI/SSP maximum grant must be increased on July 1, 1982 by the percentage change in the CNI from December 1980 to December 1981. The Department of Finance estimates that the CNI increased by 8.8 percent during this 12-month period. This estimate is subject to change as part of the May 1982 revision of expenditures.

In addition, federal law requires that the *SSI* payment provided to aged, blind and disabled recipients be adjusted annually by the percentage change in the Consumer Price Index (CPI) from the first quarter of the prior year to the first quarter of the calendar year in which the cost-of-living adjustment is provided. Thus, a portion of the total increase to SSI/SSP payments is supported by increased federal funds.

In preparing the 1982–83 budget, the administration estimated that the CPI will increase by 9.8 percent between the period January–March 1981 and January–March 1982. Final estimates by the federal Bureau of Labor Statistics indicate that this increase was 8.9 percent, rather than 9.8 percent. Because the actual changes in the CPI for this period were less than 9.8 percent, the amount required from the General Fund to adjust the maximum payment levels will exceed the amount shown in the budget. This change in General Fund requirements will be reflected in the May revision of expenditures.

Maximum Payment Levels. Table 3 compares the 1981–82 and proposed 1982–83 maximum SSI/SSP payment levels for selected categories of recipients in independent living arrangements. The combined SSI/SSP payment levels proposed for 1982–83 are 8.8 percent above the maximum grant levels provided for each category of recipient in 1981–82. As noted above, federal funding for the SSI payment is estimated to increase by 9.8 percent in July 1982 for each category of recipient. Increases in the *state-funded grants,* however, range from 7.5 percent to 8.0 percent among the selected categories of recipients.

Table 3

Maximum Monthly SSI/SSP Grant Levels

1981–82 and 1982–83

Category of Recipient	*1981–82*	*Proposed 1982–83*[a]	*Change Amount*	*Change Percent*
Aged/Disabled Individual				
Total Grant	$439.00	$478.00	$39.00	8.8%
SSI	264.70	290.70	26.00	9.8
SSP	174.30	187.30	13.00	7.5
Aged/Disabled Couple				
Total Grant	815.00	887.00	72.00	8.8
SSI	397.00	436.00	39.00	9.8
SSP	418.00	451.00	33.00	7.9
Blind Individual				
Total Grant	492.00	535.00	43.00	8.8
SSI	264.70	290.70	26.00	9.8
SSP	227.30	244.30	17.00	7.5
Blind Couple				
Total Grant	958.00	1042.00	84.00	8.8
SSI	397.00	436.00	39.00	9.8
SSP	561.00	606.00	45.00	8.0

[a] Based on estimated CNI increase of 8.8 percent.

Fiscal Effect of Proposed Payment Levels. Table 4 shows the cost of providing the proposed 8.8 percent increase to SSI/SSP maximum payment levels in 1982–83, for both the General Fund and federal funds, assuming a federal SSI increase of 9.8 percent. As shown by Table 4, the federal government is expected to provide $136,106,000 to support a 9.8 percent increase to SSI payments. This increased federal assistance offsets the General Fund cost of providing an 8.8 percent increase to the total SSI/SSP grant level.

Table 4

Fiscal Effect of Proposed Cost-of-Living Adjustments In SSI/SSP Maximum Payment Levels 1982–83

	General Fund	*Federal Funds*	*Totals*
Base	$1,175,422,000	$843,631,000	$2,019,053,000
Cost-of-living adjustments			
Increased federal funds to pay 9.8 percent CPI increase	—	136,106,000	136,106,000
Savings if no state cost-of-living adjustment provided	−136,106,000	—	−136,106,000
Cost of 8.8 percent increase	306,371,000	—	306,371,000
Subtotal, cost-of-living adjustments	$170,265,000	$136,106,000	$306,371,000
Totals	$1,345,687,000	$979,737,000	$2,325,424,000

Historical Cost-of-Living Increases. Table 5 shows the increase in SSI/SSP grants for an aged or disabled individual from the beginning of the program in January 1974 through 1982–83 and the rate of growth in the California Necessities Index (CNI) during the same period. During this nine-year period, the SSI/SSP grant increased at an average annual rate of 8.6 percent. The CNI increased at an average annual rate of 9.1 percent during this period.

Table 5

SSI/SSP Maximum Grant Levels for an Aged or Disabled Individual Compared with Changes in the California Necessities Index January 1974 through 1982–83

	SSI/SSP Grant	*Percent Increase*	*California Necessities Index*
January–June 1974	$235.00	—	—
1974–75	235.00	—	9.3%
1975–76	259.00	10.2%	6.5
1976–77	276.00	6.6	4.8
1977–78	296.00	7.2	7.9
1978–79 [a]	307.60	3.9 [a]	8.7
1979–80	356.00	15.7	13.0
1980–81			
July–December 1980	420.00	18.0	12.0
January–June 1981	402.00	12.9	
1981–82	439.00	9.2	11.1
1982–83 [b]	478.00	8.8 [b]	8.8

[a] Reflects the effect of the SSI cost-of-living increase for 1978–79. The SSP cost-of-living increase was suspended except for July and August 1978 when the total grant payment for an aged individual was $322.

[b] Proposed by the administration based on estimate of CNI.

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

California's SSI/SSP Grants Compared to Other States. The federal government allows states, at their option, to supplement the federal SSI benefits. California supplements these benefits through the State Supplementary Payment (SSP) program. Table 6 shows the SSI/SSP benefits provided to an aged individual by the 10 most populous states as of July 1, 1981. Of the 10 states, six supplemented the basic grant. California provided the largest supplement—$174.30 per month, followed by Massachusetts, with a monthly supplement of $137.22. California's supplement was 27 percent more than that provided by Massachusetts.

Table 6

State Comparison [a]

Maximum Monthly SSI/SSP Grant Levels for an Aged or Disabled Individual, Ten Largest States

July 1, 1981

State	*Total Grant*	*Federal SSI*	*State SSP*
California	$439.00	$264.70	$174.30
New York [b]	327.91	264.70	63.21
Texas	264.70	264.70	—
Pennsylvania	297.10	264.70	32.40
Illinois [b]	264.70	264.70	—
Ohio	264.70	264.70	—
Michigan [b]	289.00	264.70	24.30
Florida	264.70	264.70	—
New Jersey	300.50	264.70	35.80
Massachusetts	401.92	264.70	137.22

[a] In descending order by state population.
[b] Grant levels vary by region within the state.

Table 7 shows the maximum SSI/SSP grant levels for aged couples as of July 1, 1981. Of the 10 most populous states, California provided the largest supplemental payments—$418 per month, again followed by Massachusetts with a supplement of $214 per month. The other four states making supplemental payments provided less than $100 per month. California's supplement was $204, or 95.3 percent, more than that provided by Massachusetts.

Table 7

State Comparison

Maximum Monthly SSI/SSP Grant Levels for an Aged or Disabled Couple, Ten Largest States

July 1, 1981

State	*Total Grant*	*Federal SSI*	*State SSP*
California	$815.00	$397.00	$418.00
New York	476.48	397.00	79.48
Texas	397.00	397.00	—
Pennsylvania	445.70	397.00	48.70
Illinois	397.00	397.00	—
Ohio	397.00	397.00	—
Michigan	433.40	397.00	36.40
Florida	397.00	397.00	—
New Jersey	421.50	397.00	24.50
Massachusetts	611.32	397.00	214.32

Benefits Available to SSI/SSP Recipients

In addition to the monthly cash grant, SSI/SSP recipients may receive a variety of other benefits from the federal, state, and local governments. Some of these additional benefits, such as health care services under Medi-Cal, are available to SSI/SSP recipients because they are categorical public assistance recipients. Other benefits, such as public housing and social security benefits, are available to SSI/SSP recipients only to the extent that they meet specific eligibility criteria and, in the case of public housing, are admitted to the program.

This section discusses five major benefits available to SSI/SSP recipients in addition to their monthly cash grants. The discussion focuses on the benefits available in 1980–81, the latest year for which data is available on actual utilization. It should be noted that, in addition to the benefits discussed below:

- SSI/SSP recipients are eligible for adult social services from county welfare departments.
- Some SSI/SSP recipients (about 50,000 in 1980–81) reside in households which also receive cash assistance through the Aid to Families with Dependent Children (AFDC) program.
- About 10,000 applicants for SSI/SSP received interim assistance grants averaging $180 while they awaited final eligibility determination for SSI/SSP.

Because the combined monthly income of SSI/SSP recipients exceeds the monthly income limits for the food stamp program, SSI/SSP recipients are not eligible for food stamps.

Social Security. The retirement, survivors, disability, and health insurance (RSDHI) program provides benefits to retired and disabled workers and their dependents, and to survivors of insured workers. It also provides health insurance benefits for persons aged 65 and over and for the disabled under age 65. According to statistics compiled by the federal Social Security Administration, 445,818 SSI/SSP recipients also received RSDHI payments averaging $277 per month during 1980–81. RSDHI payments are counted as income for SSI/SSP grant purposes. As a result, individual SSI/SSP grants are reduced by the amount of the RSDHI payment, less a $20 standard deduction. RSDHI payments constitute 97 percent of all countable income received by SSI/SSP recipients.

Medi-Cal. The Medi-Cal program, administered under Title XIX of the federal Social Security act, provides funds to health care providers for the cost of care delivered to public assistance recipients, and other medically needy or medically indigent persons. All SSI/SSP recipients are eligible for Medi-Cal health care. During 1980–81, 480,030 individuals, or 67.6 percent of all SSI/SSP recipients, utilized Medi-Cal reimbursed fee-for-service care. An undetermined number of additional SSI/SSP recipients utilized other Medi-Cal services provided through prepaid health plans,

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

dental plans, and other categories of service paid for on a per-capita basis. The average monthly cost of fee-for-service Medi-Cal services utilized by SSI/SSP recipients during 1980–81 was $174.

In-Home Supportive Services. The In-Home Supportive Services (IHSS) program, funded in California under Title XX of the Social Security Act, provides domestic and personal care services to aged, blind, and disabled individuals with the goal of preventing institutionalization. SSI/SSP recipients are eligible for this service. Other individuals may be eligible for IHSS if they meet all SSI/SSP eligibility criteria except excess income. Monthly payments are made to providers on behalf of IHSS recipients. The amount of each payment is based on need as determined by county social workers. Recipients who receive 20 or more hours of specified IHSS service each month are eligible for higher maximum monthly benefits ($767 in 1980–81) than other IHSS recipients ($532 in 1980–81). During 1980–81, 89,008 SSI/SSP recipients received IHSS services.

Low-Income Energy Assistance. During 1980–81, $74.8 million was made available in California to provide cash assistance to low-income households to help pay the cost of energy. Categorical public assistance recipients, such as SSI/SSP recipients, are automatically eligible for this assistance, which is not counted when calculating the amount of the cash grant. During 1980–81, approximately 183,124 SSI/SSP recipients received a cash grant under this program. The average annual benefit received in 1980–81 was $158. This program was converted to a block grant by the Omnibus Reconciliation Act of 1981 (PL 97-35) which requires that a "reasonable" amount be earmarked for energy crisis assistance and allows the state to use up to 15 percent for weatherization in 1981–82 and 1982–83.

Housing Programs. Several housing assistance programs are available to low- and moderate-income households. Based on median income figures calculated annually for each county by the federal Department of Housing and Urban Development, these households may receive (a) subsidized shelter as tenants in public housing complexes owned and operated by local public housing authorities or (b) rental assistance in new or rehabilitated units owned by public or private agencies. The availability of housing assistance and income eligibility thresholds vary among the counties. It is estimated that in 1980–81, approximately 9,834 SSI/SSP recipients resided in public housing and an additional 144,784 SSI/SSP individuals received rental assistance.

Benefits by Category of Recipient. Table 8 shows the approximate monthly benefits *available* to certain categories of SSI/SSP recipients. (The first line of the table shows the maximum SSI/SSP grant level for each category of recipients.) To avoid double-counting, no countable income, such as social security payments, are reflected in the table. For benefits other than SSI/SSP grants, the *average* cash value is used in order to display the amount available to each recipient. *Maximum* benefits under these programs, however, could be much higher. For example, an individual could have received up to $767 per month under the IHSS program.

As shown in Table 8, the cash value of the benefits available to SSI/SSP recipients in 1980–81 was $11,210 for an individual aged or disabled recipient and $17,486 for an aged couple.

Table 8
Cash Value of Benefits Available to SSI/SSP Recipients by Selected Category of Recipient
1980–81

Benefit	*Individuals* Aged/ Disabled	*Individuals* Blind	*Couple* Aged/ Disabled
SSI/SSP cash grant [a]	$411	$461	$760
Medi-Cal	174	174	348
In-home supportive services	228	228	228 [b]
Rental housing assistance [c]	108	108	108
Total Monthly	$921	$971	$1,444
Total Annual	$11,052	$11,652	$17,328
Low-income energy assistance	$158	$158	$158
Total Annual with Low-Income Energy Assistance	$11,210	$11,810	$17,486

[a] These amounts are the average of monthly benefits available during the first and second six-month periods of 1980–81.
[b] Assumes only one individual receives IHSS.
[c] Assumes that rental housing is available.

Utilization of Benefits. Table 9 displays the number of SSI/SSP recipients who actually utilized each of these benefits and the cash value of the five benefits. While some individual recipients may receive all of the benefits listed in Table 9, most will only qualify for certain of the benefits. In addition, even though all recipients may qualify for a benefit like Medi-Cal, not every recipient will utilize the benefit each month. On the other hand, some recipients may utilize Medi-Cal services that cost far in excess of the $174 average shown in Table 9. In order to identify the cash value of the benefits provided to SSI/SSP recipients, Table 9 shows both the *average value* (that is, the average amount received by recipients) and the *probable or expected value* of each benefit (that is, the average value reduced to reflect the fact that not all SSI/SSP recipients receive benefits under each of the programs).

Average Monthly Cash Value. The average (as opposed to the maximum) monthly SSI/SSP grant provided in 1980–81 was $242 per person. This amount reflects monthly cash assistance payments ranging from $25 (individuals in medical facilities) to $465 per person (nonmedical out-of-home care). Each individual SSI/SSP recipient qualified for a specific monthly aid payment somewhere within that range, based on living circumstances, personal characteristics, and countable income. The average value of the SSI/SSP monthly grant paid to the 709,820 recipients during 1980–81, however, was $242, based on the total amount paid out as grants, divided by the average number of recipients each month.

The average cash value of the other benefits listed in Table 9 was calculated in the same way: total benefit cost divided by average caseload.

Probable Monthly Cash Value. The total probable cash value shown in Table 9 represents the monthly benefit package that the average SSI/SSP recipient could be expected to receive in 1980–81. In practice, of course, specific individuals received more or less than the probable value, based on their particular circumstances. In the aggregate, however, these individual differences combine to offset each other and produce the probable values shown in Table 9.

Because all of the 709,820 average monthly SSI/SSP recipients qualified

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

for and received the SSI/SSP payment, the probable value of the SSI/SSP grant to each of the recipients was the average monthly cash grant of $242.

Not all SSI/SSP recipients, however, utilized each of the other benefits to the same degree. This is due to specific eligibility criteria, regional variation in availability of some services (for example, public housing) and individual characteristics (for example, health and degree of physical impairment). To account for these variations in the utilization of each benefit, the cash value of each benefit was adjusted based on incidence of use. For example, 62.8 percent of SSI/SSP recipients received social security payments which averaged $277 per month. The incidence of social security payments in the SSI/SSP population is thus 62.8 percent, and the probable value of such payments to each of the 709,820 SSI/SSP recipients was $174 ($277 x .628 = $174).

Table 9

Monthly Utilization of Benefits Available to SSI/SSP Recipients [a]
In Addition to Basic Cash Grant
1980–81

Benefit	*SSI/SSP Recipients Who Utilized Benefit*	*Percent of Total SSI/SSP Caseload* [b]	*Average Cash Value of Benefit Received*	*Probable Value of Benefit to Each SSI/SSP Recipient*
SSI/SSP cash grant	709,820	100.0%	$242.08	$242.08
Social security payments (RSDHI)	445,818	62.8	277.00	173.96
Medi-Cal health care [c]	480,030	67.6	174.47	117.94
In-home supportive services, domestic and personal care assistance	89,008	12.5	228.00	28.20
Low-income energy assistance [d]	183,124	25.8	158.00	40.76
Public housing [e]	9,834	0.2	65.00	1.30
Rental Subsidies [e,f]	144,784	20.4	54.00	11.02
Total probable monthly value of benefits	709,820	N/A	N/A	$574.80
Probable annual value of benefits (with LIEAP)	709,820	N/A	N/A	$6,938.36

[a] Source: Departments of Health Services, Social Services, Housing and Community Development, and Employment Development, Office of Economic Opportunity, and federal Department of Housing and Urban Development.

[b] The percentage figures do not total 100 percent because many recipients utilized more than one benefit.

[c] Fee-for-service users only. Other Medi-Cal service categories, such as dental and prepaid health plans, are delivered on a per capita basis. Data on the utilization of these nonfee-for-service categories by public assistance recipients is unavailable at this time.

[d] Cash benefits shown are total payments rather than monthly benefit.

[e] Housing assistance caseloads are based on a household size of two with a monthly income of $746 (aged couple). Housing authorities and state and federal departments do not maintain specific data on public assistance recipients who reside in subsidized housing.

[f] Includes assistance under Sections 8 and 23 of the federal Housing and Urban Development Act and the Farmers' Home Administration's Rental Assistance program.

Caseload

We withhold recommendation on $16,734,000 requested from the General Fund to fund caseload increases in the SSI/SSP program, pending the May 1982 revision of caseload estimates.

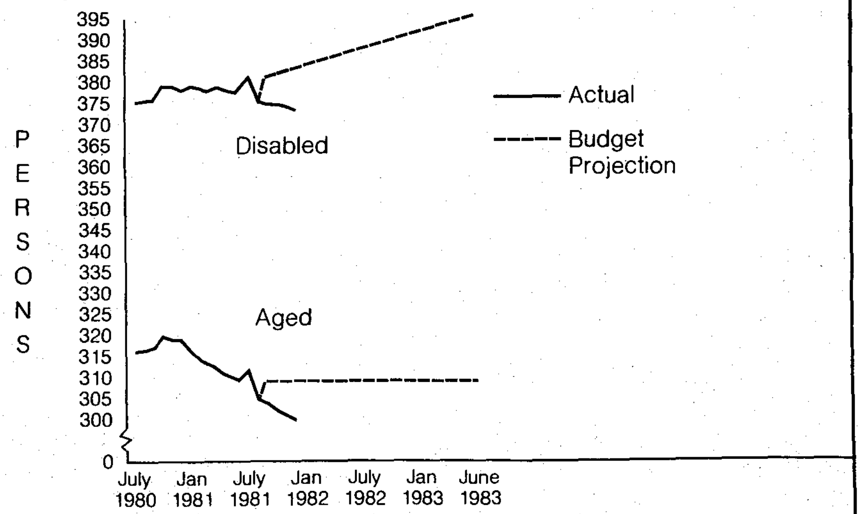
The budget projects that the number of persons receiving assistance through the SSI/SSP program will increase by 8,232, or 1.2 percent, over revised caseload estimates for 1981–82. This caseload increase is projected to result in additional costs of $30,535,000 in 1982–83, including $13,801,000 in federal funds and $16,734,000 from the General Fund. Table 10 shows the budget projections, by category of recipient.

Table 10
SSI/SSP Average Number of Persons Receiving Assistance
1981–82 and 1982–83

			Change	
Category of Recipient	*Estimated 1981–82*	*Projected 1982–83*	*Persons*	*Percent*
Aged	307,897	307,900	3	0
Blind	18,250	18,700	450	2.5%
Disabled	383,188	390,967	7,779	2.0
Totals	709,335	717,567	8,232	1.2%

Decline in Aged and Disabled Category. The Department of Social Services anticipates that 94.5 percent of the projected 1982–83 caseload increase will occur in the disabled category. Almost all of the remaining increase is anticipated in the blind category. The DSS caseload projection is based on assumptions that (1) the number of disabled persons receiving SSI/SSP will continue to increase throughout 1982–83, but at a declining rate, and (2) the average number of aged persons receiving SSI/SSP will remain the same throughout 1981–82 and 1982–83. Actual data provided

Chart 2
SSI/SSP Monthly Caseload Aged and Disabled Recipients July 1980 through June 1983 (in thousands)



STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

to DSS by the federal government, however, indicate that both the aged and the disabled caseloads actually *declined* between July and December 1981. Chart 2 compares the actual caseloads through December 1981 for these two categories of recipients with the DSS projections.

Caseload Estimates Will Be Revised. The Department of Social Services advises that caseload estimates for these two categories will be revised as part of the May revision of expenditures. If actual caseload trends observed from July through December 1981 continue through 1982–83, the General Fund requirement for the SSI/SSP program may be lower than expenditures in the current year, rather than higher. Because actual caseload data from July to December 1981 do not support the budget projection, we withhold recommendation on $16,734,000 from the General Fund, pending the May 1982 revision of expenditures estimate.

Retrospective Budgeting

We withhold recommendation on $24,279,000 requested from the General Fund for retrospective budgeting, because federal action to amend procedures for monthly SSI/SSP grant calculations may be forthcoming, thereby reducing the state's costs.

The Omnibus Reconciliation Act of 1981 (Public Law 97-35) requires the federal Social Security Administration (SSA) to alter the procedures for calculating monthly SSI/SSP benefits. Specifically, the act requires SSA, effective April 1, 1982, to determine a recipient's grant on the basis of the circumstances and *actual* income available in the second month preceding the month the payment is made. As a result, the amount of cash assistance provided a recipient in March is determined by the amount of income the individual received in January. (This procedure, called "retrospective budgeting," is similar to the system currently used in the Aid to Families with Dependent Children program.) The current procedure for determining SSI/SSP grants is to *estimate* the monthly income available to recipients at the beginning of each three-month period. The new federal provision changes the accounting method from prospective quarterly budgeting to retrospective monthly budgeting.

The advantage of retrospective budgeting is that actual income for each month can be included in the grant calculation, thereby reducing erroneous payments based on inaccurate estimates. In the SSI/SSP program, however, 97 percent of countable income received by participants is from other federal benefit programs, such as social security, veteran's benefits, black lung, and railroad retirement. Because these benefits traditionally have been adjusted upward, and only rarely downward, retrospective budgeting in the SSI/SSP programs would simply delay for two months the offset to SSI/SSP grants made possible by increased income. The budget estimates that during 1982–83, this two-month delay in the adjustment of grants will result in additional General Fund costs of $24.3 million and increased federal fund expenditures of $9.0 million for the California caseload alone.

We have been advised by state and federal officials that Congress is considering an amendment that would delete the retrospective budgeting procedure in favor of prospective budgeting done on a monthly basis. Because this amendment may be enacted prior to the beginning of the budget year, we withhold recommendation on $24,279,000 requested from the General Fund pending the May revision of expenditures.

Federal Fiscal Liability—January 1974 to September 1979

We recommend that the General Fund appropriation proposed for the SSP program be reduced by $13,549,000 to reflect the anticipated federal credit of funds due the state as a result of federal payment errors.

The SSI/SSP program is administered by the federal Social Security Administration under the terms of a contract between the state and the federal government. Under the terms of this contract, the state informs the federal government of maximum SSP payment standards for each category of recipient and advances funds monthly to the Social Security Administration (SSA) for grant payments to recipients. The federal government is responsible for determining eligibility, calculating individual grant payments, and issuing payments to recipients.

Federal Errors in the Administration of the SSI/SSP Program. In addition, the federal and state governments conduct a quality control review program to identify erroneous payments made by the SSA. These erroneous payments include payments made to ineligible recipients and overpayments made to eligible recipients. During every six-month period, the federal government reviews a sample of 1,500 to 1,800 case files (of the approximate 700,000 total caseload). Subsequent to this review, the state examines a portion of the federal sample to test the accuracy of the federal review. Historically, the state has reviewed around 250 cases from each six-month review period.

Dollar error rates identified by the federal review are adjusted by the findings from the state review. This results in a dollar error rate for each review period and is referred to as the amount of "federal fiscal liability" owed to the state for the period. Under the terms of the contract between the state and the federal governments, the amount of the federal fiscal liability is to be included in the final annual financial settlement for the SSI/SSP program.

Interim Agreement. Due to various disagreements between the state and federal governments, a final annual settlement has not been reached for any year since 1973. State and federal officials advise, however, that negotiations have been completed regarding an interim settlement. This interim settlement covers the period January 1974 to September 1979, and will result in net credits to the state's account totaling $13,549,000. This amount consists of $11,202,000 owed by the state to the federal government for the period January 1974 to June 1974, and $24,751,000 in federal fiscal liability identified for the period July 1974 to September 1979.

State officials advise that the interim settlement is expected to become final during 1981–82, at which time the state will be credited with the agreed-upon amount. No adjustment, however, has been made to estimated 1981–82 General Fund expenditures to reflect the anticipated $13.6 million reduction in General Fund support. Because formal settlement of the interim agreement may be delayed into the budget year, we recommend that the 1982–83 General Fund request be reduced by the amount of federal fiscal liability anticipated from the interim agreement, for a General Fund savings of $13,549,000.

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND, AND DISABLED—Continued

Federal Fiscal Liability—October 1979 to March 1980

We recommend a reduction of $12,100,000 to reflect the amount of state funds identified by the federal government as being spent in error by the Social Security Administration during the October 1979 to March 1980 review period. We further recommend adoption of Budget Bill language to require the Department of Social Services to withhold these funds from advances to the federal government.

The Department of Social Services has identified $12,100,000 in excess state funds paid to the federal government during the period October 1979 to March 1980. This consists of $10.9 million in federal fiscal liability identified by the Social Security Administration and $1.2 million in surplus advances provided by the state to the Social Security Administration for grant payments during the period. Pending further negotiations between the federal and state governments concerning unresolved issues and amendments to the state-federal contract, this $12.1 million has not been credited to the state's account by the federal government. As a result, this amount is not available to the General Fund for expenditure by the state during the negotiation period.

One way of assuring that the state receives at least the amount of federal fiscal liability agreed to by the federal government is to adjust downward the state's monthly advances of state funds for SSI/SSP payments. The Department of Social Services advises that in past years, the state has withheld all or part of the monthly advances of state funds for SSI/SSP payments in at least two specific instances. In 1974–75, the state did not advance the entire amount identified by the federal government as state liability because of questions over the basic payment level at the time the program was established. Again in 1976–77, the state withheld an entire monthly advance to encourage federal officials to renegotiate the state-federal contract. Subsequently, the contract, which expired July 1976, was renegotiated and signed November 1976.

Although the current state-federal contract requires monthly state advances to cover the specified costs of the program, in past years the administration has withheld funds in order to facilitate negotiations with the federal government and to prevent state payments for items at issue. It is clearly in the best interest of the state to avoid excessive transfers from the General Fund to the federal government or any other provider of service. Because the federal government acknowledges its liability for the period October 1979 to March 1980, we believe the state should seek to recover these funds from the federal government. Therefore, we recommend a reduction of $12,100,000 from the General Fund appropriation proposed for the State Supplemental Payment program during 1982–83. We further recommend that the Legislature adopt the following Budget Bill language to assure that the Department of Social Services reduces the monthly advance so that a deficiency appropriation is not required as a result of this reduction:

"Provided further that the Department of Social Services reduce General Fund advances to the federal government for program 10.08, State Supplementary Payments, by $12,100,000 during 1982–83."

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 5180-121 from the General Fund and Federal Trust Fund — Budget p. HW 217

Requested 1982–83	$2,740,000
Estimated 1981–82	2,733,000
Actual 1980–81	5,909,000
Requested increase $7,000 (+0.3 percent)	
Total recommended reduction	None

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-121-001—Special Adult Programs		General	$2,740,000
5180-121-866—Special Adult Programs		Federal	(89,000)
Total			$2,740,000

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide grants for the emergency and special needs of SSI/SSP recipients. The special allowance programs for SSI/SSP recipients are paid entirely from the General Fund, and are administered by county welfare departments. This item also contains federal funds to provide cash grants to repatriated Americans returning from other nations.

In past years this item also included funds for three other programs. Two of the programs, Emergency Loan and Aid to Potentially Self-Supporting Blind, were eliminated by Ch 69/81. The third program, costs of aid provided to certain groups of refugees who do not qualify for other cash assistance, is funded in Item 5180-131-866 of the 1982 Budget Bill, rather than in this item. Item 5180-001-001, departmental support, contains funds necessary to support the 4.6 positions that administer these programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Current-Year Surplus

The budget estimates a 1981–82 surplus of $487,000 for special adult programs, due primarily to lower-than-anticipated expenditures for the special circumstances program.

Budget-Year Proposal

The budget proposes a General Fund appropriation of $2,740,000 for special adult programs administered by the Department of Social Services in 1982–83. This is an increase of $7,000, or 0.3 percent, over estimated current-year expenditures.

Total 1982–83 expenditures for this item are proposed at $2,829,000, an increase of $7,000, or 0.3 percent, over estimated 1981–82 expenditures. Table 1 displays estimated and proposed expenditures, by program.

SPECIAL ADULT PROGRAMS—Continued

Table 1
Special Adult Programs
Expenditures for Benefits
1981–82 and 1982–83
(in thousands)

	Estimated 1981–82			Proposed 1982–83			Percent Change		
Program	*State*	*Federal*	*Total*	*State*	*Federal*	*Total*	*State*	*Federal*	*Total*
Special Circumstances	$2,459	—	$2,459	$2,593	—	$2,593	5.5%	—	5.5%
Special Benefits	274	—	274	147	—	147	−46.4	—	−46.4
Repatriated Americans	—	$89	89	—	$89	89	—	—	—
Totals	$2,733	$89	$2,822	$2,740	$89	$2,829	0.3%	—	0.3%

Special Circumstances

The special circumstances program provides adult recipients with special assistance in times of emergency. Payments can be made up to specified maximum amounts to replace furniture, equipment, or clothing which is damaged or destroyed by a catastrophe. Payments also are made for moving expenses, housing repairs, and emergency rent.

The budget proposes $2,593,000 for payments under the special circumstances program in 1982–83, an increase of $134,000, or 5.5 percent, over estimated current-year expenditures. This increase is due to slight increases in the anticipated caseload and average monthly benefits provided under the program. The budget assumes that an average of 886 persons will receive assistance under the special circumstances program each month in 1982–83, compared with an average of 849 in 1981–82. Based on past trends, the Department of Social Services estimates that the average payment will increase from $241 in 1981–82 to $244 in 1982–83.

King v. Woods. Of the funds requested for special circumstances in 1982–83, $146,000 would be used to cover the cost of complying with a court order in the *King v. Woods* case. This order prohibits counties from denying special circumstances assistance based on the applicant's failure to obtain prior authorization in emergency situations.

Special Benefits

This program contains funds for (a) SSP recipients who have guide dogs and (b) recipients who receive assistance as a result of the decision in the *Harrington v. Obledo* case. The guide dog program provides a special monthly allowance to approximately 300 persons to cover the cost of food for the guide dogs. The budget proposes General Fund expenditures of $110,000 for these allowances in 1982–83.

The *Harrington v. Obledo* court case concerns two welfare recipients who received aid under California's adult welfare program, but who were not eligible to receive aid under the SSI/SSP program when it replaced the categorical aid programs on January 1, 1974. The California Court of Appeals ruled that the two plaintiffs were entitled to assistance at state expense. The budget assumes that a total of seven recipients will qualify for benefits in 1982–83, pursuant to the court's decision. State expenditures for this assistance are proposed at $37,000 in the budget year.

Temporary Assistance for Repatriated Americans

The federal repatriate program is designed to provide temporary help to needy U.S. citizens returning to the United States from foreign countries because of destitution, physical or mental illness, or war. Recipients can be provided temporary assistance to meet their immediate needs and continuing assistance for a period of up to 12 months. County welfare departments administer the program based on federal and state guidelines. The program is 100 percent federally funded. Expenditures for the budget year are proposed at $89,000, the same amount estimated to be expended in the current year.

Administrative Costs Exceed Benefits

In addition to funds scheduled in this item, the state and counties incur administrative costs for the delivery of special adult program benefits. These costs are shown in Table 2, and are supported through appropriations in Item 5180-001-001 for departmental support, and Item 5180-141-001 for county administration. Based on the amount proposed for administration of the special adult programs, for every dollar spent on benefits in 1982–83, an additional $1.39 will be spent on administration.

Table 2
Special Adult Programs
State and County Administrative Expenditures [a]
1981–82 and 1982–83
(in thousands)

	1981–82 Estimated	*1982–83 Proposed*	*Change Amount*	*Change Percent*
County Administration				
Special Circumstances	$1,366	$1,423	$57	4.2%
Nonmedical Out-of-Home Care Certifications	646	646	—	—
State Operations [b]	1,296	1,881	585	45.1
Totals	$3,308	$3,950	$642	19.4%

[a] These expenditures, supported entirely by the General Fund, are contained in Items 5180-001-001 and 5180-141-001.
[b] Includes funds for support of program positions and other costs billed to this program by the Department of Social Services' Program Cost Accounting System.

Department of Social Services
REFUGEE PROGRAMS

Item 5180-131 from the Social Welfare Federal Fund — Budget p. HW 218

Requested 1982–83	$247,227,000 [a]
Estimated 1981–82	199,439,000
Actual 1980–81	141,166,000
Requested increase $47,788,000 (+24.0 percent)	
Total recommended reduction	None

[a] Includes $12,324,000 proposed in Item 5180-181-001(c) for an 8.1 percent cost-of-living increase.

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-131-866	—Refugee Programs—Local Assistance	Federal	$234,903,000
5180-181-866 (c)	—Refugee Programs—Local Assistance, COLA	Federal	12,324,000
Total			$247,227,000

REFUGEE PROGRAMS —Continued

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) is the single state agency designated to receive federal funds for refugee cash and medical assistance and social services programs, pursuant to the Federal Comprehensive Refugee Assistance Act of 1980 (PL 96-212). Refugee medical assistance is provided by the Departments of Health Services and Developmental Services through interagency agreements with DSS.

Our discussion of refugee social services is included in our analysis of Item 5180-151, social services programs.

In addition to Indochinese refugees, California has experienced influxes of refugees from Cuba and other nations. The state also is experiencing an immigration of Cuban/Haitian entrants who have not been granted legal refugee status under PL 96-212. Because these individuals have not been declared refugees, they are not entitled to the benefits outlined by PL 96-212 for other new arrivals. Cuban/Haitian entrants do receive similar assistance, however, under another federal aid program. Like refugee assistance, entrant assistance also is 100 percent federally supported.

The Cuban program phasedown (CPP), which also has been under the administrative jurisdiction of the Department of Social Services, terminated effective October 1, 1981. The aid recipients have either gone off aid during the current year or transferred to other aid programs, including county general relief.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $247,227,000 (including a 1982–83 cost-of-living adjustment COLA) in federal funds for cash and medical assistance to refugees and entrants in 1982–83. This is an increase of $47, 788,000, or 24 percent, over estimated current year expenditures.

Of the total increase, $21,067,000 represents a 17.7 percent increase for projected cash assistance caseload growth. Another $14,397,000 will provide a 17.9 percent increase for medical assistance caseload growth. The remaining $12,324,000 is proposed in Item 5180-181-866 for a cost-of-living increase.

Table 1 shows the proposed levels of expenditure by aid category, as compared with estimated expenditures during the current year. The Cuban program phasedown will not be continued in 1982–83, as indicated in Table 1.

Table 1

Department of Social Services
Cash and Medical Assistance for Refugees
1981–82 and 1982–83
(in thousands)

			Change	
Cash assistance	*1981–82*	*1982–83*	*Amount*	*Percent*
Refugees	$114,735	$148,695	$33,960	29.6%
Cuban/Haitian entrants	4,152	3,666	−486	−11.7
Cuban program phase-down	83	—	−83	−100.0
Subtotals	$118,970	$152,361	$33,391	28.1%
Medical Assistance				
Refugees	$74,177	$90,585	$16,408	22.1%
Cuban/Haitian entrants	5,432	4,281	−1,151	21.2
Cuban program phasedown	860	—	−860	−100.0
Subtotals	$80,469	$94,866	$14,397	17.9%
Totals	$199,439	$247,227	$47,788	24.0%

Of the $247.2 million proposed for 1982–83, $152.4 million will be used to provide grants to refugees who do not meet the eligibility requirements for various categorical programs such as aid to families with dependent children (AFDC), and the supplemental security income/state supplementary payment (SSI/SSP) program. Federal funds for cash grants to refugees who qualify for aid under the AFDC program are contained in Item 5180-101-866.

Caseload Estimates

The department estimates that the average number of refugees in 1982–83 receiving AFDC, SSI/SSP, nonfederal AFDC, refugee cash assistance, and county general relief will be 173,370 per month. Also during the budget year, 7,462 refugees per month are expected to cease being eligible for any form of income maintenance.

The DSS estimates that 4,511 Cuban/Haitian entrants per month will receive some form of cash grant in California in 1982–83, and an additional 204 per month will go off aid.

On October 1, 1981, when the Cuban program phasedown (CPP) terminated, a monthly average of 1,717 CPP aid recipients were receiving cash assistance through either the AFDC or county general relief programs. At that time, the state and county costs of providing such assistance were fully reimbursed by the federal government. Effective October 1,

Table 2
Department of Social Services
California Refugee Resettlement Program
Estimated Average Monthly Cash Assistance Caseload
1980–81 to 1982–83 [a]

	Actual 1980–81	*Estimated 1981–82*	*Estimated 1982–83*
Indochinese Refugees			
AFDC	56,338	67,914	84,404
SSI/SSP	4,096	4,221	5,174
Nonfederal AFDC [b]	—	7,870	10,712
Refugee cash assistance [c]	45,350	57,723	70,560
County general relief	—	1,778	2,520
Off aid [d]	—	5,263	7,462
Subtotals	105,784	144,769	180,832
Cuban/Haitian Entrants			
AFDC	— [e]	2,489	2,106
SSI/SSP	— [e]	321	279
Nonfederal AFDC [b]	— [e]	—	318
Entrant cash assistance [c]	— [e]	2,084	1,739
County general relief	— [e]	—	69
Off aid [d]	— [e]	—	204
Subtotals		4,894	4,715
Totals, Average Monthly Caseload	105,784	149,663	185,547

[a] Source: Department of Social Services No caseload estimates are available for the number of refugees or entrants receiving social services.

[b] These individuals do not meet federal eligibiity requirements for the AFDC program but are eligible for the state-only program.

[c] These refugees and entrants do not meet the eligibility requirements for the AFDC programs but, due to Federal law, are receiving a grant equal to the AFDC payment standard.

[d] This category refers to the termination of cash assistance for individuals who, after 36 months in the United States, are not eligible for aid because their income levels are too high.

[e] Actual caseload data for Cuban/Haitian entrants in 1980–81 are not available.

REFUGEE PROGRAMS —Continued

1981, the cost of assistance provided to those former CPP recipients eligible for AFDC grants was shared between the federal, state, and county governments according to the normal sharing ratio. The cost of providing county general relief to those individuals not eligible for AFDC is paid for entirely by the counties.

Table 2 shows the department's average monthly caseload estimates, by aid category, for Indochinese refugees and Cuban/Haitian entrants.

Possible Federal Change in Eligibility Rules. Currently, the federal government pays 100 percent of AFDC and other cash assistance costs for refugees and entrants who have been in this county for up to 36 months. The federal Department of Health and Human Services (HHS) has recently published proposed regulations (*Federal Register*, December 11, 1981) to decrease to 18 months the time during which 100 percent federal reimbursement would be provided to states. The proposed regulations include a provision to reimburse states for general relief payments to refugees and entrants when such individuals are not eligible for regular AFDC or SSI assistance.

As shown in Table 2, the department estimates that 7,462 refugees and 204 entrants per month will become ineligible for cash aid in 1982–83. Most of these are individuals who will cease to be eligible due to having been in the United States longer than 36 months (referred to as "time-expired" refugees or entrants). If eligibility for cash assistance is reduced to 18 months, as proposed by HHS, these numbers can be expected to increase. The impact that this change would have on general relief caseloads in California is undetermined.

HHS has proposed the new rule to be effective February 1, 1982. California and other states have recommended an effective date of April 1. The change would have no impact on federal reimbursement for refugee social services, as there is no time limit on refugees' eligibility for social services.

Table 3 compares the estimated expenditures required for all categories of cash assistance to refugees and entrants in 1981–82 and 1982–83. Proposed expenditures of $372.6 million in 1982–83 represent an increase of $84.9 million, or 29.5 percent, over estimated current year expenditures. Average monthly caseload is projected to increase in 1982–83 by 33,481, or 23.2 percent, over the current year average monthly caseload.

Table 3 does not include $94,866,000 in proposed expenditures for medical assistance provided to refugees and entrants through the Departments of Health Services and Developmental Services.

Table 3

Department of Social Services
California Refugee Resettlement Program
Estimated Expenditures for Cash Assistance [a]
One Hundred Percent Federal Funds
1981–82 and 1982–83
(in thousands)

	1981–82	1982–83	Change Amount	Change Percent
Cash Grants—Refugees				
AFDC	$118,049	$158,828 [b]	$40,779	34.5%
SSI/SSP	21,863	26,822 [b]	4,959	22.7
Refugee cash assistance	114,735	148,695	33,960	29.6
Subtotals	$254,647	$334,345	$79,698	31.3%
Administration—Refugees	22,121	28,472 [b]	6,351	28.7
Totals, Refugees	$276,768	$362,817	$86,049	31.1%
Cash Grants—Entrants				
AFDC	$4,321	$3,966 [b]	–$355	–8.2%
SSI/SSP	1,664	1,446 [b]	–218	–13.1
Entrant cash assistance	4,152	3,666	–486	–11.7
Subtotals	$10,137	$9,078	–$1,059	–10.4%
Administration—Entrants	805	689 [b]	–116	–14.4
Totals, Entrants	$10,942	$9,767	–$1,175	–10.7%
Totals, Refugees and Entrants	$287,710	$372,584	$84,874	29.5%

[a] Source: Department of Social Services. Includes COLA but does not include the costs of medical assistance provided by the Department of Health Services. Also, this table does not include $2,590,000 in federal, state, and county expenditures for the Cuban program phasedown from July 1 through September 30, 1981.

[b] These funds are appropriated in other federal appropriation items.

Department of Social Services

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 5180-141 from the General Fund and Federal Trust Fund — Budget p. HW 216

Requested 1982–83	$116,518,000 [a]
Estimated 1981–82	118,958,000
Actual 1980–81	106,028,000
Requested decrease $2,440,000 (–2.1 percent)	
Total recommended reduction	$2,926,000

[a] Includes $5,545,000 proposed in Item 5180-181-001 (c) for a 5 percent cost-of-living increase.

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-141-001	—County administration	General	$110,973,000
5180-181-001 (c)	—Cost-of-Living increase	General	5,545,000
5180-141-866	—County administration	Federal	(337,697,000)
5180-181-866 (b)	—Cost-of-Living increase	Federal	(16,869,000)
Total			$116,518,000

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Supplemental Payments. Reduce Item 5180-141 by $348,000 and Item 5180-181-001 (c) by $18,000.*** Recommend reduction of $1,441,000 ($366,000 General Fund, $710,000 in federal funds and $365,000 in county funds) to eliminate funds for discontinued payments. 1117
2. ***Overhead Shift From Social Services. Reduce Item 5180-141 by $2,297,000 and Item 5180-181-001 (c) by $115,000.*** Recommend deletion of special funding to cover the cost of overhead shifted from social services programs to AFDC and food stamp programs because such a shift may not occur, for a reduction of $9,467,000 ($2,412,000 from the General Fund, $4,643,000 in federal funds and $2,412,000 in county funds). 1117
3. Fiscal Sanction Regulations. Recommend Budget Bill language which requires Department of Social Services modify its regulations so that fiscal sanctions are applied using the mid-point rather than the low point estimate of the error rate. 1123
4. April-September 1980 Quality Control Review. Recommend Director of Department of Social Services report to Legislature prior to hearings regarding his plans for applying sanctions against counties with high error rates during April through September 1980. 1125
5. ***Food Stamp Fraud Collections. Reduce Item 5180-141 by $148,000.*** Recommend budget reflect collections anticipated as a result of food stamp fraud investigations, for a reduction of $590,000 ($148,000 from the General Fund, $295,000 federal funds and $147,000 in county funds). 1125
6. Cost-Effectiveness of Food Stamp Fraud Investigation. Recommend Department of Social Services report to Legislature prior to budget hearings regarding plans for improving the cost-effectiveness of food stamp fraud investigations. 1125

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of costs incurred by the counties for administering (a) the AFDC program, (b) the food stamp program, and (c) special benefit programs for aged, blind, and disabled recipients. In addition, it identifies the federal and county costs of administering child support enforcement and cash assistance programs for refugees. The costs for training county eligibility and nonservice staff also are funded by this item.

ANALYSIS AND RECOMMENDATIONS

Current Year Deficiency

The budget estimates that there will be a net General Fund deficiency of $6,624,000 in county administration in 1981–82. The major cost increases responsible for this deficiency are (a) an increase of $7,450,000 needed to

Table 1
Expenditures for County Welfare Department Administration
1981–82 and 1982–83
(in thousands)

	Estimated 1981–82				*Proposed 1982–83*				*Percent Change*			
	Federal	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*
AFDC administration	$161,624	$91,120	$97,350	$350,094	$185,839	$87,164	$93,526	$366,529	15.0%	−4.3%	−3.9%	4.7%
Nonassistance food stamp administration	53,321	23,259	25,227	101,807	54,699	23,776	25,843	104,318	2.6	2.2	2.4	2.5
Child Support Enforcement:												
Welfare	67,574	-	22,525	90,099	75,679	-	25,226	100,905	12.0	-	12.0	12.0
Nonassistance	15,965	-	5,322	21,287	16,634	-	5,544	22,178	4.2	-	4.2	4.2
Special adult programs	-	2,012	-	2,012	-	2,169	-	2,169	-	7.8	-	7.8
Refugee cash assistance	11,639	-	-	11,639	14,616	-	-	14,616	25.6	-	-	25.6
Staff training	6,871	2,567	2,779	12,217	7,099	3,409	3,692	14,200	3.3	33.0	33.0	16.2
Totals	$316,994	$118,958	$153,203	$589,155	$354,566	$116,518	$153,831	$624,915	12.0%	−2.1%	0.4%	6.1%

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

offset the anticipated loss of federal aid for the AFDC program due to delays in the state's compliance with Public Law 97-35 and (b) $2,297,000 needed to support an increased share of county overhead costs due to decreases in federal social services funds. These increases are partially offset by a number of current-year savings. These include the savings from direct billing for fraud investigation time ($1,731,000) and the savings anticipated from the implementation of Public Law 97-35 ($1,530,000).

Budget Year Proposal

The budget proposes an appropriation of $116,518,000 from the General Fund as the state's share of county costs incurred in administering welfare programs during 1982–83. This is a decrease of $2,440,000, or 2.1 percent, from estimated current year expenditures.

Total expenditures of $624,915,000 are proposed for county administration of welfare programs in 1982–83. This is an increase of $35,760,000, or 6.1 percent, over estimated current year expenditures. Table 1 shows the total expenditures for county welfare department administrative costs.

Budget Year Adjustments

Table 2 shows the proposed General Fund adjustments to expenditures for county administration in 1982–83. The net reduction of $2,440,000 in proposed General Fund expenditures is due to net savings of $3,956,000 in county administrative costs for the AFDC program, partially offset by increases of $1,516,000 in the cost of administering other welfare programs. The savings in AFDC costs result from two factors: (1) full-year implementation of the program changes required by Public Law 97-35 ($4,259,000) and (2) the restoration of federal aid expected to be withheld during the current year because the state delayed implementation of P.L. 97-35 ($7,450,000).

AFDC Program Changes

The budget anticipates savings in the cost of county administration during 1982–83, due to the provisions of Ch. 69/81 (SB 633), and the provisions of the federal Omnibus Reconciliation Act of 1981 (Public Law 97-35). The specific changes made by these measures, and the impact of these changes on AFDC grant and administrative costs, is discussed in our analysis of Item 5180-101, AFDC payments.

80 Percent Supplemental Payments

We recommend funds budgeted for the administrative costs of providing 80 percent supplemental payments be deleted because these payments have been discontinued, for a savings of $1,441,000, consisting of $366,000 from the General Fund, $710,000 in federal funds, and $365,000 in county funds.

Background. Prior to the enactment of Ch. 1/81, First Extraordinary Session, state regulations allowed supplemental payments to AFDC recipients whose monthly grants and other income would otherwise have been less than 80 percent of the maximum payment level. Such supplemental payments were issued to recipients to bring the total monthly grant and other income up to a maximum of 80 percent of the maximum aid payment. To conform with federal law (Omnibus Reconciliation Act of 1981), these payments were eliminated by Chapter 1.

Table 2
County Welfare Department Administration
Proposed 1982–83 General Fund Changes
(in thousands)

	Total	*Cost*
1. 1981–82 Current Year Revised		$118,958
2. Budget Adjustments		
A. AFDC administration		
(1) Basic caseload	$3,673	
(2) Cost of living		
(a) 1981–82 cost of living adjusted for caseload	194	
(b) 1982–83 (5 percent)	4,151	
(3) Court cases	−386	
(4) State legislation	−107	
(5) Savings due to Public Law 97-35	−4,259	
(6) Restoration of lost federal aid	−7,450	
(7) Other changes	228	
Subtotal		−3,956
B. Nonassistance Food Stamps		
(1) Basic caseload	$279	
(2) Cost of living		
(a) 1981–82 cost of living adjusted for caseload	6	
(b) 1982–83 cost-of-living	1,132	
(3) Other changes	−900	
Subtotal		517
C. Special Adult Programs		
(1) 1982–83 cost of living	$100	
(2) Other changes	57	
Subtotal		157
D. Staff Training		
(1) 1982–83 cost of living	$162	
(2) Other changes	680	
Subtotal		842
3. Total Budget Decrease		−$2,440
4. Proposed 1982–83 General Fund Expenditures		$116,518

Estimates Include Cost of Discontinued Payments. The Department of Social Services advises that no adjustment was made in the budget estimate for county administration to eliminate the cost of providing supplemental payments. To correct this overbudgeting, we recommend a reduction of $1,372,000 from this item ($676,000 federal funds, $348,000 from the General Fund, and $348,000 in county funds). Because these amounts were included in the total used to calculate a 5 percent cost-of-living adjustment proposed for county administration, funds for which are included in the cost-of-living item, the total reduction resulting from this recommendation will be $1,441,000 ($366,000 from the General Fund, $710,000 in federal funds, and $365,000 in county funds).

Overhead Shift from Social Services

We recommend that funds proposed to support increased welfare program overhead because of reduced social worker staffing be deleted, for a reduction of $9,467,000 ($2,412,000 from the General Fund, $4,643,000 federal funds, and $2,412,000 county funds).

The budget requests $9,467,000, all funds, to finance administrative overhead costs that the budget anticipates will be shifted from social services programs to welfare program administration.

Background. Under existing procedures, counties submit quarterly claims to the state for reimbursement of their administrative costs related to various public assistance programs. In order to prepare these claims, county eligibility and social worker staff are asked to declare which program they spent their time on during a specified "time study" period. Basic staff costs for eligibility workers and social workers are then calculated, based on the results of the time studies. Other costs, such as those for clerical staff, management and administrative staff, and operating expenses and equipment, are allocated for claiming purposes among the public assistance programs, based on the percentage of line staff time assigned to each program. For example, if 70 percent of line staff time was spent on AFDC during a claiming period, then 70 percent of the administrative overhead costs would be allocated to the AFDC program.

Increase Expected in AFDC and Food Stamp Share of Overhead Costs. Based on a survey of 17 counties in early fall 1981, the Department of Social Services anticipates that during the current year reductions in federal funds for social services programs will result in fewer social services workers employed by counties. In turn, social services programs will claim a smaller proportion of total line staff costs. As a result, it is expected that the proportion of total overhead costs allocated to social services programs will be reduced and the proportion allocated to AFDC and food stamps will increase in both the current year and the budget year.

We have several problems with the budget proposal to provide additional funds to provide for this shift in overhead costs.

Social Services Reductions May Not Shift Overhead Costs. The net total reductions in federal funds for social services during 1981–82 is $44.1 million statewide. Not all of this reduction, however, will result in social worker layoffs.

Of the total reduction, $26.3 million will result in reduced payments to providers of in-home supportive services and $3.6 million will result in reduced funding for social services staff training, according to the Department of Social Services. These activities are not included in the time study pool.

The only potential reduction in time study staff would result from the reduction of $14.2 million from other-county social services. Even this reduction, however, is mitigated to some extent by the relaxation of some claiming instructions and planning requirements. The survey of 17 counties, used to estimate the overhead cost shift, was conducted before the counties had experience under the revised social services allocations. Therefore, it is not clear that the shift in overhead costs will actually occur.

Counties Choose the Cuts. Any actual reductions to social services staff in the current and budget years will result from conscious decisions made by county officials in adjusting to the funding reductions. In other words, county officials could choose to implement any number of cost-saving alternatives, including staff layoffs, elimination of purchase-of-service agreements, equipment delays, or reductions to travel expenditures. The only alternative that results in increased overhead costs for AFDC and food stamps, and hence increased funding for county welfare departments under the budget proposal, is reductions in line social worker staff. To the extent staff reductions reduce service levels, the budget proposal encourages counties to select an alternative reduction which is likely to result in less services and increased General Fund support for administrative costs than likely under other alternatives.

How Fixed Are Overhead Costs? The budget proposal assumes no reduction will occur in total overhead costs to be allocated as a result of the social services funding reductions. While some costs incurred by county welfare departments may be relatively fixed, the overhead cost pool includes many items, such as clerical staff, operating expenses and equipment and administrative staff, that could be reduced to reflect reductions in service staff. We see no reason to treat overhead costs as fixed, as the budget does.

Conclusion. Our analysis indicates that there is no clear evidence that there will be a shift in overhead costs from social services to the AFDC and food stamps programs. While counties may choose to lay off workers rather than reduce overhead costs, and thus transfer a part of the cost of social services to the AFDC and food stamp programs, the cost to the AFDC and food stamps programs is undeterminable at this time. Providing a separate appropriation for this anticipated cost shift (a) encourages counties to reduce services staff rather than reduce costs in other areas, (b) assumes that overhead costs are fixed and (c) provides funds in anticipation of costs that may not materialize. Therefore, we recommend that funds proposed to provide separate funding for this overhead shift be deleted, for a reduction of $9,016,000, consisting of $2,297,000 from the General Fund, $4,422,000 in federal funds, and $2,297,000 in county funds.

Because these amounts were included in the base used for calculating the cost-of-living amounts required for county administration, a further reduction of $451,000 should be made ($115,000 from the General Fund, $221,000 in federal funds, and $115,000 in county funds). The total recommended reduction, then, is $9,467,000 ($2,412,000 from the General Fund, $4,643,000 in federal funds and $2,412,000 in county funds).

Quality Control Reviews

Background. As a result of SB 154, enacted following the passage of Proposition 13 in 1978, the state assumed the county share of grant costs for the AFDC program in 1978–79, while the counties continued to administer the program. In addition, the act gave the Director of the Department of Social Services the authority to establish a statewide error rate standard against which the performance of counties in their administration of the AFDC program could be measured. Furthermore, the act authorized the director to hold counties financially liable for errors above the statewide error rate standard. Under this provision of SB 154, the director can recoup funds misspent by counties in excess of the statewide performance standard.

Chapter 282, Statutes of 1979 (AB 8), incorporated the provision of SB 154 regarding county liability for high error rates. In addition, AB 8 required that the Joint legislative Budget Committee be notified of the performance standard for 1979–80, and that beginning with fiscal year 1980–81, the standard be established annually in the Budget Act.

In addition to state law, the federal government has issued regulations which provide that federal matching funds will not be available for erroneous expenditures by states in excess of a specified error rate standard, beginning October 1980.

Statewide Error Rate Declining. The statewide error rate against

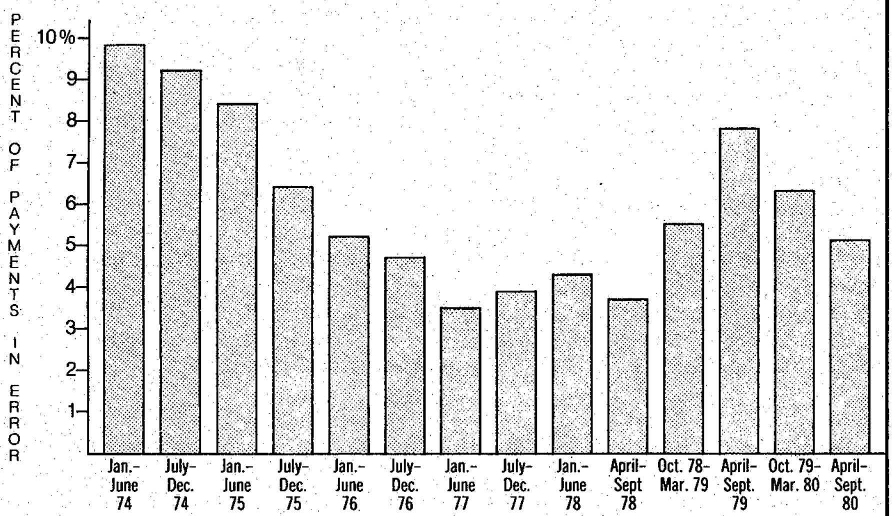
COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

which the federal performance standard is applied is generated from a review of approximately 1,200 individual AFDC cases by state employees. Federal staff re-review a subsample of about 200 cases from the state sample. The state findings are adjusted by the federal findings through the use of a regression formula.

Chart I shows the error rates for California from January 1, 1974 to September 1980. Chart I also shows that California's error rate has declined for the last two review periods for which data is available.

Chart 1

Statewide AFDC Payment Error Rates[a]
January 1974 through September 1980



[a] Federal findings, combined payment error rates for overpayments and payments to ineligibles.

California Error Rate Lower Than Rates of Other Large States. Historically, California's error rates for the administration of the AFDC program have been among the lowest in the nation. For example, of the 10 largest states, California has had one of the lowest error rates during the last three review periods. Table 3 compares California's error rate with those of the other nine large states for the three quality control review periods between April 1979 and September 1980. Table 3 shows that during this period, California's payment error rate was below the national average in each of the review periods. Only Florida (4.1 percent) and Texas (7.0 percent) had lower error rates in the April to September 1979 period. None of the 10 large states, however, had a lower error rate than California during the other two periods.

Table 3

AFDC Payment Error Rates
Ten Largest States
April 1979 to September 1980[a]

	April–September 1979	*October 1979–March 1980*	*April–September 1980*
California	7.8%	6.3%	5.1%
New York	8.8	7.0	9.7
Texas	7.0	7.4	7.8
Pennsylvania	9.7	11.6	8.0
Illinois	11.9	9.4	6.9
Ohio	9.1	8.7	8.7
Michigan	9.6	8.2	7.3
Florida	4.1	6.5	5.8
New Jersey	11.8	11.6	9.3
Massachusetts	22.4	16.7	8.2
U. S. Average	9.5	8.3	7.3

[a] Ranked in order of population. Error rates include technical errors and have been adjusted based on federal subsample review.

Federal Sanctions May Be Levied in Budget Year. Despite the recent decline in California's error rates and the state's good performance in relation to other states, California may be subject to fiscal sanctions if the state's final federal error rate exceeds 4.0 percent for the period October 1980 to September 1981. Federal regulations require that states achieve a payment error rate of 4.0 percent for the quality control periods of October 1, 1982–September 30, 1983. In addition, the regulations require the states to reduce their error rates by one-third decrements, starting with the October 1980–September 1981 review period. Failure of states to achieve the interim reductions or the ultimate 4.0 percent level will result in a reduction in federal financial participation. Because California's error rate in the base period (April–September 1978) was below 4.0 percent, the state must achieve the 4.0 percent standard for the review period of October 1980–September 1981, and for subsequent review periods.

At the time this analysis was prepared, federal officials had not released the final results of the October 1980 to September 1981 reviews, nor had they notified the states that fiscal sanctions will be applied.

County Error Rates. Prior to October 1978, DSS collected county specific error rate data for the 15 counties with the largest AFDC caseloads. After enactment of SB 154 and the state buy-out of county costs for the AFDC program, the state expanded its quality control sample to the 35 largest caseload counties. Table 4 shows the error rates for these counties during the review periods October 1979 to March 1981.

Budget Bill Proposes 4.0 Percent Performance Standard. Since the enactment of SB 154, a performance standard for county error rates has been established each year. For all but one period since 1978–79 (April to September 1981) a 4.0 percent error rate standard has been in effect. The Legislature established a 3.75 percent error rate standard for the April to September 1981 period. The 1982 Budget Bill proposes to establish a 4.0 percent error rate standard for the October 1981 to March 1982 and April to September 1982 periods.

Counties Appeal Fiscal Sanction. On January 8, 1981, the Director of DSS assessed fiscal sanctions against 13 counties with error rates in excess of the 4 percent standard during October 1979 to March 1980. The sanctions applied against these 13 counties totaled $4.4 million. The Legislature reduced the General Fund amounts identified in the 1981 Budget Act for AFDC grants by $2 million to account for the fiscal effect of these sanctions.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

Table 4
Thirty-Five Largest Counties
AFDC Payment Error Rates
October 1979 to March 1981

Counties	*October 1979–March 1980* [a]	*April–September 1980* [b]	*October 1980–March 1981* [b]
Alameda	11.0 [c]	2.9	4.6
Butte	1.3	1.3	0.7
Contra Costa	3.9	1.8	4.1
Fresno	3.0	5.5	2.2
Humboldt	2.7	1.7	5.3
Imperial	— [d]	4.6	4.9
Kern	2.0	1.4	0.6
Kings	3.9	1.4	3.1
Los Angeles	2.9	2.6	2.8
Madera	2.5	4.4	2.1
Marin	5.9 [c]	6.9	5.1
Mendocino	1.5	1.5	0.0
Merced	6.6 [c]	4.7	0.4
Monterey	9.2 [c]	9.7	6.5
Orange	6.4 [c]	3.4	2.1
Placer	3.9	3.2	4.4
Riverside	4.0	4.7	6.8
Sacramento	4.3 [c]	3.2	2.1
San Bernardino	13.4 [c]	3.3	4.6
San Diego	7.1	6.9	4.0
San Francisco	10.6 [c]	3.7	6.3
San Joaquin	2.6	1.4	2.2
San Luis Obispo	1.3	1.6	2.3
San Mateo	5.1 [c]	9.5	3.1
Santa Barbara	3.3	4.6	5.4
Santa Clara	3.6	2.6	4.2
Santa Cruz	2.9	2.9	2.1
Shasta	4.5 [c]	2.0	1.8
Solano	5.6 [c]	2.7	3.2
Sonoma	7.5 [c]	5.3	3.5
Stanislaus	3.2	4.0	4.3
Tulare	1.3	3.3	2.2
Ventura	3.9	3.5	1.0
Yolo	10.5 [c]	2.4	4.2
Yuba	0.5	0.6	2.0

[a] Excludes social security enumeration errors; includes WIN registration.
[b] Excludes both social security enumeration and WIN registration errors.
[c] Sanction assessed for error rate in excess of 4 percent.
[d] Reliable error rate data not available due to disruption caused by the October 1979 earthquake.

The DSS advises, however, that all 13 counties have appealed the fiscal sanctions. The county appeals cite extraordinary circumstances and question the statistical reliability of the quality control program. Each of the counties has requested and received hearings with the Director. The DSS is unable to advise us as to when decisions will be reached on these appeals or what criteria will be used to grant or deny the appeal.

Sanctions Unlikely Under New Regulations

We recommend the adoption of Budget Bill language which requires the Department of Social Services to modify its regulations so that fiscal sanctions are applied using the mid-point estimate of the error rate, rather than the low point estimate.

The DSS has issued revised sanction regulations, which are effective beginning in the October 1980 to March 1981 review period. In order for a sanction to be assessed under the new regulations, county error rates, not including so-called technical errors, must be higher than the effective state performance standard for two consecutive review periods. In addition, the error rate used to determine it a county is above the performance standard will be the low point of the statistically reliable range. For example, Table 5 shows that Alameda County had a 4.6 percent error rate (technical errors excluded) in the October 1980 to March 1981 review period. The 4.6 percent error rate is the mid-point of a range in which the "true" error rate would fall if *every* case in the county, rather than a statistical sample were reviewed. In the case of Alameda County, this range is plus or minus 3.3 percent. Therefore, the "true" error rate in Alameda County during October 1980 to March 1981 is likely to fall between 1.3 percent and 7.9 percent. Table 5 shows the mid-point and low point of these "confidence intervals" for each county with error rates over 4 percent. Because no county has a low point error rate in excess of the 4 percent performance standard during this period, no sanctions would be assessed against the counties. Because fiscal sanctions are now based on performance during two consecutive review periods, the first period for which sanctions could be applied against these counties would be the October 1981 to March 1982 review period.

Table 5

Confidence Intervals for Counties With Payment Error Rates of 4 Percent or Higher October 1980 to March 1981

COUNTIES	*Payment Error Rate (Point Estimate)*	*Confidence Interval (Plus or Minus)*	*Low Point of Confidence Interval*
Alameda	4.6	3.3	1.3
Contra Costa	4.1	2.3	1.8
Humboldt	5.3	3.7	1.6
Imperial	4.9	3.9	1.0
Marin	5.1	3.0	2.1
Monterey	6.6	3.7	2.9
Placer	4.4	3.0	1.4
Riverside	6.8	3.7	3.1
San Bernardino	4.6	3.3	1.3
San Diego	4.0	3.0	1.0
San Francisco	6.3	3.8	2.5
Santa Barbara	5.4	2.6	2.8
Santa Clara	4.2	2.8	1.4
Stanislaus	4.3	3.0	1.3

High Point of Estimate Just As Likely As Low Point. We believe the use of the low point of the confidence interval for determination of fiscal sanctions inadequately portrays the potential loss of tax dollars paid in error. It is just as likely that the error rate for a given county would be the high point of the confidence interval. Table 6 shows the high point esti-

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

mates of county error rates during the October 1980 through March 1981 review period. If the high point of each estimate is used, 25 counties exceeded the 4 percent error rate performance standard during this period. The General Fund share of the cost of these payment errors may have been as high as $29.2 million.

Table 6
State Funds Misspent
High Point of Error Rate Estimate
Counties Over 4 Percent
October 1980 through March 1981

Counties	*Midpoint of Error Rate Estimate*	*High Point of Error Rate Estimate*	*State Funds Misspent at High Point of Estimate* [a]
Alameda	4.63	7.88	$2,610,273
Contra Costa	4.11	6.42	1,002,982
Fresno	2.24	4.11	699,972
Humboldt	5.29	9.01	266,054
Imperial	4.88	8.77	219,925
Kings	3.08	5.76	133,994
Los Angeles	2.76	4.0	9,132,568
Marin	5.10	8.09	146,455
Monterey	6.54	10.25	608,991
Placer	4.39	7.42	180,955
Riverside	6.77	10.46	1,884,927
San Bernardino	4.6	7.9	2,202,951
San Diego	4.02	7.01	3,057,388
San Francisco	6.28	10.11	1,820,780
San Joaquin	2.16	4.1	600,045
San Luis Obispo	2.32	4.55	95,614
San Mateo	3.09	5.32	316,130
Santa Barbara	5.42	8.00	366,395
Santa Clara	4.22	7.05	1,779,573
Santa Cruz	2.09	4.0	131,017
Solano	3.23	5.69	349,676
Sonoma	3.49	6.38	412,392
Stanislaus	4.34	7.31	594,387
Tulare	2.19	4.42	439,495
Yolo	4.17	6.73	193,995
Total	NA	NA	$29,246,934

[a] Estimated based on monthly reports. Actual misspent funds may vary based on final claims.

The DSS regulations provide that fiscal sanctions will not be assessed against any county unless the county's error rate, as measured by the low point of the estimated confidence interval, exceeds 4 percent for two consecutive review periods. Our analysis indicates that this policy precludes the assessment of fiscal sanctions to any county for payment errors made between October 1980 through March 1981, despite the fact that the General Fund cost of these errors may have been as high as $29.2 million. Further, we have been advised that the federal government employs a midpoint estimate for calculation of state error rates, which would be used for any assessment of fiscal sanctions against the state. Because the use of the low point estimate inadequately portrays the amount of potential misspent state funds, we recommend Budget Bill language in Item 5180-

101-001, provision 5 which requires that the midpoint estimate of county error rates be used in measuring county performance. Following is proposed language consistent with this recommendation:

"This mid-point of the confidence interval estimated from the quality control sample for each period shall be used to determine if individual counties exceed the 4 percent performance standard."

Department's Plans to Apply Sanctions During April to September 1980 is Unclear

We recommend that the Department of Social Services report to the Legislature prior to budget hearings on its plans to apply fiscal sanctions for the period April to September 1980.

The new regulations governing fiscal sanctions do not apply to the April-to-September 1980 review period. During this period, 11 counties had error rates in excess of the 4.0 percent standard. Six of these 11 counties were sanctioned for high error rates during October 1979 to March 1980 and six had error rates higher than 4.0 percent in the October 1980 to March 1981 period. Staff of the Department of Social Services have not been willing to advise us whether sanctions will be applied against those counties with high error rates during the April-to-September 1980 period. Therefore, we recommend that DSS report to the Legislature, prior to budget hearings, its policy regarding the application of fiscal sanctions for the April to September 1980 review period.

Food Stamp Fraud Investigations

We recommend that recoupments resulting from food stamp fraud investigations be reflected as reimbursements in the 1982–83 budget, for a reduction of $590,000 ($148,000 from the General Fund, $295,000 federal funds, and $147,000 in county funds).

As part of the administration of the food stamp program, county staff investigate alleged food stamp fraud. Until recently, any funds collected as a result of these investigations were forwarded by the counties to the federal government. Public Law 96-58, however, revised this practice and established a state share (50 percent) of the amounts collected for food stamp fraud. In California, the state share is divided between the state and counties.

According to monthly reports published by the Department of Social Services, approximately $590,000 was collected as a result of food stamp fraud investigations during the most recent 12-month period (September 1980 to August 1981). We recommend the anticipated recoveries be reflected as reimbursements in the 1982–83 budget at a level at least as high as that actually collected in recent months. This recommendation will permit a reduction of $590,000 in the amount appropriated for county administration, consisting of $148,000 from the General Fund, $295,000 in federal funds, and $147,000 in county funds.

Fraud Investigation Not Cost Effective

We recommend the Department of Social Services report to the Legislature prior to budget hearings regarding ways to improve the cost effectiveness of food stamp fraud investigation.

The federal government has recently enacted two major changes in the funding of food stamp fraud investigations. Pursuant to these changes, (1) states may retain 50 percent of the amounts recouped and (2) the federal

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

government will provide 75 percent of the cost of fraud investigations, rather than 50 percent. These changes are intended to encourage states to pursue food stamp fraud.

Our analysis indicates that recoupment of funds obtained fraudulently by food stamp recipients during the most recent 12-month period totaled $590,000. The budget proposes $7.8 million, including $848,000 from the General Fund, to conduct investigations into allegations of food stamp fraud. Assuming that collections during the budget year are approximately the same as during the 12-month period ending September, 1981, the state will pay $5.73 in administrative costs for every $1 returned to the General Fund.

Given the apparent lack of cost effectiveness in food stamp fraud investigations and the recent federal changes, we recommend the DSS report to the Legislature prior to budget hearings regarding its plans for improving the cost effectiveness of food stamp fraud investigation.

Department of Social Services
SOCIAL SERVICES PROGRAMS

Item 5180-151 from the General Fund — Budget p. HW 219

Requested 1982–83	$195,337,000 [a]
Estimated 1981–82	169,224,000
Actual 1980–81	197,720,000 [b]
Requested increase (excluding amount for salary increases) $26,113,000 (+15.4 percent)	
Total recommended reduction Item 5180-151-001	$2.393.000
Total recommended reduction Item 5180-181-001(d)	($105,000)
Recommendation pending	$159,136,000

[a] This amount includes $17,315,000 proposed in Item 5180-181 for cost-of-living increases.
[b] This amount includes $15,882,000 for community care licensing.

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-151-001	—Social Services Program—Local Assistance	General	$178,022,000
5180-181-001	—Social Services Program—Local Assistance: COLA	General	17,315,000
5180-151-866	—Social Services Program—Local Assistance	Federal	(354,769,000)
5180-181-866	—Social Services Program—Local Assistance: COLA	Federal	(3,441,000)
Total			$195,337,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Federal Title XX Funds. Reduce Item 5180-151-001 by $889,000.*** Recommend that unbudgeted federal funds be used to replace General Fund support for social services, in order to provide the Legislature with more fiscal flexibility. 1134
2. ***Federal Title IV-B Funds. Reduce Item 5180-151-001 by $1,020,000.*** Recommend that unbudgeted federal funds be used to replace General Fund support for social services, in order to provide the Legislature with more fiscal flexibility. 1135
3. Control of Program Appropriations. Recommend adoption of detailed Budget Bill schedule for specialized adult services. Further recommend language requiring advance notification to Legislature when funds are to be transferred among these and/or all other social service programs, to ensure legislative review of program expenditures. 1139
4. In-Home Supportive Services. Recommend department report to fiscal committees prior to budget hearings regarding fiscal and programmatic effects of eliminating or relaxing scheduled six-month reassessments of nonseverely impaired IHSS recipients. 1144
5. IHSS County Administration. Recommend county IHSS administrative expenditures be budgeted with IHSS program costs, rather than other county social services, to facilitate legislative review of total IHSS program costs. 1145
6. ***CNI Estimated at 8.2 Percent. Reduce Item 5180-181-001(d) by $105,000.*** Recommend Commission on State Finance's estimate of CNI be applied to in-home supportive services statutory maximum payments, for savings of $117,000 ($105,000 General Fund and $12,000 in county funds). 1147
7. County Response to IHSS Changes Pursuant to Chapter 69, Statutes of 1981 (SB 633). Recommend department advise fiscal committees prior to budget hearings regarding 1981–82 actual experience in achieving mandated savings as projected by counties. 1152
8. In-Home Supportive Services. Withhold recommendation on $159,136,000 General Fund request, due to uncertainty regarding actual 1980–81 total program costs and resulting appropriate county share of costs in 1982–83. 1154
9. IHSS Budget Reports. Recommend adoption of supplemental report language directing department to include analysis of effect of providing budget reports to IHSS supervisors and intake workers in Alameda County pilot project. 1154
10. IHSS Program Structure and Funding Alternatives. Recommend Departments of Finance and Social Services advise fiscal committees prior to budget hearings regarding potential fiscal impact of two current year proposals to alter IHSS program and funding structure. Further recommend adoption of Budget Bill language requiring Director 1157

of Finance to notify Legislature in the event that alternative funding for IHSS is approved by the federal government.

11. Refugee Social Services. Recommend Departments of Finance and Social Services advise fiscal committees prior to budget hearings regarding fiscal and program impacts should federal funding turn out to be significantly less than amount proposed for expenditure. 1161
12. ***Adoptions. Reduce by $484,000.*** Recommend unbudgeted federal funds be used to replace General Fund support for adoptions program, in order to provide the Legislature with more fiscal flexibility. 1163

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers various social services programs which provide services, rather than cash, to eligible clients. The budget has grouped these programs into five categories: other-county social services (OCSS), specialized adult services, specialized family and children's services, adoptions, and refugee social services.

Federal funding for social services is provided pursuant to Titles IV-B, IV-C, and XX of the Social Security Act and the Federal Refugee Act of 1980. Funding from these sources was reduced during the current year as a result of congressional action on the federal budget. We discuss the details of these reductions later in this analysis.

Except for refugee social services, which are administered by the Office of Refugee Services in the Executive Division, social services programs are administered by the Adult and Family Services Division within the Department of Social Services. The 1981 Budget Act authorized 241 positions in the department for administration of social services. During the current year, the department eliminated 12 positions, reducing the total number of state positions used to administer social services programs to 229. The budget for 1982–83 proposes to establish 7 new positions. Thus, a total of 236 positions is proposed for the budget year.

ANALYSIS AND RECOMMENDATIONS

Table 1 shows that total expenditures from all funds for social services programs are proposed at $610.4 million in 1982–83. Of this amount, 32 percent would come from the General Fund, federal funds would comprise 58.7 percent, and counties are expected to provide 9.3 percent.

The budget proposes appropriations of state and federal funds for social services local assistance totaling $553.5 million. Of that amount, which includes a cost-of-living adjustment, $195.3 million, or 35.3 percent, is requested from the General Fund, and $358.2 million, or 64.7 percent, is anticipated from the federal government. The budget also anticipates county support for social services totaling $56.8 million.

Of the total General Fund request, $17.3 million, or 9.7 percent, of the baseline General Fund costs of social services programs, is for the proposed cost-of-living adjustment. The total cost-of-living increase for these programs from all funds is $24,196,000, or 4.1 percent. Because fed-

Table 1
Department of Social Services
Proposed Expenditures for Social Services
Including Cost-of-Living Adjustment
All Funds
1982–83
(in thousands)

Program	*General Fund*	*Federal Funds*	*County Funds*	*Total*
A. Other County Social Services	$10,167	$150,889	$53,622	$214,678
B. Specialized Adult Services	163,468	120,686	1,882	286,036
1. In-Home Supportive Services	(159,241)	(120,686)	(1,882)	(281,809)
2. Maternity Home Care	(2,313)	—	—	(2,313)
3. Access Assistance for the Deaf	(1,914)	—	—	(1,914)
C. Work Incentive (WIN) Program	355	14,515	1,249	16,119
D. Adoptions	19,666	—	—	19,666
E. Demonstration Program	1,681	206	88	1,975
1. Child Abuse Prevention	—	(206)	—	(206)
2. Family Protection Act (AB 35)	(1,681)	—	(88)	(1,769)
F. Refugee Social Services	—	71,914	—	71,914
1. County Welfare Department Services	—	(24,503)	—	(24,503)
2. Contracted Services	—	(45,508)	—	(45,508)
3. Cuban/Haitian Services	—	(1,903)	—	(1,903)
G. Totals:				
Amount	$195,337	$358,210	$56,841	$610,388
Percent	32.0%	58.7%	9.3%	100%
Basic Cost and COLA				
Baseline cost	$178,022	$354,769	$53,401	$586,192
Cost-of-living adjustment	17,315	3,441	3,440	24,196
COLA as percent of baseline	9.7%	1.0%	6.4%	4.1%
Funds appropriated in the Budget Bill				
Amount	$195,337	$358,210	—	$553,547
Percent	35.3%	64.7%	—	100%

eral funding for these programs is capped, increased expenditures for cost-of-living adjustments in social services programs other than refugee programs are borne by state and county funds.

Proposed General Fund Budget Changes

Table 2 details the proposed changes in General Fund spending for social services programs. The table shows that General Fund expenditures will increase by $26,113,000, or 15.4 percent, over estimated current-year expenditures. The major increases include (a) $17,315,000 for cost-of-living adjustments, and (b) $13,245,000 for a projected caseload increase in the In-Home Supportive Services program.

The budget also proposes a shift of $9,377,000 of General Fund support into the adoptions program. The department replaced an equal amount of General Fund originally budgeted for the adoptions program in 1981–82 with federal funds that became available in October 1981. Thus, this shift merely restores the funding relationship established by the Budget Act of 1981.

The General Fund increases proposed for 1982–83 are partially offset by decreases in proposed General Fund expenditures of (a) $4,000,000, reflecting the transfer of funds for family planning from DSS to the Department of Health Services, and (b) $9,401,000, reflecting the net effect of various federal funding shifts. In addition, federal funding for the Family

SOCIAL SERVICES PROGRAMS—Continued

Protection Act demonstration projects has been shifted to the In-Home Supportive Services program and an equal amount of General Fund support for In-Home Supportive Services is proposed for the Family Protection Act demonstration projects.

Table 2 indicates that General Fund support for the Multipurpose Senior Services Project (MSSP) through appropriations to the Department of Social Services will be discontinued after the current year. MSSP itself, however, will continue through 1982–83.

Table 2
Department of Social Services
Proposed 1982–83 General Fund Budget Adjustments
For Social Services Programs
(in thousands)

	Adjustments	*Total*
A. 1981–82 Current Year Revised		$169,224
B. Budget Adjustments		
1. Other-County Social Services		
a. 1982–83 cost of living (5%)	$7,667	
b. Net effect of various federal funding shifts	−9,401	
Subtotal		−1,734
2. In-Home Supportive Services		
a. 1982–83 statutory cost of living (8.8%)	1,538	
b. 1982–83 discretionary cost of living (5%)	6,875	
c. Title XX funding shift (family planning)	−4,000	
d. Family Protection Act funding shift	−1,291	
e. Other, including 8.5 percent caseload growth	13,245	
Subtotal		16,367
3. Maternity Home Care		
a. 1982–83 cost of living (5%)	110	
Subtotal		110
4. Access Assistance for the Deaf		
a. 1982–83 cost of living (5%)	91	
Subtotal		91
5. Work Incentive (WIN) Program		
a. State match for increased federal funds	10	
Subtotal		10
6. Adoptions		
a. 1982–83 cost of living (5%)	954	
b. Minority family recruitment project	610	
c. General Fund shift	9,377	
Subtotal		10,941
7. Demonstration Projects		
a. Child abuse respite care project (discontinued)	−610	
b. Multipurpose Senior Services Project	−433	
c. Family Protection Act funding shift	1,291	
d. 1982–83 cost of living (5%)	80	
Subtotal		328
Total Proposed General Fund Adjustments		($26,113)
C. Proposed Total General Fund for 1982–83		$195,337

SOCIAL SERVICES BLOCK GRANT

The federal Omnibus Reconciliation Act of 1981 (Public Law 97-35) created a social services block grant by combining Title XX social services, Title XX training, and Title XX child day care funding into a single program. In accordance with Ch 1186/81, Statutes of 1981 (AB 2185), the Department of Social Services assumed administrative responsibility for the social services block grant effective October 1, 1981.

Federal Block Grant Requirements

Selected federal provisions and requirements governing the use of the social services block grant funds are as follows:

Allocation Formula. California's annual allocations of social services block grant funds as a percent of total funding will be the same as it was under the Title XX program in federal fiscal year (FFY) 81, adjusted for updated population data. For FFY 82, California's share of the total federal funding *authorized* for the social services block grant is $249.4 million, or 10.4 percent of the $2.4 billion expected to be available nationwide.

Match Requirements. PL 97-35 eliminated the requirement for a 25 percent state match for federal social services funds that had applied in the Title XX program. In fiscal year 1980–81, General Fund spending for social services programs funded with federal Title XX funds totaled $181.8 million. This exceeded the federally required 25 percent match by $80.6 million. The budget for 1982–83 proposes General Fund spending of $195.3 million (including COLA) for programs which will be partially funded with social services block grant funds. With the elimination of the match requirement, there is no *federal* requirement for the state to spend any of the proposed $195.3 million.

Reporting. PL 97-35 reduced the requirements for reporting certain specified statistical information to the federal government on the use of federal social services funds.

State Plan. The Reconciliation Act substituted for the requirement that states prepare Comprehensive Annual Service Plans (CASPs) the requirement that states report to the federal government on their intended use of social services block grant funds. The states are required to obtain public comment on such notification before transmitting them to the Department of Health and Human Services.

Restrictions. The block grant rules prohibit use of social services block grant funds for capital outlay, most cash grants, and inpatient services. There is no restriction on spending for administration.

Funding Transfers. Up to 10 percent of the social services block grant funds may be transferred to programs providing health services, health promotion and disease prevention activities, or low-income home energy assistance.

Amount Available Nationwide Under the Social Services Block Grant

The authorization ceilings shown in Table 3 represent the *maximum* social services funding levels authorized under current law. PL 97-35 reduced the national authorization for social services appropriations by $600 million for FFY 82 and by $650 million for FFY 83.

SOCIAL SERVICES PROGRAMS—Continued

Table 3
Department of Social Services
National Title XX Authorization Levels As Specified in PL 97-35
(in millions)

Federal Fiscal Year	*Authorization Prior to PL 97-35*	*Authorization Specified In PL 97-35*	*Difference*
1982	$3,000	$2,400	−$600
1983	3,100	2,450	−650
1984	3,200	2,500	−700
1985	3,300	2,600	−700
1986 and Thereafter	3,300	2,700	−600

Block Grant Funds Available to California

California's share of the specified ceilings identified in Table 3 is $249.4 million in FFY 82 and $254.6 million in FFY 83. For fiscal year 1981–82, the 1981 Budget Act appropriated $322.8 million in federal Title XX funds for social services programs and training. While a final federal appropriation has not yet been made for FFY 82, Congress has provided, through a continuing resolution that expires March 31, 1982, for an obligation rate equal to the rate for FFY 81—$2.4 billion. If this funding level continues for the full year, the Department of Social Services estimates that California will have available for expenditure during 1981–82 approximately $265.3 million in social services block grant funds. This amount is $57.5 million, or 17.8 percent, less than was anticipated in the 1981 Budget Act.

On November 13, 1981, the Director of Finance notified the Chairman of the Joint Legislative Budget Committee, pursuant to the provisions of Section 28 of the 1981 Budget Act, that the $57.5 million reduction would be partially offset in the current year by an increase in Title IV-B federal

Table 4
Department of Social Services
Federal Funding Changes for Social Services
1981–82
(in thousands)

1981 Budget Act Title XX Funding Level		$322,754
Title XX reduction		−57,452
Title XX Funds Available for 1981–82		$265,302
Reduced Federal Funding		
1. Amount of reduction		−$57,452
2. Offsetting transfers		
A. Increase in Title IV-B funds	$5,257	
B. Low-Income Home Energy Assistance Program (LIEAP) funds	8,064	
C. General Fund transfer	24	
Subtotal		$13,345
3. Net federal reduction		−$44,107
Allocation of Net Federal Reductions		
1. In-home supportive services (IHSS)	−$26,276	
2. Other-county social services (OCSS)	−14,248	
3. Title XX training	−3,583	
		−$44,107

funds used for social services programs ($5.3 million) and a transfer to social services of federal funds provided for low-income home energy assistance ($8.1 million). As a result of these offsets, the net total reduction is now estimated at $44.1 million. Table 4 shows how the department has accommodated this funding reduction during the current year.

In fiscal year 1982–83, the budget proposes social services expenditures of $252.8 million, a decrease of $25.8 million, or 9.3 percent, below estimated current year expenditures of $278.6 million for Title XX social services.

MAJOR FEDERAL LEGISLATION—Public Law 96-272

The Adoption Assistance and Child Welfare Act of 1980 (PL 96-272) made several major amendments to the federal Social Security Act related to (1) Title IV-B child welfare services, (2) aid for the adoption of children, and (3) Title IV-A foster care payments. The intent of PL 96-272 is to (1) reduce the numbers of children in foster care placement nationwide by providing states with financial incentives to prevent the initial separation of families, and (2) encourage permanent planning for children who are separated from their families.

Since the enactment of PL 96-272, however, both the Congress and the administration have taken actions which raise questions about the federal government's continued commitment to the policies set forth in PL 96-272. The impact of this act on child welfare service requirements and foster care payments is discussed below.

New Child Welfare Service Requirements

Public Law 96-272 added a new title, Title IV-E, to the federal Social Security Act which authorizes foster care grants. By federal fiscal year (FFY) 1983 (beginning October 1, 1982), PL 96-272 requires states to implement specified program requirements as a condition of continued federal financial participation in the foster care maintenance program under Title IV-E. Compliance with the requirements was optional in FFYs 81 and 82.

California has exercised its option to continue receiving foster care payment reimbursements subject to the less restrictive requirements of Title IV-A through FFY 82. In FFY 83, compliance with the Title IV-E requirements becomes mandatory.

The act requires that:

- By October 1, 1982, states establish a specific goal for the number of children who will remain in foster care longer than two years, and adopt a plan to achieve that goal.
- By October 1, 1982, states institute a case plan and review system for each child in foster care to include six-month administrative and eighteen-month judicial review.
- By October 1, 1983, states provide preplacement preventative and family reunification services to all children entering foster care.

The Department of Health and Human Services, however, has withdrawn the proposed regulations which would have implemented and clarified the types of services which a state must provide in order to receive federal reimbursements for foster care payments. In the absence of such implementing regulations, we cannot determine the exact nature or the cost of state programs necessary to meet the requirements of Title IV-E.

SOCIAL SERVICES PROGRAMS—Continued

Cap on Federal Funds for Foster Care Payments

PL 96-272 imposed a cap on federal participation in any federal fiscal year in which the appropriation for Title IV-B child welfare services equaled or exceeded the amounts scheduled in the law. The intent of the cap on federal financial participation in foster care payments is to encourage states to use their increased Title IV-B funds to provide services intended to reduce the number of children in foster care. Prior to enactment of PL 96-272, federal financial participation in the state's foster care payment program was not limited to a specific amount.

Table 5 compares the Title IV-B appropriation levels which are necessary to trigger the cap on foster payments with actual appropriations for Title IV-B in past years. In FFY 81, the title IV-B appropriation was $163.5 million, resulting in a cap on federal funds for foster care payments. Congress has not enacted a final IV-B appropriation for FFY 82. It has, however, provided for a continuation of the 1981 funding level—$163.5 million—through March 31, 1982, when the third continuing joint resolution on the budget expires.

PL 96-272 stipulates that, in order for the cap on Title IV-E funds to become effective, the Title IV-B appropriation must be enacted prior to the beginning of the federal fiscal year for which the appropriation is made. This means that in order to limit funds for foster care payments for FFY 82 (October 1981–September 1982), Congress would have had to appropriate $220.0 million for Title IV-B prior to October 1981. Because Congress has not yet enacted an appropriation for Title IV-B, there will be no cap on foster care funding for FFY 82 under existing law.

Table 5

Federal IV-B Appropriation Levels Required to Cap Title IV-E and Past Actual Appropriations (in millions)

Federal Fiscal Year	*IV-B Appropriation Level Required to Cap IV-E Payments Under PL 96-272*	*Actual Appropriation*
1979	Not Applicable	$56.5
1980	Not Applicable	66.2
1981	$163.5	163.5
1982	220.0	163.5 [a]
1983	266.0	N/A
1984	266.0	N/A

[a] This is a temporary continuation of funding at the FFY 81 level, pending final congressional action on an appropriation.

STATE ADMINISTRATION ISSUES

Allocation of Federal Title XX Funds by State Fiscal Year

We recommend that unbudgeted Title XX funds be used in lieu of General Fund support for the social services program in 1981–82 in order to increase the Legislature's fiscal flexibility, for General Fund savings of $889,000.

The budget assumes that Congress will appropriate the entire $2.45 billion authorized for Title XX funding during FFY 83. This assumption is consistent with congressional action on the federal budget for FFY 82, inasmuch as Congress has temporarily approved funding at the authorized level of $2.4 billion for FFY 82. The Department of Social Services estimates that California's share of the $2.4 billion for FFY 82 will be $249,440,000 and, for FFY 83, that its share will be $254,550,000.

Table 6 shows how Title XX funds available during FFYs 82 and 83 are to be allocated between state fiscal years.

Table 6
Federal Title XX Funds Allocated by State Fiscal Year
1981–82 and 1982–83
(in millions)

	Federal Fiscal Year			
	1981	*1982*	*1983*	*Total*
State Fiscal Year 1981–82	$55.9	$209.4	—	$265.3
State Fiscal Year 1982–83	—	39.1	$213.7	252.8
Unbudgeted	—	0.9 [a]	40.9 [b]	41.8
Totals	$296.5	$249.4	$254.6	—

[a] The Governor's Budget proposes reserving these funds, due to uncertainty about the final level of FFY 82 Title XX funds.

[b] These funds, representing 16 percent of the FFY 83 total, have been reserved for use during the first quarter of fiscal year 1983–84.

The budget proposes to reserve approximately $0.9 million ($889,000) in FFY 82 Title XX funds for expenditure during 1982–83, due to uncertainty regarding the final federal appropriation for social services. We conclude that the $889,000 reserved by the department could be used to replace General Fund support for any of the programs which are eligible for reimbursement under Title XX. These programs include the In-Home Supportive Services program and the Other-County Social Services program administered by the department, as well as several programs administered by other state departments.

If these additional federal funds are used to replace General Fund support proposed for Title XX eligible programs, the Legislature will have an additional $889,000 in General Fund resources to draw on and thus more flexibility in funding its priorities in this or other program areas. Therefore, we recommend that the $889,000 in unbudgeted Title XX funds be added to Item 5180-151-866 and the same amount be deleted from Item 5180-151-001, for a General Fund savings of $889,000.

Additional Funds Available for Child Welfare Services

We recommend that unbudgeted Title IV-B funds be used in lieu of General Fund support for social services programs in order to increase the Legislature's fiscal flexibility, for General Fund savings of $1,020,000. We further recommend adoption of Budget Bill language requiring a reduction in General Fund support for this item by the amount of any additional federal funds received over and above the $1,020,000.

Public Law 96-272 permits qualifying states to receive a share of the difference between $141 million and the actual nationwide appropriation for Title IV-B during federal fiscal years (FFY) 1981 through 1984. The Title IV-B appropriation for FFY 81 was $163.5 million. Thus, under the

SOCIAL SERVICES PROGRAMS—Continued

provisions of PL 96-272, qualifying states received a share of $22.5 million, the difference between $163.5 million and $141 million. Each state's share of the $22.5 million was based on its share of the total number of children aged 0–17 years residing in qualifying states.

In order to qualify for a share of the additional funds, the state must:

- Conduct an inventory of all children in foster care and implement a foster care information system;
- Implement a case review system;
- Provide family reunification services or preplacement preventative services.

Proposed federal regulations which would have clarified these requirements, however, have been withdrawn by the Department of Health and Human Services (HHS). In the absence of final regulations, HHS has allowed states to self-certify their compliance. As of December 1, 1981, the department had accepted self-certification as proof of compliance for the 34 states which had applied for a share of the additional Title IV-B funds. Some of the states which have self-certified include Arkansas, Arizona, Connecticut, Kentucky, Michigan, New Jersey, New York, Ohio, Oregon, Utah, Virginia, Vermont, and Washington. States which have not certified their compliance include Alabama, California, Florida, and Texas.

California currently meets the requirements of PL 96-272 as regards eligibility for additional Title IV-B funding. The Budget assumes California will *not* qualify for this additional federal funding during fiscal year 1982–83. According to the Department of Social Services, this is because California does not meet the requirements of PL 96-272. Our analysis indicates, however, that California *will* be in compliance with these requirements by the beginning of FFY 83. Our specific findings are as follows:

1. ***The requirement for an inventory of all children in foster care and a foster care information system will be satisifed by October 1, 1982.***

Chapter 1229, Statutes of 1980, required county welfare and probation departments to report foster care information to the Department of Social Services in order to complete an inventory of all children in foster care and to establish an ongoing foster care information system. Ch 1229/80 also appropriated $250,000 for reimbursement of county costs incurred for this purpose.

The Department of Social Services prepared a foster care information system feasibility study report and submitted it to the Department of Finance and the Legislature in May 1981. That report proposes the implementation of the foster care information system in two phases. Phase one, the inventory of all children in foster care, is now complete. Phase two, the development and implementation of the foster care information system, is scheduled for completion October 1, 1982. The budget proposes expenditures of $586,500 from federal funds available under Title IV-B during fiscal year 1982–83 for the state administrative and county costs of phase two.

2. ***Current State Law and Regulations Satisfy the Requirement for a Case Review System.***

The case review system required by PL 96-272 consists of three components.

- First, there must be a written *case plan* for each child designed to achieve placement in the most family-like environment available.

- Under current state law and regulations, every county is required to provide protective services for children and out-of-home care services for children as part of the overall social services program funded through Titles XX and IV-B of the federal Social Security Act. The Comprehensive Annual Service Plan (CASP) for fiscal year 1981–82 defines these mandated services as follows:

  "Protective Services to Children. Those preventive and remedial activities and purchases by social services staff on behalf of children under 18 years of age who are either harmed or threatened with harm as the result of abuse, neglect, or exploitation. Protective services are provided to all children in need of them without regard to income. *The basis for protective services must be documented initially. The continuing status of the child at risk must be documented each six months while protective services are provided.* (Emphasis added.)

  "Out-of-Home Care Services for Children. Those activities, service funded resources, and designated community resources which are provided and/or arranged by social services staff to or on behalf of children who have been placed in out-of-home care or are being considered for such placement. *The program is also designed to assist with the child's early return to a permanent family setting or stabilized long-range care."* (Emphasis added.)

  In addition, regulations contained in the Manual of Policy and Procedures (MPP), Division 30, Sections 206 through 216, provide that out-of-home services for children shall "be consistent with a written case plan relevant to the needs of a child and the nonconflicting needs of the parents," and "prevent unnecessary placement."

- Second, the status of each child must be *reviewed administratively or judicially* every six months to determine the appropriateness of the placement.
  - According to the CASP, the out-of-home care services for children program is "designed to assist with the child's early return to a permanent family setting or stabilized long-range care."

    In addition, the MPP requires that "an initial assessment must be made of each child" and that "reassessments shall be made as frequently as needed but in no event less than once every six months."

    Current regulations do not specify that six-month reviews must be "administrative reviews" as defined in PL 96-272. As defined by PL 96-272, these reviews must allow the participation of the child's parents and include at least one person who is not directly responsible for the child's case management. Current regulations do not require that reassessments include the participation of the child's parents, but do allow parents as well as other concerned parties to initiate grievance proceedings for a variety of reasons. Current regulations do not specify that six-month reassessments include at least one person who is not responsible for the child's case management. Thus, it is unclear whether current law satisfies the requirements of PL 96-272 as to the exact composition of an administrative review. Our analysis indicates, however, that the purpose of the six-month reassessments required by current law is identical to the purpose of the six-month reviews required by PL 96-272.

- Third, there must be a *dispositional hearing,* conducted within 18

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months of the initial placement by a court, or by an administrative body approved by the court, to determine the future status of the child.

- Health and Welfare Code Sections 366 and 729 require that every hearing in which a minor is made a ward of the court be continued to a specific future date, not more than one year after the date of the initial hearing. Our analysis indicates that this provision of current law satisfies the requirement for a dispositional hearing for those children who are in foster care pursuant to a court order. PL 96-272 does not appear to require 18-month dispositional hearings for children placed in foster care voluntarily.

3. ***Current law and regulations satisfy the requirements for family reunification and preplacement preventative services. (The section of PL 96-272 which allows states to qualify for additional Title IV-B funds requires only that states satisfy one of these requirements.)***

According to state regulations, out-of-home care services for children are "designed to assist with the child's early *return to a permanent family setting* or stabilized long-term care." In addition, the emergency response system is expected, according to a report submitted to the Legislature by the department in January 1981, *"to reduce the number of unnecessary out-of-home placements* of children through earlier involvement of social workers in planning the services needed for maintenance of the family in the home." The emergency response program is now operational in 53 counties.

California Expenditures for Child Welfare Services are Substantial. In addition to meeting the requirements of PL 96-272, California currently spends a substantial amount of funds on child welfare services. During 1982–83, the department estimates that counties will spend $99,593,175 in state and federal funds for the protective services for children, out-of-home care services for children, and emergency response programs and that counties will spend an additional $33,197,725 of their funds for these programs. Thus, total spending for these programs during 1982–83 is estimated at $132,790,900.

Given the specific program requirements and the substantial funding available to implement them, we conclude that the requirements of PL 96-272 relative to eligibility for additional Title IV-B funds have been satisfied.

Federal Funds Available. Our estimate of additional IV-B funding available to California in 1982–83 under the provisions of PL 96-272 assumes that IV-B funding for FFY 83 will continue at the FFY 82 level ($163.5 million). Under the continuing resolution, the Secretary of Health and Human Services may reduce Title IV-B funding during FFY 82 by up to 6 percent. As a result, there is a range of possible funding levels for FFY 83, as shown in Table 7.

Pending a final decision by the Secretary of HHS, our estimate assumes a 6 percent reduction below the $163.5 million level provided for in the continuing resolution. Based on this assumption, California will be eligible to receive a minimum of $1,020,000 in additional Title IV-B funds which have not been budgeted for 1982–83. We recommend these unbudgeted Title IV-B funds be used in lieu of General Fund support for social services programs, for General Fund savings of $1,020,000. This will increase the amount available in the General Fund by $1,020,000, and will thus give the

Table 7
Additional Federal Title IV-B Funding Available to California for FFY 83 Two Estimates (in millions)

	Nationwide Title IV-B Funding Available FFY 83	*Additional Funding Available Under PL 96-272*[a]	*Additional Funding Available to California in FFY 83*[b]
No Reduction by Secretary of HHS During FFY 82	$163.5	$22.5	$1.80
Six Percent Reduction by Secretary of HHS During FFY 82	153.7	12.7	1.02

[a] Equals the difference between $141 million and estimated nationwide appropriation for Title IV-B.
[b] Based on California's 8 percent share of national population of children 0-17 years of age. California will receive 8 percent of the total if all 50 states have self-certified.

Legislature more flexibility to fund its priorities in this or other program areas.

As shown in Table 8, California *may* receive up to $1,800,000 of additional Title IV-B funds during FFY 83. Furthermore, to the extent that other states fail to self-certify, California's share of the amount appropriated in excess of $141 million would increase. To provide the Legislature with additional discretion in allocating limited funds, we recommend adoption of the following Budget Bill language in Item 5180-151-001 which would require federal funds to be used in lieu of General Fund money, to the extent possible:

"Provided that funds appropriated by this item shall be reduced by the Director of Finance by the amount of additional federal Title IV-B funds made available for the purposes of this item in excess of the sum of the amount scheduled for this item."

Schedule of Appropriations in Budget Bill

We recommend the 1982 Budget Bill be amended to schedule specialized adult services by program, in order to facilitate legislative review of each program element. We further recommend adoption of Budget Bill language requiring that the Legislature be notified in advance of fund transfers among specialized adult services and/or any other social services program elements.

Item 5180-151-001(b) of the 1982 Budget Bill proposes $154,854,000 (excluding COLA) for specialized adult services. The programs proposed to be funded from this item include in-home supportive services ($150,828,000), maternity care ($2,203,000), and access assistance for the deaf ($1,823,000), as detailed on pages HW 220-221 of the budget document.

In past years, the annual Budget Act itemized these social services programs within the appropriations item. This practice restricted the transfer of funds between these programs under the provisions of Budget Act Control Sections 27.5 and 28.

Given that the amount of state and federal funds made available for IHSS is to be limited to the appropriation contained in the annual Budget Act—a new policy established by Chapter 69, Statutes of 1981 (SB 633)—

SOCIAL SERVICES PROGRAMS—Continued

our analysis indicates that the appropriation for IHSS should be identified separately in the Budget Bill. Unlike the appropriation for other county social services, the specialized adult services appropriation is not proposed for distribution to counties as a block grant. Rather, as noted above, specified funding levels for each of the three programs included in this category have been proposed.

Therefore, in order to ensure that appropriated funds are expended in the manner approved by the Legislature, we recommend that the 1982 Budget Bill Items 5180-151-001(b) and 5180-151-866(b) (federal funds for specialized adult services) be scheduled to itemize the program-specific appropriations within the specialized adult services category.

In order to ensure continued legislative oversight of the expenditures for *all* social services programs, we further recommend adoption of the following Budget Bill language.

> "Provided further that, notwithstanding the provisions of Sections 27.5 and 28 of the Budget Act, the Director of Finance may transfer funds appropriated for program 20, social services, among these elements not sooner than 30 days after notification in writing of the necessity therefor to the chairperson of the committee in each house which considers appropriations and the chairperson of the Joint Legislative Budget Committee, or not sooner than such lesser time as the chairperson of the Budget Committee, or a designee, may in each instance determine."

OTHER-COUNTY SOCIAL SERVICES

The Other-County Social Services (OCSS) program funds five of the six Title XX services that counties are required to provide (the 24-hour Emergency Response Hadley: "System" is a component of one of the mandated programs). In-Home Supportive Services (IHSS) is the sixth mandated program. Under the OCSS program counties may choose to provide one or more of the 13 services that are optional under state law. In addition to providing state support for the OCSS program, the appropriation for OCSS also contains funds to reimburse counties for their costs of administering the IHSS program.

Table 8
Department of Social Services
Administrative Restructuring of Other-County Social Services

Programs	*Prior Status*	*Current Status*
Protective services to children (including 24-hour emergency response) Out-of-home care services for children	Mandated	Mandated
Protective services for adults Out-of-home care for adults Information and referral	Mandated	Deleted specific service requirements
Child day care case management services Employment-related services Health-related services Family planning services	Mandated	Eliminated
13 optional services (includes Family Protection Act demonstrations)	Optional	Optional

Restructuring of OCSS Programs. In October 1981, the department administratively (1) eliminated the mandate for four of the previously mandated services and (2) deleted from its regulations the specific pro-

Table 9
Department of Social Services
Consolidated OCSS Funding by Source
1978–79 to 1982–83
(in thousands)

	Federal Funds	*General Fund*	*County*	*Total*	*Percent General Fund*
FY 1978–79					
OCSS	$124,915	—	$41,161	$166,076	—
County services staff development	2,071	—	690	2,761	—
Emergency response	—	—	—	—	—
Child welfare services	3,400	—	1,133	4,533	—
Totals	$130,386	—	$42,984	$173,370	—
FY 1979–80					
OCSS	$132,410	—	$43,908	$176,318	—
County services staff development	2,300	$5	767	3,067	—
Emergency response	—	4,750	1,585	6,340	75.0%
Child welfare services	4,119	—	1,373	5,492	—
Totals	$138,829	$4,755	$47,633	$191,217	2.5%
FY 1980–81					
OCSS	$144,327	—	$47,802	$192,129	—
County services staff development	1,933	—	836	2,769	—
Emergency response	3,295	$2,374	1,890	7,559	31.4%
Child welfare services	4,119	—	1,373	5,492	—
Totals	$153,674	$2,374	$51,901	$207,949	1.1%
FY 1981–82 (Estimated)					
OCSS					
County services staff development [a]	Allocated together				
Emergency response					
Child welfare services					
Totals	$141,296	$11,901 [b]	$51,066	$204,263	5.8%
FY 1982–83 (Proposed)					
OCSS [c]					
County services staff development [a]	Budgeted together				
Emergency response					
Child welfare services					
Totals	$150,889	$10,167 [d]	$53,622	$214,678	4.7%

[a] PL 97-35 eliminated separate funding of the county services staff development program. DSS estimates no spending for this program in 1981–82 or 1982–83.

[b] $9,376,656 of the General Fund amount shown was transferred from the adoptions item. An equal amount of federal funding for Title IV-B, child welfare services, which became available after the enactment of the Budget Act of 1981, was used to offset General Fund support originally budgeted for adoptions.

[c] Includes $192,500 for local costs of the foster care information system.

[d] In past years, Title XX funds were transferred from the IHSS program for the OCSS cost-of-living adjustment and an equal amount of General Fund was budgeted for the IHSS program. The General Fund amount shown here represents $2,500,000 for emergency reponse, plus $7,667,000 for the OCSS COLA. The budget schedules the General Fund cost for all social services COLAs together.

SOCIAL SERVICES PROGRAMS—Continued

gram requirements for three of the previously mandated services. The 13 optional services were left unchanged. Table 8 summarizes the department's restructuring of the OCSS program.

The department made these changes to allow counties the flexibility to respond to a decrease of $14,248,000 in federal funds available for OCSS below the level assumed in the Budget Act of 1981. We have reported this reduction in 1981–82 funding in our discussion of the social services block grant.

As part of its response to the decrease in federal funding, the department also consolidated into a single amount the funds previously appropriated separately for OCSS, 24-hour emergency response, Title XX county staff development, and the child welfare services program. The consolidated funds, referred to as the adult, family, and children services block grant, are now allocated in one amount to the counties. Counties continue to receive separate allocations for in-home supportive services. The county cost for administering the IHSS program, however, continues to be funded through the OCSS allocation.

Proposed Funding for OCSS. The budget proposes total spending of $214,678,000 for OCSS in 1982–83. This total consists of $150,889,000 in federal Titles XX and IV-B funds, $53,622,000 in county funds, and $10,167,000 in General Fund support. These amounts include a cost-of-living adjustment, for which state and federal funding is proposed separately under Items 5180-181-001 and -866(d).

Table 9 shows OCSS funding sources as proposed in the budget and compares the estimated 1981–82 and proposed 1982–83 levels of funding with prior years' funding for those programs which have been combined to form the OCSS block program.

Table 10
Department of Social Services
Funding for OCSS
1979–80 to 1982–83
(in thousands)

	All Funds	*Percent Change*
1979–80		
Total actual expenditures	$191,217	—
Less spending for programs eliminated during 1981–82	–16,485	—
Total spending comparable with the OCSS program as restructured in October 1981	$174,732	N/A
1980–81		
Total actual expenditures	$207,949	—
Less spending for programs eliminated during 1981–82	–15,183	—
Total spending comparable with the OCSS program as restructured in October 1981	$192,766	10.3%
1981–82		
Consolidated OCSS		
Total estimated expenditures	$204,263	6.0%
1982–83		
Consolidated OCSS		
Total proposed expenditures	$214,678	5.1%

Table 10 compares funding for just those OCSS programs that are being funded in 1981–82, for the four-year period ending June 30, 1983. Expenditures for the specified programs eliminated in 1981–82 have been deducted from total expenditures in 1979–80 and 1980–81. Table 10 shows that expenditures for the continuing OCSS programs will increase by 6 percent (the cost-of-living increase authorized by the Legislature) in 1981–82 and are expected to increase in 1982–83 by 5.1 percent—slightly more than the proposed cost-of-living increase. Thus, while overall funding for OCSS and related programs has been reduced, the funding for the ongoing OCSS programs is comparable to the funding levels for those same programs in recent years.

IHSS Administration Component of OCSS. The Department of Social Services estimates that expenditures for IHSS administration will account for $46,438,700, or 21.6 percent, of the total OCSS budget in 1982–83. Assuming counties are able to limit their spending for IHSS administration to the 25 percent county match required by state and federal law, the county costs will be $11,609,675 and the combined state and federal share will be $34,829,025.

The Department of Social Services advises that IHSS administration costs consist entirely of the costs of various assessments made by social workers or other county employees. These assessments determine the number of hours of in-home supportive services needed by each IHSS client or potential client. Assessments also determine the client's, or prospective client's, eligibility to receive these services. Costs of administrative overhead items, such as supervisory costs and operating expenses, are reflected in the total assessment costs through cost accounting procedures set up by the department.

The various IHSS assessments made by counties consist of:

- ***Intake Assessments.*** These are assessments of potential IHSS recipients who are not currently receiving these services. The department estimates that 25 percent of IHSS administrative costs is for intake assessments.
- ***Six-Month Reassessments.*** Counties are required by current law and regulation to reassess the eligibility and the level of need for services of every IHSS recipient every six months. The department estimates that these scheduled reassessments account for 56 percent of IHSS administrative costs.
- ***Periodic Reassessments.*** Counties are required to reassess IHSS clients whose level of need for these services is likely to change before their next scheduled reassessment at intervals deemed appropriate by the social worker. The department estimates that these periodic reassessments account for 13 percent of IHSS administrative costs.
- ***Recipient-Requested Reassessment.*** IHSS recipients who believe that their need for in-home supportive services has changed since their initial assessment or their last reassessment may request a reassessment. The department estimates that recipient-requested reassessments account for 5 percent of IHSS administrative costs.
- ***Other Reassessments.*** The department estimates that all other reassessments account for 1 percent of IHSS administrative costs.

Table 11 shows the cost of each kind of assessment and reassessment, based on the department's estimate of total IHSS administrative costs for 1982–83.

SOCIAL SERVICES PROGRAMS—Continued

Table 11
Components of IHSS County Administrative Costs
Federal, State, and County Funds
(in millions)

Assessment Type	*Percent of Total Cost*	*Cost*
Intake Assessment	25%	$11.6
Six-Month Reassessment	56	26.0
Periodic Reassessment	13	6.0
Recipient-Requested Reassessment	5	2.3
Other Reassessments	1	.5
Totals	100%	$46.4

Elimination of Scheduled Six-Month IHSS Reassessments

We recommend that the Department of Social Services report to the Fiscal Committees, prior to budget hearings, on the fiscal and programmatic effects of eliminating or relaxing the requirement for six-month reassessments of nonseverely impaired IHSS recipients, including an estimate of the number of recipients who would request a reassessment if the scheduled reassessment were eliminated and a discussion of the likely effects of such a change on IHSS recipients.

Section 12304 of the Welfare and Institutions Code requires counties to reassess the level of need of all severely impaired IHSS recipients at least once every six months. Severely impaired IHSS recipients are those assessed as needing at least 20 hours per week of in-home supportive services. The department estimates that approximately 12 percent of all six-month IHSS reassessments are of severely impaired recipients.

There is no statutory requirement for counties to conduct six-month reassessments of nonseverely impaired IHSS recipients. Counties are required by DSS regulation (Manual of Policy and Procedure, Section 30-459.5), however, to conduct such reassessments. The department estimates that the elimination of six-month reassessments for nonseverely impaired IHSS recipients would reduce the cost of IHSS county administration by $11.5 million during 1982–83.

The primary purpose of the six-month IHSS reassessment is to determine whether the recipient's need for in-home supportive services has increased or decreased since the last assessment. To the extent that the six-month reassessments result in *reducing* recipients' assessed need or eligibility for in-home supportive services, the elimination or relaxation of the requirement that counties conduct six-month reassessments would increase the cost of the existing IHSS program. To the extent that these reassessments result in *increasing* recipients' assessed needs, the elimination or relaxation of the requirement would decrease the cost of the existing IHSS program. We are unable at this time to determine whether, on average, six-month reassessments result in increased or decreased IHSS program costs.

If six-month reassessments of nonseverely impaired recipients were discontinued, it is likely that some of those recipients whose circumstances had changed sufficiently to warrant an increase in authorized service hours would request an unscheduled reassessment. To the extent that such recipients request reassessments in lieu of the currently required six-month reassessments, the cost savings attributable to elimination of such reassessments would be less than the department estimates. We are unable at this time to determine the extent to which nonseverely impaired IHSS recipients would request reassessments in lieu of six-month reassessments and are, thus, unable to estimate the likely cost savings of eliminating or relaxing the requirement for these reassessments.

We are also unable to determine the likely effect on IHSS recipients of reducing reassessments. To the extent that some recipients are granted more service hours as the result of the current six-month reassessments, the elimination or reduction of the requirement for those reassessments could result in decreased service to those recipients. While some recipients might request unscheduled reassessments, and thereby be granted more service hours, other equally deserving recipients might not request reassessments and might, consequently, receive less service than they are qualified to receive.

Therefore, the programmatic and fiscal effects of eliminating or relaxing six-month reassessments of nonserverely impaired IHSS recipients are uncertain. Because the potential General Fund consequences from such a policy change are major, however, we recommend that the department report to the fiscal committees prior to budget hearings on the likely fiscal and programmatic effects of eliminating or relaxing the requirement for six-month reassessments under the IHSS program. The department's report should address the questions of the fiscal effect of a possible increase in recipient requested reassessments and of the likely effects of the elimination or relaxation of the requirement for six-month reassessments on IHSS recipients.

Transfer of Funding for IHSS Administration

We recommend that federal funds for county administration of the In-Home Supportive Services program be transferred from other-county social services (Item 5180-151-866[a]) to specialized adult services (Item 5180-151-866[b]), in order to budget program and administrative costs together with the same program, thus facilitating legislative review of total program costs.

As already noted, county administrative costs for the In-Home Supportive Services (IHSS) program currently are funded from county allocations of state and federal funds for other-county social services (OCSS). For 1982–83, the proposed appropriation for OCSS is $161,056,000 (including COLA). Of this amount, approximately $34,829,000 will support IHSS county administration.

With the exception of IHSS administration, the OCSS category contains Title XX social services programs for which the county administrative costs associated with the provision of such services are also funded from the OCSS allocation.

Our analysis indicates that transferring IHSS county administration from OCSS to specialized adult services would be consistent with the general practice in the social services program of budgeting administrative and program costs together. In addition, budgeting these two cost elements together would facilitate legislative review of the total cost of the IHSS program. This is especially desirable, given the consolidation of funding for OCSS into a block grant to counties, since consolidation will reduce the availability of cost data for individual program components such as IHSS administration.

Therefore, we recommend that $34,829,000 for county administration of in-home supportive services be transferred from subpart (a) of Item 5180-151, other-county social services, to subpart (b), specialized adult services.

SOCIAL SERVICES PROGRAMS—Continued

IN-HOME SUPPORTIVE SERVICES

The fundamental concept of the In-Home Supportive Services (IHSS) program is that providing certain services to eligible aged, blind, and disabled persons will allow those persons to remain in their own homes when they would otherwise have to be institutionalized in boarding or nursing facilities. A secondary purpose of the IHSS program has been to enhance the quality of life of the recipients, as opposed to reducing the immediate prospects of their institutionalization.

Currently, county welfare departments administer the IHSS program. Each county may choose to deliver services in one (or some combination) of three payment modes: (1) directly by county employees, (2) by private agencies under contract with the counties, or (3) by individual providers hired directly by the recipients. Individual providers delivered 75.7 percent of IHSS case months in 1980–81.

Budget Year Proposal

The budget proposes a General Fund appropriation of $159.2 million (including a cost-of-living adjustment (COLA) of $8.4 million) for IHSS in 1982–83. This is an increase of $16.3 million, or 11.4 percent, above estimated 1981–82 General Fund expenditures.

The budget proposes a total appropriation of $279.9 million (including COLA, but excluding county funds of $1.9 million). The requested appropriation is $8.6 million, or 3.2 percent, more than estimated current year expenditures of appropriated funds.

As Table 12 indicates, the budget assumes that counties will commit $1.9 million to the IHSS program in 1982–83. Of that amount, approximately one-half ($0.9 million) is expected as a share in the cost of the proposed $9.3 million COLA. Although supporting documents provide the detail regarding the county share of the COLA, the budget itself does not indicate a cost to the counties for providing this increase. The extent to which counties will *in fact* share in the 1982–83 cost of providing the level of service proposed in the budget depends on whether actual program costs exceed the amount of state and federal funds available for IHSS in the budget year.

Table 12
In-Home Supportive Services
Funding by Source
1981–82 and 1982–83
(in thousands)

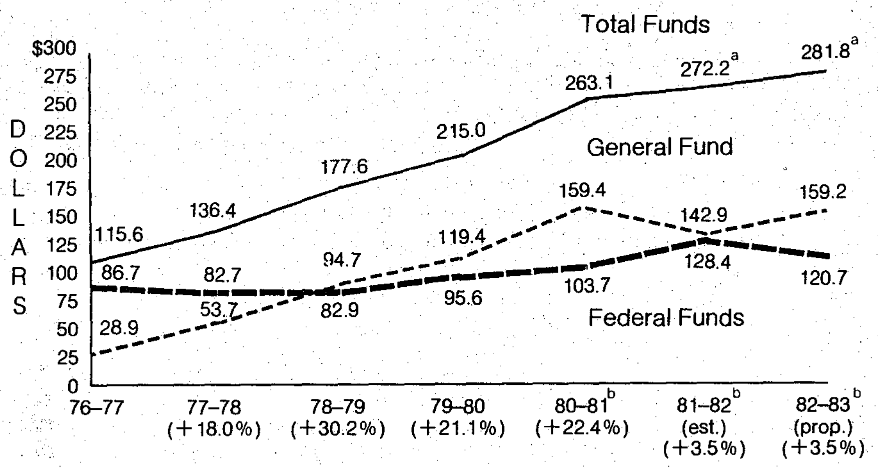
	Estimated 1981–82	*Proposed 1982–83*	*Change Amount*	*Change Percent*
Total Program [a]				
General Fund	$142,874	$159,241	$16,367	11.5%
Federal funds	128,402	120,686	−7,716	−6.0
County funds	920	1,882	962	104.6
Totals	$272,196	$281,809	$9,613	3.5%
Program Cost Exclusive of County Funds				
General Fund	$142,874	$159,241	$16,367	11.5%
Federal funds	128,402	120,686	−7,716	−6.0
Totals	$271,276	$279,927	$8,651	3.2%

[a] Includes amounts for COLA.

Chart 1 shows the state and federal cost-sharing relationships for in-home supportive services over the period 1976–77 to 1982–83 (proposed). The county share of costs is not displayed in the table beyond 1980–81, although county funds are included in the estimates of total expenditures.

Chart 1

Department of Social Services Expenditures for In-Home Supportive Services General Fund, Federal Funds, and Total 1976–77 through 1982–83 (in millions)



a County match of $0.9 million for 1981–82 and $1.9 million for 1982–83 not displayed.
b Source: Governor's Budget for 1982–83.

Commission on State Finance Estimates California Necessities Index at 8.2 Percent

We recommend a General Fund reduction of $105,000 from Item 5180-181-001 (d) to reflect the most recent estimate by the Commission on State Finance of the change in the California Necessities Index (CNI).

The Department of Finance estimated in December 1981 that the CNI increase from December 1980 to December 1981 would be 8.8 percent. Based on more recent information, however, the Commission on State Finance estimated in late January 1982 that the actual CNI increase would be 8.2 percent rather than 8.8 percent. In our analysis of Item 5180-181, we recommend that the Commission on State Finance's more recent estimate be used for calculating cost-of-living increases for the AFDC, SSI/SSP, and IHSS programs. This recommendation, discussed on page __ of this *Analysis,* would result in total savings of $117,000 ($105,000 General Fund and $12,000 in county funds).

Impact of Current Year State and Federal Changes

The In-Home Supportive Services Program was directly affected by two major developments during 1981–82: (1) the reduction of federal funds available to California for social services programs and (2) the enactment of Ch 69/81 (SB 633).

SOCIAL SERVICES PROGRAMS—Continued

Federal Funds Reduction. As noted in our discussion of the federal social services block grant, California received approximately $57.5 million *less* in federal Title XX funds for social services than the 1981 Budget Act anticipated. This reduction in Title XX funding was partially offset on a one-time basis by using $13.4 million in federal funds for social services that had been allocated to California for related programs (Title IV-B of the Social Security Act and the Low-Income Home Energy Assistance program). Thus, the net reduction in federal funding for social services during the current year was $44.1 million.

Of the $44.1 million reduction, $26.3 million occurred in the In-Home Supportive Services program, reducing the total state and federal program dollars available for 1981–82 from $297.6 million to $271.3 million. As shown in Table 13, this resulted in an overall IHSS program reduction of 9.7 percent, while the counties' share of total local program costs declined by 75 percent. On November 13, 1981, the Director of Finance advised the Legislature in a Section 28 notification that the necessary program reductions in IHSS would be made pursuant to the provisions of Ch 69/81.

Table 13
Department of Social Services
Funding Reductions in the In-Home Supportive Services Program
1981–82
(in thousands)

	Budget Act of 1981	Section 28 Notification 11/13/81	Change: Amount	Change: Percent
General Fund	$142,874	$142,874	—	—
Federal funds	154,678	128,402	−$26,276	−17.0%
Totals	$297,552	$271,276	−$26,276	−8.8%
Total allocation of state and federal funds	$291,677 [a]	$265,749 [a]	−$25,928	−8.9%
County share	3,842 [b]	961 [b]	−2,881	−75.0%
Totals, Local Program	$295,519 [c]	$266,710 [c]	−$28,809	−9.7%

[a] The Department of Social Services commits a portion of local assistance funding to support the contract for the IHSS payrolling system and workers' compensation. In the original allocation plan, these costs were estimated at $5,875,000; under the revised allocation plan, the department estimates costs of $5,527,000.

[b] The Department of Social Services provided these estimates.

[c] Source: DSS's All-County Letter No. 81-70 (July 8, 1981) and All-County Letter No. 81-109 (October 21, 1981), respectively.

Chapter 69, Statutes of 1981. Five provisions of Ch 69/81 will have the greatest impact on IHSS. These provisions:

1. Limit General Fund expenditures for IHSS to the amount appropriated for this purpose in the annual Budget Act;
2. Require counties to share in the cost of the program;
3. Require counties to submit plans to the Department of Social Services indicating how each county intends to keep program costs within the county's allocation;
4. Require DSS to ensure, based upon the contents of county plans, that any program reductions necessary to accommodate a capped appropriation would be made evenly throughout the year and in a specified order of legislative priorities; and
5. Restrict the circumstances under which IHSS will be made available.

Statewideness

Chapter 69 established legislative priorities on how "optional" program reductions needed to keep expenditures within the amounts appropriated in the annual Budget Act are to be implemented. If reductions should be necessary, counties and the department must reduce services in the following order:

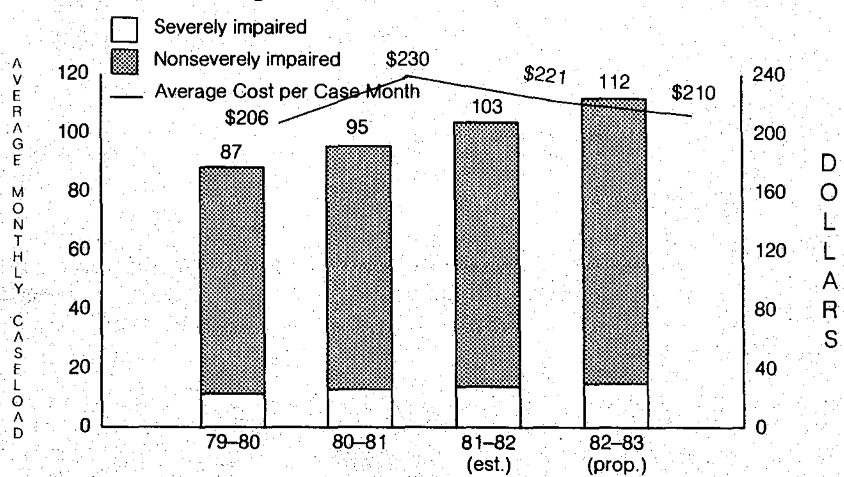
1. Reduction in the frequency with which nonessential services are provided;
2. Elimination of nonessential service categories;
3. Termination or denial of eligibility to persons requiring only domestic services;
4. Termination or denial of eligibility to persons who, in the absence of services, would not require placement in an out-of-home care facility; and
5. Per capita reduction in the cost of services authorized.

The counties' IHSS plans submitted to DSS in September indicated that the program reductions *mandated* by Ch 69/81 would be sufficient to keep current year IHSS expenditures within the initial 1981–82 appropriation. Several counties have advised us, however, that due to both the unanticipated federal fund reductions and delays in implementing the mandated reductions, they would be making further reductions to stay within their current year allocations, in accordance with the legislative priorities specified in Ch 69/81.

To the extent that during the current year some counties, but not all, are forced to make one or more additional program reductions (that is, beyond those made statewide pursuant to DSS regulations), benefits available under the IHSS program would not be uniform statewide. That is,

Chart 2

Department of Social Services
In-Home Supportive Services
Average Monthly Caseload (in thousands)
Average Cost per Case Month
1979–80 through 1982–83



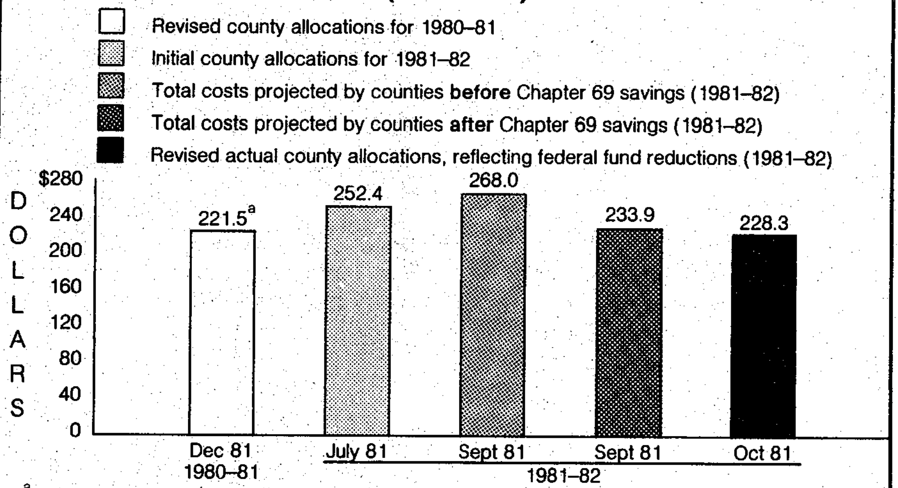
SOCIAL SERVICES PROGRAMS—Continued

clients with similar characteristics and in similar circumstances would be treated dissimilarly with respect to the in-home supportive services they receive. Many county IHSS administrators believe that this would be contrary to existing law regarding uniform provision of services statewide.

In an opinion issued on February 8, 1982, the Legislative Counsel advised our office as follows: "In general, existing law requires that in-home supportive services be supplied uniformly by counties, except that, after proper notification, counties may differentially implement program reductions in order to prevent costs for the in-home supportive services program from exceeding available funds. The priority provisions of Chapter 69 of the Statutes of 1981 which authorize differential implementation of these reductions are not in conflict with existing law."

Chart 3

Department of Social Services In-Home Supportive Services Funding Fourteen Largest Counties 1980–81 and 1981–82 (in millions)



a Analyst's estimate, based on revised allocation plus proportional share of employee benefits. Beginning in 1981–82, state support for employee benefits is allocated to counties.

Lowering the IHSS Unit Cost

The budget assumes that the cost reduction mechanisms provided for in Ch 69/81 are sufficient to enable the counties to keep the IHSS expenditures within the proposed appropriation for 1982–83. At the same time, the budget requests a $13.2 million General Fund augmentation to "fund caseload growth."

Our analysis indicates that, given the cap on IHSS expenditures, the proposed budget could accommodate the anticipated growth in caseload only if counties succeed in lowering the average cost per IHSS case month.

The department projects an average caseload in 1982–83 of 111,538—an increase of 8,763, or 8.5 percent, over the number estimated for the current year. At the current year average cost per case month of $221, the total program costs for a projected caseload of 111,538 would be $295,799,000—*before* a cost-of-living increase. The budget request for IHSS, however, is for $281,809,000, including COLA. This is $13,990,000, or 5 percent, less than it would take to fund next year's projected caseload at the current year price.

In short, the budget assumes that, pursuant to the provisions of Ch 69/81, counties will reduce a sufficient number of service hours per case month to lower the average cost per case month to approximately $210, a 5 percent reduction below current year costs. Chart 2 illustrates the two assumptions on which the budget is based: that the average monthly caseload will continue to increase while the average cost per case month is projected at the same time to decline.

In effect, the administration's proposal assumes that the "optional" program utilization controls provided for in Ch 69/81 will enable counties to achieve the additional savings required to serve the increased caseload while staying within the funding level requested for 1982–83. Our analysis of the current year IHSS plans prepared by the 14 largest counties, however, indicates that some counties will have to begin *now* to implement the "optional" program reductions in order to stay within the funding available for 1981–82.

Chart 3 shows that the revised allocation of $228.3 million to these 14 counties will leave the same 14 counties $5.6 million short of the $233.9 million they estimate they will spend in the current year *after* making the reductions mandated by Ch 69/81. Should program costs exceed the $228.3 million in state and federal funds, plus a 10 percent county match, the additional spending would have to be financed in full by the county. Consequently, counties have a fiscal incentive to implement the utilization controls authorized by Ch 69/81.

The Budget Program May Not be Feasible. Our analysis indicates that the budget-year proposal may prove not to be feasible. There is no evidence that the 5 percent reduction in average costs per case month which is required at the local level to prevent program costs from exceeding the Budget Act appropriation can in fact be achieved. Nor is there evidence from the counties that their actual experience in implementing even current year reductions is consistent with the projections contained in their IHSS county plans submitted last September. Moreover, the budget proposal fails to identify savings goals by category, in order of legislative priority.

Whether counties in fact have adequate control over IHSS utilization to meet the budget constraint proposed for 1982–83 is uncertain. If they do not have sufficient control over program costs, the effect of the proposed budget would be to transfer more than the current county share of IHSS costs to the counties. To avoid doing so, the Legislature would have to provide either authorization in statute for additional controls or increase the amount appropriated from the General Fund.

If, on the other hand, utilization controls are adequate but counties are unable to provide an adequate level of service to the populations for whom in-home supportive services are provided in order to prevent institutionalization, the pressure on the state's budget could mount. This pres-

SOCIAL SERVICES PROGRAMS—Continued

sure may be felt either in the IHSS program, or in those items that fund institutional care. In other words, it is not clear that the counties can continue to reduce the level of service *per recipient* without failing to meet the goals of the IHSS program as determined by the Legislature.

Residual Funding and Program Uncertainties. If our understanding of it is correct, the intent of the administration's budget proposal is compatible with legislative intent in Ch 69/81 to gain control over IHSS program utilization and costs. Nevertheless, future funding decisions with respect to in-home supportive services will not necessarily be obvious. For example, to the extent that the *availability of funding*, rather than unit costs and service needs, is the basis for the annually proposed appropriations for IHSS and, to the extent that future funding proposals are based on assumptions that counties can reduce average costs even further, the Legislature will be unable to determine whether the annual budget proposal is over- or underbudgeted.

With respect to program goals as determined by the Legislature, it is not clear whether the state-level trend toward authorizing the delivery of long-term care services to persons in their homes, rather than in institutions, is compatible with a reduced rate of growth in IHSS expenditures.

In the absence of data regarding savings actually achieved by counties during 1981–82, our analysis indicates that it is unclear that a specified level of savings can be achieved in the In-Home Supportive Services program. In order to assess the feasibility of achieving the specified level of savings, it would also be important to know the extent to which counties have already begun implementing "optional" program reductions. Without such information, we are unable to advise the Legislature whether the proposed budget for IHSS is adequate to meet program goals.

County Response to Chapter 69, Statutes of 1981 (SB 633)

We recommend that the Department of Social Services advise the fiscal committees prior to budget hearings regarding the counties' actual 1981–82 experience in achieving or exceeding the savings which the counties projected for the current year pursuant to Ch 69/81 (SB 633).

Pursuant to Ch 69/81 and DSS's All-County Letter No. 81–76, the counties submitted their required IHSS plans, detailing the estimated savings that would be achieved from implementing the "mandated savings" provisions in Chapter 69. We have reviewed the plans from the 14 counties with the largest IHSS allocations to provide a basis for projecting the savings expected to result from Ch 69/81. Allocations to these 14 counties comprise 85.6 percent of the current year statewide total allocation for IHSS.

The counties projected savings due to three provisions of Ch 69/81:

- ***Able and Available Spouse.*** Prior to the enactment of Ch 69/81, the spouses of eligible IHSS recipients received payment as providers of in-home supportive services. Chapter 69 provided that: "An able spouse who is available to assist the recipient shall be deemed willing to provide at no cost any services under this article except nonmedical personal services and paramedical services."
- ***Comfort.*** Whereas prior law allowed any eligible aged, blind, or disabled individual to receive in-home supportive services to make it possible for the recipient to remain in *comfort and safety* in an independent living situation, Ch 69/81 restricted services to those which

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Table 14
Department of Social Services
In-Home Supportive Services
Projected Savings Pursuant to Chapter 69
in Fourteen Largest Counties
1981–82
(in thousands)

	Total Program Costs Before Mandated Savings	Mandated Savings: Able and Available Spouse	Comfort	Time-per-Task and Frequency Standards	Total	Total Program Costs After Mandated Savings	Percent Change [c]
1. Los Angeles	$141,758	$3,903	$11,819	$5,155	$20,877	$120,881	−14.7%
2. San Francisco	(21,080) [a]	— [a]	— [a]	— [a]	(1,677) [a]	(19,403) [a]	(−7.9) [a]
3. San Diego	17,330	332	989	451	1,772	15,558	−10.2
4. Alameda	10,197	6	—	122	128	10,069	−1.3
5. Orange	11,231	139	1,547	625	2,311	8,920	−20.6
6. Contra Costa	9,181	77	625	—	702	8,479	−7.6
7. Fresno	8,918	163 [b]	–	857 [b]	1,110 [b]	7,808	−12.4
8. Santa Clara	8,891	152	385	584	1,121	7,770	−12.6
9. Riverside	7,831	40	458	384	882	6,949	−11.3
10. Sacramento	7,943	60	178	300	538	7,405	−6.8
11. San Bernardino	8,940	224 [b]	223 [b]	600 [b]	1,067 [b]	7,873	−11.9
12. Tulare	5,832	213	158	553	924	4,908	−15.8
13. San Mateo	5,096	50	178	328	556	4,540	−10.9
14. Sonoma	3,784	48	73	291	412	3,372	−10.9
Totals	$246,932	$5,407 [b]	$16,633 [b]	$10,250 [b]	$32,400 [b]	$214,532	−13.1%
		(16.7%)	(51.3%)	(31.6%)	100%		

[a] Because San Francisco did not provide projected savings by category, we did not include San Francisco's projections in the overall calculations.

[b] Due to computational or typographical errors, some counties' breakdowns of mandated savings do not tie to the totals. We have used the totals regardless of the sums of the three individual mandated savings columns, because the totals tie to the new forecasts of total program costs. As a result, however, the errors in this table are not due exclusively to rounding.

[c] Average percentage change = −11.3.

SOCIAL SERVICES PROGRAMS—Continued

assure that recipients would remain *safely* in an independent living situation.

- *Time-Per-Task and Frequency Standards.* Pursuant to the provision in Ch 69/81 that IHSS program reductions be made in accordance with specified legislative priorities, beginning with reductions in the frequency with which nonessential services are provided, the DSS issued new regulations on July 10, 1981, regarding time-per-task and frequency standards. The regulations specify that the standard time for providing domestic services shall not exceed 6 hours per month (3 hours, 2 times per month). In Los Angeles County, by comparison, the previous standard for domestic services was 10 hours per month. The July regulations also authorize counties to develop and use time-per-task and frequency standards for other services.

As shown in Table 14, the 14 counties whose IHSS plans we reviewed projected total savings for 1981–82 pursuant to these three mandated reductions of $32.4 million. They estimated approximately 17 percent of that amount would be achieved through the "able and available spouse" change, 51 percent would come from the "comfort" change, and 32 percent would result from the "time-per-task and frequency standards" change. The anticipated savings as a percentage of total program costs ranged from 1.3 percent in Alameda County to 20.6 percent in Orange County; the average anticipated savings was 11.3 percent.

It is possible that additional savings will be achieved in some counties. Contra Costa County, for example, advised DSS in the cover letter accompanying its county plan, that it had not yet made "comfort" reductions. The county director indicated that a "further, large reduction" in IHSS expenditures could be expected due to case closings and hourly reductions related to the "comfort" change.

Temporary Restraining Order. At the time county IHSS plans were submitted, the department and the counties assumed that the planned program reductions could be fully implemented no later than January 1, 1982. On August 30, 1981, however, a Los Angeles County Superior Court judge issued a temporary restraining order (TRO) enjoining DSS and the counties from:

- Refusing to grant a hearing to any IHSS recipient who requests a hearing pursuant to the notification of a reduction in services; and
- Reducing the IHSS grant of any severely disabled individual, including any severely disabled individual who had been receiving the IHSS maximum grant prior to the reductions made pursuant to Ch 69/81.

On December 7, the TRO was rescinded and the notification and renotification process resumed. The department now anticipates that all program reductions to be made pursuant to Ch 69/81 will have been implemented no later than February 1, 1982. It is conceivable, nevertheless, that some if not all counties will need to revise their projections of total IHSS program costs for the current year. At the time this analysis was prepared, however, only one county had submitted an amendment to its initial IHSS plan.

Need for Updated Information. As discussed earlier, the administration's proposed budget for 1982–83 assumes that counties will be able to reduce the hours of service provided to IHSS recipients, even as the average monthly caseload increases. Consequently, in order to evaluate the adequacy of the proposed funding level, the Legislature will need data on current year savings that are as accurate and current as possible before it makes a final decision on the IHSS appropriation for 1982–83 and/or additional statutory changes designed to reduce costs.

Therefore, we recommend that the Department of Social Services advise the fiscal committees prior to the budget hearings regarding the counties' actual 1981–82 experience in achieving or exceeding the savings they projected in their September 1981 IHSS plans.

County Match "Trigger"

We withhold recommendation on $159,136,000 in General Fund support requested for in-home supportive services, due to the uncertainty regarding total program costs in 1980–81 and the appropriate county share of costs in 1982–83.

Chapter 69 requires that, beginning in 1981–82, the counties shall pay 10 percent of the cost of IHSS services and payroll taxes in excess of "the sum of the amounts expended by the counties and those payroll taxes paid by the state on behalf of the counties . . . as determined by the department during the 1980–81 fiscal year." Ch 69/81 further specifies that this sum shall in no event exceed $263 million.

The budget for 1982–83 assumes that the first $263 million of support for IHSS is funded entirely with state and federal funds. This amount is shown by the 1982–83 budget to have been expended in 1980–81. It is not clear, however, that the estimate of "actual" expenditures in 1980–81 is correct.

As late as December 16, 1981, the department showed revised allocations to the counties totaling $239.3 million, or $23.8 million less than the amount shown in the Governor's Budget. In addition, the State Controller advised us on January 11, 1982, that as of that date, a total of $233.7 million had actually been expended for 1980–81 IHSS program costs.

The department advises that it spent $19.4 million in 1980–81 for payroll taxes, the IHSS payrolling system contract, and other nonallocated expenditures. This sum, added to the county allocations as revised on December 16, 1981, would come to $258.7 million in total program expenditures for 1980–81.

The amount of General Fund money required to support the projected program costs in 1982–83 will be determined by the actual level of expend-

Table 15
Department of Social Services
In-Home Supportive Services
County Share of Costs
1982–83
(in thousands)

	Trigger	*County Share*	*General Fund Savings*
Governor's Budget	$263,000	$937	—
Revised allocations	258,650	1,380	443
Actual expenditures as of 1/11/82	233,742	3,862	2,925

SOCIAL SERVICES PROGRAMS—Continued

itures in 1980–81. That is, the actual costs in 1980–81 will "trigger" a specified level of cost to the counties in all years succeeding 1980–81.

In an opinion issued on February 8, 1982, the Legislative Counsel advised our office as follows: "It is clear, from the language of the statute [Ch 69/81], that the sum of two hundred sixty-three million dollars ($263,000,000) was intended as a ceiling on the amount for which complete reimbursement will be made, and that if costs were lower than this figure for the 1980–81 fiscal year, full reimbursement would be limited to actual 1980–81 fiscal year costs, with the counties liable for 10 percent of all costs in excess of actual 1980–81 fiscal year IHSS costs."

Table 15 shows that at the different levels of expenditure identified, the county share of costs in 1982–83 could be anywhere from $443,000 to $2,925,000 higher than the budget indicates; the state share should be lower by a corresponding amount.

At the time the 1980–81 revised allocations for IHSS were made, the 18 counties utilizing the contract agency payment mode had reported costs for only three quarters. Consequently, we know that the 1980–81 allocations will be revised upward again before it can be finally determined what the actual program costs were in 1980–81. Even so, due to this and other uncertainties, our analysis indicates there is the potential for General Fund savings, should the total program cost in 1980–81 turn out in fact to have been less than $263 million. Until this uncertainty is resolved, we withhold recommendation on the proposal to appropriate $159, 136,000 (including COLA) in General Fund support for the In-Home Supportive Services program. This amount excludes $105,000 we have recommended for reduction from the cost-of-living increase, proposed in Item 5180-181-001(d).

Budget Reports

We recommend adoption of supplemental report language directing the Department of Social Services to include in its final report on the Alameda County IHSS cost containment pilot project an analysis of the impact on service awards of providing monthly budget reports to unit supervisors and intake workers.

Chapter 69 authorized the Department of Social Services to "conduct special pilot projects to test appropriate methods for assuring equity and efficiency in reducing program costs necessary to remain within" the annual Budget Act appropriation for in-home supportive services. Ch 69/81 required DSS to report to the Joint Legislative Budget Committee on the status of such projects no later than December 1, 1981.

In a one-page memorandum, the department advised that a pilot project in Alameda County commenced on November 1, 1981, and will run through June 30, 1982. The purpose of the project is to assess methods that allow for:

1. Greater equity in decisions regarding eligibility and level of service as a means of reducing program costs;
2. Administrative reforms that promote greater economy in program administration; and
3. Less costly periodic redetermination of eligibility and service awards.

The department's memorandum indicated that an interim report on the status of the Alameda County pilot project would be issued no later than February 1, 1982.

Five-Hour Increments. In the course of a field visit, we accompanied an intake worker on a visit to the home of a prospective IHSS recipient. Using a standard assessment form, the worker determined a service award of a specified number of monthly hours for which an IHSS individual provider could claim payment. In judging the prospective recipient's need for a particular category of service, for which maximums have not been set nor guidelines developed, this particular worker made service awards in increments of five hours. Later, when we pointed out that increments of five hours times the providers' wages could increase the cost of the program unnecessarily when spread over the entire caseload, the worker agreed.

We have no reason to believe that this particular practice is widespread. We note it only to indicate that the norms used by individual social workers to assess client service needs vary, and may account for some indeterminable percentage of unnecessary expenditures.

Our analysis indicates that providing the social workers with information indicating the cost implications of service award decisions could result in self-adjusted levels of service provided to IHSS recipients. In other words, it is reasonable to expect that if apprised of the funds spent in any given month and the funds remaining to support services for the rest of the year, intake workers will modify their service awards within a modest range.

The department's pilot project testing cost containment alternatives in Alameda County during the current year includes a budget reporting capability. Specifically, the automated management information system for the project generates monthly reports of case actions and expenditures, by unit. Such reports could be made available to social workers.

To test the hypothesis that this type of information can reduce the incidence of unnecessary awards, we recommend adoption of the following supplemental report language:

> "It is the intent of the Legislature that the Department of Social Services shall include in its final report on the in-home supportive services pilot project in Alameda County an analysis of the impact on service awards of providing monthly budget reports to IHSS unit supervisors and intake workers."

IHSS Program Structure and Funding Alternatives

We recommend that the Departments of Finance and Social Services advise the fiscal committees, prior to budget hearings, regarding the potential impact on IHSS budget requirements for 1982–83 and future budgets of (1) federal approval of the administration's request for a Title XIX waiver, and/or (2) implementation of those portions of the long-term care system state plan which directly affect IHSS. We further recommend adoption of Budget Bill language requiring the Director of Finance to notify the Legislature in the event that alternative funding for IHSS is approved by the federal government.

During the current year, the administration has advanced two proposals for restructuring available support for in-home supportive services. First, the Departments of Social Services and Developmental Services have submitted a request for a waiver to the federal government which, if granted, would allow California to bill the federal government under Title XIX (Medi-Cal) for a portion of the costs incurred in providing certain in-home and community-based services for eligible aged, blind, and disabled clients.

SOCIAL SERVICES PROGRAMS—Continued

Table 16
Department of Social Services
Comparison of Two Proposals for Restructuring the In-Home Supportive Services Program

	Current Structure	*Title XIX Waiver Request*	*Long-Term Care System*
Assumed average monthly caseload	111,538	111,538 [a]	68,103 [b]
Full-year total program cost: 1982–83 (in millions)	$281.8 [c]	$322.9 [b]	$190.0 [c]
General Fund	(159.2)	(206.3)	(68.4)
Percent	56.5%	63.9%	36.0%
Federal funds	(120.7)	(116.6)	(121.6)
Percent	42.8%	36.1%	64.0%
Average annual unit cost	$2,526	$2,895	$2,789
Average cost per case month	$210	$241	$232
Funding mechanism	Allocations to counties	Allocations to counties	Capitation, based on minimum rate guidelines established by the proposed new Department of Aging and Adult Functional Living (DAAFL)
Target Population	Current and future IHSS recipients who receive or need nonmedical personal services and/or paramedical services and who, absent these services, would require placement in an intermediate care or skilled nursing facility, either immediately or in the determinable near future	Current and future IHSS recipients who receive or need nonmedical personal services and/or paramedical services and who, absent these services, would require placement in an intermediate care or skilled nursing facility, either immediately or in the determinable near future	Primarily aged and functionally impaired persons eligible for placement in an out-of-home facility or currently residing in such facility and wanting to return home, and aged and functionally impaired persons in circumstances that threaten health and safety unless intervention is provided
Eligibility	a. Client receives SSI/SSP b. Client has mental or physical condition that requires long-term protective and supportive care above the level of board and care	a. Client receives SSI/SSP b. Client has mental or physical condition that requires long-term protective and supportive care above the level of board and care	Criteria to be developed by DAAFL
State administering agency	Department of Social Services	Department of Social Services through interagency agreement with Department of Health Services	Department of Aging and Adult Functional Living
Local administering agency	County welfare departments	County welfare departments	Adult functional living centers, to be designated by DAAFL

[a] Analyst's estimate, based on program budget data included in the waiver request. Includes nonwaiver caseload.

[b] Analyst's estimate, based on data provided by the Health and Welfare Agency, adjusted for a 6 percent cost increase for 1982–83, as assumed in DSS's waiver request. Estimate of average monthly caseload was derived from HWA's projections of case months. General and federal fund cost-sharing ratio estimated by HWA.

[c] Includes $1.9 million in county funds.

Second, an interdepartmental task force housed since February 1981 in the Health and Welfare Agency (HWA) prepared a long-term care (LTC) system development plan.

Request for a Waiver. The federal Omnibus Budget Reconciliation Act of 1981 authorized the Secretary of Health and Human Services to provide, by waiver, that a Title XIX state plan approved under Section 2176 of that act may include as "medical assistance" an array of various in-home or community-based services for purposes of claiming Title XIX reimbursement. The administration has sought to take advantage of this opportunity, and its waiver request was submitted to the federal Department of Health and Human Services (HHS) on December 14, 1981.

The administration requested an effective date of January 1, 1982, but, as of this writing, it had received no preliminary response from HHS. Section 2177 of the Omnibus Reconciliation Act provides that unless the state is notified otherwise, a state's waiver request is automatically granted 90 days after the request has been submitted. Thus the waiver would be granted on March 14, 1982, provided that the Secretary has not denied the request or asked for additional assurances or information from the state.

Table 16 compares the major elements of the Title XIX waiver request and the long-term care system proposal with the existing IHSS program and funding structure. Because the client and cost data used by DSS and HWA in deriving their projections for the alternatives are not comparable in all elements, it should not be assumed that the per-client cost would necessarily be lower in the LTC system than it would be for the DSS Title XIX waiver request, as the table suggests. The caseload and cost projections in the "current structure" column of Table 16 are taken from the budget year proposal for IHSS.

Uncertain Impact of Program Restructuring. Unlike the program changes made by Ch 69/81, the changes proposed under both the waiver request and the LTC system are not intended primarily to reduce IHSS program costs. The Title XIX waiver request is intended to increase federal funding for the existing IHSS program. The long-term care system proposal envisions restructuring the entire social and health services system in order to improve delivery of IHSS and other LTC services to a specified target population. Given the large difference in caseload projections for the two proposals, it is clear that assumptions have been made regarding the impact on clients of going with one system or the other. What is not clear, however, is the content of those assumptions.

The waiver request version of IHSS and the LTC version are not necessarily mutually exclusive. In fact, the LTC system state plan includes a recommendation that the administration seek this particular waiver. Conceivably, the administration considers the waiver to be an incremental step toward implementation of the LTC program.

Either or both of the administration's proposed restructurings of in-home supportive services would affect both the caseload and state cost projections included in the budget for 1982–83. We recommend, therefore, that the Departments of Finance and Social Services report to the fiscal committees prior to budget hearings regarding (1) the status of the Title XIX waiver request, (2) the administration's intentions with respect to implementing the portions of the long-term care system state plan that directly affect IHSS, (3) changes in the 1982–83 budget, as proposed, that would follow from federal approval of the Title XIX waiver, and (4) the anticipated fiscal and program impact, now and in the future (that is, beyond 1982–83), of implementing the long-term care system state plan as it pertains to IHSS.

SOCIAL SERVICES PROGRAMS—Continued

In order to provide the Legislature with an adequate basis for reviewing possible changes in the funding sources and program emphases for IHSS, we further recommend adoption of the following control language in Items 5180-151-001 (b) and 5180-151-866 (b) of the 1982 Budget Bill:

"Provided further that the Director of Finance may not approve expenditures for an in-home supportive services program funded under Title XIX of the federal Social Security Act sooner than 30 days after notification in writing to the chairperson of the committee in each house which considers appropriations and the chairperson of the Joint Legislative Budget Committee, or not sooner than such lesser time as the chairperson of the Budget Committee, or a designee, may in each instance determine. Such notification shall be contingent upon approval from the federal Department of Health and Human Services that the administration's request for a waiver of Title XIX restrictions against funding in-home supportive services as a "medical assistance" service has been granted. The notification from the Director of Finance to the Legislature shall include (a) a description of the fiscal and programmatic changes resulting in 1982–83 from funding IHSS from Title XIX, and (b) a list of the conditions, if any, placed by the federal government on implementation of the administration's Title XIX plan with respect to in-home supportive services."

Table 17
Department of Social Services
California Refugee Resettlement Program
Expenditures for Social Services [a]
1981–82
(in thousands)

	Six-Month Allocation	*Percent of Total*
Employment services	$2,629	30.0%
English as a second language	2,136	24.3
Vocational training	1,725	19.6
Health services	1,365	15.5
Vocational English	931	10.6
Totals	$8,786[b]	100.0%

[a] Source: Department of Social Services.
[b] Excludes $508,071 for interagency agreement with Employment Development Department.

REFUGEE SOCIAL SERVICES

The federal Comprehensive Refugee Assistance Act of 1980 (PL 96-212) authorized 100 percent federal support of social services to Indochinese refugees, and others who qualify as refugees by federal standards, without a time limit on individual eligibility. The nationwide federal appropriation for refugee social services in FFY 81 was $93.7 million. California's allocation was $20.1 million, or 21.4 percent of the total amount. This allocation was approximately $5 million *less* than the original planning estimate, due to federal withholding of $10 million from social services as a reserve, if necessary, to cover the higher-than-projected costs of refugee cash and medical assistance throughout the country. Our discussion of refugee cash assistance is included in our analysis of Item 5180-131, refugee programs.

Refugee Social Services—Current Year

As of January 13, 1982, the department had received verbal notification regarding federal allocations to California for refugee social services for only the first two quarters of FFY: $4.1 million for the first quarter (October–December 1981) and $5.6 million for the second quarter (January–March 1982). No planning estimate has been provided to DSS for FFY 83. Due to these uncertainties, and an FFY 81 reduction in social services funding, the department has contracted with service providers for six months at a time during the current year.

Table 17 shows how refugee social services funding is spent in the current year, by service category.

Legislative Follow-up. Pursuant to control language in the 1981 Budget Act, DSS has completed an interagency agreement with the Employment Development Department (EDD) for the purpose of coordinating the establishment of employment preparation programs for refugees. Two employment assistance for refugees (EAR) programs have been operating since November 1, 1981: one in the Alameda-Contra Costa Counties area and the other in Riverside County. EAR services include English as a second language, vocational English, vocational training, and employment-related services.

Refugee and Entrant Social Services—Budget Year

We recommend that the Departments of Finance and Social Services report to the fiscal committees prior to budget hearings regarding the fiscal and program impacts that would result if California received significantly less than the $71.9 million proposed for refugee social services in 1982–83.

The budget proposes $71,914,000 (including COLA) in federal funds for social services to refugees and entrants. This is an increase of $50,689,000, or 238.8 percent, over estimated current year expenditures of $21,225,000. Of the proposed total, $70,011,000 is proposed for refugee-only social services. Thirty-five percent ($24,503,000) of refugee-only funding is proposed for allocation to county welfare departments (CWD), continuing the restrictions on CWD spending that were provided for in control language included in the 1981 Budget Act. Of the $24.5 million, $590,000 is Title XX funding which has been earmarked for in-home supportive services.

Table 18 compares funding levels for refugee and entrant social services over three years, including the proposal for the budget year. In addition to allocating funds to county welfare departments, DSS contracts with private provider agencies for delivery of social and employment-related services. In compliance with provisions contained in the 1981 Budget Act, allocations to county welfare departments have been based on the percentages of refugees in the state receiving cash assistance located in each county.

Budget Year Proposal Is Unrealistic. The budget proposal for refugee and entrant social services is based on projections of service *needs*, using the level of service actually provided in 1980–81 as the indicator, adjusted for the increases in prices and refugee population. To date, funding for the first half of FFY 82 totals $9.7 million. Assuming California receives the same amount for the remainder of FFY 82, full year funding will be $19.4 million. Given this, we believe it is most unlikely that federal funding of $71.9 million will be available to California for refugee and entrant social services in 1982–83. Such an amount would represent an increase of 238.8

SOCIAL SERVICES PROGRAMS—Continued

Table 18
Department of Social Services
Social Services for Refugees and Entrants
One Hundred Percent Federal Funds
1980–81 to 1982–83
(in thousands)

Local Assistance Only	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*	*Percentage Change*
County welfare department services	$7,198	$7,474	$24,503 [a]	227.8%
Contracted services	24,119	12,128	45,508 [a]	275.2
Cuban/Haitian services	575	1,623	1,903 [a]	17.3
Totals	$31,892	$21,225	$71,914 [a]	238.8%
Each Program as Percentage of Total				
County welfare department services	22.6%	35.2%	34.1%	—
Contracted services	75.6	57.1	63.3	—
Cuban/Haitian services	1.8	7.7	2.6	—
Totals	100.0%	100.0%	100.0%	—
State Administration Only				
Amount	$1,924	$2,960	$3,365 [b]	—
As percent of total				
Yearly change	5.7%	12.2%	4.5%	—
Amount	—	1,036	405 [b]	—
Percent	—	53.8%	13.7%	—

[a] Includes COLA.
[b] Excludes COLA.

percent over estimated current year expenditures. We are unable to determine, however, the extent to which federal funding for this program may be increased or decreased above the level for 1981–82.

The department advises that the level of service actually provided will be subject to the amount of federal funding available. The current year contractors, for example, submitted requests for funding in the current year totaling $59.8 million. The full year amount of the current year allocation, if extended at the first six-months funding level detailed in Table 17, however, would be approximately $17.6 million, or 29.4 percent of the total amount requested.

The DSS estimates existing social services are reaching approximately 3 percent of the total refugee population in California. We are unable to advise the Legislature what the impact is of providing only partial funding for social services to refugees.

We recommend that the Departments of Finance and Social Services advise the fiscal committees prior to budget hearings regarding the fiscal and program impacts that would result if California receives significantly less than the $71.9 million proposed for refugee social services in 1982–83.

State Administrative Costs. As shown in Table 18, the $2,960,000 estimated cost of state administration in the current year represents 12.2 percent of estimated current year expenditures. The budget proposes $3,365,000 (excluding COLA) in federal funds for state administration in 1982–83. That amount would be 4.5 percent of the total social services expenditures *proposed* in 1982–83. If 1982–83 federal support for refugee and entrant social services turns out to be as low as $25 million, however, the $3.4 million budgeted for state administration would constitute approximately 12 percent of proposed expenditures. This percentage would be even higher if a cost-of-living adjustment is approved for state employees. State costs for administration currently are supported 100 percent with federal funds.

Refugees in California and Other States. The difficulties in obtaining accurate data regarding the number of refugees in California stem from the tendency of refugee families to migrate away from the states to which they originally were sent upon arriving in this country. The Population Research Unit (PRU) in the Department of Finance estimated in May 1981 that the cumulative total of refugees residing in California—including secondary migration refugees—was 178,161 as of March 31, 1981. This is the estimate upon which the budget year assumptions regarding the cash assistance caseload were based.

The Office of Refugee Resettlement in the federal Department of Health and Human Services estimates that, as of September 30, 1981, there were 187,585 refugees in California (including secondary migrants). *This number represents 34.3 percent of the 547,672 refugees who had entered the country since 1975.* In FFY 81, California's allocation of $20.1 million for refugee social services represented 21.4 percent of total federal funds appropriated.

Table 19 compares percentages of the refugee population and allocations of federal funds for social services, by state, for the six states in the country with a known refugee population of 20,000 or more. (New York (not shown), with 3 percent of the refugee population, received 2.4 percent of total federal funds available for refugee social services in FFY 81.)

Table 19

Refugee Resettlement Program
Six Largest Refugee Population States
Including Secondary Migrations

	Number of Refugees Estimated As of 9/30/81 [a]	*Percent of Total*	*FFY 81 Allocation for Social Services (in thousands)* [b]	*Percent of Total*
California	187,585	34.3%	$20,065	21.4%
Texas	49,265	9.0	4,211	4.5
Washington	25,476	4.6	5,546	5.9
Minnesota	22,556	4.1	4,820	5.1
Pennsylvania	20,622	3.8	3,561	3.8
Illinois	20,580	3.7	3,982	4.3
Totals	326,084	59.5%	$42,185	45.0%

[a] Source: *Refugee Reports,* December 18, 1981.
[b] Source: Department of Social Services.

OTHER SERVICES

Adoptions

We recommend $483,890 in unbudgeted federal Title IV-B funds be used in lieu of General Fund support for the adoptions program, for General Fund savings of $483,890.

The Budget Act of 1981 appropriated $750,000 in federal Title IV-B funds to the Department of Social Services to develop a foster care information system, and provided that the department's General Fund appropriation be reduced by that portion of the $750,000 not expended for development and implementation of the system during 1981–82. Title IV-B funds are made available to defray the costs of providing child wel-

SOCIAL SERVICES PROGRAMS—Continued

fare services such as adoptions, day care, foster care, and child protective services.

The department estimates it will spend $266,110 for the development of the foster care information system during 1981–82. Thus, the General Fund appropriation to the department should have been reduced by $483,890 for the current year, in order to comply with Budget Act language. The Department of Finance has not made such a reduction, however, and the budget does not reflect this current year savings. Consequently, the $483,890 in unused federal funds will remain available for use during 1982–83. These funds are not reflected in the budget.

In order to maximize the use of available federal funds and increase the Legislature's flexibility in funding high-priority programs, we recommend that $483,890 in unbudgeted Title IV-B funds be used in lieu of General Fund support for the adoptions program, for General Fund savings of $483,890.

General Fund Support for Demonstration Projects Redirected to Adoptions

We recommend approval.

The budget proposes the redirection of $610,000 in General Fund support from demonstration programs to adoptions. This redirected funding will be used for a proposed minority home recruitment program. This program is designed to recruit adoptive parents for minority children. The Department of Social Services advises that existing adoptive parent recruiting programs have not succeeded in recruiting an adequate number of minority adoptive parents and that, as a result, a disproportionate number of adoptable minority children remain in foster care awaiting adoption.

The proposed minority home recruitment program is based on experience gained through a minority home recruitment demonstration project conducted by the department in San Bernardino and Riverside Counties during 1980.

Our analysis indicates that the demonstration was successful in recruiting minority parents and that the proposed program should result in a substantial increase in minority adoptions. We recommend approval.

Department of Social Services
COMMUNITY CARE LICENSING

Item 5180-161 from the General Fund — Budget p. HW 225

Requested 1982–83	$8,823,000
Estimated 1981–82	8,756,000
Actual 1980–81	(15,882,000)[a]
Requested increase $67,000 (+ 0.8 percent)	
Total recommended reduction Item 5180-161-001	$445,000
Total recommended reduction Item 5180-181-001(e)	($22,000)

[a] Funds for community care licensing were appropriated under the Social Services program item in 1980–81.

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-161-001—Community Care Licensing		General	$8,403,000
5180-181-001 (e)—Community Care Licensing—COLA		General	420,000
Total			$8,823,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Workload Standards. Reduce Item 5180-161-001 by $445,000 and Item 5180-181-001(e) by $22,000.*** Recommend reduction of $467,000 due to application of state licensing workload standards to county contracts for foster family home licensing. 1167

GENERAL PROGRAM STATEMENT

Community care facilities provide nonmedical residential care, day care, or home-finding services for children and adults. This item contains the General Fund appropriation to contract with counties to license two categories of community care facilities: (1) foster family homes and (2) family day care homes. The Department of Social Services also directly licenses community care facilities. Funds for direct state licensing activities are requested in Item 5180-001-001, departmental support.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $8,823,000 (including $420,000 for cost-of-living adjustments) from the General Fund to reimburse counties for licensing activities. Table 1 shows the change in General Fund support for community care licensing contracts with counties. General Fund expenditures for 1982–83 are proposed to increase by $67,000 over current year expenditures. This consists of a $420,000 increase to provide a 5 percent cost-of-living adjustment, partially offset by various reductions totaling $353,000.

Table 1
Proposed General Fund Budget Adjustments For Community Care Licensing 1982–83 (in thousands)

	Adjustment	*Total*
A. 1981–82 Estimated Expenditures		$8,756
B. Budget Adjustments		
1. Family day care caseload transfer	−$187	
2. Foster home caseload decrease	−39	
3. Implementation of regulations	−101	
4. Adjustment to 1981–82 COLA	−26	
5. 1982–83 Cost-of-living adjustment	420	
Total Adjustments		67
Total Proposed General Fund		$8,823

In 1982–83, 47 counties will contract with the state to license 62 percent of the state's community care facilities. Table 2 shows, for each type of community care facility, the number of facilities licensed directly by the department and the number licensed by counties under contract with the department.

COMMUNITY CARE LICENSING—Continued

Table 2

Estimated Community Care Licensing Caseload [a]
State-Licensed Caseload/County-Licensed Caseload
1982–83

Type of Facilities	*Total Facilities*	*Facilities Licensed Directly By DSS*	*Facilities Licensed By Counties Under Contract With DSS*
Foster family homes	13,813	1,513	12,300
		(11%)	(89%)
Family day care homes	28,686	6,664	22,022
		(23%)	(77%)
Child day care centers [b]	4,665	4,665	—
		(100%)	
All other [c]	8,243	8,243	—
		(100	%)
Totals	55,407	21,085	34,322
Percent	100.0%	38.1%	61.9%

[a] Source: Department of Social Services.
[b] In addition to child day care centers licensed by the Department of Social Services, there are 1,526 child day care centers licensed by the State Department of Education.
[c] Includes other family homes (3,828 facilities), children's group homes (991 facilities), other group homes (3,162 facilities), home-finding and adoption agencies (95 facilities), and miscellaneous adult day care facilities (167 facilities.)

Major Legislation—Chapter 102, Statutes of 1981 (AB 251)

Chapter 102, Statutes of 1981 (AB 251), made major changes in the family day care licensing program. Specifically, Ch 102/81:

- Increased the term of family day care home licenses from two to three years.
- Required the department, or counties under contract to the department, to make unannounced site visits to 10 percent of licensed family day care homes.
- Required the department, or counties under contract to the department, to visit, at the time of a request for license renewal, all family day care homes which have been cited for a major violation of department regulations.
- Created a pilot project, to be conducted in three counties to determine whether a simplified registration system can expand the availability of family day care services while ensuring substantial compliance with health and safety regulations, and required the Department of Finance to submit to the Legislature by March 1, 1983, an evaluation of the three-county pilot project.

The Department of Social Services estimates that during 1981–82, these changes resulted in a $4,263,000 reduction in the cost of contracts with the counties to license family day care homes. In addition, the cost of family day care home licensing conducted directly by the department was reduced by $402,400. Thus, the changes made by AB 251 in family day care home licensing requirements resulted in a total General Fund savings of $4,665,400 during 1981–82. Assuming a 5 percent cost-of-living adjustment for the county costs of this program in 1982–83, the changes made by AB 251 will result in ongoing General Fund savings of $4,878,600 during 1982–83.

Since the enactment of AB 251, however, the Counties of Los Angeles and Humboldt have returned the responsibility for licensing family day care homes to the department. These shifts will result in a further reduction of $655,300 in the 1982–83 cost of the county portion of the family day care home licensing program and a corresponding increase in the state portion of the program.

We recommend a General Fund reduction of $467,000 in county contracts for foster family home licensing to reflect the application of the Department of Social Services' workload standards.

The budget proposes an appropriation of $8,823,000 from the General Fund to support community care licensing by counties under contract to the Department of Social Services. Of this amount, $5,100,067 is proposed for contracts with counties to license 12,300 foster family homes.

In estimating the cost of county-contracted licensing of foster family homes, the department used a workload standard of 115 foster family homes per county licensing evaluator. The Department of Social Services, which also licenses foster family homes, uses a workload standard of 126 foster family homes per *state* licensing evaluator. The department is unable to provide justification for its use of a lower workload standard for *county* licensing of foster family homes than the standard for direct state licensing of these homes. In addition, we are unable to identify any significant differences between the foster family homes licensed by the counties and those homes licensed by the state which would justify this discrepancy in workload standards. Therefore, we recommend the use of a workload standard of 126 foster family homes per county licensing evaluator, for a General Fund savings of $445,396. This reduction in the basic cost of county contracts for foster family home licensing would also allow a reduction of $22,000 in Item 5180-181-001(e), cost-of-living increases for local assistance programs of the Department of Social Services.

Department of Social Services
LOCAL MANDATES

Item 5180-171 from the General Fund — Budget p. HW 235

Requested 1982–83	$114,000
Estimated 1981–82	74,000
Actual 1980–81	8,513,000
Requested increase $40,000 (+54.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to reimburse local governments for four separate executive regulations. In past years, this item also included funds to reimburse counties for legislative mandates administered by the Department of Social Services. Chapter 69, Statutes of 1981, eliminated the requirement to reimburse counties for the legislative mandate which had increased AFDC grants by 6 percent effective January 1, 1977.

LOCAL MANDATES—Continued

Executive Mandates Included in this Item

1. *Treatment of Loans—AFDC Program.* These regulations exclude loans from countable income for purposes of calculating recipients' AFDC grant levels. Under previous regulations, loans made to recipients were counted as income when determining a recipient's grant.

2. *Work-Related Equipment—AFDC Program.* These regulations exclude the entire value of an AFDC recipient's work-related equipment in determining eligibility for benefits. Previous regulations provided a $200 maximum exemption for work-related equipment.

3. *Employment Services Registration—AFDC Program.* AFDC recipients in 31 counties are required to register for the Work Incentive (WIN) program unless exempted under specified criteria. Recipients in non-WIN registration counties are required to register with the Employment Services program, administered by the Employment Development Department. As a result of these executive regulations, a standard exemption criterion was adopted for both programs.

4. *Food Stamp Verification of Excess Shelter Costs.* Executive regulations assumed to be effective December 1, 1981 require counties to verify shelter costs claimed by food stamp recipients.

Under current federal regulations, each state is allowed to select the eligibility and benefit criteria to be verified by county staff. The Department of Social Services has elected to *allow* counties to verify the liquid assets, cost of dependent care, and household size of food stamp recipients. The department, however, has *required* counties to verify shelter costs when they exceed 50 percent of the household's monthly income (excess shelter costs).

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of $114,000 to reimburse the counties for executive mandates in 1982–83. (This is in addition to $361.5 million in state and federal funds that will be provided to the counties for administration of the AFDC and Food Stamp programs.) This is an increase of $40,000, or 54 percent, over estimated 1981–82 expenditures. Expenditures are projected to increase in 1982–83 because the food stamp verification regulations will be in effect for the entire year. These regulations are expected to be in effect for only seven months during 1981–82. Table 1 displays the proposed costs for each of the executive regulations funded in this item.

Table 1
Department of Social Services
General Fund Expenditures for Local Mandates
1981–82 and 1982–83
(in thousands)

	Estimated 1981–82	*Proposed 1982–83*	*Change* Amount	Percent
AFDC treatment of loans	$4	$4	—	—
AFDC work-related equipment	10	10	—	—
AFDC employment service registration	4	3	−$1	−25.0%
Food stamp verification	56	97	41	73.2
Totals	$74	$114	$40	54.0%

Department of Social Services
COST-OF-LIVING INCREASES

Item 5180-181 from the General Fund and Federal Trust Fund — Budget p. HW 231

Requested 1982–83	$459,947,000 [a]
Total recommended reduction	$46,128,000

[a] Includes $136,106,000 to offset reduction in baseline program budget made in anticipation of increased federal funds for COLA to SSI grants.

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-181-001—Cost-of-Living Increases		General	$459,947,000
5180-181-866—Cost-of-Living Increases		Federal	(177,243,000)
Total			$459,947,000

COST-OF-LIVING INCREASES—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***CNI Estimated at 8.2 Percent. Reduce by $43,459,000.*** Recommend cost-of-living adjustments for AFDC, IHSS, and SSI/SSP be calculated using most recent estimate of increase in California Necessities Index (CNI) (8.2 percent) rather than budget estimate of 8.8 percent, for total savings of $54,656,000 ($43,459,000 from the General Fund, $10,104,000 in federal funds, and $1,093,000 in county funds).	1172
2. ***Effect of Recommended Program Cost Reductions. Reduce by $2,669,000.*** Recommend proposed cost-of-living increases be reduced to reflect recommended reductions in funding for basic program costs, for General Fund savings of $2,669,000.	1174
3. County Administration of Welfare Programs. Recommend adoption of Budget Bill and supplemental report language limiting state share of expenditures for cost-of-living increases for county welfare administration to amount authorized by Legislature.	1175
4. Social Services and Community Care Licensing. Recommend adoption of Budget Bill and Supplemental Report language limiting state share of expenditures for cost-of-living increases in social services and community care licensing programs to amount authorized by Legislature.	1177

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide cost-of-living increases to various welfare and social services programs.

ANALYSIS AND RECOMMENDATIONS

The budget proposes General Fund appropriations totaling $459,947,000 for cost-of-living increases for various local assistance programs administered by the Department of Social Services. This amount includes $323,841,000 for COLAs and $136,106,000 to offset baseline savings in the SSI/SSP program.

Table 1 shows the fiscal effect of proposed cost-of-living increases on each of the local assistance programs. As the table indicates, proposed funding for cost-of-living increases would increase General Fund expenditures for these programs during 1982–83 from $2.8 billion to $3.1 billion, an increase of 11.7 percent.

The increase in General Fund expenditures of 11.7 percent reflects proposed cost-of-living increases in public assistance programs ranging from 5.0 percent to 8.8 percent. Because of factors unique to individual programs, however, the percentage increase in General Fund expenditures may exceed the proposed cost-of-living adjustment (expressed in percentage terms). For example:

- The percentage increase in SSI/SSP *expenditures* (14.5 percent) is greater than the percentage increase in *maximum* SSI/SSP *grants* (8.8 percent) because expenditures reflect the cost of "passing on" the federal cost-of-living increase to recipients who are eligible for state payments but not for the federal grant. This pass-on is a federal requirement.

Table 1
Department of Social Services
Proposed Cost-of-Living Increases
General Fund
(in thousands)

Program (Proposed Cost-of-Living Adjustment)	*Proposed Baseline Funding*	*Cost-of-Living Increase*	*Percent Increase in Expenditures*	*Total Expenditures*
AFDC cash grants (8.8 percent)	$1,293,750	$130,296	10.1%	$1,424,046
SSI/SSP Cash grants (8.8 percent)	1,175,422	170,265	14.5	1,345,687
Savings if no COLA provided [a]	(−136,106)	(136,106)	—	—
8.8 Percent COLA	(1,039,316)	(306,371)	(29.5)	(1,345,687)
Special adult program (-0-)	2,740	—	—	2,740
County administration (5 percent)	110,973	5,545	5.0	116,518
Social services	178,022	17,315	9.7	195,337
In-home supportive services	(150,828)	(8,413)	(5.6)	(159,241)
Statutory COLA (8.8 percent)	—	([1,539])	—	—
Discretionary COLA (5 percent) [b]	—	([6,874])	—	—
Other social services (5 percent)	(27,194)	(8,902)	(32.7)	(36,096)
Community care licensing (5 percent)	8,403	420	5.0	8,823
Local mandates	114	—	—	114
Totals	$2,769,424	$323,841 [c]	11.7%	$3,093,265

[a] The budget assumes that $136,106,000 in federal funds will be available in 1982–83 to fund a federal COLA to SSI grants. This amount has been deleted from the General Fund amount proposed in Item 5180-111 for the baseline costs of SSI/SSP grants. As a result, total funds proposed for an 8.8 percent cost-of-living increase to maximum SSI/SSP payments include (1) $170,265,000 to support the COLA and (2) $136,100,000 to replace the reduction in the baseline program budget made in anticipation of increased federal funds with no allowance for a COLA.

[b] This 5 percent COLA will not result in a full 5 percent increase in IHSS program costs during 1982–83 because reimbursements to individual providers are adjusted for cost-of-living increases on January 1, halfway through the fiscal year. Individual providers account for approximately 85 percent of total IHSS program costs. Reimbursements to county welfare department providers and contract providers are adjusted for cost-of-living increases on July 1 and thus are fully reflected in increased program costs during the fiscal year in which they become effective. These providers account for approximately 15 percent of total IHSS program costs.

[c] Item 5180-181-001 proposes $459,947,000 for cost-of-living increases. This amount includes $136,106,000 to offset baseline savings in the SSI/SSP program and $323,841,000 for COLAs.

- The percentage increase in AFDC *expenditures* (10.1 percent) is greater than the percentage increase in *maximum* AFDC *grants* (8.8 percent) because (a) some AFDC cases are not eligible for federal support and (b) the cost of the adjustment is calculated using average grants, rather than maximum grants, for each household size. For example, the proposed 8.8 percent increase for a family of three would increase *maximum* monthly aid payments from $506 to $551. If, however, a family had countable income of $100 per month, the family's monthly grant would increase from $406 during the current year to $451 in the budget year as a result of the proposed 8.8 percent increase—an increase of 11.1 percent.
- The percentage increase in social services *expenditures* (9.7 percent) is greater than the 5 percent cost-of-living adjustment proposed in the budget (the budget proposes an 8.8 percent COLA for the IHSS statutory maximum monthly payment). Because federal funds for social services are capped, the cost of providing a cost-of-living adjustment to county welfare departments for social services programs is shared by the state and counties. Put another way, the federal govern-

COST-OF-LIVING INCREASES—Continued

ment does *not* provide funds for a COLA on federally funded social services, putting the burden for doing so on the state and counties. (The only exception is the proposed COLA for refugee social services, which is supported entirely by federal funds.)

Table 2 shows that total proposed expenditures from all funds for these programs is $6,949,255,000. Of this amount, $662,811,000 is proposed for cost-of-living increases to the base program levels.

Table 2
Department of Social Services
Proposed Cost-of-Living Increases—All Funds
(in thousands)

		Cost-of-Living Increases					
Program	*Baseline Funding*	*General Fund*	*Federal Funds*	*County Funds*	*Total Cost of Living Increase*	*Percent General Funds*	*Total Funding*
AFDC cash grants	$2,839,774	$130,296	$144,609	$14,856	$289,761	45.0%	$3,129,535
SSI/SSP cash grants—							
Proposed funding sources	2,019,053	306,371	—	—	306,371	100.0	2,325,424
Actual funding sources [a]	(2,019,053)	(170,265)	(136,106)	—	(306,371)	(55.6)	(2,325,424)
Special adult program	2,829	—	—	—	—	—	2,829
County administration	595,176	5,545	16,869	7,325	29,739	18.6	624,915
Refugee cash assistance	234,903	—	12,324	—	12,324	—	247,227
Social Services	586,192	17,315	3,441	3,440	24,196	71.6	610,388
In-home supportive services	(272,462)	(8,413)	—	(934)	(9,347)	(90.0)	(281,809)
Statutory COLA (8.8 percent)	—	([1,539])	—	([171])	([1,710])	([90.0])	—
Discretionary COLA (5 percent)	—	([6,874])	—	([763])	([7,637])	([90.0])	—
Other social services	(313,730)	(8,902)	(3,441)	(2,506)	(14,849)	(60.0)	(328,579)
Community care licensing	8,403	420	—	—	420	100.0	8,823
Local Mandates	114	—	—	—	—	—	114
Totals	$6,286,444	$459,947	$177,243	$25,621	$662,811	69.4%	$6,949,255

[a] Because federal funds for the SSI/SSP program are not appropriated by this bill, the anticipated increase in federal funds of $136,106,000 to support a cost-of-living increase is reflected as a reduction in the General Fund requirement for baseline funding. As a result, the total cost of providing an 8.8 percent COLA to SSI/SSP grants ($306.4 million) is included in Item 5180-181-001(b) as a General Fund cost.

Estimation of California Necessities Index

We recommend a reduction of $54,656,000 ($43,459,000 from the General Fund, $10,104,000 in federal funds, and $1,093,000 in county funds) in the amount budgeted for the July 1982 cost-of-living increase to maximum monthly payments in the AFDC, SSI/SSP, and IHSS programs, to correct for overbudgeting.

The budget proposes $597,897,000, all funds, to provide an 8.8 percent cost-of-living increase to maximum monthly payments under the Aid to Families with Dependent Children (AFDC), Supplemental Security Income/State Supplementary Payments (SSI/SSP), and In-Home Supportive Services (IHSS) programs. The budget states that these payments are "required by statute to be adjusted by the California Necessities Index

(CNI)." Based on the best data available at the time, the Department of Finance estimated that the CNI would increase by 8.8 percent during the period December 1980 to December 1981.

Budget Estimate Exceeds Actual Increase. The Commission on State Finance has the statutory responsibility to develop estimates of the CNI. Based on actual data for two of three metropolitan areas included in the CNI calculation, the Commission on State Finance estimated on January 25, 1982 that the increase in the CNI during 1981 was 8.2 percent, rather than the 8.8 percent assumed in the budget. Staff of the commission advise that final data from San Diego were not available at the time they prepared their 8.2 percent estimate, and that instead they used November 1980-to-November 1981 data for San Diego in their calculations. Commission staff further advise that, given San Diego's relatively small contribution to the overall CNI, final San Diego data is expected to cause only slight variations from the 8.2 percent preliminary estimate.

Table 3 compares the fiscal impact on the AFDC, SSI/SSP and IHSS programs of the 8.2 percent CNI increase estimated by the Commission

Table 3

Savings Due to Use of Estimated CNI [a] of 8.2 Percent Rather Than 8.8 Percent Proposed in Budget 1982–83 (in thousands)

	Budget Proposal (8.8 Percent)	*Commission on State Finance Estimate (8.2 Percent)*	*Difference*
General Fund:			
AFDC	$129,249 [b]	$120,288 [b]	–$8,961
SSI/SSP	306,371	271,978 [c]	–34,393 [c]
IHSS	1,539	1,434	–105
Subtotals	$437,159	$393,700	–$43,459
Federal Funds:			
AFDC	$145,711 [b]	$135,607	–$10,104
SSI/SSP	(136,685)	(124,133) [d]	(–12,552)
Subtotals	$145,711	$135,607	–$10,104
County Funds:			
AFDC	$14,856 [b]	$13,775	–$1,081
IHSS	171	159	–12
Subtotals	$15,027	$13,934	–$1,093
Totals	$597,897	$543,241	–$54,656

[a] Additional savings will be possible in the Medi-Cal program as a result of the lower cost-of-living increase. These savings are discussed in our analysis of Item 4260.

[b] These amounts anticipate adoption of recommendations concerning a cap on federal funds for foster care payments.

[c] The total General Fund savings in SSI/SSP due to more recent estimate of the CNI is $46,945,000. This is offset, however, by increased General Fund costs of $12,552,000. These increased costs are due to a lower Consumer Price Index which reduces the amount of federal funds available for SSI payments.

[d] These funds are anticipated to be available for an 8.9 percent increase to federal SSI payments. They are not included in the Budget Bill.

COST-OF-LIVING INCREASES—Continued

on State Finance with the 8.8 percent estimate used in the budget. As the table indicates, the lower CNI increase means that the budget request is overbudgeted by $54,656,000, of which $43,459,000 is from the General Fund. To correct for this overbudgeting, we recommend the amounts proposed in this item for cost-of-living increases to AFDC, SSI/SSP, and IHSS be reduced to reflect an 8.2 percent CNI increase, rather than 8.8 percent. This will result in total reductions of $54,656,000, consisting of $43,459,000 from the General Fund, $10,104,000 in federal funds and $1,093,000 in county funds.

Recommended Reductions in Cost-of-Living Increases

We recommend reductions of $2,669,000 in the General Fund share of the proposed cost-of-living increases for local assistance programs (Item 5180-181-001) and of $1,114,000 in the federally funded share of the proposed cost-of-living increases for local assistance programs, to reflect our recommended reductions in the baseline costs of these programs, for a General Fund savings of $2,669,000.

In our analysis of the various local assistance programs, we have recommended program reductions which would reduce the costs for local assistance by a total of $49,062,000. Because the proposed cost-of-living increases are based on percentage adjustments applied to program costs, any reduction in program costs will reduce the dollar amount needed to fund the cost-of-living adjustments proposed in the budget.

Table 4 summarizes our recommendations for reducing program costs and the corresponding reductions in the amount of funds budgeted for cost-of-living increases for each affected program. As Table 4 shows, our recommended reductions in expenditures for local assistance programs will allow corresponding reductions of $4,024,000 in the amount of funds budgeted for cost-of-living increases. Of this amount, $2,669,000 is from the General Fund, $1,114,000 is from federal funds, and $241,000 is from county funds. Consistent with our recommendations elsewhere in this *Analysis*, we recommend reductions of $2,669,000 from Item 5180-181-001 and $1,114,000 from Item 5180-181-866.

Table 4
Department of Social Services
Cost-of-Living Increases
Summary of Recommended Reductions
(in thousands)

	General Fund	*Federal Funds*	*County Funds*	*Total Recommended Reduction This Item*
AFDC data processing	$1,051	$1,456	—	$2,507
AFDC Foster Core Cap	1,047	−1,102	55	—
AFDC supplemental payments	416	505	54	975
County administration—supplemental payments	18	34	17	69
County administration—overhead shift	115	221	115	451
Community care licensing	22	—	—	22
Totals	$2,669	$1,114	$241	$4,024

Cost-of-Living Increases for County Welfare Department Employees

We recommend adoption of Budget Bill language which would limit funds appropriated for county cost-of-living adjustments for personal, and nonpersonal services, to an amount consistent with the percentage increase authorized by the Legislature. We further recommend adoption of supplemental language directing the department to administer the 1982–83 cost control plan accordingly.

Item 5180-141 appropriates $110,973,000 as the state's share of costs for county administration of welfare programs. This amount does not contain the state's share of funds to provide a cost-of-living increase to county employees during 1982–83, which is proposed at $5,545,000 in Item 5180-181-001(c).

Under current law, costs for county administration of the AFDC and food stamp programs are shared by the federal government (50 percent), state government (25 percent), and county government (25 percent). Unless control language is added to the Budget Bill, the state is obligated to reimburse the counties for its share of cost-of-living increases provided by local governments to their employees.

In the current fiscal year, the Legislature appropriated funds to provide a 6 percent cost-of-living adjustment for county welfare department employees. The funds were intended to cover increases in personal services (salaries, and employee benefits) and nonpersonal services (operating expenses and equipment). Although the Legislature appropriated funds for a 6 percent cost-of-living adjustment, counties have granted cost-of-living increases which average 8.7 percent. Table 5 shows the cost-of-living increases for personal services (salaries, and staff benefits) provided in 1981–82 by counties with large and medium size welfare caseloads.

Table 5
Cost-of-Living Increases for Personal Services
County Welfare Department Employees
Eleven Largest Counties
1981–82

County	*Cost-of-Living Increase*
Alameda	Not reported
Contra Costa	9.32%
Fresno	Not reported
Los Angeles	13.48
Orange	Not reported
Riverside	8.96
Sacramento	5.14
San Bernardino	5.50
San Diego	9.23
San Francisco	7.03
Santa Clara	10.62
Statewide Average Among Reporting Counties	8.7%

In the 1981 Budget Act, the Legislature established the policy, that state funds would not be provided to county welfare departments for increases to personal services and operating expenses in excess of the percentage increase (6 percent) provided in the Budget Act. Further, the *Supplemental Report of the 1981 Budget Act* directed the DSS not to include any cost-of-living increase for 1981–82 in excess of 6 percent in estimates of the cost of county administration in subsequent years. Our analysis indicates

COST-OF-LIVING INCREASES—Continued

that the Department of Social Services has complied with these legislative directives in the current year.

The proposed 1982 Budget Bill, however, does not include this language adopted by the Legislature. Instead, the proposed Budget Bill provides that DSS *"shall not allocate* General Fund money to any county for county administration for the purpose of fiscal year 1982–83 cost-of-living adjustments in excess" of the percentage increase provided for by the bill. This language does not preclude county *expenditures* of General Fund money for cost-of-living increases in excess of the amount intended by the Legislature for that purpose. **We recommend adoption of Budget Bill language and supplemental report language which is identical to that contained in the 1981 Budget Act in order to maintain the legislatively set policy of limiting General Fund support for cost-of-living increases. The following Budget Act and supplemental report language is recommended for adoption in Item 5180-181-001:**

Budget Act Language:

"Provided further, that notwithstanding any provisions of law to the contrary, no General Fund money appropriated by Items 5180-141 or 5180-181 of this act for Program 10.20, County Administration, shall be used to provide a cost-of-living increase to any county welfare department for personal, and nonpersonal services, which exceeds the percentage increase authorized by the Legislature for all counties in this act for 1982–83. However, a county may use General Fund money from its allocation for operating expenses for salary and benefit increases in excess of the percentage increase authorized by the Legislature for salary and benefit increases.

Provided further, that the 1982–83 county administrative cost control plan for Program 10.20, County Administration, shall contain a provision which specifies that any county cost-of-living increase for personal, and nonpersonal services, which exceeds the percentage increase authorized by the Legislature shall be the sole fiscal responsibility of the county unless the excess costs are funded by permanent productivity increases.

Provided further, that the department shall not allocate, reallocate, or transfer unused portions of county cost-of-living funds between counties to fund cost-of-living adjustments in excess of the percentage increase authorized by the Legislature in this act."

Supplemental Report Language:

"County Cost-Of-Living Increases—The department's 1983–84 request for General Funds for county administration shall not include the cost of any 1982–83 cost-of-living increases for personal, and nonpersonal services which exceeds the percentage increase authorized by the Budget Act of 1982, unless such General Funds result from increases in county productivity. The department shall notify the counties that the state will not pay for excess cost-of-living increases, unless resulting from productivity increases, and that the increases granted in excess of the percentage approved by the Legislature shall be a permanent county fiscal obligation. The department shall maintain documentation which indicates that county cost-of-living increases granted by counties which exceed the amount of state reimbursement shall be excluded from the 1983–84 funding requests made in January and May 1983. Finally, the 1982–83 and 1983–84 county administrative cost control plans shall contain a provision which explicitly provides that any county-authorized increases for personal and nonpersonal services provided in 1982–83 which exceed the percentage increase authorized in the Budget Act of 1982 shall be the permanent fiscal obligation of the county."

Cost-of-Living Increases for Social Services and Community Care Licensing Programs

We recommend adoption of Budget Bill and supplemental report language to require that General Fund appropriations for social services and community care licensing programs not be used by counties for cost-of-living increases in excess of the amount authorized for such increases by the Legislature.

Item 5180-181-001 (d) and (e) appropriates $17,735,000 in General Fund support for transfer to Item 5180-151-001 and Item 5180-161-001 to provide cost-of-living increases to social services and community care licensing programs. The 1981 Budget Act contained control language prohibiting use of the General Fund amount appropriated by the act to provide cost-of-living increases in excess of the amount specifically authorized by the Legislature.

The Department of Finance has not included last year's control language in the 1981 Budget Bill. Our analysis indicates, however, that the legislatively established policy of limiting General Fund support for cost-of-living increases to a specified amount should be continued because, absent such a policy, any county could increase the General Fund cost of social services and community care licensing beyond the increase authorized by the Legislature by whatever percentage was deemed appropriate locally. To retain legislative control over program appropriations, we recommend that the following language be included in Item 5180-181-001. We further recommend that the following complementary supplemental report language be adopted to make county COLAs which exceed the amounts authorized by the Budget Act the permanent fiscal obligation of the affected *counties.*

Budget Bill Language:

"Provided further, that notwithstanding any provision of the Welfare and Institutions Code or the Health and Safety Code to the contrary, none of the funds appropriated by Items 5180-151-001, 5180-161-001, or 5180-181-001 (d) and (e) for Programs 20 and 30 shall be used to provide cost-of-living increases to counties for social services and community care licensing programs in excess of the amount specifically authorized for such purposes by the Legislature."

Supplemental Report Language:

"Social Services and Community Care Licensing Cost-of-Living Increases—The department's 1983–84 request for General Fund support for county social services and community care licensing programs shall not include the cost of 1982–83 cost-of-living increases for personal and nonpersonal services which exceeds the percentage increase authorized by the Budget Act of 1982, unless such General Fund costs resulted from increases in county productivity. The department shall notify the counties that the state will not pay for excess cost-of-living increases, unless resulting from productivity increases, and that the increases granted in excess of the percentage approved by the Legislature shall be a permanent county fiscal obligation. The department shall maintain documentation which indicates that county cost-of-living increases which exceed

COST-OF-LIVING INCREASES—Continued

the amount of state reimbursement shall be excluded from the 1983–84 funding requests made in January and May 1983."

DEPARTMENT OF SOCIAL SERVICES—REVERSION

Item 5180-495 to the General Fund

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reverts the unencumbered balances from Chapters 282, 848, 1071, 1059, and 1063, Statutes of 1979, and Ch 994/80, to the General Fund. The Department of Social Services estimates that a total unencumbered balance of $2,663,000 will be reverted through this item.

1. ***Chapter 282, Statutes of 1979—Statewide Public Assistance Network (SPAN).*** Chapter 282 appropriated $1,356,000 from the General Fund without regard to fiscal year for the implementation of SPAN. The Department of Social Services (DSS) has requested funds for SPAN in the 1982 Budget Bill.

2. ***Chapter 848, Statutes of 1979—Individual and Family Grant Program.*** Chapter 848 appropriated $1,926,000 from the General Fund for the Individual and Family Grant program (disaster relief). The department expended all but $879,000 of this amount to aid persons who were affected by various disasters which occurred in 1978. This reversion would return the unexpended $879,000 to the General Fund.

3. ***Chapters 1071 and 1059, Statutes of 1979—Paramedical Services for In-Home Supportive Services (IHSS) Recipients and Reimbursement to Parent Providers of IHSS, Respectively.*** Chapter 1071 appropriated $2,699,000 for paramedical services provided to IHSS recipients. Ch 1059/79 appropriated $216,000 to reimburse parents who provide IHSS services to their children own when no other provider is available and when providing such services prevents the parent from seeking or maintaining other employment. Because the department budgets funds for these services under the regular IHSS program these funds are not needed.

4. ***Chapter 1063, Statutes of 1979—Family Day Care Licensing Demonstration Projects.*** Chapter 1063 appropriated $112,000 for family day care licensing demonstration projects in three counties. These projects were completed using General Funds appropriated for the department's local assistance item. This reversion would return $112,000 to the General Fund.

5. ***Chapter 994, Statutes of 1980—Individual and Family Grant Program.*** Chapter 994, appropriated $4,600,000 from the General Fund for the Individual and Family Grant program (disaster relief). Of this amount, the department estimates it will expend $2,500,000 by June 30, 1982, to aid persons affected by the southern California storm disaster of 1980. The department also estimates it will expend an additional $100,000 for this purpose during 1982–83. This reversion will return the remaining $2,000,000 to the General Fund.

Health and Welfare Agency

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 5190 from the California Health Facilities Commission Fund — Budget p. HW 250

Requested 1982–83	$3,339,000
Estimated 1981–82	2,733,000
Actual 1980–81	2,267,000
Requested increase (excluding amount for salary increases) $606,000 (+22.2 percent)	
Total recommended reduction	$76,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Overbudgeting for Legal Services.* ***Reduce by $48,000.*** Recommend deletion of proposed increase in funds for legal services, because the commission does not anticipate any increase in workload. 1180
2. *Technical Budgeting Error.* ***Reduce by $28,000.*** Recommend deletion to correct overbudgeting. 1180

GENERAL PROGRAM STATEMENT

The California Health Facilities Commission collects patient and financial data from hospitals and nursing homes and summarizes those data in reports to government agencies and the public. The purposes of the disclosure requirements are to:

(1) encourage economy and efficiency in providing health care services,
(2) enable public agencies to make informed decisions in purchasing and administering publicly financed health care services,
(3) disseminate financial data on health facilities to private third-party payors and the public,
(4) assist local health planning agencies, and
(5) create a body of reliable data for research.

The commission's responsibilities also include establishing standards of effectiveness for health facilities, and forecasting hospital operating and capital expenditures for each of the state's health service areas. Health Systems Agencies use these forecasts to develop area health plans. The commission has 73.2 positions authorized in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $3,339,000 from the California Health Facilities Commission Fund to support commission activities in 1982–83. This is an increase of $606,000, or 22.2 percent, above estimated current-year expenditures. This amount will increase by the amount of any salary and staff benefit increases approved by the Legislature for the budget year. The primary reason for the proposed increase is the establishment of 11 new positions, at a cost of $408,973, to fully implement Ch 594/80 (SB 1370).

The budget proposes a total of 77.3 positions, which is an increase of 4.1

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

above the number authorized in the current year.

Positions Needed To Implement Chapter 594

We recommend approval.

Chapter 594 expanded health facility financial disclosure requirements to include disclosure of:

(1) summary financial data on a quarterly basis and
(2) patient discharge data, including data on patient characteristics, diagnosis, primary procedure, disposition upon discharge, and expected source of payment.

The budget requests 11 positions to fully implement Chapter 594. This is in addition to five positions and $234,000 approved by the Legislature in the 1981 Budget Act to begin implementation in the current year. The two components of the budget request are as follows:

1. ***Quarterly Financial Reporting.*** The budget requests $31,500 for printing, duplicating, and postage to distribute additional quarterly financial data reports. Public interest in the quarterly financial data has been greater than anticipated, and the commission produced 13 more reports in the current year than originally planned.

2. ***Patient Discharge Data.*** The budget proposes 11 additional positions and $377,000 in order to implement fully the hospital discharge reporting program. The commission has developed reporting regulations, data collection forms, and a procedure manual in the current year. The new positions and associated funds are needed to (a) design the data processing system, (b) process and edit data, (c) produce and distribute annual summary patient discharge reports for each health services area and individual hospital, and (d) monitor compliance among hospitals with data reporting requirements.

Our analysis of the commission's proposal indicates that the commission requires these resources to implement Chapter 594.

Overbudgeting of $48,000 for Legal Services

We recommend deletion of $48,000 for legal services which is not justified on a workload basis.

The commission is requesting a $48,000 increase in the amount budgeted for legal services. The commission estimates that it will spend approximately $1,300 for 26 hours of legal services in the current year. It does not expect any increases in legal workload during 1982–83. Consequently, the augmentation for legal services is not justified and we recommend that these funds be deleted, for a savings of $48,000.

Technical Budgeting Error

We recommend deletion of $28,000 to correct overbudgeting.

The Office of Statewide Health Planning and Development has indicated that in 1982–83, it does not intend to purchase certain services from the commission which it has received in past years. Accordingly, the commission has eliminated three positions, reduced proposed expenditures, and reduced reimbursements. These adjustments should have no net effect on the commission's budget. The commission's budget worksheets, however, indicate that instead of making equal dollar adjustments, the commission reduced reimbursements by $28,000 more than it reduced proposed expenditures. As a result, the budget requests an appropriation that is $28,000 greater than the amount required. We recommend deletion of the $28,000 to correct the overbudgeting error.

Youth and Adult Correctional Agency

DEPARTMENT OF CORRECTIONS

Item 5240 from the General Fund and various special funds — Budget p. YAC 1

Requested 1982–83	$526,039,000
Estimated 1981–82	471,001,000
Actual 1980–81	400,631,000
Requested increase (excluding amount for salary increases) $55,038,000 (+ 11.7 percent)	
Total recommended reduction	$2,406,000
Recommendation pending	$36,896,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5240-001-001	Department Operations	General	$475,272,000
5240-001-170	Department Operations	Corrections Training	1,600,000
5240-001-614	Correctional Industries	Revolving	32,987,000
5240-001-917	Inmate Welfare Fund	Revolving	9,292,000
5240-101-001	Local Assistance	General	6,888,000
Total			$526,039,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Funding for Population Growth. Withhold recommendation, pending May revision of population proposal. 1185
2. Corrections Training Fund. Recommend Department of Finance report on probable fund deficiency. Withhold recommendation on projects funded from it, pending receipt of this report. 1186
3. ***Personnel Misallocations. Reduce Item 5240-001-001 by $238,000.*** Recommend elimination of funding for overclassifications. Further recommend continuation of Budget Bill language reverting additional savings. 1188
4. ***Computer Charges. Reduce Item 5240-001-001 by $59,000.*** Recommend deletion of overbudgeted funds. 1188
5. ***Equipment. Reduce Item 5240-001-001 by $58,000.*** Recommend elimination of unjustified equipment requests. 1189
6. ***Technical Support Positions. Reduce Item 5240-001-001 by $57,000.*** Recommend elimination of positions due to projected workload decline. 1189
7. ***Consulting Expenses. Reduce Item 5240-001-001 by $1,715,000.*** Recommend deletion of undocumented consulting expenses. 1190
8. ***First Watch Supervision. Reduce Item 5240-001-001 by*** 1190