DEPARTMENT OF SOCIAL SERVICES

SUMMARY

The Department of Social Services (DSS) 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 DSS, for 1982–83 and 1983–84. Total expenditures for 1983–84 are proposed at $6,164,391,000, which is a decrease of $198,592,000, or 3.1 percent, below estimated current-year expenditures.

Table 1

Department of Social Services
Expenditures and Revenues by Program
All Funds
1982–83 and 1983–84
(in thousands)

Program	*1982–83 Estimated*	*1983–84 Proposed*	*Change Amount*	*Change Percent*
Department support	$147,196	$149,495	$2,299	1.6%
AFDC cash grants	2,946,983	2,723,190	−223,793	−7.6
SSI/SSP cash grants	2,012,124	1,946,118	−66,006	−3.3
Special adult programs	1,748	1,748	—	—
Refugee and entrant cash grants	117,399	97,941	−19,458	−16.6
Low income home energy assistance	—	54,145	54,145	—
County welfare department administration	583,977	619,880	35,903	6.2
Emergency assistance employment programs	(336)	(1,344)	(1,008)	(300.0)
Social services programs	545,240	566,235	20,995	3.9
Community care licensing	8,316	5,639	−2,677	−32.2
Totals	$6,362,983	$6,164,391	−$198,592	−3.1%
General Fund	2,763,446	2,525,586	−237,860	−8.6
Federal Funds	3,262,310	3,235,397	−26,913	−0.8
Interstate Collections Incentive Fund	—	600	600	—
County Funds	330,315	394,115	63,800	19.3
Reimbursements	6,912	8,693	1,781	25.8

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by DSS. The department requests a total of $2,525,586,000 from the General Fund for these programs in 1983–84. This is a decrease of $237,860,000, or 8.6 percent, below estimated current-year expenditures.

OVERVIEW OF ANALYST'S RECOMMENDATIONS

The analysis of the proposed 1983–84 budget for DSS is divided into ten sections, as follows: (1) state operations, (2) aid to families with dependent children, (3) state supplementary payment program for the aged, blind, and disabled, (4) special adult programs, (5) refugee cash assistance programs, (6) low-income home energy assistance program, (7) county administration of welfare programs, (8) social services, (9) community care licensing, and (10) cost-of-living increases.

DEPARTMENT OF SOCIAL SERVICES
SUMMARY—Continued

Table 2
Department of Social Services
General Fund Expenditures
1982-83 and 1983-84
(in thousands)

Program	1982-83 Estimated	1983-84 Proposed	Change Amount	Change Percent
Department support	$44,344	$42,223	−$2,121	−4.8%
AFDC cash grants	1,327,672	1,174,669	−153,003	−11.5
SSI/SSP cash grants	1,104,161	1,021,772	−82,389	−7.5
Special adult programs	1,708	1,708	—	—
County welfare department administration	99,268	109,153	9,885	10.0
Emergency assistance employment programs	(84)	(336)	(252)	(300.0)
Social Services programs	177,977	173,098	−4,879	−2.7
Community care licensing	8,316	2,963	−5,353	−64.4
Totals	$2,763,446	$2,525,586	−$237,860	−8.6%

We are recommending reductions totaling $38,202,000 from proposed General Fund expenditures. Of this amount, $194,000 reflects recommendations for programmatic change, $9,862,000 reflects technical budgeting recommendations, and $28,146,000 reflects recommendations that unbudgeted federal funds be used in lieu of General Fund support.

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

	Recommended Changes: Programmatic Issues	Technical Issues	Increase Federal Funds	Total	Recommendations Pending
State Operations	−$194	—	−$1,055	−$1,249	—[a]
AFDC Cash Grants	72,267	−$940	−2,750	68,577	—[b]
SSI/SSP Cash Grants	−72,267	−6,387	−5,800	−84,454	$937,318
Low-Income Home Energy Assistance Program	—	—	—	—	54,145
County Administration of Welfare Programs	—	−149	−2,349	2,498	—
Social Services	—	−2,219	−14,185	−16,404	17,170
Community Care Licensing	—	−167	−2,007	−2,174	—
Totals	−$194	−$9,862	−$28,146	−$38,202	$1,008,633

[a] In our analysis of the departmental support budget (Item 5180-001-001), we withhold recommendation on a proposed General Fund reduction of $414,000 associated with the elimination of 14 legal positions.

[b] In our analysis of the AFDC program (Item 5180-101-001), we withhold recommendation on a proposed General Fund reduction of $18,309,000 related to the Welfare Fraud Early Detection Prevention Program.

In addition, we are recommending that $72,267,000 requested from the General Fund to provide for a cost-of-living adjustment under the SSI/SSP program be used instead to provide a cost-of-living adjustment for AFDC recipients. This recommendation is based on the considerable disparity that exists between SSI/SSP and AFDC grants, and the fact that maximum grant levels under the AFDC program are not adequate to provide for a standard-of-living at the federally designated poverty level.

We withhold recommendation on $1,008,633 proposed in the Budget, pending receipt of additional information. Table 3 summarizes our recommendations by program category.

Health and Welfare Agency

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT

Item 5180 from the General Fund and Social Welfare Federal Fund — Budget p. HW 139

Requested 1983–84	$42,223,000
Estimated 1982–83	44,344,000
Actual 1981–82	51,540,000
Requested decrease (excluding amount for salary increases) $2,121,000 (−4.8 percent)	
Total recommended reduction	1,249,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-001-001	Department of Social Services, Support	General	$42,223,000
5180-001-866	Department of Social Services, Support	Federal	(98,579,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Placer and Nevada Counties' Data Processing Systems. Reduce by $194,000.*** Recommend Placer and Nevada Counties pay for 25 percent of the costs of the data processing systems operated by the Department of Social Services because the costs of services are part of the routine administrative costs in which all other counties are required to share, for an increase in reimbursements of $194,000 and a reduction in General Fund support of the same amount. 1058
2. Legal Positions. Withhold recommendation on proposed elimination of 14 legal positions, pending identification of the positions to be eliminated and review of the department's plan to absorb the workload currently assigned to those positions. 1058
3. Family Protection Act. Recommend elimination of requirement for annual report on the Family Protection Act (FPA) Demonstration Project consistent with our recommendation for approval of the proposed elimination of the 1059

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT—Continued

project.

4. ***Unbudgeted Federal Funds. Reduce by $1,055,000.*** Recommend unbudgeted federal funds be used to replace General Fund support for foster family home and group home for children licensing in order to provide the Legislature with more fiscal flexibility. 1060
5. Community Care Licensing. Recommend implementation of the facility rating system. Further recommend that the Department of Social Services report to the fiscal committees prior to budget hearings on (a) the costs of using the Facility Information System (FIS) to generate management information reports based on the facility rating system and (b) a plan to develop performance standards for the community care licensing system based on the rating system. 1062
6. Community Care Licensing. Recommend adoption of Budget Bill language requiring the department to conduct a demonstration project to test the feasibility of eliminating or modifying the current requirement for annual visits to all community care facilities. Further recommend enactment of legislation in order to allow the department to conduct this project. 1064
7. Community Care Licensing. Recommend enactment of legislation to require that all community care facilities be charged a license fee based on (a) the cost of licensing each facility type and (b) the proportion of each facility's clients which are private placements. 1065

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers income maintenance, food stamps, and social services programs. In addition, the department is responsible for licensing and evaluating nonmedical community care facilities, and determining eligibility for the federal supplemental security income and Medicaid/medically needy programs through disability evaluations. These responsibilities are divided among nine operating divisions within the department.

The department is authorized to have 3,502.6 positions in the current year.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $42,223,000 from the General Fund for support of the DSS in 1983–84. This is a decrease of $2,121,000, or 4.8 percent below estimated current-year expenditures. The decrease, however, makes no allowance for the cost of any salary or staff benefit increases that may be approved for the budget year.

The budget proposes total expenditures of $149,495,000, including expenditures from reimbursements, for support of the department in 1983–84. This is an increase of 2,299,000, or 1.6 percent, over estimated 1982–83 expenditures. Table 1 shows total expenditures and personnel-years for the department, by major program category.

Table 1
Summary of the DSS Support Budget
1982–83 and 1983–84
(dollars in thousands)

Funding	*Estimated*[a] *1982–83*	*Proposed 1983–84*	*Change* *Amount*	*Percent*
General Fund	$44,344	$42,223	–$2,121	–4.8%
Federal Funds	95,940	98,579	2,639	2.8
Reimbursements	6,912	8,693	1,781	25.8
Totals	$147,196	$149,495	$2,299	1.6%
Program				
AFDC-FG/U:	$15,085	$13,057	–$2,028	–13.4%
Personnel Years	233.0	226.6	–6.4	–2.7
AFDC-FC:	3,210	4,121	911	28.3
Personnel Years	89.4	131.9	42.5	47.5
Child Support:	4,824	5,463	639	13.2
Personnel Years	63.9	64.6	0.7	1.1
SSI/SSP:	1,096	1,103	7	0.6
Personnel Years	24.0	24.1	0.1	0.4
Special Adult Programs:	393	326	–67	–17.0
Personnel Years	4.1	1.8	–2.3	–56.1
Food Stamps:	10,055	10,343	288	2.9
Personnel Years	269	271.6	2.6	1.0
Refugee Programs:	2,666	2,842	176	6.6
Personnel Years	47.5	45.2	–2.3	–4.8
Social Services Programs:	17,136	17,268	132	0.8
Personnel Years	405.0	369.5	–35.5	–8.8
In-Home Supportive Services:	(3,048)	(3,398)	(350)	(11.5)
Personnel Years	(78.8)	(77.7)	(–1.1)	(–1.4)
Other County Social Services:	(3,610)	(3,566)	(–44)	(–1.2)
Personnel Years	(109.8)	(93.0)	(–16.8)	(–15.3)
Adoptions:	(5,267)	(5,557)	(290)	(5.5)
Personnel Years	(127.6)	(127.9)	(0.3)	(0.2)
Other Social Services:	(3,987)	(3,855)	(–132)	(–3.3)
Personnel Years	(66.7)	(62.7)	(–4.0)	(–6.0)
Child Abuse Prevention Programs:	(1,224)	(892)	(–332)	(–27.1)
Personnel Years	(22.1)	(8.2)	(–13.9)	(–62.9)
Community Care Licensing:	13,954	13,260	–694	–5.0
Personnel Years	379.0	311.2	–67.8	–17.9
Disability Evaluation:	72,669	76,122	3,453	4.8
Personnel Years	1,581.3	1,551.3	–30.0	–1.9
Services to Other Agencies:	4,811	5,014	203	4.2
Personnel Years	93.8	85.8	–8.0	–8.5
County Data Systems	1,297	576	–721	–55.6
Personnel Years	5.0	5.0	—	—
Totals	$147,196	$149,495	$2,299	1.6%
Personnel Years	3,195.0	3,088.6	–106.4	–3.3

[a] Estimated expenditures for 1982–83 do not reflect the 2 percent unallotment directed by Executive Order D-1-83.

Proposed General Fund Budget Changes

Table 2 shows the changes in the department's proposed General Fund support expenditures for 1983–84. As the table shows, General Fund expenditures are proposed to decrease by $2,121,000, or 4.8 percent. The decrease reflects proposed expenditure increases totaling $4,480,000 and reductions totaling $6,601,000. The major proposed increases consist of: (1) increased costs for existing personnel ($1,542,000), (2) the state share of

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT—Continued

grants for disaster relief—Anaheim fire and Northern California Floods—($1,079,000), and (3) program change proposals for foster care group home auditing and rate setting ($515,000). The major decreases consist of: (1) the elimination of the family day care licensing program ($1,206,000), (2) an adjustment for the one-time only 1982–83 costs of the contract to revise the Statewide Public Assistance Network (SPAN) feasibility study report and other SPAN-related activities ($666,000), (3) savings to the General Fund anticipated from enactment of a provision in the companion bill to the Budget Bill which would require counties to pay for disability evaluations of Medically Indigent Adults ($1,828,000), and (4) the availability of federal funds for the licensing of foster care homes and institutions ($1,407,000).

Table 2
DSS—Support Budget
Proposed General Fund Adjustments
(in thousands)

	Cost	*Total*
1. 1982–83 Estimated Current Year Expenditures, revised		$44,344
2. Baseline Adjustments		
A. Increase in existing personnel costs		
(1) Merit salary adjustment	$330	
(2) Retirement	1,207	
(3) Other	5	
Subtotal		$1,542
B. Decrease in existing personnel costs		
(1) Limited-term positions		
(a) AFDC foster care position	−$34	
(b) Child support program maintenance increase	−32	
(c) Information systems analysis bureau position	−77	
(d) Adoptions policy and program consultation	−40	
(e) Continue limited-term adoptions caseworker position	−64	
(f) IHSS payrolling system management unit	−65	
(g) Family Protection Act (AB 35) evaluation	−106	
Subtotal		−$418
(2) Other Reductions		
(a) Long-term care	−$36	
(b) Family day care home licensing	−1,206	
(c) Attorneys	−233	
(d) SPAN	−666	
(e) Disaster Relief—Chapter 955/82	−238	
(f) Disaster Relief—Chapter 994/80	−100	
Subtotal		−$2,479
C. One-Time Expenditures		
(1) Equipment	−$1	
(2) Disaster relief	1,079	
Subtotal		$1,078
D. Operating Expenses and Equipment		
(1) Price increase	$538	
(2) Office of Administrative Law	−189	
(3) Health & Welfare Data Center contract	−29	
Subtotal		$320
E. Adjustments to fund sources		

(1) Child support	$285	
(2) Disability evaluation	−1,828	
(3) Federal funds for licensing of foster care homes and institutions	−1,407	
Subtotal		−$2,950
F. Adjustments to full-year costs		
(1) Child support UI intercept—AB 2856	$68	
(2) Adoptions Attorney General costs—AB 2695	23	
(3) Returned county workload	31	
Subtotal		$122
Total Baseline Adjustments		(−$2,785)
3. Program Change Proposals		
A. AFDC—foster care rate setting	$195	
B. Child abuse and neglect prevention and intervention—AB 1733	−250	
C. AFDC—foster care audits and appeals	320	
D. Adoptions caseworkers	69	
E. Child support maintenance increase	42	
F. Placer/Nevada case data system	288	
Total Program Change Proposals		$664
4. Total General Fund Change Proposed for 1983–84		(−$2,121)
5. 1983–84 Proposed General Fund Expenditures		$42,223,000

Table 3

Department of Social Services
Position Changes Proposed for 1983–84

	Existing Positions	*Workload and Administrative Adjustments*	*Requested New Positions*	*Total Positions*	*Net Change Number*	*Net Change Percent*
AFDC—Foster Care	111.0	−8.1	40.5	143.4	32.4	29.2%
AFDC—Child Support Enforcement	71.7	−0.6	4.5	75.6	3.9	5.4
AFDC—Other	253.3	−7.6	—	245.7	−7.6	−3.0
SSI/SSP	26.7	—	—	26.7	—	—
Special Adult Programs	7.5	−5.5	—	2.0	−5.5	−73.3
Food Stamps	301.0	−12.0	—	289.0	−12.0	−4.0
Refugee Program	50.1	−0.1	—	50.0	−0.1	−0.2
Social Services Programs	420.6	−22.5	2.0	400.1	−20.5	−4.9
Community Care Licensing	383.9	−49.1	3.5	338.3	−45.6	−11.9
Disability Evaluation	1,704.5	−13.7	—	1,690.8	−13.7	−0.8
Services to Other Agencies	95.2	−1.3	—	93.9	−1.3	−1.4
SPAN	—	—	5.0	5.0	5.0	—
Totals	3,425.5	−120.5	55.5	3,360.5	−65.0	−1.9%

	Requested New Positions	*Fiscal Effect of Request for New Positions (in thousands)*			
		General Fund	*Federal Funds*	*Reimbursements*	*Totals*
AFDC—Foster Care	40.5	$749	$749	—	$1,498
AFDC—Child Support Enforcement	4.5	42	98	—	140
Social Services Programs	2.0	69	—	—	69
Community Care Licensing	3.5	98	—	—	98
SPAN	5.0	288	184	$104	576
Totals	55.5	$1,246	$1,031	$104	$2,381
Percent	—	52.3%	43.3%	4.4%	100.0%

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT—Continued

Proposed New Positions

The department is proposing a net reduction of 65 positions for 1983–84, as shown in Table 3. This reflects 55.5 new positions and a reduction of 120.5 positions. As a result of these changes, the budget proposes funding for 3,360.5 authorized positions in 1983–84. The largest single request is for 40.5 positions for the Aid to Families with Dependent Children-Foster Care (AFDC-FC) program. These positions are requested to conduct audits of foster care group homes and to staff a new statewide rate-setting system for foster care group homes. Both the rate setting system and the requirement for group home audits were created by Ch 977/82 (AB 2695).

The largest single reduction in staffing is the proposed elimination of 49.1 positions from the community care licensing division in order to reflect the elimination of the Family Day Care Licensing Program.

Current-Year Support Budget Augmentation

On September 17, 1982, the Director of the Department of Finance notified the Chairman of the Joint Legislative Budget Committee, pursuant to control Section 28 of the 1982 Budget Act, of her intent to approve an augmentation of $1,951,835 to the Department of Social Services' budget. The purpose of the augmentation was to fund a projected shortfall in the department's support budget. The requested augmentation consisted of (1) a transfer of $1,753,835 in federal Title XX funds from social services programs to departmental support and (2) $198,000 in unbudgeted federal Title IV-B (child welfare services) funds. The department proposed to use these additional federal funds to support activities which were budgeted for support from the General Fund, thereby making $1,951,835 in General Fund money available to offset the projected General Fund shortfall in the department's support budget.

The department stated that the General Fund shortfall was the result of four factors:

1. ***Five Percent Legislative Reduction.*** In acting on the 1982 Budget Bill, the Legislature reduced the department's General Fund support appropriation by 5 percent, for a reduction of $2,296,000. The department took administrative actions to reduce total spending by $2,098,000, and proposed to fund the remaining $198,000 through the funding augmentation proposed in the Section 28 letter.

2. ***Inability to Meet Salary Savings.*** The department estimated that it would fall short of its budgeted salary savings target by $1,200,000. The department took administrative actions to reduce total spending by $699,090, and proposed to fund the remaining $500,910 through the funding augmentation proposed in the Section 28 letter.

3. ***Unfunded Activities.*** The department identified a shortfall of $594,925 attributable to several mandated activities for which no funding was available in the budget. The department proposed to seek a $250,000 increase in reimbursements from other state departments for a portion of these activities, and to fund the remaining $344,925 through the funding augmentation proposed in the Section 28 letter.

4. ***Statewide Public Assistance Network (SPAN) Phase-Out Costs.*** The department estimated that it would incur $980,000 in unbudgeted costs associated with the phase-out of the SPAN project. The department

proposed to fund this shortfall through the funding augmentation proposed in the Section 28 letter.

On October 15, 1982, the Chairman of the Joint Legislative Budget Committee notified the Director of the Department of Finance that he had no objection to an augmentation of $1,192,925 for the department's support budget. The chairman recommended, however, that the director *not* approve:

- The department's request to use $198,000 in federal funds to offset a portion of the Legislature's 5 percent reduction in the department's support budget, because such an augmentation would be contrary to the Legislature's intent in making the 5 percent reduction;
- The department's request to use $500,910 in federal funds to offset reduced salary savings because: (1) the department's inability to meet its salary savings target was largely due to the department's inappropriate use of anticipated savings from its hiring freeze to offset the Legislature's 5 percent reduction, rather than to meet its salary savings target, (2) the Legislature approved the salary savings target proposed by the administration, and the department never advised the fiscal committees during hearings on the 1982 Budget Bill of its projected inability to meet this target, and (3) the salary savings shortfall resulted in part from the department's own actions; and
- The department's request to use $60,000 of federal funds for "unfunded activities", because the activity for which the $60,000 was requested was being performed by personnel previously assigned to the SPAN project for whom funds were also being requested under the SPAN phase-out component of the Section 28 letter.

On October 15, 1982, the Department of Finance approved an augmentation to the department's support budget of $1,192,925.

Statewide Public Assistance Network

The 1982 Budget Act did not include requested funds for the continued development of the Statewide Public Assistance Network. Instead, the budget directed the Auditor General to request bids for a revised feasibility study to determine the appropriate next step in the development of a statewide data processing system for public assistance programs. This study is under way and a report is expected by April 15, 1983.

The 1982 Budget Act also included funds to support two activities: (1) operation of a data processing system for the welfare departments in Placer and Nevada Counties (which had been started under the SPAN project) and (2) development of a central index of public assistance cases in Orange County using the Los Angeles County Welfare Case Management Information System. Both of these activities are proceeding as planned.

Federal Funding. Following the termination of the SPAN project, the federal government withdrew its approval of enhanced federal funding for the project (90 percent of total project costs) for both 1981–82 and 1982–83, and requested DSS to justify *any* federal participation in the cost of the SPAN work completed to date. At the time this *Analysis* was prepared, federal officials advised us that DSS had failed to provide this justification for 1981–82. Until DSS justifies normal federal funding levels (50 percent of total project costs), the state will not receive any of the approximately $6 million expected to be received for the SPAN project in 1981–82. The DSS has informed us that the 1982–83 SPAN-related activities have been approved for federal financial participation at the usual rate of

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT—Continued

50 percent (instead of the 90 percent sharing ratio).

SPAN Phase-Out Costs. The DSS estimates that the 1982–83 costs to phase out the staff formerly assigned to the Statewide Public Assistance Network will total $2,359,887 ($1,030,922 from the General Fund, $1,233,528 in federal funds, and $95,437 in reimbursements). As of January 17, 1983, 44 of the original 146 employees were still employed by the department. It is expected that by the end of the fiscal year these employees will have taken permanent positions, either in DSS or in other departments, or will have left state service. The department does not anticipate the need for layoffs.

Placer and Nevada Counties' Data Processing Systems

We recommend that Placer and Nevada Counties share in the costs of operating their welfare data processing systems because the costs of these services are part of the routine administrative costs in which all other counties are required to share, for a savings to the General Fund of $194,000.

Since 1982, DSS has provided data processing to the welfare departments of Placer and Nevada Counties as part of the SPAN project. Although the Legislature halted the SPAN project, it approved continued state support for these counties' data processing functions. The budget proposes to fund five limited term positions to support this operation and to pay the data processing and contract costs associated with the systems in these counties.

The data processing systems in Placer and Nevada Counties are no longer operating as demonstration projects, and the state has no plans to use these counties as test sites for a statewide data system.

Our analysis indicates that these counties should be treated like all other counties and required to pay for 25 percent of the costs of these data processing services. The costs of the systems amount to $777,000, which includes $576,000 in direct costs and another $201,000 in DSS overhead costs allocated to this activity. The budget proposes that these costs be shared 50 percent by the federal government and 50 percent by the state. We recommend that the General Fund costs be reduced by $194,000, and that reimbursements from Placer and Nevada Counties be increased by the same amount.

Reduction in Departmental Legal Staff

We withhold recommendation on the proposed elimination of 14 legal positions, pending receipt of further information from the department identifying the positions to be eliminated and the department's plan for absorbing the workload now assigned to these positions.

The Office of the Chief Counsel provides legal advice to departmental managers and support to the Attorney General in litigating cases affecting the department. The budget proposes a 30 percent reduction in the number of personnel assigned to Office of the Chief Counsel, for a savings of $414,000. This reduction in staff consists of nine attorneys and five related support personnel. The reduction is consistent with the administration's goal of centralizing state legal services within the Department of Justice. Such legal services include staff support to protect state fiscal interests in suits involving welfare programs, social services programs, and community care licensing.

The office is divided into seven functional areas: (1) community care licensing, (2) government law, (3) social services, (4) fiscal, (5) legislation, adults, and special projects, (6) welfare programs and (7) legal support. The budget does not specify in which areas legal staff will be reduced. Thus, we have no means for determining the effect of such reductions on the completion of necessary legal work within the department. In addition, the budget proposes neither additional staff nor additional funding to the Department of Justice so that it can provide the legal services previously accomplished internally by the department.

We believe that the manner in which the proposed staffing reductions are made could seriously affect the timely completion of necessary legal work within the department. Moreover, these reductions could have a significant General Fund impact if they result in the department's inability to prepare adequately for cases in which increased state expenditures could result from unfavorable court decisions. We therefore withhold recommendation on the proposed reductions in legal staffing, pending receipt of information concerning (1) the manner in which such reductions will be made and (2) the effect of such reductions.

Report on Legislatively Mandated Publications

Chapter 1632, Statutes of 1982 (AB 2960), requires each state agency to identify in its 1983–84 budget request every state publication produced by the agency which is legislatively mandated and requires 100 or more employee hours to produce. The act also requires each agency to recommend which of these publications, if any, should be discontinued.

The department has identified six reports falling in this category. Of these, the department recommends that the following three be *continued:*

- A quarterly report on child support collections for children in foster care, required by Ch 1276/82.
- An annual report on the Family Protection Act (FPA) demonstration project, required by Ch 104/81 (AB 35).
- An annual report on the activities of the Office of Child Abuse Prevention (OCAP), required by Ch 1334/78.

We concur with the department's recommendation that the foster care child support collections and the OCAP reports be continued.

FPA Report

We recommend the elimination of the requirement for an annual report on the FPA demonstration project.

The budget assumes the enactment of statutory changes to eliminate the FPA demonstration project and deletes the funding for the preparation of the annual report on the project. Thus, the department's recommendation to continue the annual report on the FPA is inconsistent with the budget. In our analysis of the Social Services item, we recommend approval of the proposal to eliminate the FPA based on our conclusion that the provisions of Ch 978/82 (SB 14) implement the FPA demonstration project on a statewide basis. We therefore recommend that the requirement for an annual report on the project also be eliminated.

The department recommends *elimination* of the following three legislatively mandated reports:

- An annual report on the funding and allocation of the Social Services Block Grant (Title XX), required by Ch 1343/82 (AB 2695).

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT—Continued

- An annual calendar of rulemaking activity for the current year required by Ch 1211/82.
- An annual report on child support, required by Ch 924/75.

We concur with the department's recommendation to discontinue the annual report on child support because it duplicates other reports.

Regarding the department's recommendation to discontinue the annual report on the Social Services Block Grant (Title XX) required by Chapter 1343, our analysis indicates that much of the information is contained in other statutorily-required reports. In addition, Chapter 1343 specifically allows the department to use other required reports to substitute for the reports required by Chapter 1343.

The department's recommendation to eliminate the requirement that it provide the Legislature with a rulemaking calendar for current and prior years is based on the department's contention that this requirement duplicates the requirements of Ch 827/81. Our analysis indicates, however, that the annual calendar of rulemaking required by Ch 1211/82 does not duplicate the requirements of Ch 827/81. This is because the provisions of Ch 1211/82 require a broader circulation and a different format than those required by Ch 827/81. We are, however, unaware of the considerations which led the Legislature to enact legislation during the last session to require this report and are consequently unable to advise the Legislature whether the report is still needed.

Unbudgeted Federal Funds

We recommend that unbudgeted federal Title IV-E funds be used in lieu of General Fund support for the departmental support item in order to increase the Legislature's fiscal flexibility, for a General Fund savings of $1,055,000.

Background. The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) provided that qualifying states could receive federal Title IV-E funds for administrative activities on behalf of federally eligible foster care children, including licensing of foster family homes and group homes. In order to qualify for these federal funds, states are required to have an accepted Title IV-E plan. With the enactment of Ch 977/82 (AB 2695) and Ch 978/82 (SB 14), California came into compliance with the requirements for an acceptable Title IV-E plan. The U.S. Department of Health and Human Services (DHHS) approved California's Title IV-E plan effective October 1, 1982.

Title IV-E Funds Not Budgeted for 1982–83. The departmental support budget includes $1,407,000 in federal Title IV-E funds for foster family and group home licensing during 1983–84. The budget proposes to use these federal funds during 1983–84 to offset a portion of the General Fund costs of the Community Care Licensing program.

Our analysis indicates that California is eligible to receive $1,055,000 of additional Title IV-E funds for 1982–83. These additional funds represent the federal share of the costs of licensing foster family and group homes during 1982–83. Although these funds will be available for use during 1982–83 or 1983–84, the administration's budget does not include these funds for either fiscal year. If these funds are used to replace General Fund support for social services programs in 1983–84, the Legislature will have an additional $1,055,000 in General Fund resources to draw on and thus more flexibility in funding its priorities in this or other program areas. We therefore recommend that the $1,055,000 in unbudgeted Title IV-E funds be used in 1983–84 to offset the General Fund cost of the Community Care Licensing program.

COMMUNITY CARE LICENSING—PROGRAM REVIEW

Community care facilities provide nonmedical residential care, day care, or home-finding services to children and adults. In general, clients of community care facilities require care and supervision because they are unable to care for themselves due to their age and/or physical or mental disabilities. The Department of Social Services licenses some community care facilities and contracts with the State Department of Education (SDE) and county governments to license other facilities. Table 4 displays the various types of facilities licensed by the Departments of Social Services and Education and the counties.

Table 4
Community Care Facilities
Projected Licensed Facilities
1983–84

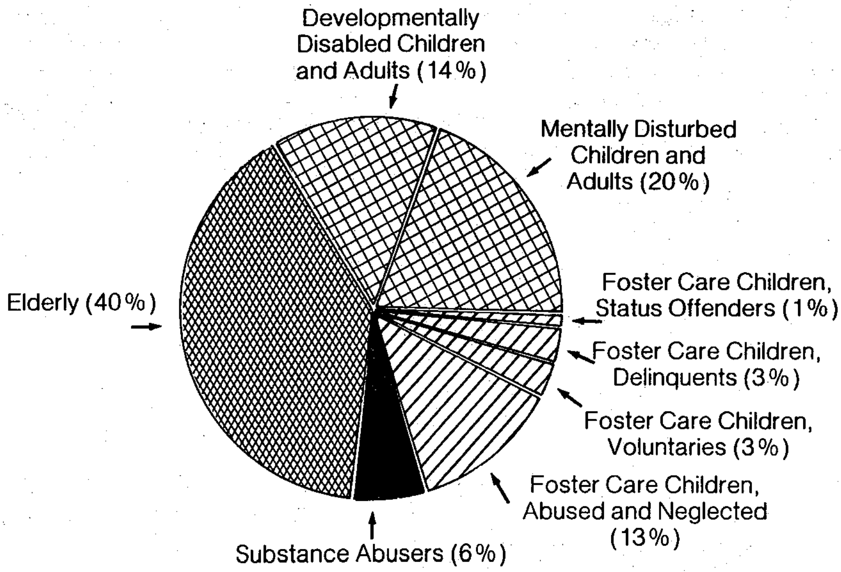
	Facilities Licensed Directly By DSS	*Facilities Licensed by Counties Under Contract With DSS*	*Facilities Licensed by SDE Through an Interagency Agreement With DSS*	*Total Facilities*
1. Adoption and home-finding agencies	99	—	—	99
2. Small family homes for children and foster family homes	1,412	12,400	—	13,812
3. Other family homes (small and large family homes for adults and large family homes for children)	3,600	—	—	3,600
4. Group homes for children	1,198	—	—	1,198
5. Group homes for adults	3,563	—	—	3,563
6. Adult day care homes	193	—	—	193
7. Family day care homes for children [a]	9,772	21,440	—	31,212
8. Day care centers for children	5,017	—	1,500	6,517
Totals	24,854	33,840	1,500	60,194

[a] The budget assumes the enactment of a statutory change to eliminate the licensing of these facilities. We discuss the proposal to eliminate family day care licensing in our analysis of Item 5180-161, community care licensing, local assistance.

The Department of Social Services estimates that the community care facilities shown in Table 4 provide residential (24-hour) care and day care to approximately 555,900 individuals. The department estimates that 404,700, or 75 percent, of the clients, are served by day care facilities and 151,200 clients are served by residential facilities. Chart 1 shows the types of clients cared for by 24-hour residential facilities. The chart shows that 40 percent of the clients are elderly, 34 percent are mentally disturbed or developmentally disabled adults and children, 20 percent are foster children, and 6 percent are substance abusers.

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT—Continued

Chart 1
Types of Clients Served by Residential Facilities Department of Social Services 1982–83



Lack of Data to Measure Effectiveness of the Licensing Program

We recommend that the department report to the fiscal committees prior to budget hearings on (1) the department's progress in implementing the facilities rating system, (2) the cost of using the Facilities Information System (FIS) to generate management information reports based on facility ratings and (3) its plan to develop performance standards based on the rating system.

The purpose of the community care licensing program is to ensure that community care facilities provide a healthy and safe environment to their clients. It is difficult to assess the success of the program in achieving this goal because the department lacks data which measures the degree to which community care facilities are operating in compliance with licensing requirements. For example, the department does not collect data on the number and types of licensing violations by facilities. As a result, we are unable to advise the Legislature as to whether the program has been successful in achieving its goals.

Current law and regulation *require* the department to maintain a facilities rating system which could readily be adapted to provide the data necessary to assess the extent to which facilities are in compliance with health and safety standards. *The department, however, has never implemented the required rating system.*

We believe that implementation of the rating system would result in negligible costs to the current evaluation process because licensing evaluators currently record all violations of licensing standards. In order to implement the rating system the department would merely have to require evaluators to assign a letter grade to each facility based on the number and seriousness of violations.

The department currently operates the computer-based Facilities Information System (FIS). We believe that the FIS could be adapted to generate reports on facility ratings which could be used (1) to assess the effectiveness of the licensing program and (2) to set goals for the future performance of the program.

In order to assist the Legislature in evaluating the effectiveness of the community care licensing program, we recommend that the department report to the fiscal committees, prior to the budget hearings, on (1) its progress in implementing the facility rating system, (2) the costs of using the FIS to generate management information reports based on the facility rating system, and (3) its plan to develop performance standards based on the rating system.

The Effectiveness of the Annual Visit

The primary tool of the department in ensuring compliance with licensing standards is the inspection visit. The department's licensing evaluators conduct three types of inspection visits:

1. ***Annual or Renewal Visits.*** During this type of visit, the licensing evaluator inspects the facility to determine whether it is in compliance with all licensing standards. Evaluators spend more of their time conducting annual visits than performing any other function.
2. ***Complaint Visits.*** During this type of visit, the evaluator investigates complaints and, in addition, may conduct a general inspection of the facility, at his discretion.
3. ***Plan-of-Correction Visits.*** During this type of visit, the evaluator determines whether a deficiency cited during a prior visit has been corrected. If the evaluator determines that the correction has not been made, the evaluator may assess a civil penalty. The evaluator may also cite the facility for any other violation detected during the plan-of-correction visit.

Inspection visits are the core of the licensing program because they are the only way for the department to determine whether a particular facility is operating in compliance with minimum licensing standards. Our review of the licensing program indicates, however, that the current policy of requiring annual inspections of all community care facilities may not result in the most effective use of an evaluator's time because the annual visit seems to result in the identification of relatively few serious violations of licensing standards.

Annual Visits Identify Relatively Few Serious Violations. We reviewed all of the "accusations", 23 in total, filed by the department against state-licensed facilities during the period July 1 through December 1, 1982. An "accusation" is a legal document listing the reasons the department is initiating proceedings to revoke the license of a community care facility. The 23 accusations we reviewed contained 234 alleged violations of community care licensing standards. Table 5 identifies the original source of the information which eventually led to these allegations by the department.

Table 5 shows that 65 percent of the violations were first identified through complaints from sources other than a licensing visit. In addition, 6 percent of the alleged violations were identified during complaint visits. Only 20 percent of the alleged violations were identified as a result of annual visits. Furthermore, of the 23 accusations we reviewed, only one was based *primarily* on alleged violations which were first identified during an annual visit.

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT—Continued

Table 5
Source of Information Leading To an Allegation of a Violation Against a Community Care Facility July 1, 1982 through December 1, 1982

Original Source of Information	*Number of Violations*	*Percent of Total*
1. Complaints from:		
a. Placement agency	60	25.6%
b. Local fire, health or police department	15	6.4
c. Friend/relative of client or anonymous	57	24.4
d. Client or former client	17	7.3
e. Employee of facility	4	1.7
Subtotal	153	65.4%
2. Various types of visits:		
a. Annual visit	47	20.0%
b. Plan-of-correction visit	21 [a]	9.0
c. Complaint visit	13 [a]	5.6
Subtotal	81	34.6%
Total	234	100%

[a] Represents instances in which an alleged violation was first identified during the course of a plan-of-correction visit, or a complaint visit.

On this basis, we conclude that complaints and complaint visits are far more important than annual visits as a source of information leading to the decision to seek a revocation of a facility's license. Yet, according to the department's estimate, the average evaluator spends two and one-half times as much time conducting annual visits as he does responding to complaints.

The elimination of the requirement for annual visits to all facilities could result in either (1) substantial General Fund savings, to the extent that a reduction in the number of inspection visits would result in a reduced need for licensing evaluators, (2) increased program effectiveness, to the extent that evaluator time now spent on annual visits could be redirected to more frequent visits to problem facilities, or (3) some combination of decreased program costs and increased program effectiveness.

Demonstration Project Recommended

We recommend the adoption of Budget Bill language requiring the department to undertake a demonstration project to test the feasibility of eliminating or modifying the current requirement for annual visits to all facilities. We further recommend enactment of legislation to allow the department to conduct the recommended demonstration project.

Our analysis indicates that a demonstration project testing the feasibility of eliminating or modifying the current requirement for annual visits would provide the Legislature with information which could potentially result in substantial General Fund savings, greater program effectiveness, or both.

Under the demonstration project, one group of facilities would continue to receive the required annual visits, another would receive no annual visits but would continue to be visited in response to complaints, and a third group would be visited at a frequency to be determined by each facility's score as assigned by the facilities rating system. Thus, the lower-rated facilities in the third group would be visited several times a year rather than annually, while the higher-rated facilities in this group might not be visited at all except in response to complaints. This demonstration project would not require the department to assign additional evaluators to the facilities in these three groups, but rather to change the way in which existing evaluators are assigned to visit the facilities. Thus, the demonstration project could be accomplished within the existing resources of the department.

In order to implement the demonstration project, we recommend adoption of the following Budget Bill language:

"Not sooner than 30 days after submission of a detailed plan to the fiscal committees and the Joint Legislative Budget Committee, the community care licensing division of the department shall commence a demonstration project designed to determine whether the current statutory requirement for annual visits of community care licensing facilities should be (1) retained, (2) eliminated, or (3) replaced with a policy of more frequent visits to low-rated facilities and less frequent visits to high-rated facilities. This project shall consist of a control group and two experimental groups of licensed facilities, each of which shall be rated according to the facilities rating system defined in Article 7, Chapter 1 of the California Administrative Code. These ratings shall be based on a review of the case files of each facility in each group. The facilities shall be rated both before and after the demonstration project. Facilities in the control group shall be evaluated according to the current practices of the department. Facilities in one experimental group shall be visited only in response to complaints and shall *not* receive the currently required annual visit. Facilities in the other experimental group shall be visited by licensing evaluators with a frequency determined by their rating—higher rated facilities will be visited only in response to complaints while lower rated facilities will be visited as frequently as possible given the number of evaluators assigned to the experimental group."

Because the current policy of annual visits of community care facilities is required by law, we recommend an amendment to the companion bill to suspend the current statutory requirement for annual visits with respect to those facilities chosen to be included in the experimental groups in the demonstration project.

Licensing Fees

We recommend enactment of legislation requiring that community care facilities be charged a fee based on (a) the cost of licensing each facility type and (b) the proportion of each facility's clients which are private placements.

The Legislature has determined that many licensing programs should be supported entirely by fees collected from licensees because (1) licensing is a service which should be paid for by the beneficiaries of the service and (2) licensees can either absorb the fee or pass it through to their clients. The community care licensing program, however, is unlike most other licensing programs in that community care facilities are not charged for their licenses.

DEPARTMENT OF SOCIAL SERVICES—DEPARTMENTAL SUPPORT—Continued

Reasons that Community Care Facilities are Exempted from License Fees. Our analysis indicates that there are two reasons community care facilities are exempt from license fees:

1. Community care facilities often are unable to adjust the rates they charge their clients to reflect specific changes in their cost of doing business. This is because the rate of reimbursement is set by the government.
2. Part of any increase in the cost of care resulting from the imposition of a license fee would be borne by the General Fund.

Across-the-Board Exemption from Licensing Fee is Not Justified. An unknown number of community care clients are private placements. Private placements are those community care clients whose care is paid from nongovernmental sources. For example, nearly all of the children who receive day care from day care centers licensed by DSS are private placements whose care is generally paid for by their parents. In addition, most children in family day care are private placements whose care is paid for by their parents. (The budget proposes to eliminate the licensing of family day care homes. We discuss this proposal in our analysis of the Community Care Licensing Local Assistance item). Furthermore, many elderly clients of group homes for adults pay for their own care. In fact, most community care facility types have some private placements.

Community care facilities are free to increase the rates they charge for private placements to the extent that the market will allow. Thus, the current policy of exempting community care facilities from a licensing fee results, in effect, in a subsidy of these private placements. We find no analytical basis for such a subsidy, since private placements, by definition, are those placements which do not qualify for any of the various programs which specifically subsidize community care.

We conclude that there is some basis for excluding community licensing facilities from the normal requirement that the licensee pay for the costs of the program under which he is licensed. We also conclude, however, that such an exemption results in unjustified General Fund subsidies to privately placed clients of community care facilities. Therefore, we recommend enactment of legislation requiring that community care facilities be charged a fee based on (a) the cost of licensing each facility type and (b) the proportion of each facility's clients which are private placements.

Department of Social Services

AID TO FAMILIES WITH DEPENDENT CHILDREN

Item 5180-101 from the General Fund and Social Welfare Federal Fund — Budget p. HW 141

Requested 1983–84	$1,174,669,000
Estimated 1982–83	1,327,672,000
Actual 1981–82	1,349,088,000
Requested decrease $153,003,000 (−11.5 percent)	
Total recommended reduction from Item 5180-101-001	3,690,000
Total recommended transfer from Item 5180-181-001(a)	(72,267,000)
Recommendation pending	$18,309,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-101-001	Payments for Children	General	$1,174,669,000
5180-101-866	Payments for Children	Federal	(1,379,107,000)
5180-101-919	Incentives from other states	Interstate Incentive Collections	(600,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Welfare Fraud Early Detection/Prevention Program. Withhold recommendation on budgeted savings of $18,309,000 to the General Fund, pending receipt of additional details on how the program will be implemented. 1073
2. Transfer of Cost-of-Living Funds. Recommend that $72,267,000 in Item 5180-181-001(a) be transferred to Item 5180-101-001 and used to fund a cost-of-living increase for AFDC recipients, rather than for recipients of Supplementary Security Income/State Supplementary Payments (SSI/SSP) program who now receive larger grant amounts. 1075
3. Improved Program Information. Recommend the Department of Social Services (DSS) submit a plan for collecting information on those portions of the AFDC assistance population that receive aid not required by federal law. 1086
4. Administrative Increases to the AFDC Appropriation. Recommend adoption of Budget Bill language requiring the Director of the Department of Finance to notify the fiscal committees 30 days before increasing the amounts appropriated for AFDC. 1102
5. ***Unallowable Federal Costs. Reduce Item 5180-101-001 by $1,100,000.*** Recommend General Fund reduction and corresponding increase in federal funds because it is not clear that costs will be a state responsibility. 1102
6. Group Home Foster Care Costs. Recommend DSS report to the fiscal committees prior to budget hearings regarding 1103

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

the costs of group home foster care for federally eligible children.

7. *Anticipated Federal Reimbursements. Reduce Item 5180-101-001 by $1,650,000.* Recommend General Fund reduction and corresponding increase in federal funds to reflect anticipated federal reimbursements for specified foster care costs in 1982–83. 1104
8. *Audit Recoveries. Reduce Item 5180-101-001 by $940,000.* Recommend General Fund reduction to reflect a more realistic estimate of group home audit recoveries. 1104

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 not sufficient to provide for their basic needs. Eligibility is limited to families with children who are needy due to the death, incapacity, continued absence, or unemployment of a parent or guardian.

In the past, the Welfare and Institutions Code provided a continuous appropriation to finance cash grants to AFDC families. Section 13340 of the Government Code (Ch 1284/78) sunsets the continuous appropriation for the AFDC program and requires that, starting in 1983–84, these funds be appropriated in the Budget Act. The Budget Bill, however, contains a provision that allows the Director of the Department of Finance to increase the amount of funds available for the AFDC program if it is determined that expenditures will exceed the amount appropriated for the budget year.

During the current year, 553,680 families (1,592,000 persons) are expected to receive AFDC grants.

ANALYSIS AND RECOMMENDATIONS

Current Year Deficiency

The budget estimates that the AFDC program will incur a General Fund deficiency of $58,797,000 in the current year. This deficiency is the net result of several separate increases and decreases in funding requirements, relative to what was anticipated in the 1982 Budget Act for this program.

Cost Increases. The major unanticipated cost increases are due to: (1) increased caseload in the AFDC-Family Group and Foster Care programs, due in part to unemployment exceeding predicted levels ($9,350,000), (2) lower estimated savings from the provisions of Chapter 3, First Extraordinary Session of 1981–82 ($3,703,000), (3) court rulings ($10,541,000), (4) smaller savings from the changes in the state Unemployed Parent program ($29,982,000), and (5) reduced savings under the Emergency Assistance program for unemployed parents ($9,263,000).

Additional Savings. Partially offsetting savings during 1982–83 are anticipated by the budget in two areas: (1) lower estimates of court-ordered retroactive payments ($3,321,000) and (2) greater estimated savings due to Chapter 1, First Extraordinary Session of 1981–82 ($2,583,000).

The estimated deficiency is subject to change in the May revision of expenditure estimates.

Court Rulings Increase State Costs

On July 29, 1982, the U.S. District Court ruled in the case of *Turner v. Woods* that California's treatment of mandatory payroll deductions violates federal law. Prior to the court ruling, the state considered the "standard work expense" deduction to include mandatory deductions such as federal and state taxes, social security taxes, and state disability insurance. The federal court ordered the state to subtract both the standard work expense deduction (a flat $75 for work-related expenses, which is reduced to $50 for part-time work) *and* mandatory payroll deductions from gross income, when calculating a recipient's grant. The effect of this ruling is to reduce the amount of countable income earned by recipients, thereby increasing the number of families eligible for AFDC and the amount of grants paid to individual recipients with earned income. The budget estimates that the General Fund cost of complying with the court's order will be $10,936,000 in 1982–83 and $13,292,000 in 1983–84.

The department is appealing the *Turner v. Woods* decision. Until a final judicial decision in this case is made, the state will continue to incur additional costs.

The effects of the *Turner v. Woods* case and other recent court rulings are summarized in Table 1.

Table 1
Impact of Recent Court Rulings on the General Fund [a]
1982–83 and 1983–84
(in thousands)

	Estimated 1982–83	*Proposed 1983–84*
Turner v. Woods	$10,936	$13,292
Lowry v. Woods		
Ongoing	1,018	1,236
Retroactive [b]	2,359	—
Seibert v. Woods	155	374
Greene v. Obledo [b]	5,592	—
Farias v. Woods	424	2,764
Totals	$20,484	$17,666

[a] Includes both grants and administrative costs.
[b] Assumes all recipients entitled to retroactive relief will receive payments in 1982–83.

Budget Year Proposal

The budget proposes expenditures of $1,174,669,000 from the General Fund for AFDC cash grants in 1983–84. This represents a decrease of $153,003,000, or 11.5 percent, from estimated 1982–83 expenditures.

As shown in Table 2, total expenditures from all funds for AFDC cash grants are budgeted at $2,722,590,000 in 1983–84, representing a $224,393,000, or 7.6 percent decrease from estimated expenditures in the current year. Included in this amount is $122,133,000 from all funds for cash grants to refugees.

Chart 1 shows the sources of funding in 1983–84 for each of the three AFDC grant programs. The state and county contribute 44.6 percent and 5.4 percent, respectively, toward the cost of grants provided to those recipients who are eligible under federal Family Group and Unemployed

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Parent programs. The federal government contributes 50 percent toward the cost of these grants. The federal share of total costs under the FG and U programs exceeds 50 percent because the grant costs for refugee families are 100 percent federally funded during the first 36 months that they are in the United States.

For those AFDC recipients who are not eligible under federal law, the state pays 89.2 percent of grant costs and the county pays 10.8 percent. These sharing ratios apply to the State Only AFDC-U program.

Chart 1 also shows that the AFDC-Family Group program accounts for $2,006 million, or 74 percent, of all estimated grant costs in the three major AFDC programs. The Unemployed Parent program accounts for another 18 percent, and the Foster Care program accounts for 8 percent. (Child support incentives and Adoptions Assistance are not included in this chart.)

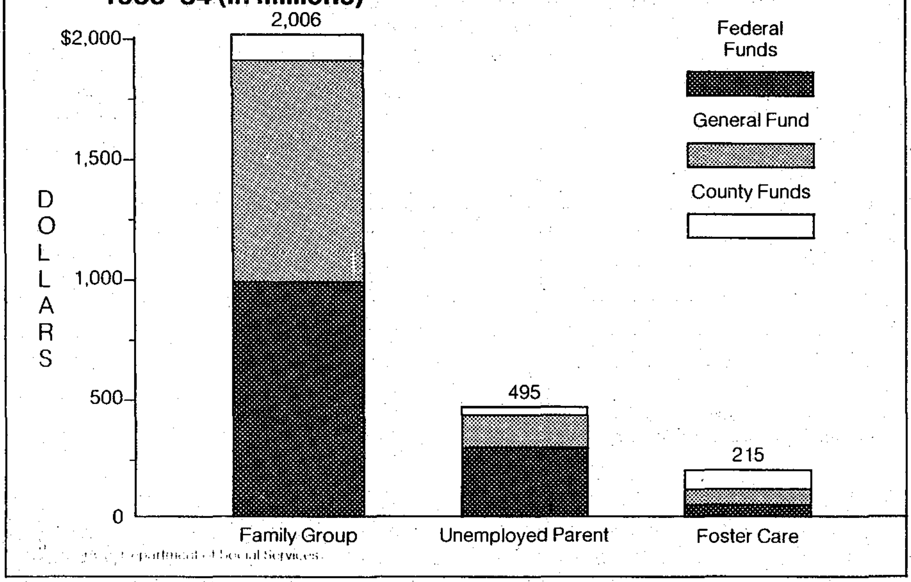


Chart 1
Total AFDC Grant Costs[a] By Program and Fund Source
1983–84 (in millions)

Table 2
Expenditures for AFDC Grants by Category of Recipient[a]
(in millions)

	Estimated 1982–83				*Proposed 1983–84*				*Percent Change*			
Recipient Category	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*
Family group	$2,314.4	$1,174.6	$1,016.7	$123.1	$2,166.7	$1,094.8	$956.1	$115.8	–6.4%	–6.8%	–6.0%	–6.0%
Unemployed parent	541.1	317.8	199.1	24.1	498.0	292.7	183.2	22.2	–8.0	–7.9	–8.0	–8.0
Foster care	214.9	50.5	156.2	8.2	219.2	52.1	92.7	74.4	2.0	3.2	–40.6	805.1
Aid for adoption of children	5.4	0.1	5.3	—	6.5	0.5	6.0	—	20.7	358.9	13.5	—
Child support incentive payments to counties	1.7	22.6	10.9	–31.7	0.4	21.0	12.3	–32.9	–76.8	–7.0	13.8	3.8
Child support collections	–148.0	–72.1	–68.2	–7.8	–168.3	–82.0	–75.7	–10.6	13.7	13.7	11.1	36.5
Subtotals	$2,929.4	$1,493.6	$1,319.9	$115.9	$2,722.6	$1,379.1	$1,174.7	$168.8	–7.1%	–7.7%	–11.0%	45.6%
Court-Ordered retroactive payments	$17.6	$8.9	$7.8	$0.9	—	—	—	—	–100.0%	–100.0%	–100.0%	–100.0%
AFDC cash grants to refugees	(160.3)	(75.8)	(75.4)	(9.1)	(122.2)	(61.1)	(54.5)	(6.6)	(–23.8)	(–19.4)	(–27.7)	(–27.5)
Totals	$2,947.0	$1,502.5	$1,327.7	$116.9	$2,722.6	$1,379.1	$1,174.7	$168.8	–7.6%	–8.2%	–11.5%	44.5%

[a] Columns may not sum due to rounding.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Proposed General Fund Budget Changes

Table 3 shows the factors resulting in the $153 million decrease in General Fund support for the AFDC program in 1983–84. The change reflects $38,743,000 in increased costs which are more than offset by $191,746,000 in proposed reductions.

Table 3
Proposed General Fund Budget Changes for AFDC Grants 1983–84 (in thousands)

	Cost	*Total*
1982–83 Current Year Revised		$1,327,672
A. Baseline Adjustments		
1. Basic caseload		$21,092
2. Court cases		
a. *Turner v. Woods*	$2,193	
b. *Lowry v. Woods*	218	
c. *Seibert v. Woods*	219	
d. *Farias v. Woods*	2,753	
Subtotal		$5,383
3. State legislation		
a. Ch 327/82 (SB 1326)	−$7,828	
b. Ch 703/81 (SB 620)	−4	
c. Ch 325/82 (AB 2315)	−1,488	
d. Ch 977/82 (AB 2695)	649	
e. Ch 1166/80 (AB 2749)	−447	
Subtotal		−$9,118
4. Adjusted estimates of federal program changes in Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35)		
a. Implemented in Ch 1/81 (SB 1x)	−$740	
b. Included in AB 2x	160	
Subtotal		−$580
5. One-time costs during 1982–83		
a. Retroactive payments in court suits		
(1) *Lowry v. Woods*	−$2,331	
(2) *Green v. Obledo*	−5,033	
(3) *Farias v. Woods*	−423	
Subtotal		−$7,787
6. Reduced grant costs due to increases in retirement, survivors, disability, and health insurance		−$880
7. End to extended and supplemental federal unemployment insurance benefits		$8,193
8. Payment verification systems		−$3,958
9. Fixed WIN sanction period		−$20
10. Emergency Assistance Program		−$258
11. Adjustments in Child Support Collections and Incentives		−$7,836
12. Change in Foster Care sharing ratio		
a. Decreased grant cost share	−$66,487	
b. Decreased state share of child support collections	1,774	
Subtotal		−$64,713
13. Foster Care Audit Recoveries		−$355
14. Special Adjustments		
a. Welfare fraud early detection	−$18,309	
b. Prorated shelter costs	−37,418	
c. Change beginning date of aid	−35,629	
d. Reduce State-Only AFDC-U program to 2 months	−810	
Subtotal		−$92,166
B. Total Budget Increase		−$153,003
C. Proposed 1983–84 Expenditures		$1,174,669

Program Changes Proposed by the Administration

The budget proposes three significant program changes in the AFDC program during 1983–84 that are estimated to reduce General Fund costs by $90,276,000. This savings includes $91,356,000 in grant savings, partially offset by $1,080,000 in added administrative costs. Table 3 shows the estimated grant savings associated with each of the proposals.

The budget proposes to implement a Welfare Fraud Early Detection/Prevention Program that is expected to result in General Fund savings of $18,309,000 in 1983–84. The administration also proposes two changes affecting grants to AFDC recipients: (1) require a prorated reduction in the need standard and grant amount for families living with another individual(s), which is estimated to reduce General Fund costs by $36,338,000 (grant savings of $37,418,000, partially offset by additional administrative costs of $1,080,000) and (2) require that aid begin on the first day of the month following the date of application, which would result in estimated General Fund savings of $35,629,000.

Fraud Early Detection and Prevention Program

The administration proposes to implement a program to increase the chances of detecting fraudulent applications before such applicants are approved for aid. The proposed program is patterned after a pilot program implemented in Orange County in March 1981. The program calls for:

- Improved training of eligibility staff to detect fraud.
- Establishment of a Welfare Fraud Early Detection Unit that:
  —Makes daily visits to assigned welfare offices.
  —Receives case referrals through simple, streamlined procedures.
  —Provides eligibility workers with immediate feedback regarding the cases referred.
- Cases flagged with fraud histories to be automatically referred for investigation if reopened.
- Criminal prosecution for attempted fraud in cases where aid was denied.

Savings From the Fraud Early Detection and Prevention Program are Difficult to Estimate

We withhold recommendation on the amount of savings that will result from the Welfare Fraud Early Detection/Prevention Program, pending receipt of additional detail on the program's implementation.

The pilot program in Orange County has contributed to increases in the number of fraud referrals and may have resulted in decreases in grant expenditures. A report prepared by Orange County on the pilot experience states that fraud was detected in about 49 percent of the 1,596 fraud referrals during the first year of operation. Assuming that the detected cases which were kept off the rolls would have drawn benefits for the same period as the average AFDC case, the savings in Orange County could reach $6 million. The savings from this program, however, are likely to be lower. Some of these fraudulent cases, had they received aid, probably would have been detected through other ongoing fraud detection procedures, resulting in collection of the fraudulent overpayments. Reliable estimates of the actual savings attributable to the early detection program cannot be made.

It is unclear whether the Fraud Early Detection and Prevention Pro-

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

gram proposed in the budget can be counted upon to achieve a savings of $18.3 million, as the administration assumes, for the following reasons:

1. ***It is uncertain how the proposal differs from existing welfare detection practices in several counties.*** Current state and federal regulations require that intake cases be given the highest priority in fraud investigations. Several large counties (Los Angeles, Fresno, San Diego) give special attention to intake cases using either special staff that are allocated to intake processing or more experienced eligibility workers.

2. ***There is no implementation plan for the statewide program.*** A schedule for implementing this program has not been prepared. The specific features of the plan and the timing of its implementation may lead to different savings estimates.

3. ***The budget estimate includes savings attributable to prevention of fraudulent issuance of food stamp coupons.*** The administration's estimate of savings to the General Fund from this program includes $3,112,000 in savings due to reduced food stamp benefits. Because the federal government pays the full cost of food stamp benefits, reductions in the value of food stamps issued would not save any state or county funds.

4. ***The budget assumes that implementation of the program will not increase administrative costs.*** It is our understanding that the program calls for transferring existing personnel to the new fraud prevention activities, and would not increase the total number of fraud investigative staff. This, however, may lead to reduced savings from current anti-fraud activities. The District Attorney's office in Orange County found it necessary to add six new investigators to handle continuing case investigations that previously were neglected on account of the early fraud detection/prevention program. Other counties may experience similar needs for added personnel.

Without knowing details of the plan for implementing this program, we cannot determine whether the savings attributed to the program are likely to occur, or whether additional administrtive costs need to be budgeted. Therefore, we withhold recommendation, pending receipt of additional detail on the program's implementation.

Proration of Shelter Costs

The budget also includes savings due to the expected passage of legislation which would require a prorated reduction in the need standard and grant amount for AFDC families living with another individual(s). Under this proposal, the need standard and grant amounts would be reduced to reflect the lower level of shelter and utility expenses incurred by an AFDC family residing in a shared living arrangement.

This option is available to California as a result of recent changes made in federal law by the Tax Equity and Fiscal Responsibility Act of 1982. Currently, the only AFDC families whose grants are affected by sharing quarters with others are those for whom the whole amount of shelter is paid by the non-AFDC tenant. Current rules require that in the case of these AFDC families, the entire amount of their shelter costs be counted as in-kind income, thereby reducing the size of the grant to which they are entitled.

The budget estimates that, as a result of the proposed policy change, total costs for AFDC grants and administration will be reduced by nearly $81 million ($36 million General Fund, $41 million in federal funds, and

$3 million in county funds). This estimate assumes that the maximum grants would be reduced by 25 percent for families sharing living quarters, except those who share with SSI/SSP recipients. The companion bills to the Budget Bill, however, do not specify the amount of the grant reduction. Instead, the bills leave this determination to the Director of the Department of Social Services (DSS).

Beginning Date of Aid

The budget also proposes to change the date when an AFDC applicant's aid payments begin. Under the proposal, aid would begin on the first day of the month following the month in which the application was filed. Currently, individuals whose applications are completed *within* a calendar month receive benefits from the day they applied. The DSS estimates that about 70 percent of AFDC applicants (22,000 monthly) are now receiving grants prorated to the date of application. The budget proposes that these families not receive this first payment, which currently averages $321.52.

To achieve the budgeted savings, a statutory change will have to be made. The budget companion bills, however, do not contain provisions effecting the required changes.

Eligibility Criteria

Table 4 lists the eligibility criteria for the AFDC and food stamp programs (most AFDC recipients receive food stamps).

Cost-of-Living Increase

State law requires that recipients of assistance under the AFDC program receive an annual cost-of-living increase to their grants, effective July 1 of each year. Under existing law, the cost-of-living adjustment (COLA) required on July 1, 1983 is based on the change in the California Necessities Index (CNI) from December 1981 to December 1982.

The Department of Finance estimated in December 1982 that the July 1, 1983 COLA required by existing law is 6.8 percent, and would increase costs to the Fund by $98,780,000. The budget, however, proposes to suspend the statutory provision requiring COLA on July 1, and proposes that no COLA be given to AFDC recipients in 1983–84. The budget companion bills would repeal the statutory requirement that a COLA be given in 1983–84 and subsequent years, and would make cost-of-living adjustments subject to determination in the annual budget act.

Transfer of Cost-of-Living Funds from SSI/SSP to AFDC Recipients

We recommend that $72,267,000 in General Fund support for cost-of-living increases budgeted in Item 5180-181-001(a) for SSI/SSP recipients instead be transferred to Item 5180-101-001 and used to fund a COLA for AFDC recipients, since the standard of living achieved by these recipients is considerably lower than that of SSI/SSP recipients.

While the budget proposes no COLA for AFDC recipients, it requests $72,267,000 from the General Fund for a 2.1 percent COLA for recipients of assistance under the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. These funds are subject to the federal government granting a 1983 cost-of-living increase for SSI/SSP recipients. Our analysis indicates that, on a need basis, these funds should be used instead to provide a COLA for AFDC recipients. As discussed below, the

Table 4
Basic Eligibility Requirements For the AFDC and Food Stamp Programs

I. Categorical Requirements		
A. AFDC—Family Group	Child with one parent absent, deceased, or physically or mentally incapacitated.	
B. AFDC—Unemployed Parent	"Principal Wage Earner" unemployed. Federal eligibility available if principal wage earner is unemployed for 30 days and has recent work experience. Otherwise, family is eligible for 4 months of Emergency Assistance and State-Only AFDC.[a]	
C. AFDC—Foster Care	Child placed in foster care. Federal eligibility is for a child removed by the court from an AFDC-eligible home; the state supports court-placed children not linked to AFDC, and, for 6 months, voluntarily placed children.	
D. Food Stamps	Any family or individual qualifies who meets federally determined income and resource requirements.	
II. Income and Resource Requirements		
	AFDC	*Food Stamps*
A. Real and Personal Property	$1,000 limit; home exempt	$1,500 limit ($3,000 for household with one member over 60)
B. Household Goods/Personal Effects	Exempt	Exempt
C. Motor Vehicle	First $1,500 of net market value exempt	Limit of $4,500 on fair market value
D. Gross Income Limit	150 percent of AFDC maximum aid payment (see Table 5)	Limit $507 for an individual; each additional household member increases limit by $167 (family of 3 limit of $841)
E. Allowable Income Deductions	1. Standard work expenses ($75 full time; $50 part time) 2. Child care expenses (up to $160 per child) 3. If the family has received AFDC within past 4 months, $30 and ⅓ of remaining income; not applied to families not previously on AFDC[b]	1. 18% of earned income 2. Standard deduction ($85) 3. $115 limit on the sum of excess shelter costs and dependent care expenses 4. Excess medical expenses (actual amount less $35) for households with member over 60 or receiving Title II disability payments.
F. Net Income Limit	AFDC maximum aid payment (see Table 5)	Limit of $390 for individual; each additional household member adds about $129 (family of 3 limit is $647)

[a] The budget proposes to reduce the combined Emergency Assistance and State-Only Program eligibility to a total of three months.
[b] Once a family qualifies for aid, during the first four months, it is entitled to the $30 and one-third earned income exemption in calculating the AFDC grant.

maximum grant paid AFDC recipients is not enough to raise their incomes above the poverty level. In contrast, SSI/SSP maximum grants are already above the poverty level, even without the proposed 2.1 percent COLA.

AFDC maximum grants have been below the federally designated poverty level since the welfare reform measures were enacted in 1971. In 1982–83, AFDC maximum grants are equal to about 77 percent of the poverty level. Meanwhile, SSI/SSP grants exceed the poverty level by 8 percent for aged or disabled individuals and by 53 percent for aged or disabled couples. The SSI/SSP grants have received partial or full cost-of-living increases in every year since 1974, including a 2.8 percent increase for the current year. AFDC grant levels, however, have remained unchanged since July 1981. Given this disparity in grant amounts relative to the poverty level, we recommend that funds which the budget proposes to use for cost-of-living increases for SSI/SSP recipients be used instead to increase AFDC grant levels. Approval of this recomendation would narrow the gap between AFDC and SSI/SSP grant levels. Approval of the budget proposal would cause this already wide gap to widen further.

The basis for our recommendation is discussed in greater detail under Item 5180-181-001.

To be consistent with this recommendation, we make related recommendations in our analyses of two other budgets. In the Department of Developmental Services (Item 4300), we recommend a General Fund augmentation of $1.5 million to replace lost SSI/SSP reimbursements. In Medi-Cal (Item 4260), increased General Fund costs of $7.2 million would be offset partially or wholly by savings. Therefore, we recommend that the department submit estimates of the net effect of our AFDC and SSI/SSP COLA recommendations on Medi-Cal costs.

Maximum Payment Levels. Table 5 shows the maximum payment levels for the unemployed parent and family group caseloads, for selected family sizes, assuming (1) no COLA, as proposed by the administration and (2) a 6.8 percent increase, as required by current law. As the table shows, under current law, the maximum grant for a family of three in 1983–84 would increase by $34 to $531 per month. If no COLA is provided, the maximum aid payment will be the same in 1983–84 as it is 1982–83.

Table 5
Maximum AFDC Grant Levels
1982–83 and 1983–84

		1983–84		
		Budget	Current Law	
Family Size	*1982–83*	*Proposal*	*Amount*	*Change*
1	$248	$248	$265	$17
2	408	408	436	28
3	506	506	540	34
4	601	601	642	41
5	686	686	733	47

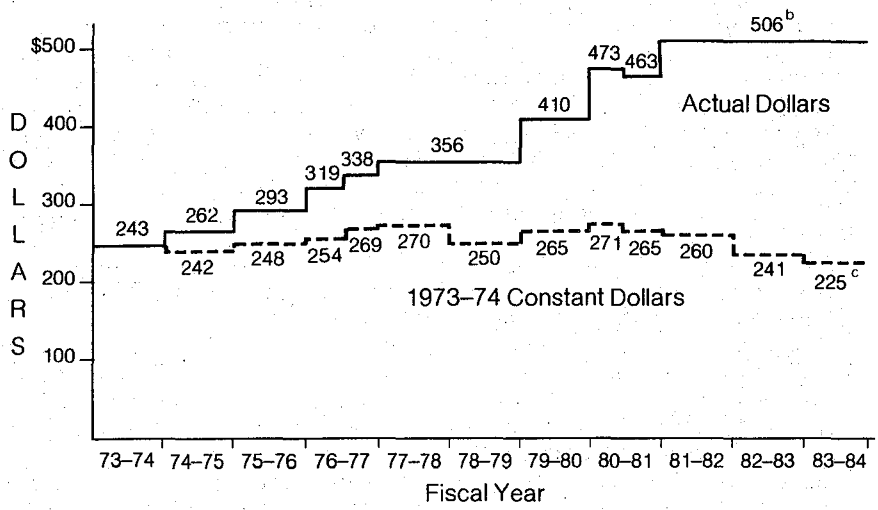
Previous Increases to AFDC Grants. The Welfare Reform Act of 1971 (Ch 578/71) requires that AFDC grants be increased annually, based on changes in the CNI. Chart 2 shows the increases in the grant since July 1973, and the value of the today's grant level in "real" 1973 dollars—that is, the actual amount, adjusted for inflation as measured by the CNI. The chart shows that, in 1982–83, the "real" value of the three-person grant ($241) fell below the 1973–74 value ($243) for the first time since 1974–75.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

The budget proposal to maintain grants at the current-year level would result in a "real" grant level of $225, 7.4 percent less than the "real" grant value in 1973–74.

Chart 2

AFDC Maximum Aid Payment for Family of Three Actual and Constant Dollar Value [a]



[a] Aid payments were adjusted for inflation measured by the California Necessities Index in the preceding calendar year.
[b] 1983–84 Maximum Aid Payment as proposed by the Governor's Budget.
[c] Adjustment for inflation based on the estimated 6 8 percent CNI increase.

Impact of Recent Legislation

Four recent legislative enactments have combined to make substantial changes in the eligibility requirements that apply to the AFDC unemployed parent and family group programs. The net result of the changes has been a 41,170 reduction in the number of cases receiving aid (41,455 cases terminated and 285 added); a reduction in grant amounts for 82,148 cases and an increase in grant amounts for 28,276 cases. The effects of these changes are summarized in Tables 6 and 7, which show the effects on caseload and costs, respectively.

Table 6
AFDC Caseload Effects from Recent Legislation
1982–83

	Cases with Changed Grant		*Changes in Average Monthly Caseload*	
Legislation	*Increases*	*Decreases*	*Increases*	*Decreases*
Ch 69/81 (SB 633)	—	3,432	—	7,356
PL 97-35 (OBRA) [a]				
Ch 1x/81 (SB 1x)	6,715	43,956	—	28,775
Ch 3x/82 (AB 2x)	28,276	34,574	285	3,509
Ch 327/82 (SB 1326)	—	186	—	1,815
Totals	28,276	82,148	285	41,455

[a] Omnibus Budget Reconciliation Act of 1981.

In total, these four measures reduced General Fund costs for the AFDC program by $260 million in 1982–83. Budget savings in 1983–84 will be somewhat different due to proposed changes in the State-Only AFDC-U Program.

Table 7

Fiscal Impact from Recent Legislation
AFDC-FG and U Grants and Administrative Costs
1982–83
(in thousands)

Legislation	*All Funds*	*Federal*	*State*	*County*
Ch 69/81 (SB 633)	–$104,122	–$61,076	–$34,481	–$8,565
Eligibility changes	(–48,414)	(–32,587)	(–10,202)	(–5,625)
In-Lieu COLA	(–55,708)	(–28,489)	(–24,279)	(–2,940)
PL 97-35 (OBRA) [a]	–$203,946	–$108,511	–$81,616	–$13,819
Ch 1x/81 (SB 1x)	(–161,824)	(–82,252)	(–67,744)	(–11,828)
Ch 3x/82 (AB 2x)	(–42,122)	(–26,259)	(–13,872)	(–1,991)
Ch 327/82 (SB 1326)	–$273,714	–$112,515	–$143,530	–$17,669
COLA suspension	(–259,658)	(–132,790)	(–113,166)	(–13,702)
Eligibility changes	(–14,056)	(–128)	(–12,092)	(–1,836)
Transfers to Federal-U	(0)	(19,577)	(–16,690)	(–2,887)
Emergency Assistance	(0)	(826)	(–737)	(–89)
Other changes	(0)	(0)	(–845)	(845)
Totals	–$581,782	–$282,102	–$259,627	–$40,053

[a] Omnibus Budget Reconciliation Act of 1981.

Chapter 69, Statutes of 1981 (SB 633)—$34 million General Fund savings in 1982–83. This law temporarily suspended cost-of-living adjustments in AFDC, SSI/SSP, and In-Home Supportive Services (IHSS), and made several changes in eligibility rules. It provided for a cost-of-living adjustment of 9.2 percent in lieu of the 11.1 percent which the previous law required. Eligibility changes had the greatest effect on 18 to 20 year olds who could no longer receive aid unless they were full-time high school students. The courts later interpreted "high school students" to include students attending vocational or technical schools.

Chapter 1, Statutes of the 1981–82 First Extraordinary Session (SB 1x)—$68 million General Fund savings in 1982–83. The first in a pair of measures implementing federal law changes enacted by P.L. 97-35, Chapter 1 made the following major changes in the AFDC program:

- Established a maximum gross income limit at 150 percent of the maximum aid payment;
- Established a limit on the size of and eligibility for earned income disregards;
- Limited AFDC-U eligibility to families where the "principal earner", rather than either parent, is unemployed; and
- Eliminated supplemental payments.

Chapter 3, Statutes of the 1981–82 First Extraordinary Session (AB 2x)—$14 million General Fund savings in 1982–83. This statute enacted most of the remaining changes required by P.L. 97-35, including the following:

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

- Changed benefits provided to pregnant women. An expectant mother with no other children receives aid for a family of one plus a $70 special need allowance, beginning when the pregnancy is verified. Expecting mothers with other children receive the $70 allowance only in the last four months of pregnancy;
- Required inclusion of stepparent income in the family's total income when calculating grants;
- Required that lump sum payments received by the family be counted as income in the month received and in following months;
- Reduced personal property limit, from $1,600 to $1,000;
- Exempted the home from consideration as property;
- Made those unemployed because of a strike ineligible for AFDC-U aid.
- Allowed children to be eligible under the program only until their 19th birthday, and limited aid to only those 18 year olds attending school;
- Required that aliens prove permanent resident status before being approved for aid; and
- Increased to 10 percent the portion of the grant that can be withheld in order to collect past overpayments caused by client error. (5 percent if the overpayment was due to agency error).

Chapter 327, Statutes of 1982 (SB 1326)—$144 million General Fund savings in 1982–83. This statute implemented several changes in the AFDC program, the savings from which were incorporated in the 1982 Budget Act. It:

- Suspended cost-of-living increases for the AFDC program for one year (until July 1, 1983);
- Established 30 days of Emergency Assistance for nonfederally eligible unemployed parents; and
- Placed a three month limit on eligibility for the State-Only Unemployed Parent program following termination of eligibility for Emergency Assistance.

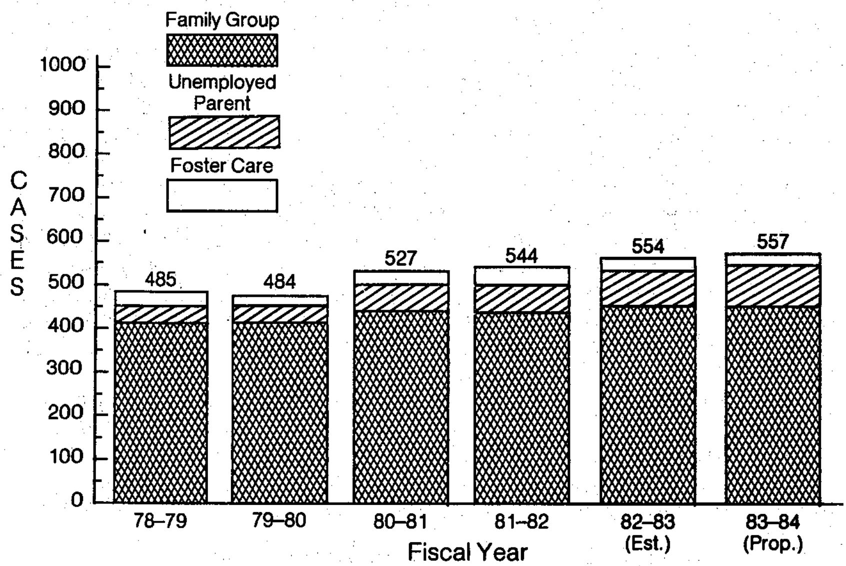
The limit on State-Only AFDC-U eligibility has led to the reclassification of many State-Only AFDC-U families as eligible for the federal AFDC-U and AFDC-FG programs, resulting in a savings to the state and the counties, and added costs to the federal government. The Emergency Assistance program accomplished a similar, though smaller, shift in funding.

Actual Caseload Changes

Chart 3 shows the caseloads under the AFDC program since 1978–79. Average monthly caseload in the AFDC-FG and AFDC-U programs has increased at an annual average rate of 3.7 percent during the past five fiscal years. The AFDC-FG and AFDC-U caseloads are expected to increase by 0.7 percent in the budget year. The budget estimates that the Foster Care caseload will remain stable at around 28,000 during 1983–84.

Caseloads Continue to Rise. Despite the major changes in federal and state laws which have reduced the number of families qualifying for AFDC benefits, average monthly caseloads have risen every year since 1979–80. Two factors have caused these increases. First, unemployment has risen since the beginning of 1980, except during a six-month period in early 1981. Higher unemployment traditionally has meant higher caseloads in both the Family Group and Unemployed programs. Second, the 1979 *Westcott v. Califano* decision allowed unemployed mothers to qualify

Chart 3
AFDC Caseload History
Average Monthly Caseload
1978–79 to 1983–84 (in thousands)



for AFDC-U, causing as much as a 50 percent increase in the unemployed caseload.

Caseload Likely to Exceed Budget Projections. The DSS estimates that the total number of AFDC recipients will increase by 0.6 percent between 1982–83 and 1983–84. Most of this increase is expected in the Family Group program, where increases are expected to more than offset the projected decrease in unemployed parent cases. Table 8 shows the projected AFDC caseload in persons for each of the four major AFDC programs.

Table 8
AFDC Average Monthly Persons Receiving Assistance
1982–83 and 1983–84

Program	Estimated 1982–83	Proposed 1983–84	Change Number	Change Percent
AFDC-Family Group	1,204,430	1,218,600	14,170	1.2%
AFDC-Unemployed	359,360	354,020	−5,340	−1.5
AFDC-Foster Care	28,234	28,269	35	0.1
Aid for Adoption of Children	2,519	2,775	256	10.2
Refugees [a]				
Time-eligible	(96,549)	(73,407)	(−23,142)	(−24.0)
Time-expired	(32,375)	(68,592)	(36,217)	(111.9)
Totals	1,594,543	1,603,664	9,121	0.6%

[a] Grants to refugees who have been in the United States less than 36 months (time-eligible) are supported entirely by federal funds. During that period, refugees who qualify are enrolled in AFDC or other welfare programs, and the state and counties receive reimbursement for nonfederal costs. Time-expired refugees, those in the United States longer than 36 months, may qualify for and receive AFDC grants supported by the usual share of federal (50 percent), state (44.6 percent), and county (5.4 percent) funds.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Our analysis suggests that the department's caseload estimates for 1983–84 may be low, for the following reasons:

1. ***The Employment Development Department (EDD) now projects that unemployment will peak somewhat later than the department's estimates assumed.*** The EDD's most recent projections assume that unemployment will peak in the second quarter of 1983, after the April 1983 date that DSS assumed in constructing its caseload estimates. In the past, AFDC caseloads have risen with increasing unemployment, with the rate of increase slowing when the peak in unemployment is reached. This suggests that the growth in the AFDC caseload will begin to slow later in the year than DSS projects, causing higher average caseloads during the year.

2. ***The growth rate projected for AFDC-FG caseload growth was based on the actual rate of growth between July and December 1981, which may be abnormally low when compared to rates that usually occur during periods of rising unemployment.*** During the first four months of this base period, unemployment grew relatively little, only increasing in the last two months of the period at a rate typical of the 1980 and 1982 recessions.

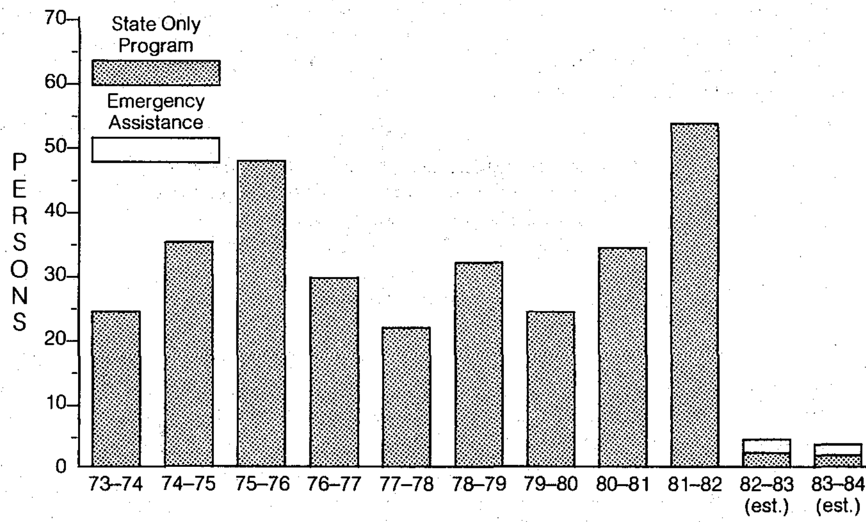
3. ***AFDC-U caseloads are based on actual caseload growth rates between May 1981 and July 1982, without adjusting for the effect of P.L. 97-35.*** The department estimates that enactment of P.L. 97-35 reduced AFDC-U caseloads by 3,068 cases. By disregarding this reduction, the department may have underestimated AFDC-U caseload growth rates.

STATE-ONLY AFDC UNEMPLOYED PARENT PROGRAM

Most families whose principal wage earner is unemployed and meet income and resource requirements qualify for assistance under the federal AFDC Unemployed Parent program. Some needy families, however, are excluded by federal eligibility criteria. For example, to be federally eligible, the unemployed parent must be out of work for at least 30 days, and have an established connection with the workforce. This connection is established by (1) earning at least $50 in each of 6 quarters over 13 quarters prior to seeking aid, (2) having participated in at least 5 days of job training during the quarter, or (3) receiving unemployment benefits in the past year.

In the past, families who did not qualify for federal AFDC-U, either because they lack a sufficient connection to the workforce (91 percent of State-Only AFDC-U cases) or because they were not unemployed for more than 30 days (4 percent), were entitled to benefits financed entirely by state and county funds, without federal participation. (The remaining 5 percent were pregnant women with no other children.) Chart 4 shows AFDC-U nonfederal caseloads for the past nine years. Nonfederally-eligible cases averaged 17 percent of the total AFDC-U caseload during this period. Under the provisions of Ch 327/82 (SB 1326), these families now receive aid from two programs established by the measure—the State-Only AFDC-U program and the Emergency Assistance program.

Chart 4
Average Monthly Caseloads for State Only AFDC-U and Emergency Assistance Programs
1973–74 to 1983–84 (estimated)
(in thousands of persons)



Emergency Assistance and State-Only AFDC-U Programs. The Emergency Assistance program, first authorized by Ch 1193/80 (AB 2980), and approved by the U.S. Department of Health and Human Services in June 1982, began granting aid in July 1982 to unemployed families who do not meet federal eligibility requirements. Most counties, however, did not implement the program until October 1982. The program provides federal funds for 50 percent of the costs of supporting families during the first 30 days of the parent's unemployment. Eligibility is limited to one 30-day period per year. After 30 days, some families will qualify for the federal AFDC-U program. Those with sufficient work experience who do not meet federal requirements can enroll in the State-Only AFDC-U program and receive aid for an additional three months each year.

The intent of Chapter 327 was to provide a *total* of three months in aid (one month of Emergency Assistance and two months of State-Only AFDC-U) to unemployed parents. As enacted, however, Chapter 327 made these persons eligible for a total of four months of aid. As a result, the State-Only AFDC-U program now provides three months of aid after the first 30 days of emergency assistance. The 1983 Budget Bill assumes enactment of legislation which will provide aid for a total of three months (one month under Emergency Assistance and two months under the State-Only AFDC-U program).

Savings Lower Than Anticipated. Table 9 shows the amount of savings reflected in the 1982–83 budget as a result of the changes made to the State-Only AFDC-U program. As the table indicates, the savings originally expected have not materialized. This has happened for several reasons. First, the budget assumed a three-month program, instead of a four-month program as provided by Chapter 327. Second, the budget anticipated savings of $10 million in the Emergency Assistance program. Current estimates of savings are much lower because the number of families actu-

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

ally enrolling in the program each month has been much lower. Third, the budget now estimates that a large number of recipients who in the past would have been found to be ineligible for federal benefits will now be found to be eligible for these benefits. This reduces the anticipated savings from \$.89 to \$.45 per State-Only AFDC-U dollar because persons assumed to be off aid at the end of the three month period are instead being aided under the federal program, with state support. While this still reduces General Fund costs, it does not reduce them by as much as it would have if these families received no aid at all.

Table 9

Comparison of Budgeted and Estimated General Fund Savings from Three-Month State-Only Limit and The Emergency Assistance Program Grant and Administrative Savings 1982–83 (in thousands)

	Budget Act	*November Estimate*	*Difference*
Emergency Assistance	\$10,000	\$737	−\$9,263
Three-Month State-Only Limit	59,200	11,362	−47,838
Federalization of State-Only AFDC-U Families [a]	—	16,690	+16,690
Transfers to AFDC-FG [b]	—	703	+703
Total Savings	\$69,200	\$29,492	−\$39,708

[a] Federalization due to (1) new information about connection with labor force and (2) expiration of 30 day unemployment requirement.

[b] Transfers to FG due to (1) one parent leaving home, (2) pregnant women with no other children in the last 4 months of pregnancy, and (3) reclassification of family members in combined federal and nonfederal case.

Table 10

Result of Implementation of Three-Month Limit for the State-Only AFDC-U Program [a] Selected Counties

			October 1982 Outcome for Cases Off Aid Due to Three-Month Limit				
County	*Average Monthly Caseload Jan.-June 1982*	*Caseload October 1982*	*Total*	*Federalized FG & U*	*To General Relief*	*Terminated*	*Other Outcome*
Alameda	338	17	376	254	1	121	—
Contra Costa	220	54	151	60	12	79	—
Los Angeles	2,101	864	2,220	1,305	—	286	629
Sacramento	753	44	699	623	12	64	—
San Bernardino	706	79	689	359	—	330	—
San Joaquin	713	184	679	546	11	109	13
Shasta	119	35	92	69	2	15	6
Stanislaus	285	65	211	125	4	82	—
Tulare	173	31	134	70	4	60	—
Ventura	117	31	89	42	1	45	1
Totals	5,525	1,404	5,340	3,453	47	1,191	649
	(100%)	(25%)	(100%)	(65%)	(1%)	(22%)	(12%)

[a] SOURCE: County Welfare Directors Association.

Actual County Experiences

Table 10 shows the results of a survey of the counties conducted by the County Welfare Directors' Association to determine the effects of the SB 1326 changes in the State-Only AFDC-U program. In counties surveyed from which results are complete and which account for about 40 percent of statewide nonfederal cases, the number of nonfederal cases in October was 75 percent lower than the average number of cases reported during the period January to June 1982. The table also shows what happened to the cases no longer classed as nonfederally eligible. About 65 percent of these cases were transferred to the federally supported Family Group or Unemployed Parent programs. Twenty-two percent of the cases were terminated, 1 percent were enrolled in General Assistance, and 12 percent were enrolled in employment and training programs or had other outcomes.

Federalization of State-Only AFDC-U Families. Several reasons explain the federalization of what previously were considered to be nonfederally eligible cases. Most importantly, a substantial portion of the refugee families enrolled in the State-Only program were reinterviewed and found to qualify for federal aid. Faced with the prospect of having to provide general relief payments to these families after their eligibility for state aid lapsed, counties chose to reevaluate their employment histories to determine whether federal eligibility could, after all, be established. In the process, counties uncovered evidence of a workforce connection. In part, this resulted from a clarification of federal regulations concerning the definition of in-kind income that allowed refugees to establish eligibility for the federal AFDC-U and FG program, based on earnings from nonwage work. Most counties also deemed participation in English classes to qualify as job training experience.

Many nonrefugee families in the State-Only AFDC-U program also were transferred to federally eligible programs on the same basis. Again faced with the prospect of having to provide general relief payments to these families, the counties were able to establish the workforce connection needed to qualify these families for the federal program. In addition, a small number of these families were federalized based on changes in the family's status since first enrolling in the state-only program. Such changes reflected passage of the 30-day waiting period, or sufficient part-time work to meet the $50-in-13-quarters eligibility criterion. In some instances, counties report that cases were reclassified as family group cases because one parent left home.

General Assistance Impact. Based on data collected in November 1982, in no county have general assistance rolls been significantly affected by the three-month limit on the State-Only AFDC-U program. As of November, 1982, a total of 90 families formerly on State-Only rolls in 47 counties have applied and received general assistance from the counties. This number may increase in the future as additional applications are processed or as the number of unemployed families needing aid increases. To date, however, the three-month limit on State-Only AFDC-U apparently has not caused large increases in county-supported welfare caseloads.

It should be noted that Los Angeles County transferred over 600 State-Only AFDC-U recipients to job training activities under the CETA Program. Had this program not been available, more recipients might have applied for and been granted general assistance.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

The Size of the County Share Affects the Way Counties Administer State-Funded Programs. As noted above, a large proportion of the cases previously found to be ineligible for federal AFDC benefits and assigned to the State-Only AFDC-U program were later found by the counties to be federally eligible. Many of these cases were time-eligible refugee families whose assistance payments are fully supported by federal funds. Other cases, however, were either time-expired refugees or nonrefugee families who previously were incorrectly classified by the counties as nonfederally eligible cases.

The counties' failure to correctly classify these cases resulted in considerable costs to the state that could have been—and should have been—avoided. Because the state pays 89.2 percent of the cost of nonfederally eligible cases, but only 44.6 percent of the costs of federally eligible cases, misclassification caused state payments in these instances to be twice as high as they should have been. Misclassification also doubled the counties' costs, but the additional costs per case were much smaller—only about 12 percent of the added costs to the state. The extra cost to the counties was $0.054 per grant dollar. Apparently, however, this extra nickel did not provide sufficient motivation for the counties to seek out the lowest cost classification for these cases. Counties were not motivated to reevaluate these cases and reclassify them into the federal AFDC-U program until they faced the prospect of these families being without assistance or enrolling in the 100 percent county-funded general assistance program. The difference between a county paying an extra five cents on the dollar and paying an extra 95 cents on the dollar has made a substantial difference in the behavior of the counties.

Information on the Assistance Population

We recommend that DSS submit a plan to the Legislature for collecting data concerning those portions of the population that receive aid not required by federal law.

The consequences of limiting eligibility for the State-Only AFDC-U program, described above, reflect a more basic problem facing the Legislature in attempting to set policy under the AFDC program: inadequate information about those drawing benefits under the program. Until recently, little was known about the characteristics of those persons who receive State-Only AFDC-U benefits. Although DSS conducted a survey of the State-Only AFDC-U population in June, 1982, the results were not reported in time to assist the Legislature in accurately gauging the effects of program changes considered in the 1982 budget process.

In the future, benefit changes may be considered for other segments of the welfare population. In the event that legislative proposals are made to either increase or reduce benefits or eligibility for sub-groups of this population, the Legislature will need accurate information about these groups in order to evaluate the merits of the proposals. We recommend that the DSS develop and present to the Legislature a plan for conducting characteristic surveys of these special recipient groups to provide the Legislature with accurate program information.

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, are accepted into the program.

This section discusses the major benefits available to AFDC recipients, in addition to their monthly cash grants. The discussion focuses on the benefits as they were in 1981–82, the latest year for which data is available on actual utilization. For the most part, data presented here was collected as part of the April 1982 AFDC characteristics survey conducted by DSS. It reflects changes made by the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35). Generally, statistics collected on other benefits received by AFDC participants are collected on the basis of *cases,* not the number of individual recipients. To estimate benefits per individual, as opposed to benefits per case, requires that the value of benefits per case be divided by 3.0, the average number of individuals in each AFDC family.

It should be noted that, in addition to the benefits discussed below, AFDC recipients may:

1. Utilize a variety of social services, including family planning, provided by local agencies;
2. Participate in the Work Incentive (WIN) program, which provided employment services for 35,415 recipients in 1981–82, or about 2.3 percent of the monthly AFDC caseload, and social services intended to improve employability to another 188,510 recipients; and
3. Participate in the Women, Infants, and Children Nutrition program if the parent is pregnant or if the family has children under five years of age.

In addition, approximately 31,081 AFDC families shared their household with an SSI/SSP grant recipient during 1981–82.

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 individuals whose medical costs exceed their ability to pay. All AFDC recipients are eligible for Medi-Cal health care. During 1981–82, 575,500 persons, or 38 percent of all AFDC recipients, utilized Medi-Cal reimbursed fee-for-services 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 1981–82 was $133.29.

Unemployment Insurance. Unemployment Insurance (UI), supported by employer contributions, provides weekly cash payments to unemployed persons who are actively seeking work. Approximately 57,501 AFDC recipients also received UI benefits in 1981–82.

The amount of weekly UI benefits depends upon the amount of earnings received during a base period of employment. The average UI benefit received by AFDC cases in 1981–82 was $275.02 per month. Assuming the average case size of three, the average value per family member was $91.67.

Food Stamps. The purpose of the food stamp program is to ensure low-income households are able to obtain an adequate level of nutrition

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

by providing food stamps at no cost to eligible households. For most households eligibility for food stamps is based on gross income and resources available. For households with a member age 60 or over or receiving Title II disability payments, eligibility is based on net income and resources available to the household after allowable deductions. The amount of food stamps awarded is based on net monthly income and household size. Because their income is low, most AFDC households qualify for food stamps. In 1981–82, 1,143,687 persons receiving AFDC grants also participated in the food stamp program. According to DSS, the average cash value of food stamps used was $26.44 per individual AFDC recipient.

AFDC Special Needs. This program provided average allowances of $10.57 to 8,288 AFDC families, during 1981–82 for special needs such as prenatal nutrition. The average benefit value was $3.52 per individual.

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 age 65 and over and for the disabled under age 65. According to statistics compiled by the Department of Social Services, 40,407 AFDC recipients also received RSDHI payments averaging $60.60 per month during 1981–82. 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 During Working Hours. Several different child care programs may be available to AFDC recipients, depending on where they live. The Office of Child Development (OCD) in the State Department of Education provides subsidies on behalf of children from AFDC families to a network of child care centers throughout the state. In 1981–82, an estimated 42,719 AFDC children received subsidized child care in OCD-supported centers, at an average cost of $128.50 per child per month.

Another child care resource available to AFDC families in 1981–82 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 purposes of AFDC grant calculation.

In 1981–82, approximately 11,235 families received child care through this indirect subsidy. These families reduced their countable income an average of $103 per month as a result. The federal Omnibus Reconciliation Act of 1981 limited these child care deductions to a maximum of $160 per child.

Child Nutrition Programs. Low-income children, including those from AFDC families, are eligible for free meals provided through schools and child care agency meal programs. Public schools must provide at least one such meal per day for each needy pupil, at an estimated cost of $1.35 per meal. Approximately 35 percent of AFDC recipients are school age children.

Housing Programs. Several housing assistance programs are available to low- and moderate-income households. These households may receive (1) subsidized shelter as tenants in public housing or (2) rental assistance to help them afford to live in new or rehabilitated units owned by public or private agencies. The availability of housing assistance, and the income thresholds for eligibility, vary among the counties. It is estimated that in 1981–82, approximately 25,077 AFDC recipients resided in public housing, and an additional 143,970 received rental assistance.

Low-Income Energy Assistance Program. During 1981–82, $76 million was made available in California to provide cash assistance to low-income households to help them pay the cost of the energy they used. Categorical public assistance recipients, such as AFDC households, are automatically eligible for this assistance, which is not considered in calculating the amount of a household's cash grant. During 1981–82, approximately 621,-636 AFDC recipients received a cash grant under this program. The average annual benefit provided under the Home Energy Assistance Program in 1981–82 was $98.92 per household, or $32.97 per individual. These federal funds also provided an undetermined number of AFDC recipients with (1) up to $300 in emergency help in paying energy bills and (2) grants of up to $1,000 to weatherproof their homes.

Other Income. In addition to the benefits described above, 13 percent of AFDC recipients report other income in the form of child support payments, contributions from members of their households who do not receive AFDC, their own earnings, and in-kind income. 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.

Calculation of Average Benefits. Table 11 shows the average value of benefits and other income received by individual in 1981–82, based on the average of three members per AFDC household. The averages are calculated in two ways. The "Average Cash Value of Benefits Received" shows the average benefit value per individual in those AFDC households that received the particular benefit. For example, among those AFDC households that received food stamps, the average value of the coupons per individual was $26.44. The "Value of Benefits Averaged Over All AFDC Recipients" gives the average benefit value for *all* individuals in the AFDC program, including both those who received the particular benefit and those who did not. As a result, this measure of benefits per AFDC individual is less than the average benefit received per participating individual. The average value of benefits provided to a family of three was calculated by multiplying the individual average benefit value by three.

Difficulties in Calculating Benefits Received by AFDC Families. The average benefit value provides the best available picture of the total benefits received by AFDC families. Like all averages, of course, it masks what can be large differences among recipient families. Some families may do much better than the average; others receive less than the average. The average, however, provides a meaningful measure of benefits provided to the hypothetical "average" AFDC household.

Several points must be kept in mind when reviewing the information on average benefit values provided in Table 11.

- Not all recipients receive each of these benefits. Some programs are geographically limited; others have long waiting lists; still others have distinct eligibility criteria that some AFDC recipients do not meet.
- More than one-half of all AFDC families get less than the average benefit value. This is because relatively few individuals receive unemployment compensation, child care, or rental subsidies—each of which provides relatively large benefits to those qualifying for them. This skews the distribution of benefits, causing the median family benefit to be less than the average benefit.
- The average number of persons receiving a benefit understates the

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

number of persons who use the program over the year. Because some recipients enroll for only a few months at a time, the program provides aid to more individuals in the state than the monthly average figure would imply.

- Finally, *not all* AFDC cases contain three members. Under some benefits programs, (Unemployment Insurance, Social Security, LIHEAP), larger families get the same benefit as smaller families.

Table 11

Monthly Benefits Available to AFDC Recipients [a]

1981–82

Benefit	*Recipients Using Benefits*	*Percent of AFDC Recipients* [b]	*Average Cash Value of Benefits Received*	*Value of Benefit Averaged Over All AFDC Recipients*	*Overall Average Times Three (Family of Three)*
AFDC Cash Grant	1,532,818	100.0%	147.20	$147.20	$441.60
Medi-Cal [c]	575,500	37.6	133.29	50.04	150.12
Unemployment Insurance	57,501	3.8	91.67	3.44	10.32
Food Stamps	1,143,687	74.6	26.44	19.73	59.19
AFDC Special Needs	24,864	1.6	3.52	0.06	0.18
Social Security	40,407	2.6	60.60	1.60	4.80
Child Care [d]	42,719	2.8	128.50	3.58	10.74
Child Nutrition [e]	539,401	35.2	19.69	6.93	20.79
Public Housing [f]	25,077	1.6	41.34	0.68	2.04
Rental Subsidies [f,g]	143,970	9.4	81.97	7.70	23.10
Other Income [h]	208,116	13.4	93.87	12.75	38.25
Average Total Monthly Benefits	—	—	—	$253.71	$761.13
Average Total Annual Benefits	—	—	—	$3,044.52	$9,133.56
LIHEAP [i]	621,636	40.6%	$32.97	$13.37	$40.11
Average Total Annual Benefits with LIHEAP	—	—	—	$3,057.89	$9,173.67

[a] SOURCES: 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.

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

[c] Fee-for-service users only. Other Medi-Cal service categories, such as prepaid health plan, 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] Based on $1.35 average meal value, one meal per 175 school days per year.

[f] 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.

[g] 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.

[h] Includes contributions from absent parents and other persons in the households, earned income, and in-kind income.

[i] This amount is received in a lump sum rather than on a monthly basis.

The Importance of the AFDC Grant. Table 11 demonstrates the importance of the basic AFDC grant in maintaining the income of recipients. The majority of AFDC recipients rely solely on the grant plus food stamp coupons for their support. Although there is a wide variety of other benefit programs available, only a relatively small number of AFDC recipients are served by these programs.

Changes in Treatment of Earned Income

P.L. 97-35—the federal Omnibus Budget Reconciliation Act of 1981—as implemented by Chapters 1x and 3x, First Extraordinary Session of 1981–82, changed significantly the method used to calculate grant payments under the AFDC program. These changes increase the amount by which a recipient's grant is decreased for families with earned income. Table 12 illustrates the effects of these federal changes.

Table 12

Monthly Disposable Income for a Working and Nonworking Family of Three Before and After Changes Enacted in the Omnibus Budget Reconciliation Act of 1981

	Before Changes		*After Changes*		
	Nonworking	*Working*	*Nonworking*	*Working*	*After Four Months*
Income:					
Earnings	—	$600	—	$600	$600
AFDC Grant [a]	$506	410	$506	319	195
Food Stamp Value [a]	60	—	93	—	55
Renter's Credit	11	11	11	11	11
Gross Income	$577	$1,021	$610	$930	$861
Expenses:					
Child Care [b]	—	$200	—	$200	$200
Work Related Exenses [c]	—	70	—	70	70
Taxes [d]	—	14	—	14	14
Total Expenses	—	$284	—	$284	$284
Disposable Income	$577	$737	$610	$646	$577

[a] SOURCE: Department of Social Services.
[b] Child care costs were assumed not to exceed one-third of gross income.
[c] Includes transportation costs and other miscellaneous expenses.
[d] Federal income tax (including Earned Income Credit), state income tax, Social Security tax, and state disability insurance tax.

The table shows the disposable income for a family of three with earned income of $0 and $600 per month. "Disposable income" includes the sum of all income (earned income, welfare payment, food stamp value, and tax credits) less expenses directly related to earning the income (child care, transportation, other work-related expenses, and taxes). (Table 12 assumes that the family has no income from sources such as in-kind income, contributions from the absent parent, or other benefit programs.)

Before the federal changes in the treatment of earned income, the nonworking family used in this example would have received an AFDC grant of $506, food stamps amounting to $60, and the renter's credit of $11, for a total gross income of $577, as shown in Table 12. Work-related expenses and taxes for this family would have been zero, resulting in a "disposable income" of $577. If the parent in this family took a job paying $600 a month (shown in the second column of Table 12) the parent's earning would have resulted in a lower AFDC grant ($410) and the loss of eligibility for food stamps. Expenses would have included $200 for child care (assumed not to exceed one-third of gross income), $70 in direct

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

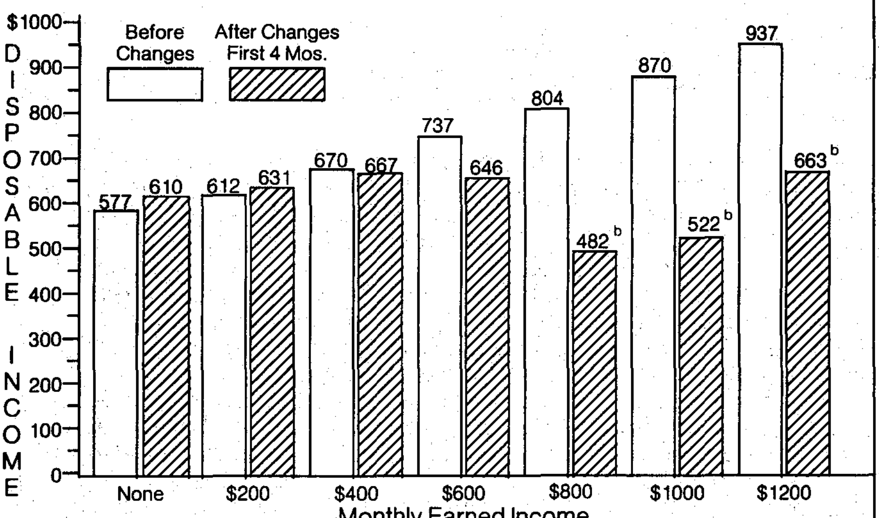
work-related expenses, and $14 per month in taxes (federal and state income taxes, social security, and state disability). The resulting disposable income would have been $737 per month.

After the federal changes, the disposable income for the nonworking family *increased* because the value of the food stamps increased to $93 (as a result of the 1982 inflation adjustments), giving the family a disposable income of $610. The working family's AFDC grant now starts at $319 for the first four months on aid. This is less than the grant before the federal changes took effect because the one-third earned income disregard is now calculated after other deductions are subtracted. Here again, the working family has too much income to qualify for food stamps, leaving it with disposable income of $646. After four months of aid, the family is no longer eligible for the $30 and one-third deduction, causing the AFDC grant to drop by another $124, to $195. As a result, the family now qualifies for food stamps and receives $55 in coupons. Its disposable income drops to $577. (The family will again qualify for an additional four months of the $30 and one-third deduction after twelve more months of aid.)

We have made similar calculations to show how taking jobs paying $200, $400, $800, $1,000, and $1,200 monthly affects a family of three's disposable income. The results of these calculations are shown in Charts 5 and 6, Chart 5 compares disposable income before the federal changes with disposable income under current law during the first four months of aid. Chart 6 compares disposable income under existing law both before and after the fourth month of aid.

Chart 5

Monthly Disposable Income[a]: Family of Three Before and After Federal Changes

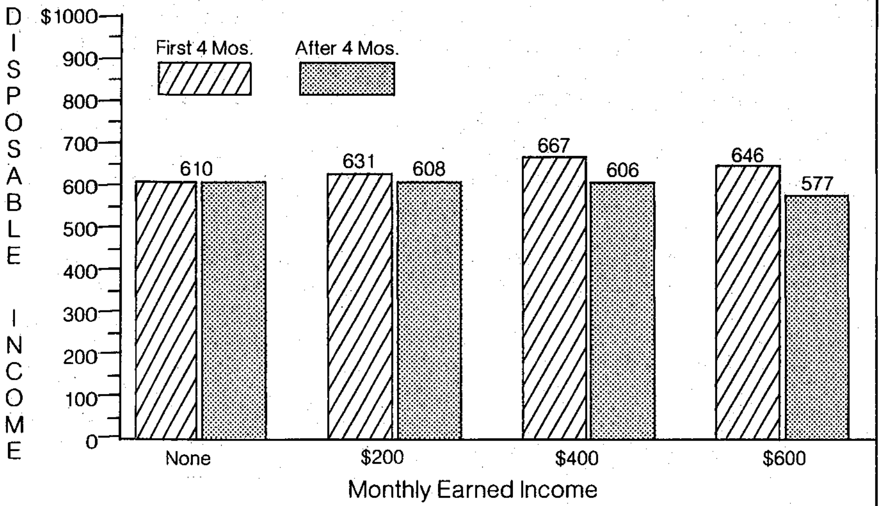


[a] Disposable income is earned income, AFDC grant, and Food Stamp value less taxes and work expenses. AFDC cash grant and Food Stamp values calculated by Department of Social Services.

[b] Ineligible for AFDC because earnings exceed 150 percent of Maximum Aid Payment.

Chart 6

Monthly Disposable Income[a]: Family of Three Under Current Law; First Four Months and After Four Months of Aid



[a] Disposable income is earned income, AFDC grant, and Food Stamp value less taxes and work expenses. AFDC cash grant and Food Stamp values calculated by Department of Social Services

Comparing AFDC eligibility rules before the implementation of recent federal law changes to the rules that apply under current law disclose the following:

- During the first four months of aid (Chart 5):
  —A family of three with earned income of $800 or more is no longer eligible for AFDC.
  —A family of three capable of earning between $800 and $1,000 a month would be better off *not* working and applying for AFDC and food stamps. This is because the family's disposable income would range from $482 to $522 if the head of the family worked, compared to $610 if family head did not work.
  —A nonworking family of three could increase its disposable income slightly by getting a job paying $600 or less per month.
- After the first four months of aid (Chart 6):
  —The benefits from employment disappear for all AFDC families over the next twelve months (until they again qualify for the $30 and one-third deduction.)
  —After the first four months of aid, these families have a larger disposable income if they do *not* work: $610 per month, compared with $577, assuming the job pays $600.

DSS's Report on the Effects of the Recent Federal Law Changes. Chapter 3x directed DSS to report to the Legislature on the effects of P.L. 97-35. The department's report, which was submitted on December 29, 1982 discusses the effects of P.L. 97-35 during its first four months of operation. The report states that, through June 1982, 31,320 AFDC-FG and 3,068 AFDC-U cases had been discontinued, due to the federal changes. The report, however, does not identify how many terminations can be

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

attributed to *individual* changes in the program.

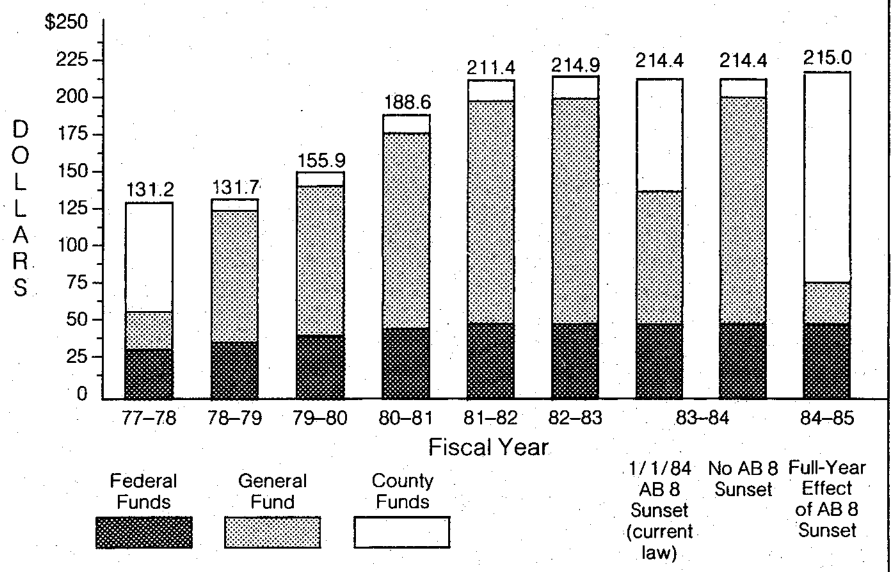
The report compared selected characteristics of the AFDC caseload before October 1981 and after implementation of P.L. 97-35. It found that a smaller share of the AFDC-FG population had earned income after the federal law changes than before. Specifically, the report points out that before implementation of P.L. 97-35, 15 percent of the AFDC-FG population had earned income, but only 9.3 percent had earned income afterwards. In addition, the average amount of the earned income had dropped from $536 prior to the law changes to $313 after. The share of AFDC-U families with earned income fell from 11 percent in October 1981 to 10 percent in April 1982. The average earned income for those AFDC-U families with earned income fell from $469 in October to $418 in April 1982.

These results reflect the initial effects of the recent changes in federal law resulting from changes in the *composition* of the AFDC population due to the new eligibility criteria. It remains to be seen how individual families will adapt to the new eligibility rules. The department has initiated a longitudinal study of AFDC families to provide data on the response of individual families to the law changes over time. The study calls for collecting data on recipients surveyed in the past at three additional points in time, with the last point being April 1983.

Chart 7

Expenditures for AFDC—Foster Care By Funding Source

1977–78 to 1984–85 (in millions)



AFDC FOSTER CARE PROGRAM

The AFDC-Foster Care (AFDC-FC) program provides cash grants to eligible children residing in foster family homes and institutions. Prior to 1978–79, the counties paid the major share of the nonfederal costs of this program—approximately 77 percent. During 1978–79, the state, through the enactment of Ch 297/78 (SB 154) assumed 95 percent of the nonfederal costs. This change in the AFDC-FC sharing ratio was extended through December 31, 1983, by Ch 282/79 (AB 8). Under the provisions of AB 8, the foster care sharing ratios will revert to their pre-1978–79 levels on January 1, 1984.

Chart 7 displays the expenditures for the foster care program by funding source for fiscal years 1977–78 through 1982–83. In addition, Chart 7 shows expenditures for the Foster Care program for 1983–84 and 1984–85 under three different assumptions regarding the sharing ratios under this program. Specifically, Chart 7 shows Foster Care expenditures for 1983–84 assuming:

- ***The funding relationships proposed in the budget.*** The budget assumes that the AB 8 sharing ratio for the Foster Care program will sunset on December 31, 1983, as called for by current law, and proposes General Fund expenditures of $89,988,000 under the program. This represents a reduction of $66,157,000, or 42 percent, from the level of General Fund expenditures in 1982–83. This reduction is due primarily to the change in the sharing ratio.
- ***The funding relationships which would exist in 1983–84 if the AB 8 sharing ratio were continued throughout 1983–84.*** Such an extension of the AB 8 sharing ratio would result in General Fund expenditures of $156,475,000, or 73 percent of total foster care costs. This is $66,487,000 more than the amount proposed in the budget.
- ***The funding relationships which will exist under current law in 1984–85.*** This reflects the full-year effect of sunsetting the AB 8 sharing ratio on December 31, 1983, and approximates the funding relationships which will exist under current law in 1984–85. The amounts shown assume no caseload changes for 1984–85. The full year effect of sunsetting the AB 8 sharing ratio would be to decrease the General Fund share of Foster Care program costs by $133,075,000, or 85 percent, compared with General Fund expenditures for the program in 1982–83.

Fiscal Relief

The foster care sharing ratio established by AB 8 (and SB 154) provided counties with approximately $600 million in fiscal relief over a five and one-half year period. The scheduled sunset of the AB 8 sharing ratio raises the basic policy questions of whether the state should continue to provide this fiscal relief to counties, and if so, whether it should provide such relief in this, or some other, form.

We recommend that the Legislature address the question of the appropriate state/county sharing ratio for the Foster Care program separately from the question of how much fiscal relief should be provided to the counties. The sharing ratio should be determined on a programmatic basis, and once determined, the effects can be compensated for in the amount of fiscal relief provided to the counties under other programs (such as the property tax transfer or Vehicle License Fees subventions).

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Factors the Legislature Should Consider in Determining Foster Care Sharing Ratios

As a general rule, we believe that the appropriate sharing ratio for any program is the one which gives the greatest share of program costs to that level of government which has the greatest control over the level of these costs. This is because to the extent a unit of government has a substantial share in the costs of the program it will work more diligently to control expenditures. Without a substantial share in program costs there is little if any incentive to achieve cost savings.

Our analysis indicates that three factors determine the costs of the foster care program—the rates paid to foster care providers, the number of children in foster care (caseloads), and decisions affecting the kinds of placements in foster care. Currently, these three factors are influenced by decisions made at *both* the state and local levels.

Foster Care Rates. Historically, each county determined the rate it paid to foster parents. With the enactment of Chapter 977, Statutes of 1982 (AB 2695), the state assumed complete control over foster care rates. Chapter 977 established a statewide basic rate for children residing in Foster Family homes. In addition, it transferred the authority for setting foster care rates for group homes from the counties to the Department of Social Services (DSS).

Caseload. In general, the number of foster care cases is determined by (1) general demographic trends, such as increased child abuse and neglect, (2) the effectiveness of services provided to children and their families by county welfare departments, (3) decisions by juvenile courts in individual dependency proceedings, and (4) changes in eligibility criteria.

Neither state nor county government exerts much control over the general demographic trends which affect the foster care caseload. As regards eligibility criteria, the Legislature has enacted various changes which have affected the number of children in foster care. For example, Ch 1166/80 (AB 2749) limited the availability of state General Fund support for children placed in foster care voluntarily (that is, not pursuant to a court order) to six months. This resulted in significant reductions in foster care caseloads during 1981–82 and 1982–83.

As regards services provided to children in Foster Care, the Legislature recently created several new service programs which may give the counties an increased ability to control foster care caseloads. Specifically, Chapter 978, Statutes of 1982 (SB 14), created the emergency response, family reunification, family maintenance, and permanent placement service programs. These new service programs are intended, in part, to:

- Reduce the number of new placements in foster care by providing services to safely keep abused and neglected children in their homes (emergency response and family maintenance);
- Increase the number of discontinued cases by providing services to reunite children in foster care with their parents (family reunification); and
- Increase the number of discontinued cases by providing for the early development of a permanent plan for children who cannot be safely reunited with their families, with first consideration being given to adoption (permanent planning).

The extent to which these programs will reduce foster care caseloads is unknown. Because services will be provided by county social workers, the success or failure of the program will be determined, to a large extent, by county welfare departments. It is quite possible, however, that even the best managed service programs will fail to reduce foster care caseloads due to factors beyond the control of the counties, such as demographic changes and court decisions.

Placement Decisions. The type of home in which a child is placed can significantly affect the costs of the Foster Care program. For example, the average monthly cost of a child in a foster family home during 1982–83 is $376, whereas the cost of a child in a group home is $1,485. If a child is placed in a group home, the choice of the particular home can dramatically affect the costs of placement because group home rates vary widely. In addition, other placement decisions, including whether to place the child outside a county or to provide specialized care, carry with them significant cost implications.

These kinds of decisions are made by county social workers and, to a lesser extent, by county probation officers. As a result, this determinant of costs is susceptible to the control of the counties. Because these decisions are often based on the social worker or probation officer's professional assessment of the placement needs of a particular child, however, the county's ability to use its authority to make placement decisions to control foster care costs may be limited.

Relative Importance of Rates, Caseload, and Placement Decision in Determining the Costs of the Foster Care Program. In 1977–78, the total cost of the foster care program was $131.2 million. At that time, there were 26,687 children in foster care, at an average yearly cost of $4,916. For 1983–84, the budget proposes total foster care spending of $214.4 million, based on a projected caseload of 28,269 children at an average annual cost of $7,584 per child. The $214.4 million proposed in the budget represents an increase of $83.2 million, or 63 percent, over the 1977–78 level.

Our analysis indicates that this increase is attributable to three factors:

1. ***Rates.*** Approximately 75 percent of the increase is due to cost-of-living increases in foster care rates.
2. ***Caseload.*** Ten percent of the increase is attributable to the increased caseload (from 26,689 children to 28,269 children).
3. ***Placement Decisions and Other Factors.*** Fifteen percent of the increase is due to a variety of factors, including placement decisions which result in more costly placements.

Thus, we conclude that rate setting is by far the most important determinant of foster care costs. Caseload growth and placement decision, however, also have a significant effect on foster care costs.

Conclusion. We conclude that under current law, the state exerts the preponderance of control over foster care costs by virtue of its rate setting authority. This does not necessarily imply, however, that the state should pay the bulk of the costs of the program because:

- Changes in caseloads and in placements—both of which can be influenced by county decisions—have the potential to actually reduce costs below current levels, whereas rate setting, as a practical matter, serves only to slow cost increases. To the extent that such reductions are feasible, they are more likely if the counties have a major share in the costs of foster care.
- It would be administratively difficult to transfer the responsibility for

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

providing services to foster care children and their parents from the counties to the state. Thus, the ability to control caseload and the ability to make placement decisions must remain with the counties.

If the Legislature decides to return to the pre-AB 8 foster care sharing ratios, as proposed by the Governor, it may wish to consider tranferring the rate setting function back to the counties. Such a transfer would place most of the control over the costs of the Foster Care program in the hands of the counties, where primary responsibility for funding the program will rest.

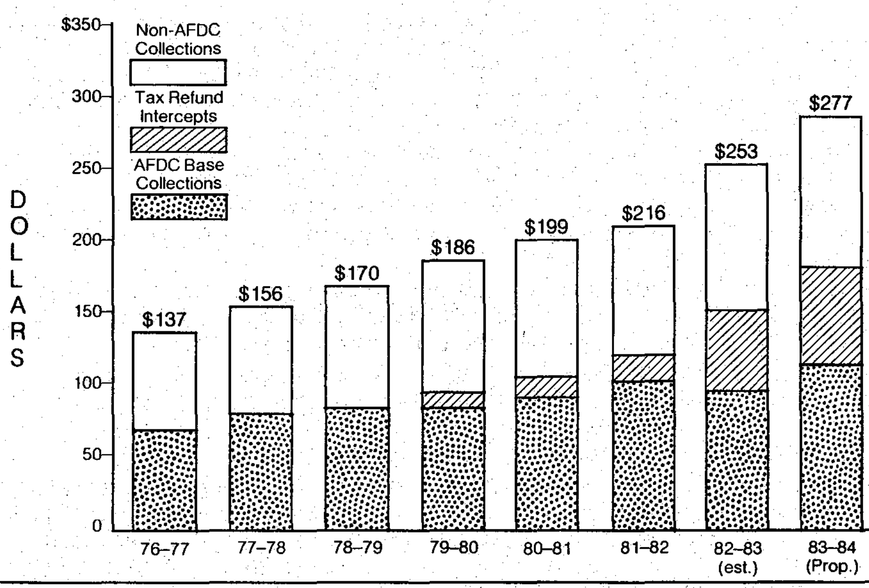
CHILD SUPPORT ENFORCEMENT

The Child Support Enforcement Program is a revenue-producing program administered by the county district attorneys' offices. 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. Chart 8 shows collections from various sources over an eight-year period ending with the budget year.

Chart 8

Total Child Support Collections

1976–77 to 1983–84 (Proposed) (In millions)



Recent Program Changes

Several recent changes in state and federal law have affected all three fiscal components of the child support program: (1) welfare recoupments, (2) administrative costs, and (3) incentive payments to counties.

UI/DI intercept. Chapter 1072, Statutes of 1982 (AB 2856), implements a federal mandate to intercept the unemployment or disability insurance payments going to absent parents with child support payments in arrears. This method of collecting overdue child support payments is similar to the ongoing system to intercept state and federal income tax returns. The DSS estimates that this UI/DI intercept system will increase collections by $8,715,000. Of this amount, the net revenue to the state is $3,732,000 (the state's total share of collections is $4,035,000 less the 7.5 percent in incentive payments).

IRS Intercept. Collections from the Internal Revenue Service (IRS) refund intercepts have significantly exceeded estimates for the current year. Total collections are now estimated to reach $39,582,000 in 1982–83 (up from the $29,895,000 assumed in the 1982 Budget Act), and in 1983–84 are expected to reach $45,920,000. An additional $13.4 million is expected from the Franchise Tax Board (FTB) intercepts. Chart 8 shows that income tax intercepts are responsible for the major growth in child support collections during the current and budget years. Some of these added collections are offset by lower than expected base collections in 1982–83. The department's current-year estimate of base collections ($92 million) is 11 percent lower than the $103 million planned for in the 1982 Budget Act. The department explains that lower level collections can be expected because (1) administrative resources are being drawn away from base collection activities and redirected to the more productive intercept systems and (2) some of the intercept collections would have otherwise been collected through base collection actions. Collections also decline as unemployment in the state increases.

Federal Changes. Recent federal legislation makes two significant changes in federal funding of Child Support activities. Neither change, however, directly affects General Fund costs. Effective October 1, 1982, the federal share of administrative costs declined from 75 percent to 70 percent. As a result, the county share of administrative costs increased from 25 to 30 percent. Effective October 1, 1983, federal incentives paid to counties for AFDC-related collections will be reduced to 12 percent from the current 15 percent level.

State Changes. Chapter 981, Statutes of 1982 (AB 3000), fixes the state's incentive payments to the counties at 7.5 percent, regardless of the amount paid by the federal government. As a result, the state will not be required to maintain the 22.5 percent combined state-federal incentive, as was previously required. The total incentive rate will decrease to 19.5 percent when the federal decrease takes effect.

Chapter 1276, Statutes of 1982 (SB 1337), provides for the payment of child support incentives equal to 7.5 percent of the amounts received for nonfederally funded foster care cases. Incentives are already paid on collections in cases with federal fund participation. These new incentives apply only to statewide collections that exceed the 1982–83 budget projects ($3,750,000). The budget anticipates that collections in 1983–84 will not exceed this amount.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Los Angeles County Performance

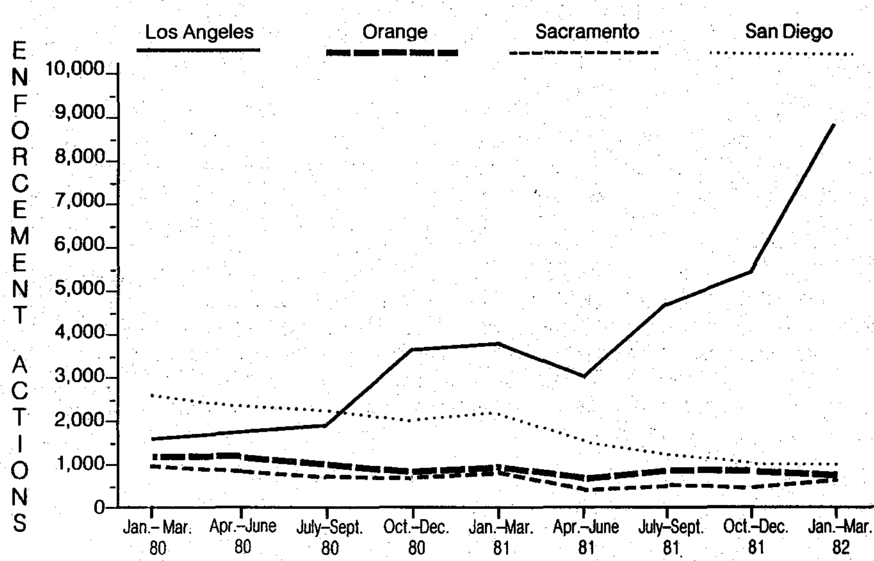
For many years, Los Angeles County has lagged behind the rest of the state in Child Support collections. From 1978 to 1980, Los Angeles ranked 58th out of 58 counties in terms of the share of AFDC grants costs recouped in child support collections. During this period Los Angeles recouped only 3.5 percent of its grant costs through child support collections, compared with 5.1 percent for the 57th ranked county and a 5.8 percent average recoupment rate for all counties except Los Angeles.

The poor and deteriorating performance by Los Angeles County stimulated a complete overhaul of its Child Support operation. In June 1981, new management in the Bureau of Child Support Operations retrained bureau personnel and extensively reorganized the bureau along lines found to be successful in other county child support operations. New teams were formed, consisting of lawyers, family support representatives, and clerical personnel, to undertake enforcement actions. All 18 enforcement teams were in place by June 1982. Other teams, 5 intake teams trained to open child support cases and 11 establishment teams trained to acquire child support orders, were in place by July 1982.

The potential success of this reorganization is reflected in the monthly statistics reported to DSS. Los Angeles County has shown a dramatic increase in the number of major enforcement actions, the kind of actions that can be expected to increase child support collections. Chart 9 shows an increase of over 400 percent in major enforcement actions in Los Angeles since the first quarter of 1980. The total of all major actions increased from 1601 in the first quarter of 1980 to 8,844 in the first quarter of 1982, in spite of a 26 position decrease in child support staff over the same period.

Chart 9

Major Child Support Enforcement Actions [a] Per Quarter for Selected Counties



[a] Major actions include filing of PC270, wage assignments, contempt actions, writs of execution, and recording of liens.

The goal of this increased activity—increased collection—has not shown up in the data as yet. While total collections in Los Angeles have increased, the increase is due entirely to increases in the IRS and FTB intercept programs. Base collections are unchanged. To some extent the reorganization has contributed to increases in intercept collections because, before the reorganization, many cases were not up to date and had inaccurate information about the size of support arrears. the reorganization has increased the number of cases with arrears that could be submitted for IRS or FTB matching. It probably is too early to expect increases in the child support collections resulting from the county's recent reorganization.

State Child Support Enforcement Staff

The budget proposes to continue 4.5 limited-term positions in the Bureau of Child Support Enforcement within the Department of Social Services. Over the past two years, these positions have conducted in-depth evaluations of six counties' child support operations, including an evaluation of Los Angeles County's child support activities and an Orange County cost study. The staff have also worked to develop performance measures that can help identify counties where collections can be increased.

We recommend approval.

These positions fulfill an important state function—to collect and share the experiences of individual counties in administering child support operations.

Different counties will from time to time experience drops in performance that must be corrected. For example, San Diego, Orange, and Sacramento Counties have recently shown marked decreases in actions to enforce child support orders (Chart 9). Uncorrected, decreases in these actions will lead to decreases in collections, and a resulting increase in net AFDC grant costs.

Performance Measures

The department has an ongoing effort to develop useful performance measures of child support collection activities. One measure compares the actual rate at which AFDC grant payments are recouped in each county with a predicted recoupment rate. The department's model adjusts for differences among the counties in terms of social and economic characteristics, such as median income and AFDC caseload, and predicts the expected child support recoupment percentage for individual counties. Some of the characteristics included in the model have a logical connection with child support activities. For example, counties with a high rate of births out of wedlock have, on average, lower recoupment rates. Other characteristics used to estimate recoupments have no obvious, direct connection with child support recoupment. (For example, one of the factors used to predict the recoupment rate is the percent of all deaths between the age of 10 and 14.)

The department intends to refine its predictive model for estimating child support recoupment rates, and to incorporate predictive variables that relate to the specific characteristics of each county's AFDC population, in addition to variables that relate to the entire county population.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Refinement of the model could provide a means to enhance the child support incentive payments for counties that perform above their predicted level. Refinements must increase the reliability of the model and decrease the statistical error in the estimates of the counties' recoupment rates.

BUDGET ISSUES

Increases in the AFDC Appropriation

We recommend that Budget Bill language be adopted requiring the Director of the Department of Finance to notify the fiscal committees at least 30 days before increasing the amount appropriated for AFDC.

The Welfare and Institutions Code provides a continuous appropriation to finance cash grants to AFDC families. Chapter 1284, Statutes of 1978, sunsets the continuous appropriation for the AFDC program starting in 1983–84.

In the past few years, this continuing appropriation has been superseded by an in lieu appropriation established in the Budget Act. Nevertheless, other provisions of the act authorized the administration to increase the amount of this appropriation to meet expected program costs, provided the Director of the Department of Finance informed the Legislature of the increase.

The 1983 Budget Bill contains a similar provision which, in effect, removes the limit on the AFDC appropriation established by Item 5180-101-001. Under this provision, however, the expenditure limit could be increased without prior review by the Legislature of either the necessity for the increase or the availability of funds to pay for the increase. To rectify this problem, we recommend the adoption of the following budget bill language which would provide for legislative review of proposed increases in the appropriation for the AFDC program:

> "If the Director of the Department of Finance determines that the estimate of expenditures will exceed the expenditures authorized for program 10.04, Payments for Children, the Director shall so report to the chairperson of the committee in each house which considers appropriations and the chairperson of the Joint Legislative budget committee. The Director shall not increase the amount of the limitation until 30 days after written notification to the same chairpersons of the necessity for the increase and the availability of funds."

Unallowable Group Home Costs

We recommend a General Fund reduction of $1,100,000 from the amount budgeted for "unallowable" federal costs in the foster care program because it has not been established that the General Fund's share of program costs will actually increase.

Background. The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) created Title IV-E of the federal Social Security Act which provides federal funds for foster care beginning October 1, 1982. Title IV-E, however, limits federal funds for children in group homes to specified "allowable costs." Among the *unallowable* costs are expenditures for counseling, therapy, and psychological and educational testing provided by social workers employed by group homes. Chapter 977, Statutes of 1982 (AB 2695), provides that the state will continue to share in these unallowable costs to the extent that funds are available.

The budget proposes a General Fund increase of $1,100,000 to cover these unallowable costs.

Our analysis indicates that the department has failed to demonstrate that the requested funds are needed. Specifically, we find that the department's request fails to take into account two factors which would decrease or even eliminate the need for additional General Fund support for children in group homes.

Estimate Is Based on Group Home Staff Hours. The department's estimate is based on a survey of group home operators which revealed that 10 percent of all group home staff time is devoted to counseling, therapy and psychological and educational testing. Based on the percentage of *staff time* devoted to unallowable cost activities, the department estimates that 10 percent of the *rate paid* to group homes for federally eligible children is unallowable. This method of estimating costs, however, overlooks the fact that a substantial portion of a group home's rate is attributable to non-staff-related costs such as supplies, food, and rent which are allowable under Title IV-E. Thus, the department overestimates the percent of the rates paid to group homes which would not be allowable for federal funding under Title IV-E.

According to the California Association of Services for Children (CSS), a private organization which represents approximately 60 group homes throughout the state, 30 to 40 percent of its members' costs are non-staff-related. By applying the percent of staff time which is devoted to unallowable cost activities to the entire group home rate rather than to the 60 to 70 percent of the rate which represents staff costs, the department overestimates the amount of the rate which is attributable to unallowable costs.

Estimate Does Not Account for Costs Not Included in the Rates Paid to Group Homes. The department's estimate also overlooks the fact that the *total costs* of many group homes exceed the rate at which the homes have been reimbursed from government sources. The CSS estimates that 25 percent of their costs of care are funded from a variety of charitable sources and are not reflected in the rate paid by any governmental entity. To the extent that a group home subsidizes a substantial share of the costs of the care it provides, it may be able to use a portion of the subsidized costs to offset the reduction to its rate attributable to unallowable social worker costs. The department's estimate does not account for this possibility.

For these reasons, we conclude that the budget has failed to clearly establish that the unallowable cost rule will result in increased General Fund costs. We therefore recommend a General Fund reduction of $1,100,000 to eliminate the proposed increase.

Reporting Requirements Inadequate to Capture All Available Federal Funds

We recommend that the department issue an all-county letter requiring the counties to document the total costs of any group home providing foster care to federally eligible children. We further recommend that the department report to the fiscal committees during budget hearings on the counties' progress in complying with this requirement.

The department notified counties of the unallowable cost rule (discussed above) through an all-county letter dated October 4, 1982. In that letter, the department informed counties that they would be required to collect information reflecting the components of the *rates* paid to each group home. The letter, however, does not require the counties to collect

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

information on the total costs of care provided by group homes.

As we noted in the preceding section the state may be able to avoid additional General Fund costs resulting from implementation of the federal unallowable cost rule to the extent that sufficient privately subsidized costs (that *are* allowable for federal reimbursement) can be used as an offset to the unallowable costs now covered by the government reimbursement rate. Such an offset, however, could only occur if the total costs of group homes, including the portion of the costs which are not covered by the rate, are documented. Until this documentation is obtained, the General Fund will have to pay for any unallowable costs included in each facility's rate, as determined by the counties' response to the all-county letter.

To obtain the information needed to minimize state costs, we recommend that the department issue an all-county letter requiring the counties to document the total costs of any group home providing foster care to federally eligible children. We further recommend that the department report to the fiscal committees during budget hearings on the counties' progress in complying with this requirement.

Current Year Estimate of Unallowable Costs Is Not Justified.

We recommend a General Fund reduction of $1,650,000 to reflect the anticipated increase in the amount of federal foster care funds available to the state.

The department's estimate of General Fund spending for unallowable costs during 1982–83 is based on the same method used to estimate these costs for 1983–84. The department estimates that the unallowable cost rule will result in General Fund costs of $1,650,000 in 1982–83. As we have shown above, the state may be able to avoid these costs to the extent that privately subsidized costs can be used to offset unallowable costs included in a group home's rate.

For 1982–83, the department will submit claims to the federal government based on the information collected by counties pursuant to the all-county letter dated October 4, 1982. Assuming that the new all-county letter which we recommend be issued produces the documentation needed to claim higher federal reimbursements for 1982–83, as we expect that it will, the state should receive during the budget year an additional $1.65 million in federal reimbursement for General Fund costs incurred during 1982–83.

We therefore recommend that these increased federal funds be budgeted under the AFDC federal fund item, and that the General Fund budget for foster care for 1983–84 be reduced by $1,650,000 to reflect the anticipated increase in federal foster care funds.

Audit Recoveries Underbudgeted

We recommend a General Fund reduction of $940,000 to reflect a more realistic estimate of group home audit recoveries.

Chapter 977, Statutes of 1982 (AB 2695), requires the department to conduct audits of all foster care group homes at least once every three years. The budget anticipates that these audits will result in the recovery of overpayments to group homes totaling $598,000 in 1983–84. These recoveries will be shared by the Federal ($117,000), State ($457,000) and County ($24,000) governments. The total cost of conducting these audits is estimated at $914,000 ($457,000 General Fund and $457,000 in federal funds).

Budget Estimate of Recoveries is Arbitrary. The department's method of estimating audit recoveries is arbitrary. It simply assumes that recoveries will be equal to the General Fund cost of conducting these audits. Since the General Fund cost of the audits is $457,000, the department assumes that General Fund recoveries will be $457,000.

Estimate of Recoveries Should Be Based on Actual Experience. The estimate of audit recoveries should be based on actual experience with similar audit programs, instead of being based simply on the General Fund cost of the audit program. The department currently audits payments to In-Home Support Services (IHSS) providers and refugee social services providers. Table 13 displays the costs and recoveries experienced in these audit programs during 1981–82. The table shows that the recovery-to-cost ratio was $1.74 in recoveries for every $1.00 in costs for IHSS audits and $3.68 in recoveries for every $1.00 in audit costs for Refugee Social Services.

Table 13
Audit Costs and Recoveries
IHSS and Refugee Social Service Providers
1981–82

Audit Program	*Costs*	*Recoveries*	*Recovery to Cost Ratio*
IHSS Providers	$70,108	$121,714	1.74:1
Refugee Social Services Providers	169,456	623,247	3.68:1
Totals	$239,564	$744,961	3.11:1

In the budget change proposal submitted as justification for the positions requested to conduct the group home audit program, the department stated that it expected a recovery to cost ratio of two-to-one.

Based on the department's estimate of audit recoveries for group homes, and on the department's experience in auditing IHSS and refugee contracts, we recommend that audit recoveries be budgeted based on a two-to-one recovery ratio. Because total costs are estimated at $914,000, a two-to-one recovery ratio would result in total recoveries of $1,828,000, of which $1,397,000, or 76 percent, would accrue to the General Fund. This is $940,000 more than the recoveries proposed in the budget. We therefore recommend a General Fund reduction of $940,000 to reflect a more realistic estimate of audit recoveries.

Department of Social Services

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

Items 5180-111 from the General Fund and Social Welfare Federal Fund — Budget p. HW 143

Requested 1983–84	$1,021,772,000 [a]
Estimated 1982–83	1,104,161,000
Actual 1981–82	1,220,333,000
Requested decrease $82,389,000 (−7.5 percent)	
Total recommended reduction	12,187,000
Recommendation pending	$937,318,000

[a] This amount includes $72,267,000 proposed in Item 5180-181-001 (a) for cost-of-living increases.

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-111-001	—Payments to Aged, Blind, and Disabled	General	$949,505,000
5180-111-866	—Payments to Aged, Blind, and Disabled—Refugees	Federal	(12,121,000)
5180-181-001 (a)	—Payments to Aged, Blind, and Disabled COLA	General	72,267,000
5180-181-866 (a)	—Payment to Aged, Blind, and Disabled COLA—Refugees	Federal	(305,000)
Total			$1,021,772,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Transfer Cost-of-Living Funds. Recommend that $72,267,000 proposed for cost-of-living increases for SSI/SSP recipients, be used instead to provide cost-of-living adjustments for AFDC recipients, because AFDC grants are significantly below the poverty level as compared to SSI/SSP grants. 1114
2. Caseload Projections. Withhold recommendation on $937,318,000 for projected caseload, pending receipt of the May revision of expenditures, because actual caseload data shows a continuing decline in the number of persons receiving SSI/SSP. 1118
3. ***Elimination of Medi-Cal Special Income Deduction. Reduce by $6,387,000.*** Recommend reduction of funds requested for additional caseload expected to result from Ch 328/82 (AB 799) in order to reflect actual caseload, for a General Fund savings of $6,387,000. 1120
4. ***Federal Fiscal Liability (FFL) and Uncashed State Checks. Reduce by $5,800,000.*** Recommend General Fund reduction to reflect funds anticipated from the federal government for uncashed SSI/SSP checks and FFL for a General Fund reduction of $5,800,000. 1121
5. Linking FFL to State AFDC and Medi-Cal Error Rates. Rec- 1123

ommend adoption of Budget Bill language requiring the department to report to the fiscal committees before amending the SSI/SSP contract to limit FFL.

6. Refugees. Recommend adoption of Budget Bill language requiring that Refugee Resettlement Program (RRP) and Cuban/Haitian Entrant Program (CHEP) funds be advanced to the Social Security Administration only when sufficient federal funds exist to cover advances. 1125

GENERAL PROGRAM STATEMENT

The Supplemental Security Income/State Supplementary Payment (SSI/SSP) program provides cash assistance to eligible aged, blind, and disabled persons. Eligibility for the SSI/SSP program is determined on the basis of the income and resources available to each elderly, blind, or disabled applicant. The federal government pays the cost of the SSI grant. California has chosen to supplement the federal payment by providing an SSP grant. The SSP grant is funded entirely from the state's General Fund monies. In California, the SSI/SSP program is administered by the federal government through local Social Security Administration (SSA) offices. During the current year, an estimated 669,500 persons will receive assistance under this program.

ANALYSIS AND RECOMMENDATIONS

Current-Year Surplus

The budget estimates that General Fund expenditures for the SSI/SSP program will be $68,380,000 less than the amount budgeted in the current year, due to (1) lower-than-anticipated caseloads and (2) lower average monthly grant costs.

Lower Caseloads. The 1982 Budget Act assumed a recipient caseload averaging 687,925 persons per month. The department's most recent estimate of the 1982–83 monthly caseload is 669,500 persons, or 2.7 percent less than the caseload projected for the current year in the 1982 Budget Act.

Lower Average Grants. The 1982 Budget Act anticipated average monthly grant costs of $262 during 1982–83. The department's most recent estimate, however, is that the average monthly grant will be $250, or 4.6 percent, lower than originally anticipated. This decrease is attributable to higher-than-expected unearned income, which reduces the amount of the cash grant dollar-for-dollar. In addition, a new federal requirement to prorate a recipient's first month of benefits from the date of eligibility has resulted in lower monthly grant costs.

The estimate of the current-year expenditure shortfall is subject to change during the May revision of expenditures.

Budget Year Proposal

The budget proposes an appropriation of $1,021,772,000 from the General Fund for the state's share of the SSI/SSP program in 1983–84. This is a decrease of $82,389,000, or 7.5 percent, from estimated current-year expenditures. Federal expenditures of $924,041,000 are proposed for 1983–84, an increase of $16,078,000, or 1.8 percent, over estimated current-year expenditures.

Table 1 shows 1982–83 and 1983–84 total expenditures, by funding source, for each of the three categories of recipients. While the SSI/SSP program is often thought of as primarily supporting aged individuals, the disabled are in fact the largest category of recipients, accounting for 55

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

percent of the estimated average monthly caseload in 1983–84 and 64 percent of total grant costs.

Included within the amounts identified in Table 1 are SSI/SSP payments to refugees totaling $55.8 million in 1982–83, and $62.4 million in 1983–84. Of the latter amount, $12.2 million represents the state's share of aid to refugees who will no longer be eligible for 100 percent federal assistance in 1983–84. Funding for this aid comes from the General Fund. The level of General Fund expenditures for SSI/SSP payments to refugees in the budget year is $6.3 million, or 107 percent, above the 1982–83 level.

Table 1
Total Expenditures for SSI/SSP Program By Category of Recipient 1982–83 and 1983–84 (in millions)

Category of Recipient	Estimated 1982–83			Proposed 1983–84[a]			Percent Change		
	Total	Federal	State	Total	Federal	State	Total	Federal	State
Aged	$651.5	$235.6	$415.9	$600.1	$230.5	$369.6	−7.9%	−2.2%	−11.1%
Blind	65.4	26.7	38.7	64.9	27.4	37.5	−0.8	2.6	−3.1
Disabled	1,295.2	645.6	649.6	1,281.1	666.4	614.7	−1.1	3.2	−5.4
Refugees	(55.8)	(49.9)	(5.9)	(62.4)	(50.2)	(12.2)	(11.8)	(0.6)	(106.8)
Totals	$2,012.1	$907.9	$1,104.2	$1,946.1	$924.3	$1,021.8	−3.3%	1.8%	−7.5%

[a] Includes 2.1 percent COLA.

Proposed General Fund Expenditures

Table 2 identifies the components of the $82,389,000 net decrease in General Fund expenditures proposed for the SSP program in 1983–84. This amount reflects $154,656,000 in decreased expenditures, partially offset by $72,267,000 in increases. The increase of $72,267,000 is requested in order to provide a 2.1 percent COLA for SSI/SSP grants. The major decreases result from:

- an increase in federal funds available to support SSI/SSP grants ($72,267,000);
- anticipated increases in recipients' unearned income ($52,043,000), due primarily to increases in social security payments;
- a modification made by the federal government in retrospective budgeting requirements ($11,361,000); and
- a projected decrease in caseload ($14,237,000).

Eligibility

The Department of Social Services (DSS) estimates that approximately 666,054 individuals will receive cash assistance under the SSI/SSP program in 1983–84. These individuals fall into one of three categories: aged, blind, or disabled. In order to be eligible for the SSI/SSP program, individuals must meet certain income and resource criteria in addition to meeting the categorical requirements for eligibility. Table 3 summarizes the eligibility requirements for the SSI/SSP program.

Table 2

Proposed General Fund Budget Changes 1983–84
(in thousands)

	Amount	*Total*
1982–83 Current Year Revised		$1,104,161
A. Baseline Adjustments		
1. Basic caseload decrease	–$14,237	
2. Cost-of-living increase (2.1 percent)		
a. Federal funds available for cost of living	–72,267	
b. Total General Fund cost	72,267	
3. Reduced grant costs due to increased recipient unearned income		
a. 1981–82 increased adjusted for caseload	1,057	
b. 1982–83 increase	–53,100	
Subtotal	–$52,043	
B. Program Changes		
1. Retrospective budgeting	–$11,361	
2. Eliminate Medi-Cal income deduction	–3,014	
3. Proration of first month benefits	–1,463	
4. Other	–271	
Total Budget Changes		–$82,389
Proposed General Fund Expenditures		$1,021,772

Table 3

Basic Eligibility Requirements
For the SSI/SSP Program

I. Categorical Requirements	
Category	*Criteria*
1. Aged	a. 65 years of age or older.
2. Blind	a. Vision correctable to no better than 20/200 in the better eye.
	b. Diagnosis by physician or optometrist.
3. Disabled	a. Mental or physical impairment which precludes "substantial gainful employment."

II. Income and Resource Limits	
Type	*Limit*
1. Real Property/Home	Entire value exempt.
2. Personal Property	$1,500 for individual, $2,250 for couple.
3. Household Goods/Personal Effects	$2,000 equity value.
4. Motor Vehicle	$4,500 market value.
5. Gross Income Limit	None.
6. General Income Exclusion	$20/month general exclusion.
7. Earned Income Exclusion	
a. All categories	a. First $65/month of earned income plus one-half of remaining earned income.
b. Blind and Disabled	b. Any income used towards gaining self-sufficiency.
8. Net Income Limit	Maximum SSI/SSP grant (see Table 4).

Caseload Trends

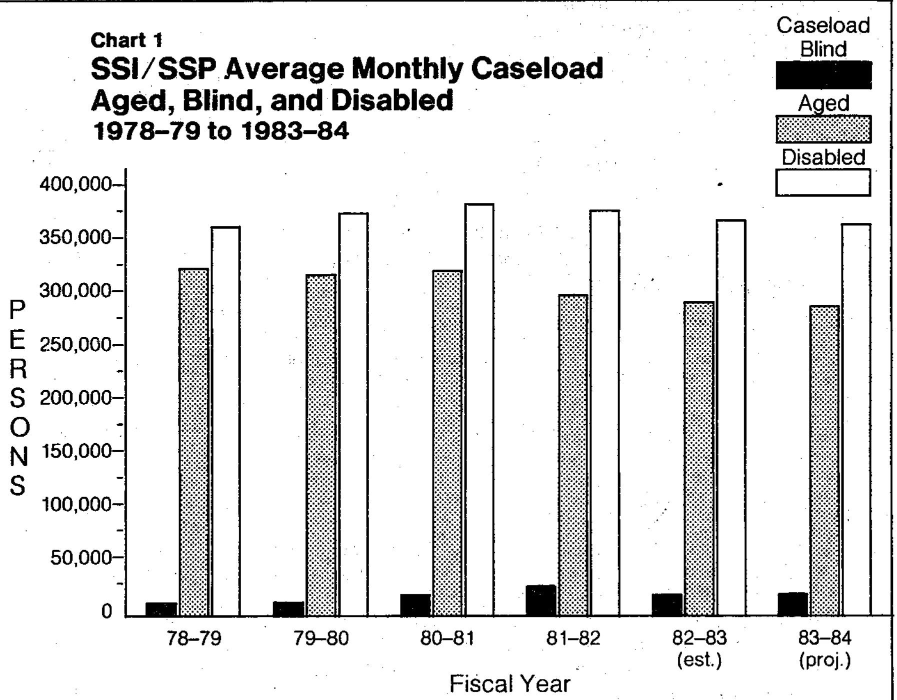
The Department of Social Services projects that an average of 666,054 persons will receive assistance under the SSI/SSP program each month in 1983–84. This is 3,446 persons, or 0.5 percent, less than the monthly caseload estimated for 1982–83. This decline in caseload is indicative of a trend evidenced since 1980–81, when the average monthly caseload reached 709,574. In that year, both the aged and disabled caseloads began to de-

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

cline. The blind caseload, which accounts for less than 3 percent of the total, peaked a year later in 1981–82.

Chart 1 illustrates the caseload trend for the SSI/SSP program from 1978–79 to 1983–84. While the numbers of recipients in all categories currently are declining, the disabled category is declining at the slowest rate. As a result, disabled persons as a proportion of the total caseload continues to grow. In 1978–79, individuals receiving SSI/SSP grants due to disability accounted for 52 percent of the total caseload. The department estimates that in the current and budget years, disabled recipients will account for approximately 55 percent of the SSI/SSP monthly caseload. In contrast, the aged caseload has declined from 46 percent of the total caseload in 1978–79 to 43 percent in 1983–84.

Chart 1
SSI/SSP Average Monthly Caseload Aged, Blind, and Disabled 1978-79 to 1983-84



Cost-of-Living Increase

State Law Requires 6.8 Percent COLA. Current state law requires that the 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. The Department of Finance (DOF) estimates that the CNI increased by 6.8 percent during this 12-month period. (This estimate is subject to change as part of the May revision of expenditures.)

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 (COLA) is provided. Thus, a portion of the total increase to the combined SSI/SSP payment is supported by increased federal funds. The DOF estimates that the CPI will increase by 5.3 percent between the period January–March 1982 to January–March 1983. (This estimate also is subject to change during the May revision of expenditures.)

Budget Proposes a 2.1 Percent COLA. The budget assumes that legislation will be enacted which suspends the statutory requirement to provide a cost-of-living increase based on the change in the CNI. Under provisions of the budget companion bill, the amount of any COLAs for SSI/SSP recipients would be determined as part of the annual budget process, subject to the availability of funds.

The budget proposes a 2.1 percent increase in the maximum payment levels for SSI/SSP recipients in 1983–84 at a cost of $72.3 million to the General Fund. The cost to the General Fund of the adjustments would be matched by an increase in federal funds totaling $72,267,000. The federal funds are estimated to be made available to provide a 5.3 percent COLA to the SSI portion of the grant. The actual amount of federal funds to be provided will depend on the change in the CPI between January–March 1982 and January–March 1983.

The federal government does not require that the additional funds which it provides to California be passed through to SSI/SSP recipients. The state could use the funds:

1. To provide a COLA on the total SSI/SSP grant, as proposed by the administration;
2. To replace General Fund support for the SSP program; or
3. For any other purpose.

Table 4
Maximum Monthly SSI/SSP Grant Levels
1982–83 and 1983–84

		Administration Proposal 2.1 Percent		Current Law 6.8 Percent	
Category of Recipient	*1982–83*	*Amount*	*Change*	*Amount*	*Change*
Aged/Disabled Individual					
Total Grant	$451.00	$460.00	$9.00	$482.00	$31.00
SSI	284.30	299.00	14.70	299.00	14.70
SSP	166.70	161.00	−5.70	183.00	16.30
Aged/Disabled Couple					
Total Grant	838.00	856.00	18.00	895.00	57.00
SSI	426.40	449.00	22.60	449.00	22.60
SSP	411.60	407.00	−4.60	446.00	34.40
Blind Individual					
Total Grant	506.00	517.00	11.00	540.00	34.00
SSI	284.30	299.00	14.70	299.00	14.70
SSP	221.70	218.00	−3.70	241.00	19.30
Blind Couple					
Total Grant	985.00	1,006.00	21.00	1,052.00	67.00
SSI	426.40	449.00	22.60	449.00	22.60
SSP	558.60	557.00	−1.60	603.00	44.40

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

Maximum Payment Levels. Table 4 compares the maximum SSI/SSP payment levels for selected categories of recipients in independent living arrangements assuming that recipients are granted (1) a 2.1 percent COLA, as proposed by the administration and (2) a 6.8 percent increase, as required by current law. Under existing law, the maximum grant for an aged individual would increase by $31 to $482 in 1983–84. Under the administration's proposal, the grant for an aged individual will increase by $9 to $460.

Fiscal Effect of COLA. Table 5 shows the cost of providing either a 2.1 percent or a 6.8 percent COLA to SSI/SSP maximum payment levels in 1983–84, assuming that the federal SSI increase will be 5.3 percent. As shown by Table 5, the federal government is expected to provide a 5.3 percent increase to SSI payments. This increased federal assistance is equal to the General Fund cost of providing a 2.1 percent increase to the combined SSI/SSP grant level. To fund the statutory cost-of-living increase of 6.8 percent would cost the General Fund $231,529,000, or an additional $159,262,000 over the amount proposed in the budget.

Table 5

Fiscal Effect of Proposed Cost-of-Living Adjustments In SSI/SSP Maximum Payment Levels 1983–84

	General Fund	*Federal Funds*	*Totals*
Base	$1,021,772,000	$851,774,000	$1,873,546,000
Cost-of-living adjustments			
Increased federal funds to provide a 5.3 percent CPI increase	—	72,267,000	72,267,000
Savings to the state	−72,267,000	—	−72,267,000
Subtotals	$949,505,000	$924,041,000	$1,873,546,000
Cost of 2.1 percent COLA	$72,267,000	—	$72,267,000
Cost of 6.8 percent COLA	$231,529,000	—	$231,529,000
Totals:			
Assuming 2.1 percent COLA	$1,021,772,000	$924,041,000	$1,945,813,000
Assuming 6.8 percent COLA	$1,181,034,000	$924,041,000	$2,105,075,000

Consequences of Limiting COLAs. In order to receive federal Title XIX Medicaid funds (Medi-Cal), California must either (1) maintain prior-year spending levels for the SSP program or (2) maintain the December 1976 SSP payment standards for all categories of eligible individuals. Under the administration's proposal, the state will fail to meet the prior year spending test, because the budget proposes to spend $82.4 million less in 1983–84 than was spent for the SSP program in 1982–83. Thus, in order to avoid the loss of federal Title XIX funds, the state will have to provide cost-of-living increases to the Mandatory State Supplementation Payment (MSSP) cases in order to bring their grants up to the December 1976 levels. The cost of these increases is estimated at $350,000 in 1983–84, and the budget contains sufficient funds for this purpose.

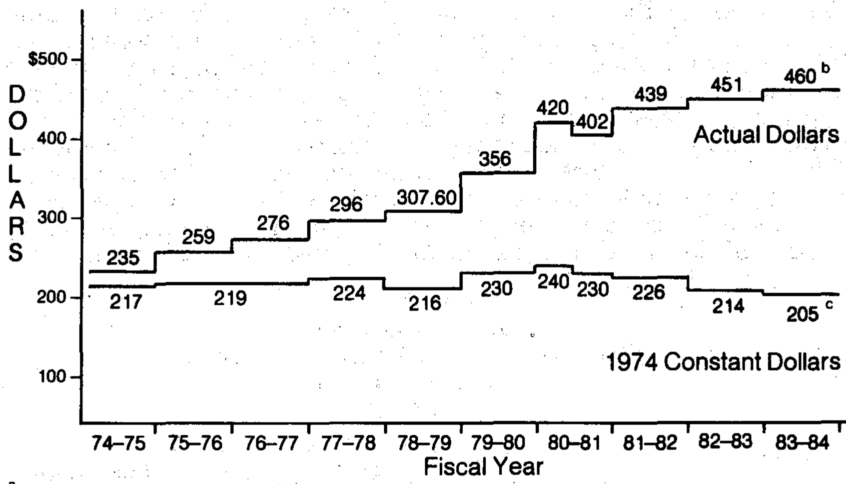
It is *possible* that other groups would fall below the applicable 1976 payment standards. The DSS informs us that it does not have a reliable estimate of the number of individuals that would be in this category if the state does not pass through the additional federal funds. Costs for raising the payment standards for these individuals, however, would not be incurred until 1984–85.

Previous Increases to SSI/SSP Grants. Chart 2 shows the increases in the SSI/SSP grant since January 1974, and the value of the grant in "real"

1974 dollars—that is, the amount of the grant adjusted to reflect the impact of inflation on purchasing power, as measured by the CNI. The chart shows that, in 1982–83, the "real" value of the grant to an aged or disabled individual was $214 compared to a "real" grant value in 1973–74 of $235. If a 2.1 percent COLA is granted to SSI/SSP recipients, as the budget proposes, the "real" grant level will fall to $205 in 1983–84, 12.8 percent less than the actual grant amount in 1973–74.

Chart 2

SSI/SSP Maximum Grant Level for an Aged or Disabled Individual
Actual and Constant Dollar Value [a]



[a] Aid payments were adjusted for inflation measured by the California Necessities Index in the preceding calendar year. This simulates the current statutory adjustment.
[b] 1983–84 maximum grant level as proposed by the Governor's Budget.
[c] Adjustment for inflation based on the estimated 6.8 percent CNI increase.

Table 6
State Comparison [a]
Maximum Monthly SSI/SSP Grant Levels
Ten Largest States
July 1, 1982

State	*Aged or Disabled Individual* Total Grant [b]	*Aged or Disabled Individual* State SSP	*Blind Individual* Total Grant [b]	*Blind Individual* State SSP
California	$451.00	$166.70	$506.00	$221.70
New York [c]	347.51	63.21	347.51	63.21
Texas	284.30	—	284.30	—
Pennsylvania	316.70	32.40	316.70	32.40
Illinois [cd]	284.30	—	284.30	—
Ohio [d]	284.30	—	284.30	—
Michigan [c]	308.60	24.30	308.60	24.30
Florida	335.00	50.70	335.00	50.30
New Jersey	309.00	24.70	309.00	24.70
Massachusetts	421.52	137.22	442.44	158.14

[a] In descending order by state population.
[b] Includes federal SSI grant of $284.30 for all states.
[c] Grant levels vary by region within the state.
[d] State supplementary programs do not provide grants to individuals living in their own homes.

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 SSP program. Table 6 shows the SSI/SSP benefits provided to an aged or disabled individual and to a blind individual by the 10 most populous states, as of July 1, 1982. Of the 10 states, 7 chose to supplement the basic grant. California provided the largest grants to both categories of individuals: $451 to the aged and $506 to the blind. Compared to the grants provided by Massachusetts, the state with the next largest supplement, California's grants to the aged and blind are 7 percent and 14 percent higher, respectively.

Table 7 shows the maximum SSI/SSP grant levels for aged or disabled couples and blind couples as of July 1, 1982. Of the 10 most populous states, California again provided the largest supplemental payments to all couples. Florida provided the next highest payment to aged and disabled couples, while Massachusetts provided the next highest payments to blind couples. The grant provided to aged and disabled couples in California was $838, or 25 percent more than the grant provided by Florida. California's grant to blind couples exceeds the Massachusetts grant by 11 percent. The other seven states making supplemental payments provided less than $600 in total SSI/SSP funds per month for the aged and disabled couples.

Table 7
State Comparison
Maximum Monthly SSI/SSP Grant Levels
Ten Largest States
July 1, 1982

	Aged or Disabled Couple		*Blind Couple*	
State	*Total Grant*[a]	*State SSP*	*Total Grant*[a]	*State SSP*
California	$838.00	$411.60	$985.00	$558.60
New York	505.88	79.48	505.88	79.48
Texas	426.40	—	426.40	—
Pennsylvania	475.10	48.70	475.10	48.70
Illinois	426.40	—	426.40	—
Ohio	426.40	—	426.40	—
Michigan	462.80	36.40	462.80	36.40
Florida	670.00	243.60	670.00	243.60
New Jersey	446.00	19.60	446.00	19.60
Massachusetts	640.72	214.32	884.88	458.48

[a] Includes federal SSI grant of $426.40 for all states.

Transfer Cost-of-Living Funds from SSI/SSP to AFDC Recipients

We recommend that $72,267,000 in General Fund support for cost-of-living increases budgeted in Item 5180-181-001(a) for SSI/SSP recipients (Item 5180-111-001) be transferred to Item 5180-101-001 and used instead to provide increases for AFDC recipients, because the latter have a significantly lower standard-of-living than the former.

The budget proposes no cost-of-living adjustment for AFDC recipients, and a 2.1 percent COLA for SSI/SSP recipients, at a General Fund cost of $72,267,000. Our analysis indicates that the Legislature's objective of allowing needy persons to achieve at least a minimum standard-of-living can be achieved more effectively if the $72.3 million is used instead to provide a COLA for AFDC recipients. This is because AFDC grants are significantly below the poverty level, while SSI/SSP grants are above (in some cases, considerably above) the poverty level.

AFDC maximum grants have been below the poverty level since the welfare reform measures of 1971 were enacted. In 1982–83, AFDC maximum grants were equal to about 77 percent of the poverty level income. At the same time, SSI/SSP grants exceeded the poverty level incomes by 8 percent for aged and disabled individuals and by 53 percent for aged and disabled couples. SSI/SSP grants have received partial or full cost-of-living increases every year since 1974. In contrast, AFDC grants have remained unchanged since July 1981.

We recommend that funds proposed for cost-of-living increases under the SSI/SSP program instead be transferred to the AFDC program, so as to prevent a further widening of the disparity between AFDC and SSI/SSP grant levels. This recommendation is discussed in greater detail under Item 5180-181-001.

To be consistent with this recommendation, we make related recommendations in our analyses of two other budgets. In the Department of Developmental Services (Item 4300), we recommend a General Fund augmentation of $1.5 million to replace lost SSI/SSP reimbursements. In Medi-Cal (Item 4260), increased General Fund costs of $7.2 million would be offset partially or wholly by savings. Therefore, we recommend that the department submit estimates of the net effect of our AFDC and SSI/SSP COLA recommendations on Medi-Cal costs.

BENEFITS AVAILABLE TO SSI/SSP RECIPIENTS

In addition to the monthly cash grant, SSI/SSP recipients may qualify for and receive a variety of other benefits from 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 accepted into the program.

This section discusses six major benefits available to SSI/SSP recipients in addition to their monthly cash grants. The discussion focuses on the benefits as they were in 1981–82, the latest year for which data is available on actual utilization.

It should be noted that, in addition to the benefits discussed in this section:

1. SSI/SSP recipients are eligible for adult social services from county welfare departments;
2. Some SSI/SSP recipients (more than 31,000 in 1981–82) reside in households which also receive cash assistance through AFDC; and
3. About 4,700 applicants eligible for SSI/SSP received interim assistance grants averaging $1,279.26 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

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

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 the survivors of insured workers. It also provides health insurance benefits for persons age 65 and over and for the disabled under age 65. According to statistics compiled by the federal Social Security Administration, 397,112 SSI/SSP recipients also received RSDHI payments averaging $283 per month during 1981–82. The 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. The 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 individuals whose medical costs exceed their ability to pay. All SSI/SSP recipients are eligible for Medi-Cal health care. During 1981–82, 476,180 individuals, or 69 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, 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 1981–82 was $188. In addition to regular Medi-Cal benefits, some SSI/SSP recipients received Long-Term Care (LTC) benefits. The LTC payments are made to skilled nursing facilities and intermediate care facilities to cover the cost of board and care of beneficiaries. Because Medi-Cal covers the cost of room and board, SSI/SSP recipients receive only an SSI/SSP personal and incidental needs allowance of $25.

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. The SSI/SSP recipients are eligible for this service. Other individuals may be eligible for IHSS if they meet all SSI/SSP eligibility criteria but have excess income. Monthly payments are made to providers on behalf of IHSS recipients. The authorized payment level 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 ($838 in 1981–82) than other IHSS recipients ($581 in 1981–82). During 1981–82, 93,459 SSI/SSP recipients received IHSS services.

Low-Income Energy Assistance. During 1981–82, $76 million was made available in California to provide cash assistance to low-income households to help them pay the cost of the energy they used. Categorical public assistance recipients, such as SSI/SSP recipients, are automatically eligible for this assistance, which is not considered in calculating the amount of the SSI/SSP cash grant. During 1981–82, approximately 267,053 SSI/SSP recipients received a cash grant under this program. The average annual benefit provided under the Home Energy Assistance Program in 1981–82 was $110. An undetermined number of SSI/SSP recipients also received (1) up to $300 in emergency help in paying energy bills and (2) grants of up to $1,000 to weatherproof their homes.

Housing Programs. Several housing assistance programs are available to low- and moderate-income households. These households may receive (1) subsidized shelter as tenants in public housing complexes owned and operated by local public housing authorities or (2) 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 1981–82, approximately 9,834 SSI/SSP recipients resided in public housing and an additional 144,784 SSI/SSP individuals received rental assistance.

Senior Nutrition Programs. The Department of Aging administers community-based programs providing meals to the elderly either at group sites or in the recipient's home. All individuals age 60 or older are eligible. All aged individuals receiving SSI/SSP grants are therefore eligible to receive this service. Access to these nutrition programs is limited, however, because (1) the programs are small, serving only a small portion of the potential clients and (2) there are regional variations in the availability of the services. Approximately 419,000 individuals, or 12.3 percent of the population aged 60 years or older received meals at 821 sites in California in 1981–82. Another 1.9 percent of the eligible population were served meals in their homes. Because of the open-door policy of these centers, which require no affiliation with other state programs, it is not possible to quantify the benefit to SSI/SSP recipients.

Calculation of Average Benefits. Table 8 shows the average value of benefits received by SSI/SSP eligible individuals in 1981–82. The averages are calculated in two ways. The "Average Cash Value of Benefits Received" shows the average benefit value per individual receiving the particular benefit. For example, in the case of those SSI/SSP participants who received social security payments, the average value of the payment per recipient was $283. The "Value of Benefits Averaged Over All SSI/SSP Recipients" gives the average benefit value for *all* individuals in the SSI/SSP program, including both those who did not receive the particular benefit as well as those who did. As a result, this measure of benefits received per SSI/SSP individual is less than the average benefit received per participating individual.

Difficulties in Calculating Benefits Received by SSI/SSP Eligibles. The average benefit value provides the best available picture of the total benefits received by SSI/SSP individuals. Like all averages, however, it conceals differences among individual recipients. In using the information contained in Table 8, it should be kept in mind that:

- Not all SSI/SSP recipients are eligible for all benefits. Some benefits are contingent upon health or degree of physical impairment.
- The availability of some benefits is limited. Some programs are geographically limited. In other cases, the ability of SSI/SSP recipients to travel to the site where services are provided is limited. In yet other cases, some individuals may not be aware that a particular benefit is available.
- Some SSI/SSP recipients may choose not to receive some benefits. They may use alternative resources, such as family, friends, the church and other nonprofit service providers, or they may choose to fend for themselves in an effort to gain or maintain independence.

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

- The average number of persons receiving a benefit, as shown in the table, understates the number of persons who use the program over the course of a year. Because some recipients are enrolled for only part of the year, the program provides aid to more individuals in the state than the monthly average figure would imply.

Table 8

Monthly Benefits Available to SSI/SSP Recipients[a]

1981–82

Benefit	*Recipients Using Benefit*	*Percent of Total SSI/SSP Caseload*[b]	*Average Cash Value of Benefit Received*	*Value of Benefit Averaged Over All SSI/SSP Recipients*	*Value of Benefit Averaged Over all SSI/SSP Couples*
SSI/SSP cash grant	692,700	100.0%	$252.64	$252.64	$404.10
Social security payments (RSDHI)	397,112	57.3	283.13	162.23	415.92
Medi-Cal health care[c]	476,180	68.7	188.18	129.28	258.56
Long-term care	67,360	9.7	757.51	73.48	—[g]
In-home supportive services, domestic and personal care assistance	93,459	13.5	213.85	28.87	28.87[h]
Public housing[e]	9,834	1.4	68.90	0.96	0.96[i]
Rental subsidies[ef]	144,784	20.9	57.24	11.96	11.96[i]
Average Total Monthly Benefits	—	—	—	$659.42	$1,120.37
Average Total Annual Benefits	—	—	—	$7,913.04	$1,344.44
LIHEAP[d]	267,053	38.6	$110.0	$42.46	$42.46[i]
Average Total Annual Benefits w/ LIHEAP	—	—	—	$7,955.50	$13,486.90

[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 and the Social Security Administration.

[b] The percentage figures do not add to 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 $791 (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.

[g] Couples classified as two individuals for LTC.

[h] No data available. Assumes same level of benefit as for individual living alone.

[i] Benefit is calculated on basis of household, regardless of size.

The Importance of the SSI/SSP Grant. Table 8 shows the importance of the basic SSI/SSP grant in maintaining the income of recipients. The grant accounts for 38 percent of the average cash subsidy to individuals. Social security benefits account for 25 percent of the benefits available to SSI/SSP recipients.

SSI/SSP Caseload Projections

We withhold recommendation on $937,318,000 requested to fund caseload levels in 1983–84, pending the May revision of caseload estimates.

The budget projects that the average number of persons receiving assistance through the SSI/SSP program each month during 1983–84 will decrease by 3,446 or 0.5 percent, from the 1982–83 level. This decrease is expected to reduce expenditures under the program by $22,187,000 in 1983–84, of which $7,950,000 represents federal funds and $14,237,000 will be saved by the General Fund. Table 9 shows the caseload projections for 1983–84, by category of recipient.

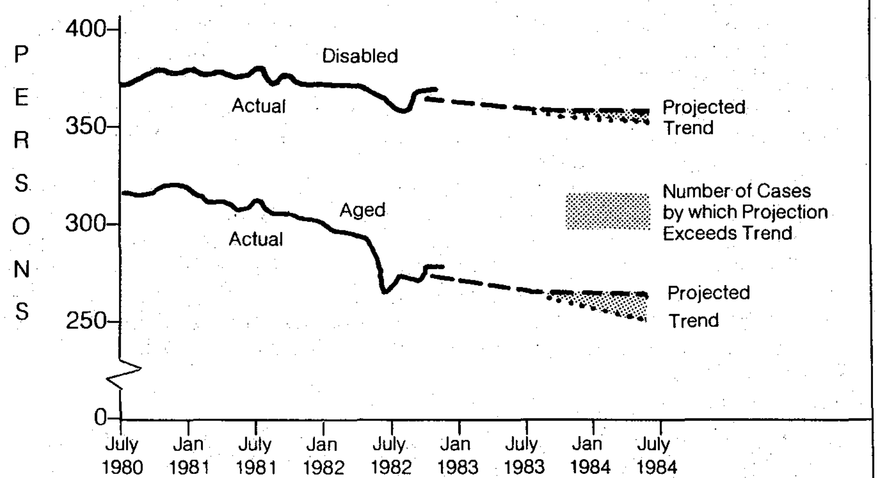
Table 9
SSI/SSP Average Number of Persons Receiving Assistance Per Month
1982–83 and 1983–84

Category of Recipient	*Estimated 1982–83*	*Projected 1983–84*	*Change* Persons	Percent
Aged	285,933	283,300	−2,633	−0.9%
Blind	17,571	17,354	−217	−1.2
Disabled	365,996	365,400	−596	−0.2%
Totals	669,500	666,054	−3,446	−0.5%

Budget Ignores Caseload Trend. The Department of Social Services (DSS) projects that the number of aged and disabled persons qualifying for assistance under the SSI/SSP program will continue to decline during the current year. Actual caseload data shows that the decline in the aged caseload started in January 1981, and the decline in the disabled caseload started in July 1981.

The department estimates that the SSI/SSP caseload will continue to decline through June 1983 at which time it will level off and remain relatively constant during 1983–84. The basis for the department's projection of a relatively stable caseload after June 1983 is its assumption that downward trends in caseload cannot continue indefinitely.

Chart 3
SSI/SSP Caseload
Comparison of Actual and Projected Caseloads
July 1980 to July 1984
(in thousands)



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

Chart 3 indicates that the department's assumption may result in caseload being overestimated for the budget year. It compares the caseload projection included in the budget with what caseload would be if recent trends continue. As the chart indicates, the department's projection of the aged caseload exceeds the projection based on recent trends by an average of 9,400 cases per month. The department's estimate of the disabled caseload is 3,725 monthly cases more than the trend-based population. If actual caseload trends observed between June and November 1982 continue throughout 1983–84, the General Fund requirement for the SSI/SSP program will be considerably lower than the department has projected.

Caseload Estimates Will Be Revised. DSS advises that caseload estimates for all categories of eligibles will be revised as part of the May revision of expenditures. Accordingly, we withhold recommendation on $937,318,000 requested from the General Fund to support the SSI/SSP caseload, pending the May revision of expenditures.

We recommend that funds proposed to support the increased caseload anticipated as a result of Ch 328/82 (AB 799) be reduced to reflect actual caseload experience to date, for a General Fund savings of $6,387,000.

Background. Chapter 328, Statutes of 1982 (AB 799), eliminates the special income deduction for aged, blind, and disabled persons receiving Medi-Cal services under the Medically Needy (MN) program. The special income deduction allowed aged, blind, and disabled persons who were eligible, but not receiving SSI/SSP, to receive medical services under the Medi-Cal program at no cost or at a reduced share of cost. With the elimination of the special income deduction, some of these individuals will now be found to have excessive income, and will lose their "no-share-of-cost" status under the Medi-Cal program. Because these individuals are, by definition, eligible for the SSI/SSP program, they could retain their "no-share-of-cost" status by applying for and receiving SSI/SSP benefits. (SSI/SSP recipients do not pay a share of costs for Medi-Cal benefits.)

Estimates of Increased Caseload. DSS estimates that 26,000 individuals will apply for and receive SSI/SSP as a result of the elimination of the special income deduction by Chapter 328. The budget requests a total of $7,984,000 from the General Fund to finance grants to these individuals. The estimate assumes that:

- *All* individuals eligible for SSI/SSP and who previously received the Medi-Cal special income deduction, will apply for the SSI/SSP program on October 1, 1982;
- The General Fund will have to fund 100 percent of the grants to these individuals. This is based on the department's belief that most of the individuals who chose not to apply for SSI/SSP grants in the past are eligible for relatively small grant payments because they have relatively large amounts of other income. Because other income is deducted first from the federal SSI grant, this would mean that the costs of the grants to these persons would be supported entirely by the General Fund.
- The average cost per case each month would be $47.

Analysis. Based on actual caseload data for September through November 1982, we believe DSS has significantly overestimated the impact of Ch 328/82 on caseload growth. Table 10 suggests that significantly fewer individuals applied for SSI/SSP after the special income deduction was eliminated than the number originally estimated by the department. The department projected an aged caseload for October of 295,000, including 277,000 "basic" cases and 18,000 cases attributable to the elimination of the Medi-Cal special income deduction. The actual caseload for October was 279,400, suggesting that only 2,400 aged individuals (279,400 − 277,000 = 2,400) applied for the SSI/SSP program during the month as a result of the change made by Ch 328/82. Actual data for the disabled caseload lead to a similar conclusion. The department's October caseload estimate of 370,000 included 362,000 "basic" cases and 8,000 cases attributed to Ch 328/82. The actual disabled caseload for the month, however, was only 363,500, indicating an increase of approximately 1,500 disabled cases (363,500 − 362,000 = 1,500) due to elimination of the special income deduction. Therefore, we estimate that the total caseload growth in October attributable to AB 799 was 3,900 (2,400 aged and 1,500 disabled individuals). November caseloads indicate that approximately 700 more individuals may have applied for SSI/SSP as a result of AB 799.

At the time this *Analysis* was written, DSS had not received actual caseload data for December. The Department of Health Services' *estimate* of actual Medi-Cal caseloads, however, suggests that by December, a total of 5,100 individuals were receiving SSI/SSP as a result of AB 799. This is only 20 percent of the 26,000 aged and disabled individuals that DSS expected to apply for SSI/SSP as a result of Chapter 328's elimination of the special income deduction.

Table 10
Impact of AB 799 on SSI/SSP, Aged And Disabled Caseload (in thousand case months)

	Aged			*Disabled*		
	Projected Caseload Excluding AB 799	*Projected Caseload Including AB 799*	*Actual Caseload*	*Projected Caseload Excluding AB 799*	*Projected Caseload Including AB 799*	*Actual Caseload*
September	278.5	278.5	280.2	362.6	362.6	363.3
October	277.0	295.0[a]	279.4	362.0	370.0[b]	363.5
November	275.5	293.5	278.2	361.4	369.4	363.3

[a] Includes 18,000 case months projected to result from elimination of Medi-Cal special income deduction.
[b] Includes 8,000 case months projected to result from AB 799.

Conclusion. Our analysis indicates that the impact of AB 799 on the SSI/SSP caseload has been significantly less than what is reflected in the budget. Given that only about 20 percent, or 5,100 individuals, of the potentially eligible population has applied for SSI/SSP in order to retain their "no-share-of-costs" status under Medi-Cal, we recommend that the $7,984,000 requested for this caseload be reduced accordingly. Specifically, we recommend a General Fund reduction of $6,387,000 to reflect actual caseload experience to date attributable to the Legislature's enactment of AB 799.

Federal Fiscal Liability

We recommend a General Fund reduction of $5,800,000 to reflect additional federal reimbursements anticipated as a result of (1) federal requirements regarding uncashed SSI/SSP checks and (2) Federal Fiscal Liability (FFL) for the period January 1974 to March 1979.

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

The Supplemental Report of the 1982 Budget Act required the Department of Social Services (DSS) to provide the Legislature with a report on the status of all unresolved federal and state funding disputes regarding the SSI/SSP program. Based on our review of that report, we conclude that General Fund support for the SSI/SSP program in 1983–84 can be reduced by $5.8 million. This reduction is warranted by the additional federal funds that can be anticipated. These additional funds, which may be treated as a "credit" against the payment that the state is required to make to the Social Security Administration to cover the cost of SSP grants, are attributable to two factors: (1) Uncashed state checks and (2) Federal Fiscal Liability (FFL) for the period January 1974 to March 1979.

Uncashed Checks. The Social Security Administration (SSA) administers California's SSP program in conjunction with the SSI program. Each month, SSI/SSP recipients receive from SSA a U.S. treasury check which includes the combined SSI/SSP payment. Currently, there is no time limit placed on the cashing of the SSI/SSP checks and each year a certain number of SSI/SSP checks are not cashed. Sufficient federal and state funds to cover both the SSI and SSP portions of the unnegotiated checks are retained by the federal government.

Recent federal law requires that uncashed SSP funds will be returned to states. The SSA must now credit the state's SSP account for all unnegotiated checks 180 days after issuance. In addition, all funds for checks previously issued and remaining uncashed must be returned.

The SSA estimates that $4.6 million in California SSP funds currently are being held by the U.S. Department of the Treasury to cover uncashed SSI/SSP benefit checks dating back to January 1974. The SSA based its estimate on the state's share of caseload for all federally administered SSP programs and applied that percentage to the combined state share of funds being held for the checks.

With one exception, all of the states have agreed to the methodology used by the SSA in determining how much is due each state. Michigan, however, contends that states with significant caseloads of federally funded refugees—including California—are favored by the settlement because the total caseload figures used in determining each state's share include refugees even though no state funds are used for SSI/SSP payments to refugees. The department does not anticipate that Michigan's objections concerning the formula will delay an initial settlement. At the time this analysis was written, however, the federal government had not credited California for its share of the uncashed SSI/SSP checks.

Federal Fiscal Liability. The federal quality assurance program periodically samples SSI/SSP caseload data to identify errors made by the SSA in granting eligibility or in making payments to eligible individuals. The state then reviews a portion of the federal sample to test the accuracy of the federal review. The 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 FFL owed to the state for the period.

The state Auditor General has determined that the amounts of FFL due California have been understated because the SSA failed on several occasions to properly reflect state quality control (QC) findings in the final error rate.

The SSA has agreed that the state QC findings in 22 cases were not included in the final error rate, and has agreed to revise FFL calculations for the periods in which these cases occurred. The Auditor General estimates than an additional $1.2 million in FFL will result from these adjustments. The SSA, however, has delayed crediting the state with these funds.

Conclusion. State officials advise that the federal government may credit the state during 1982–83 for the amounts that it is due as a result of unnegotiated checks and FFL. No adjustment, however, has been made to estimated 1982–83 General Fund expenditures to reflect the anticipated $5.8 million reduction in General Fund expenditures to support the SSI/SSP program. Because formal settlement of these issues may be delayed into the budget year, we recommend that the 1983–84 General Fund request be reduced by the amount of the anticipated settlement, for a General Fund savings of $5.8 million.

Linking Federal Fiscal Liability to State AFDC and Medi-Cal Error Rates

We recommend that the Legislature adopt budget bill language requiring the DSS to notify the Joint Legislative Budget Committee and the fiscal committees 30 days prior to amending those provisions of the SSI/SSP contract with the federal government regarding limitations on the payment of Federal Fiscal Liability.

On March 24, 1982, DSS and the federal Department of Health and Human Services (DHHS) signed a new contract which provided for continued federal administration of the SSI/SSP program in California. The contract contained numerous provisions governing the administration of the SSI/SSP program. One of the provisions requires the state to renegotiate the contract once DHHS has issued new regulations regarding Federal Fiscal Liability (FFL) for administration of the SSI/SSP programs. It is anticipated that the new regulations will limit California's ability to recover state funds which were misspent by the federal government in connection with the SSI/SSP program for any period after October 1, 1980 in which the state receives a waiver of quality control sanctions in the Aid to Families with Dependent Children (AFDC) or Medi-Cal programs.

Background. A state which has an SSP program is given the option of administering the program itself or having the program administered by the federal government. California has elected to have the federal Social Security Administration (SSA) administer its SSP program. The federal government pays the costs of administering the SSI/SSP program in California.

Federal and state responsibilities under the SSI/SSP program are governed by contracts negotiated between each state and the federal government. The current contract between California and the SSA has been operative since October 1, 1979. In the interim, it has undergone periodic renegotiation and revision. The most-recent major revisions to the contract were signed on March 24, 1982.

Provisions of the Most-Recent Contract. The revised contract makes several major changes in administration of the program. Some of these changes are advantageous to the state. One revision, however, is potentially damaging to the state's interests. This revision *requires* that the contract be renegotiated to include provisions limiting the payment of FFL to the state if it receives a waiver of federal fiscal sanctions for errors in the AFDC or Medicaid programs. (This provision is commonly referred to as "linkage.")

The extent to which the state's financial interest will be affected by

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

linking FFL with waivers of AFDC and Medi-Cal sanctions will depend upon the specific provisions of the regulations promulgated by DHHS. At the time that the "linkage" provision was included in the contract, Federal regulations specifying the nature of this "linkage" had not been drafted.

Potential Impact of Linkage. Our analysis identified four potential problems with the linkage concept:

1. There is no conceptual basis for linking fiscal responsibility in the SSI/SSP program with sanctions under either the AFDC or the Medi-Cal program.
2. The linkage provisions may prevent the state from recovering state funds misspent by the federal government.
3. Linkage could force the state to make uninformed choices between seeking FFL and requesting that sanctions in the AFDC and Medi-Cal programs be waived.
4. The sanctionable error rates are not equal across the affected programs.

No Basis for Linkage. It makes little sense to link administrative errors in SSI/SSP to those made under AFDC or Medi-Cal because the programs are different and therefore generate different and unrelated administrative errors. These programs serve different clienteles that must meet different eligibility criteria. They are administered at different levels of government, and have different requirements for federal and state participation.

For example, the SSI/SSP program is administered at the federal level. It consists of a fixed federal grant payment, to which the state chooses to add a supplemental benefit. The AFDC program is administered by the counties on behalf of the state, while Medi-Cal is administered by the state. In summary, "linkage" strives for direct administrative trade-offs where none logically exist.

Potential for Loss of Federal Funds. While it is difficult to assess the fiscal effect of linkage in the absence of regulations, past FFL settlements demonstrate that linkage could be costly to the state. California has recovered a total of $86,663,000 in FFL for various QC review periods from 1974 to 1980. In fiscal year 1982–83 alone, the state recovered $26 million in FFL owed for past periods. This recovery helped balance that year's budget.

Potential for Uninformed Choice. The possibility exists that, for a given AFDC review period, the state will have to decide whether to request a waiver of the AFDC sanctions without knowing what the FFL is for that period. For example, initial estimates of AFDC error rates for the period October 1980 to March 1981 were available in September 1982. The DHHS informs us that a letter of liability for sanctions will be sent to the state during the next several months. Once California receives the federal notification, it will have 65 days in which to request waivers. The final estimate of FFL under the SSI/SSP program for the same period, however, is not yet available and may not be known by the time the state must decide whether or not to request a waiver of the AFDC sanctions for the October 1980–March 1981 period. The federal government has indicated that for the October 1980 to March 1981 period, the state faces potential AFDC sanctions of $34.0 million and potential FFL recoveries of $13 million. While the choice to seek waivers seems clear in this instance, no guarantee exists that in subsequent periods, FFL and sanctionable errors in the AFDC or Medi-Cal programs may not be more-nearly equal.

Under such circumstances, the state could choose the higher cost option because it does not have the information it needs to make an informed choice.

Error Rate Thresholds Are Unequal. The thresholds for triggering sanctions in the AFDC and SSI/SSP programs are significantly different. Under federal regulations, the state is subject to sanctions in the AFDC and Medi-Cal programs for errors in excess of 4.0 percent for the period October 1980 to September 1982. After October 1, 1982, errors above 3.0 percent are sanctionable. The rate above which the federal government is liable for errors in the SSI/SSP program, however, is still 4.0 percent. In other words, while the federal government believes that *state* errors in administering the AFDC and Medi-Cal programs should decline over time, it does not provide for a comparable reduction in *federal* errors in administering the SSI/SSP program. Thus, lower sanctionable error rates in state-administered programs increase the state's liability for errors, relative to the federal government's liability due to errors.

Conclusion. While the department has agreed to the "linkage" provision, it is unable to assess the impact of this provision on the state costs under the SSI/SSP program. This is because regulations governing "linkage" have not yet been promulgated. In fact, not even draft regulations have been provided to the state. Thus, neither we nor the department are able to say to what degree "linkage" will limit the state's ability to recover state funds misspent by the federal government. On the one hand, the regulations could impose a dollar-for-dollar trade-off between FFL and AFDC or Medi-Cal errors. If this were done, the state could still recover any amount of FFL in excess of the waivers. On the other hand, regulations could impose a blanket prohibition on the recovery of *any* FFL for any period in which waivers are requested. This might mean that the state would have to forego FFL recoveries even when the amount exceeded AFDC or Medi-Cal sanctions.

Because the linkage provisions are potentially harmful to the state's financial interest, we believe the Legislature should have an opportunity to review any agreement between the state and the SSA regarding linkage before it becomes effective. We therefore recommend that the following Budget Bill language be adopted, requiring the DSS to notify the Joint Legislative Budget Committee and the fiscal committees 30 days prior to amending that provision of the SSI/SSP contract with the federal government regarding limitations on the payment of FFL.

"Provided further, that the Director of the Department of Social Services shall not amend the SSI/SSP contract with the federal government regarding limitations on the payment of Federal Fiscal Liability until after 30 days notification in writing to the Joint Legislative Budget Committee and fiscal committees of the proposed amendments to the contract."

Federal Fund Offset of SSP for Refugees

We recommend that the Legislature adopt Budget Bill language prohibiting funds budgeted for the Refugee Resettlement Program (RRP) and the Cuban/Haitian Entrant Program (CHEP) under Item 5180-111-866 from being advanced to the Social Security Administration (SSA) unless sufficient federal funds remain after expenditures have been made for the Refugee Cash Assistance (RCA), AFDC, and county administration programs.

In Item 5180-111-866, the budget requests $12,121,000 in federal Refugee

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

Resettlement Program (RRP) and Cuban/Haitian Entrant Program (CHEP) funds to pay the cost of the SSP portion of SSI/SSP grants provided to time-eligible refugees and entrants residing in California. Time-eligible refugees and entrants are individuals who have not been in this country for more than 36 months. As a result, the federal government pays the entire cost of the grants provided to these individuals.

Possible Delays in Receiving Federal Funds. In our analysis of Item 5180-131, refugee cash assistance programs, we discuss in detail the delays in receiving RRP and CHEP funds California experienced during FFY 82. Our analysis indicates that these delays resulted in a loss of $1.9 million in potential General Fund interest earning, and that similar delays are possible during FFY 83 and FFY 84. In addition, we concluded that approximately $0.6 million in lost interest earnings could have been avoided if the administration had adopted a policy of using available RRP and CHEP funds to pay for refugee cash assistance, AFDC, and medical assistance costs before providing advances to the SSA for the SSP portion of SSI/SSP payments to time-eligible refugees.

In order to reduce the loss of General Fund interest earnings, we recommend that the Legislature require the department use RRP and CHEP funds first to pay for refugee cash assistance, AFDC, and medical assistance costs and then, to the extent that sufficient RRP and CHEP funds remain, for advances to the SSA for the SSP portion of SSI/SSP payments to time-eligible refugees.

The following proposed Budget Bill language would implement this recommendation:

"Provided that no funds appropriated under Item 5180-111-001 shall be used for advances, or other payments, to the Social Security Administration for that portion of state supplemental payments which the Director of the Department of Finance estimates to be attributable to payments made to refugees and entrants who have been in this country for less than 36 months.

Provided further that no funds appropriated under Item 5180-111-866 for the SSP portion of SSI/SSP payments to refugees and entrants who have been in this country for less than 36 months shall be advanced to the SSA during any quarter of 1983–84 for which the Director of the Department of Finance has determined that sufficient federal Refugee Resettlement Program (RRP) and Cuban/Haitian Entrant Program (CHEP) funds have not been made available by the federal government to meet the needs for RRP and CHEP for the anticipated expenditures during that quarter under Items 5180-101-866—AFDC and 5180-131-866—refugee cash assistance programs."

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 5180-121 from the General Fund and Social Welfare Federal Trust Fund — Budget p. HW 144

Requested 1983–84	$1,708,000
Estimated 1982–83	1,708,000
Actual 1981–82	2,046,000
Total recommended reduction	None

1983–84 FUNDING BY ITEM SOURCE

Item	Description	Fund	Amount
5180-121-001	Special Adult Programs	General	$1,708,000
5180-121-866	Special Adult Programs	Federal	(40,000)

GENERAL PROGRAM STATEMENT

This item provides the General Fund appropriation to fund grants for the emergency and special needs of SSI/SSP recipients. The special allowance programs for SSI/SSP recipients are supported entirely from the General Fund, and are administered by county welfare departments.

This item also appropriates federal funds to finance cash grants to repatriated Americans returning from other nations.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a General Fund appropriation of $1,708,000 for special adult programs administered by the Department of Social Services in 1983–84. The proposed funding level is the same as the 1982–83 estimated expenditure level. This is $461,000 less than the amount *appropriated* for special adult programs in the current year. The difference is due primarily to lower-than-anticipated expenditures under the special circumstances program.

Special Circumstances

The Special Circumstances Program provides adult recipients with financial assistance in times of emergency. Payments up to specified maximum amounts can be made 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. In addition, the Special Circumstances Program reimburses foster parents for the cost of burying a foster child who was in their care at the time of death.

The budget proposes funding the Special Circumstances Program at the current-year estimated expenditure level of $1,598,000, thus assuming neither any caseload growth nor any increase in average benefits during 1983–84. The budget estimates that an average of 584 persons will receive assistance under the Special Circumstances Program each month during 1983–84. It further assumes that the average payment will remain constant at the level estimated for 1982–83—$225.

SPECIAL ADULT PROGRAMS—Continued

Special Benefits

The special benefits program provides funds to SSP recipients who have guide dogs. Under the program, approximately 300 persons receive a special monthly allowance to cover the cost of food for their guide dogs. The budget proposes General Fund expenditures of $110,000 for these allowances in 1983–84.

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 $40,000, the same amount estimated to be expended in the current year.

Department of Social Services

REFUGEE CASH ASSISTANCE PROGRAMS

Item 5180-131 from the Social Welfare Federal Fund — Budget p. HW 146

Requested 1983–84	$97,941,000
Estimated 1982–83	117,399,000
Actual 1981–82	195,075,000
Requested decrease $19,458,000 (−16.6 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) is the single state agency designated to receive federal funds to provide cash grants, medical assistance, and social services to refugees and Cuban/Haitian entrants. These funds are made available through the federal Refugee Resettlement Program (RRP) and Cuban/Haitian Entrant Program (CHEP). The state budget appropriates these federal funds in various budget items.

This item appropriates the RRP and CHEP funds which pay for the cash and medical assistance provided to refugees and Cuban/Haitian entrants who do not meet the eligibility requirements for the Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs. Specifically, the RRP and CHEP funds budgeted under this item are for:

- The costs of the Refugee Cash Assistance (RCA) and Entrant Cash Assistance (ECA) programs which provide cash grants to refugees and entrants who (1) have been in this country less than 18 months and (2) are not eligible to receive payments under the AFDC and SSI/SSP programs;
- Reimbursements to counties for their costs of providing general assist-

ance cash grants to refugees and entrants who have been in this country for more than 18 months but less than 36 months.

- Reimbursements to the Departments of Health Services (DHS) and Developmental Services (DDS) for a portion of the costs of medical assistance provided to refugees and entrants who have been in this category for less than 36 months.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of $97,941,000 in federal RRP and CHEP funds for the refugee programs supported by this item. This is a reduction of $19,458,000, or 17 percent, below estimated current-year expenditures. This reduction is due primarily to:

- ***The expiration of some refugees' and entrants' eligibility to receive medical assistance under the RRP and CHEP.*** Upon reaching their 36th month in this country, refugees and entrants are no longer eligible to receive RRP and CHEP funds. These time-expired refugees and entrants may, however, continue to receive medical assistance if they qualify for Medi-Cal or for a county's medically needy program.
- ***Federal action limiting eligibility for the RCA and ECA programs to 18 months, instead of 36 months.*** Prior to May 1, 1982, refugees and entrants who were ineligible for AFDC or SSI/SSP but who met most of the income and resources eligibility requirements of the AFDC program were eligible to receive cash assistance under the RCA or ECA programs until they had been in this country for 36 months. As of May 1, 1982, however, cash assistance under the RCA and ECA programs is available only to refugees and entrants who have been in this country for less than 18 months. The federal government will, however, reimburse counties for general assistance and medically indigent program expenditures on behalf of refugees and entrants during their second 18 months in this country. The DSS estimates that, on May 1, 1982, approximately 22,500 refugees became ineligible for RCA and ECA due to this change. The department estimates that of these, 6,525 qualified for county general assistance and 15,975 received no further aid.

Table 1 displays the expenditures of RRP and CHEP funds budgeted under this item for cash and medical assistance for 1982–83 and 1983–84.

Table 1
Refugee and Entrant Cash and Medical Assistance Programs Budgeted under Department of Social Services Item 5180-131-866
(in thousands)

	1982–83	*1983–84*	*Change*	*Percent Change*
Cash Assistance	$50,145	$37,571	−$12,574	−25.1%
Medical Assistance	67,254	60,370	−6,884	−10.2%
Totals	$117,399	$97,941	−$19,458	−16.6%

RRP and CHEP Funding for Other Programs

In addition to the RRP and CHEP funds budgeted under this item, the budget proposes expenditures of RRP and CHEP funds under several other items. Specifically, these funds are budgeted under the following items:

REFUGEE CASH ASSISTANCE PROGRAMS—Continued

- *Departmental Support—Item 5180-001.* RRP and CHEP funds budgeted under this item are used to fund the costs incurred by the department in administering cash assistance and social services programs for refugees and entrants.
- *AFDC—Item 5180-101.* RRP and CHEP funds budgeted under this item are used to pay the state and county share of costs of AFDC payments made to refugees and entrants who have been in this country for less than 36 months (Referred to as time-eligible). Thus, the cost of assistance provided time-eligible refugees and entrants is funded 100 percent by the federal government.
- *SSI/SSP—Item 5180-111.* RRP and CHEP funds budgeted under this item are used to pay the SSP portion of SSI/SSP payments to time-eligible refugees and entrants. Federal funding for the SSP portion of SSI/SSP grants is only available for time-eligible refugees and entrants.
- *County Administration—Item 5180-141.* RRP and CHEP funds budgeted under this item are used to pay the state and county share of the costs of administering the AFDC, RCA, ECA, and general assistance programs. These funds are only available for county administrative costs incurred on behalf of time-eligible refugees.
- *Social Services Programs—Item 5180-151.* RRP funds budgeted under this item pay for (1) supportive services, such as In-Home Supportive Services and child protective services and (2) employment-related services, such as Vocational English-as-a-Second Language. Social Services funded through RRP funds are available to time-expired as well as time-eligible refugees and entrants.

Table 2 shows that the budget anticipates a reduction in RRP and CHEP expenditures of $49,821,000, or 20 percent, between 1982–83 and 1983–84. This reduction is primarily due to caseload decreases associated with the 36-month limit on eligibility for RRP and CHEP funding and the 18-month limit on eligibility for the RCA and ECA programs.

Table 2
Total Expenditures of RRP and CHEP Funds
All Budget Items
Department of Social Services
(in thousands)

Program/Item Number	*1982–83*	*1983–84*	*Change*	*Percent Change*
Department Support—5180-001	$5,488	$5,326	−$162	−3.0%
Cash Grants—Refugees				
AFDC—5180-101	75,894	56,130	−19,764	−26.0
SSI/SSP—5180-111	17,987	12,121	−5,866	−32.6
Refugee Cash Assistance Program —5180-131	117,399	97,941	−19,458	−16.6
County Administration—5180-141	15,923	11,752	−4,171	−26.2
Social Services Programs—5180-151	17,700	17,300	−400	−2.3
Totals	$250,391	$200,570	−$49,821	−19.9%

Total Federal Expenditures for Time-Eligible Refugees and Entrants

The expenditure estimates shown in Table 2 reflect only spending from RRP and CHEP funds. Total expenditures for cash assistance provided to time-eligible refugees and entrants also include spending from other federal funds not budgeted under this item. Specifically, total expenditures for refugee and entrant cash includes:

- Federal Title IV-A (AFDC) funds budgeted under Item 5180-101, for the normal federal share of AFDC payments made to time-eligible refugees and entrants; and
- Federal Title IV-A funds budgeted under Item 5180-141, county administration, for the normal federal share of the costs of administering that portion of the AFDC program attributable to time-eligible refugees and entrants.

In addition, the federal government makes direct payments under the SSI/SSP program to eligible refugees and entrants who reside in California.

Table 3 displays total federal expenditures for cash assistance to time-eligible refugees and entrants who reside in California.

Table 3
Total Expenditures for Cash Assistance to Time-Eligible Refugees and Entrants Residing in California By Program and Funding Source 1982–83 and 1983–84 (in thousands)

Program/Funding Source	*1982–83*	*1983–84*	*Change*	*Percent Change*
1. AFDC—federal Title IV-A	$70,217	$54,913	−$15,304	−21.8%
AFDC—RRP and CHEP	75,894	56,130	−19,764	−26.0
Subtotals, AFDC	$146,111	$111,043	−$35,068	−24.0
2. SSI/SSP—SSI portion	$24,091	$19,041	−$5,050	−21.0
SSI/SSP—SSP portion (RRP and CHEP)	17,987	12,121	−5,866	−32.6
Subtotals, SSI/SSP	$42,078	$31,162	−$10,916	−25.9
3. Refugee and Entrant Cash Assistance	$39,812	$30,621	−$9,191	−23.1
4. County general assistance—RRP and CHEP	$10,333	$6,950	−$3,383	−32.7
5. County Administration—Federal Title IV-A	$7,155	$5,463	−$1,692	−23.6
County Administration—RRP and CHEP	15,923	11,752	−4,171	−26.2
Subtotals, County Administration	$23,078	$17,215	−$5,863	−25.4
Totals	$261,412	$196,991	−$64,421	−24.6%
Federal Fund Source:				
RRP and CHEP Funds	$159,949	$117,574	−$42,375	−26.5%
All Other Federal Funds	101,463	79,417	−22,046	−21.7

Costs of Time-Expired Refugees and Entrants

Federal RRP and CHEP funds are available only for refugees and entrants who have been in this country less than 36 months. Refugees and entrants who have been in this country for 36 months or more may continue to receive cash and medical assistance through the AFDC, SSI/SSP, Medi-Cal, county general assistance, or county medically indigent programs if they meet the eligibility criteria for these programs. The cost of these time-expired refugees and entrants is shared between the state,

REFUGEE CASH ASSISTANCE PROGRAMS—Continued

federal, and county governments according to the specific funding arrangements for each program. Table 4 displays the cost of providing cash assistance to time-expired refugees and entrants.

Table 4
Costs of Cash Assistance
For Time-Expired Refugees and Entrants
All Funds
1982–83, and 1983–84
(in thousands)

Program/Funding Source	*1982–83*	*1983–84*	*Amount Change*	*Percent Change*
1. AFDC				
a. General Fund	$22,602	$46,619	$24,017	106.3%
b. County funds	2,739	5,647	2,908	106.2
c. Federal funds	23,440	51,131	27,691	118.1
Subtotals, AFDC	$48,781	$103,397	$54,616	112.0%
2. SSI/SSP				
a. General Fund	$5,874	$11,903	$6,029	102.6%
b. Federal funds	7,856	18,758	10,902	138.8
Subtotals, SSI/SSP	$13,730	$30,661	$16,931	123.3%
3. County Administration				
a. General Fund	$1,112	$2,353	$1,241	111.6%
b. County funds	3,496	7,927	4,431	126.7
c. Federal funds	2,389	5,084	2,695	112.8
Subtotals, County Administration	$6,997	$15,364	$8,367	119.6%
4. General Assistance, County Funds	$5,437	$12,753	$7,316	134.6
Totals	$74,945	$162,175	$87,230	116.4%
General Fund	$29,588	$60,875	$31,287	105.7%
County Funds	$11,672	$26,327	$14,655	125.6%
Federal Funds	$33,685	$74,973	$41,288	122.6%

Table 4 shows that the ***General Fund costs of cash assistance programs for time-expired refugees is expected to increase by $31,287,000, or 106 percent between 1982–83 and 1983–94.*** During this same time period, county costs for cash assistance programs for time-expired refugees will increase by $14,655,000, or 126 percent. These increases are due to refugees and entrants continuing to receive assistance after they have become ineligible for RRP and CHEP funding. The increased state and county costs shown on Table 4 represent federal costs which are being shifted to state and county governments because of the 36-month limit on RRP and CHEP funding eligibility.

RRP and CHEP Funds Not Paid to California in a Timely Fashion

The Office of Refugee Resettlement (ORR) in the Department of Health and Human Services (DHHS) is the federal agency responsible for administering RRP and CHEP funds. The ORR advances RRP and CHEP funds quarterly to states, based on an estimate of each state's eligible spending during the upcoming quarter. ORR's first quarterly advance to California for federal fiscal year 1982 was received on November 10, 1981—more than half way through the first quarter of federal fiscal year 1982. Subsequent advances were made in a more timely fashion but were in amounts far less than the state's actual expenditures. As of December 31, 1982, DSS had submitted bills to the ORR totaling $281,410,070 for RRP and CHEP-eligible expenditures for cash and medical assistance during federal fiscal year 1982. Of this amount, the ORR had paid the department $240,500,000, or $40,917,070, less than the amount billed. California is the only state which has not yet received an allocation of RRP and CHEP funds sufficient to pay the entire cost of its expenditures for FFY 82.

General Fund Interest Losses

Whenever the federal government fails to advance RRP and CHEP funds to the State in a timely manner, the state must temporarily use General Fund monies to cover the costs of cash and medical assistance provided to time-eligible refugees. This temporarily reduces the General Fund balances available to meet the state's other cash requirements (or for short-term investment). We estimate that the federal delays in advancing the RRP and CHEP funds resulted in a loss of $1.9 million in potential General Fund interest earnings during federal fiscal year 1982. This type of cost associated with the RRP and CHEP programs is not eligible for reimbursement from the federal government, and therefore represents a permanent General Fund loss.

When faced with a shortfall of federal refugee funds, the DSS has elected to spend available RRP and CHEP funds in the following order: (1) to advance funds to the federal government for the SSP program, (2) to pay expenditures incurred under the RCA/ECA program, (3) to pay AFDC costs, and (4) reimburse the Departments of Health Services and Developmental Services for medical assistance. Because RRP and CHEP funds were not available in sufficient amounts to pay the AFDC and medical assistance costs in federal fiscal year 1982, General Fund monies were spent for these purposes. We estimate that if the administration had established a policy of using the RRP and CHEP funds first for RCA/ECA, AFDC, and medical assistance expenditures and *last* for advances to the Social Security Administration for SSP payments, the interest loss of $1.9 million would have been reduced by approximately $0.6 million.

Future Delays Possible. In a letter dated November 2, 1982, the Secretary of DHHS informed the Governor of California that no additional funds would be granted to California until the completion of an audit of the department's claim for the remaining $40,910,070. Normally, such audits are conducted after payments are made and any portion of the claim disallowed is repaid by the state. The Secretary's decision, therefore, casts some doubt as to whether the state will be fully reimbursed for expenditures incurred in federal fiscal year 1982. It is possible that future delays, or even shortfalls, in RRP and CHEP funds are possible. In order to minimize the General Fund effect of any such delay, we have recommended in our analysis of the SSP item (Item 5180-111-866) that the Legislature adopt Budget Bill language providing that no RRP or CHEP funds be used for advances to the SSA at any time when the total amount of RRP and CHEP funds available is not adequate to pay the costs of the other programs for which these funds are budgeted.

Department of Social Services

LOW-INCOME HOME ENERGY ASSISTANCE BLOCK GRANT

Item 5180-136 from the Social Welfare Federal Fund — Budget p. HW 147

Requested 1983–84	$54,145,000
Estimated 1982–83	—
Actual 1981–82	—
Recommendation pending	$54,145,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Administration of the Low-Income Home Energy Assistance (LIHEA) Block Grant. Withhold recommendation, pending receipt of information regarding the department's plan to administer the LIHEA Block Grant program. 1136

GENERAL PROGRAM STATEMENT

This item appropriates federal funds for the LIHEA Block Grant program. This block grant provides direct assistance to low-income households in order to help them finance their heating, cooling, and lighting bills. The program consists of three components.

The Home Energy Assistance Program (HEAP) provides cash grants to eligible households to help alleviate the burden imposed by their energy-related utility bills. Grants vary by household size, the type of fuel used, and the location of the recipient's residence. In 1981–82, HEAP grants averaged $110 per household.

The Energy Crisis Intervention Program (ECIP) provides emergency assistance to households in cases where fuel has been shut off or is about to be shut off, the household does not have sufficient funds to pay a delinquent utility bill, or the household is unable to finance the purchase or repair of heating devices. The ECIP is operated by local Community Action Agencies (CAAs) and other community-based organizations. Payments under ECIP averaged $163 in 1981–82.

The Weatherization Program provides low-cost energy conservation services, including weatherstripping, insulation, and heater adjustment, to recipients through community organizations. The average cost of weatherization services totaled $670 per home in 1981–82.

ANALYSIS AND RECOMMENDATIONS

Budget-Year Proposal

The budget proposes the enactment of legislation transferring the LIHEA Block Grant from the Office of Economic Opportunity (OEO) to the Department of Social Services (DSS), effective October 1983. Under existing law (Ch 228/82), administrative responsibility for the program rests with the OEO.

For 1983–84 as a whole, the budget proposes a total of $80,216,000 for the LIHEA Block Grant. This is the same amount that the budget anticipates the state will receive during the current year. Of the total amount proposed for expenditure in the budget year, $18,049,000 is requested in Item 0660-101-890 for expenditure by OEO during the first quarter of

1983–84, and $54,145,000 is requested in this item for expenditure by DSS during the balance of the year. The remaining $8,022,000 in LIHEA funds is earmarked in the budget for social services programs. Federal law permits the transfer of up to 10 percent of a state's allocation under the LIHEA program to community and social service block grant programs.

The budget assumes that the amount of money available to all states in federal fiscal year 1983 (FFY 83) and FFY 84 (1) will be the same as what was made available in FFY 82 and (2) California's share of the total will not change. Under the current continuing resolution, however, the FFY 83 funding level will exceed the amount available in FFY 82 by $100 million nationwide. This suggests that California will receive approximately $4.6 million more under the LIHEA program in FFY 83 than the budget anticipates.

Federal and State Block Grant Requirements

Federal law imposes a number of requirements on states receiving LIHEA funds. In addition, California law (Section 16367 of the Government Code, as amended by Ch 228/82) specifies the use and allocation of these funds within the state. The provisions of federal and state law that apply to the LIHEA program can be summarized as follows:

- *Administrative Expenditures.* Federal law allows up to 10 percent of the grant to be used for administration. Any administrative costs in excess of this amount must be paid entirely by the state. State law limits administrative expenditures to *5 percent* of the allocation for a given year. However, state law permits administrative expenditures to exceed the 5 percent cap, up to a maximum of 7.5 percent, provided the Department of Finance provides prior notification to the Legislature through the Section 28 procedure authorized in the 1982 Budget Act. During the current year, the Department of Finance authorized an increase, to 6.1 percent, in the cap on OEO's administrative expenses under the LIHEA program.
- *Program Expenditures.* Federal law requires that a "reasonable" portion of the block grant funds be made available for ECIP, and that no more than 15 percent of the funds be used for weatherization. State law limits expenditures under the ECIP to 7.5 percent, and expenditures under the weatherization program to 10 percent, of the total allocation. The state's budget anticipates that $5,715,000 will be spent for ECIP in FFY 82, while $5,836,000 will be spent for weatherization. In addition, federal law *allows* a state to transfer up to 10 percent of the LIHEA grant to social services programs. State law *requires* that up to 10 percent of the block grant funds be used to support social services programs.
- *Benefit Requirements.* Federal law requires that households which have the lowest income and the highest energy costs in relation to income, (after adjustments are made for household size) receive higher benefits. In addition, the federal government requires the state to conduct (1) outreach activities designed to inform eligible households about LIHEA and (2) administrative fair hearings for those persons whose requests for benefits are denied or delayed.
- *Eligibility Requirements.* Under federal law, LIHEA benefits are available to (1) households in which at least one member is eligible for AFDC or SSI benefits or (2) households with incomes below either 150 percent of the poverty level or 60 percent of state median income. The current state plan restricts HEAP benefits to households with an

LOW-INCOME HOME ENERGY ASSISTANCE BLOCK GRANT—Continued

AFDC or SSI/SSP recipient, provided the household's income is less than 130 percent of the poverty level. Table 1 summarizes the eligibility restrictions imposed by federal and state law.

Table 1
Federal and State Requirements for LIHEA Eligibility

Program	*Federal Law*	*State Law*	*State Plan*
Home Energy Assistance	1. AFDC or SSI eligible, *or* 2. Income less than 150% of poverty.	AFDC or SSI/SSP eligible.	Income below 130% of poverty.
Energy Crisis Intervention and Weatherization Program	1. AFDC or SSI eligibles *or* 2. Income less than 150% of poverty.	AFDC, SSI/SSP General Relief, or Food Stamp eligibles.	1. AFDC, SSI recipients *or* Food Stamp eligibles *and* 2. Income below 130% of poverty.

Transfer of LIHEA Block Grant

We withhold recommendation on the administration's proposal to transfer the LIHEA Block Grant from the Office of Economic Opportunity (OEO) to the Department of Social Services (DSS), pending receipt of information regarding the department's plans to administer the block grant.

The budget assumes that legislation will be enacted transferring responsibility for administering the LIHEA block grant from OEO to DSS, effective October 1983. The budget proposes to appropriate 75 percent of the FFY 84 grant ($54,145,000) to DSS for expenditure under the program during the last nine months of 1983–84.

We have the following concerns regarding the administration's proposal:

1. The administration has not provided a plan describing how DSS will administer the LIHEA block grant. As a result, it is not clear whether the department will administer the program directly or contract with the counties to administer it. Currently, OEO:

- administers the HEAP component of the LIHEA block grant itself by providing cash grants for energy costs directly to individuals.
- disburses ECIP and weatherization funds to needy households through community-based organizations.

If the Legislature transfers the LIHEA block grant from OEO to DSS, the department will have to decide how benefits will be distributed to eligible households. The department might choose to administer one or more of the programs at the state level, or it might choose to delegate the responsibility to the counties.

2. It is unclear whether DSS administration of the LIHEA block grant will result in administrative savings. The budget asserts that "the Department of Social Services can administer this program (LIHEA Block Grant) through the existing welfare payment system at approximately 25 percent less administrative cost than through a separate disbursement process." The budget, however, does not identify the costs to DSS for administering LIHEA. In addition, SB 124 (the companion bill to the Budget Bill) would allow DSS to spend 5 percent of the grant amount for

administration and to increase this amount by an additional 2.5 percent through the Section 28 process. This suggests that transferring the block grant to DSS may not result in *any* administrative savings.

Conclusion. Thus, the administration's proposal fails to make clear (1) how the department's current payment system will be used to distribute HEAP, ECIP and weatherization funds, (2) if community-based organizations will continue to administer some LIHEA programs, and (3) the extent to which additional administrative costs will be incurred by the department in managing LIHEA. Therefore, we do not have an adequate basis for determining the impact of this proposal on state costs and program beneficiaries. Accordingly, we withhold recommendation on the proposal to transfer the LIHEA Block Grant from OEO to DSS, pending receipt of information regarding the department's plans for administering the program and its estimates of what it will cost to implement its plans.

Department of Social Services

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 5180-141 from the General Fund and Social Welfare Federal Fund — Budget p. HW 145

Requested 1983–84	$109,153,000 [a]
Estimated 1982–83	99,268,000
Actual 1981–82	103,785,000
Requested increase $9,885,000 (10.0 percent)	
Total recommended reduction Item 5180-141	2,494,000
Total recommended reduction Item 5180-181-001 (b)	4,000

[a] Includes $3,470,000 proposed in Item 5180-181-001 (b) for a 3 percent cost-of-living increase.

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-141-001	County administration	General	$105,683,000
5180-181-001 (b)	Cost-of-living increase	General	3,470,000
5180-141-866	County administration	Federal	(323,301,000)
5180-181-866 (b)	Cost-of-living increase	Federal	(18,050,000)
9680-101-001 (bb–ff)	Mandated local costs	General	(291,000)
Total			$109,153,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Administrative Costs for Proration of Shelter Costs. Reduce by $1,080,000.*** Recommend reduction of $3,600,000 ($1,080,000 from the General Fund and $2,520,000 in federal funds) proposed for AFDC administrative costs associated with the proration of shelter costs, because the addition of these costs represents a departure from standard budgeting procedures under the County Administrative Cost Control Plan. 1144

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

2. State Quality Control Sanctions. Recommend adoption of Budget Bill language requiring that the performance measure used by DSS for the purpose of applying sanctions be the combined annual error rate over two quality control periods. 1150
3. State Quality Review Sample. Recommend that DSS present a plan for coordinating the state and federal quality control samples so that the results can be combined. 1150
4. ***Asset Clearance Match. Reduce Item 5180-141-001 by $110,000 and Item 5180-181-001(b) by $4,000.*** Recommend reduction in funds proposed for county administration to account for projected caseload decreases due to the Asset Clearance Match demonstration, for a total savings of $476,000 ($114,000 from the General Fund, $244,000 in federal funds, and $118,000 in county funds). 1151
5. ***Federal Food Stamp Quality Incentive Payment. Reduce by $1,072,000.*** Recommend that federal incentive payments for improved food stamp error rates be budgeted in 1983–84, for a savings of $2,143,000 ($1,072,000 to the General Fund and $1,071,000 in county funds). 1152
6. ***Food Stamp Mail Loss Liability. Reduce by $35,000.*** Recommend reduction in funds proposed for the cost of alternative food stamp issuance methods, due to lower-than-anticipated caseload, for a reduction of $140,000 ($35,000 from the General Fund, $70,000 in federal funds, and $35,000 in county funds). 1152
7. ***Enhanced Federal Funding for Development of On-Line Food Stamp Issuance System. Reduce by $197,000.*** Recommend that enhanced federal funding for the development of an on-line food stamp issuance system be reflected in the budget, resulting in a savings of $398,000 ($197,000 from the General Fund and $201,000 in county funds). 1153
8. Development of On-Line Issuance Systems. Recommend that DSS identify (1) the counties where on-line issuance is expected to become operational, (2) the costs and savings expected in each county, and (3) the scheduled dates for implementation. 1153

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of costs incurred by the counties for administering (1) the AFDC program, (2) the food stamp program, and (3) 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

Expenditure Shortfall in the Current Year

The budget estimates that General Fund expenditures for the administration of county welfare programs will be $3,527,000 less than the amount appropriated for 1982–83. This shortfall is due largely to (1) overbudgeting

Table 1
Expenditures for County Welfare Department Administration
1982–83 and 1983–84
(in thousands)

	Estimated 1982–83				*Proposed 1983–84*				*Percent Change*			
	Total	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*
AFDC administration	$350,913	$178,380	$75,048	$97,485	$375,491	$189,955	$83,249	$102,287	7.0%	6.5	10.9	4.9%
Nonassistance food stamp	89,664	45,539	19,474	24,651	94,841	48,206	21,017	25,618	5.8	5.9	7.9	3.9
Child Support Enforcement												
Welfare	89,187	63,545	—	25,642	95,323	66,968	—	28,355	6.9	5.4	—	10.6
Nonassistance	30,226	21,537	—	8,689	31,844	22,371	—	9,473	5.4	3.9	—	9.0
Special Adult programs	1,814	—	1,814	—	1,867	—	1,867	—	2.9	—	2.9	—
Refugee cash assistance	9,247	9,247	—	—	6,890	6,890	—	—	−25.5	−25.5	—	—
Staff development	12,926	6,604	2,932	3,390	13,624	6,961	3,020	3,643	5.4	5.4	3.0	7.5
Subtotals (Budget Bill)	$583,977	$324,852	$99,268	$159,857	$619,880	$341,351	$109,153	$169,376	6.1%	5.1%	10.0%	6.0%
Local Mandates	(—)	(—)	(86)	(−86)	(—)	(—)	(291)	(−291)	(—)	(—)	(238.4)	(238.4)
EA employment programs (Ch. 327/82)	336	168	84	84	1,344	672	336	336	300.0	300.0	300.0	300.0
Totals	$584,313	$325,020	$99,352	$159,941	$621,224	$342,023	$109,489	$169,712	6.3%	5.2%	10.2%	6.1%

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

for Food Stamp fraud investigators ($3,560,000) and (2) greater-than-estimated savings from the cap on county overhead costs ($2,388,000). These savings are partially offset by increased costs due to (1) greater-than-anticipated AFDC workload ($1,287,000), (2) added costs due to court decisions ($561,000), and (3) lower-than-anticipated savings from Ch. 327/82 ($491,000).

Budget Year Proposal

The budget proposes an appropriation of $109,153,000 from the General Fund as the state's share of county costs incurred in administering welfare programs during 1983–84. This is an increase of $9,885,000, or 10 percent, over estimated current-year expenditures.

The budget proposes total expenditures of $619,880,000 for county administration of welfare programs in 1983–84, as shown in table 1. This is an increase of $35,903,000, or 6.1 percent, over estimated current-year expenditures. These amounts do not include a total of $1,344,000 for Emergency Assistance employment programs, consisting of $336,000 from the General Fund, $672,000 in federal funds, and $336,000 in county funds. Nor does the total include $291,000 proposed in Item 9680-101-001 to reimburse counties for state-mandated administrative activities and added grant costs.

Budget Year Adjustments

Table 2 shows the proposed adjustments to General Fund expenditures for county administration in 1983–84. The net increase of $9,885,000 is due to:

1. A 3 percent cost-of-living increase for county administration ($3,470,000),
2. A projected increase in the AFDC caseload ($1,632,000),
3. Deletion of the limit on county overhead costs ($4,793,000), and
4. Increased administrative costs to be incurred by counties in prorating the AFDC needs standard in order to account for reduced shelter and utility costs of AFDC families in shared living arrangements ($1,080,000).

These increases are in part offset by:

1. The reduction in costs associated with administering certain court decisions ($414,000),
2. Savings due to recent state legislation ($945,000),
3. Decreased administrative costs due to P.L. 97-35 ($331,000),
4. Reduced food stamp caseloads ($303,000).

State Mandated Local Costs

The budget proposes $291,000 from the General Fund to reimburse counties for their costs of complying with five state mandates. One of these mandates was imposed by the Legislature:

- Chapter 102, Statutes of 1981 (AB 251), requires counties to determine whether AFDC recipients have alternate medical insurance coverage (increase in administrative costs of $79,000).

The other four mandates were imposed administratively, through actions taken by the department. These mandates:

- Require counties to verify the household size and shelter costs for food stamp recipients (increase in administrative costs of $194,000);

Table 2
County Welfare Department Administration
Proposed 1983–84 General Fund Changes [a]
(in thousands)

	Cost	*Total*
1. 1982–83 Current Year Revised		$99,268
2. Budget Adjustments		
a. AFDC Administration		
(1) Basic caseload increase	$1,632	
(2) 1983–84 Cost-of-living increase (3 percent)	2,673	
(3) Court cases	−414	
(4) State legislation	−945	
(5) Savings due to P.L. 97-35	−331	
(6) County overhead limitation	3,992	
(7) Proration of shelter costs	1,080	
(8) Other changes	514	
Subtotal		$8,201
b. Nonassistance Food Stamps		
(1) Basic caseload decline	−$303	
(2) 1983–84 cost-of-living increase (3 percent)	656	
(3) County overhead limitation	801	
(4) Other changes	389	
Subtotal		$1,543
c. Special Adult Programs		
(1) 1983–84 cost-of-living increase (3 percent)		$53
d. Staff Development		
(1) 1982–83 cost-of-living increase (3 percent)		$88
3. Total Budget Increase		$9,885
4. Proposed 1983–84 General Fund Expenditures		$109,153

[a] Does not include amounts appropriated by Ch. 327/82 for Emergency Assistance employment programs. The department plans General Fund expenditures of $84,000 in 1982–83 and $336,000 in 1983–84, leaving $492,000 available for expenditure in 1984–85.

- Make the criteria for an exemption from employment services registration the same for counties with and without WIN programs (increase in county grant costs of $3,600);
- Remove the $200 maximum exemption for the cost of employment-related equipment (increase in county grant costs of $9,500); and
- Exclude loans as income in determining eligibility and calculating the grant (increase in county grant costs of $4,500).

County Administrative Cost Control Plan

The Department of Social Service (DSS) allocates funds to counties for the administration of welfare programs based on a formula that considers (1) caseload, (2) productivity targets for eligibility workers, (3) the existing salary structure in each county, (4) allowable cost-of-living increase, and (5) allocated support costs.

The process begins in January when each county submits to the state detailed information that identifies expected costs during the upcoming year. The county also proposes specific productivity targets for (1) the number of AFDC intake and continuing cases to be handled per eligibility worker, and (2) the supervisory ratios for each of these activities.

The department calculates the county's allocation in the following way. First, it determines the productivity targets (the number of cases to be handled by an eligibility worker) and supervisory ratios for the county. The cost control plan calls for counties to meet the average of the productivity standards achieved by similar size counties during a specific base year, or their own performance during the base year, if it was above average. Second, the department determines the allowable salary costs per worker, considering the limits on state funding for cost-of-living increases in the last two years and actual county salaries. Third, the department calculates total administration costs by multiplying the DSS May estimates of caseloads in AFDC and food stamps, times the average cost per case, which is derived from the productivity target and average salary costs. Several other adjustments are made in order to fund overhead costs, fraud investigation activities, and other special items. The state's share of cost is approximately 25 percent of the total. The counties are notified of their allocation early in the budget year. The amount actually paid to a county is determined by adjusting the allocation for the actual caseload during the year.

Under this system, there are two ways in which the state can reduce the costs to the General Fund of county administration: (1) raise productivity targets and (2) limit the allowance for cost-of-living increases to county employees.

Productivity Targets. The cost control plan specifies productivity targets that provide a basis for limiting allocations to counties. Table 3 lists the productivity targets for the AFDC and Food Stamp programs, and shows the extent to which these targets are being met by the 27 largest counties. The first column of the table shows how many counties are meeting each of the productivity targets specified by the cost control plan. The second column shows the number of counties for which the target allowed by DSS results in administrative costs that are *higher* than they would be if DSS had required the county to meet the cost control plan's targets. The last column shows the number of counties for which the targets allowed by DSS result in costs that are *lower* than the costs that would be incurred if DSS had used the cost control plan's targets to determine the county's allocation.

Table 3 shows that in general, the majority of counties are meeting their AFDC productivity targets, except in the area of quality control workers. Fifteen of the 27 counties were allowed more quality control staff than the plan calls for. The department funds more staffing in this area so as to increase the amount of resources devoted to reducing AFDC error rates.

Plan targets for nonassistance food stamps and the support ratio, on the other hand, are not being met. In 17 out of the 27 largest counties, the targets allowed for food stamp cases per worker result in higher costs than plan targets. In 20 of the 27 counties, the targets allowed for the support ratio resulted in higher costs for county administration than the costs that would have been allowed under the plan targets.

Cap on Cost-of-Living Increases. The state's share of the cost of Cost-of-Living Adjustments (COLAs) provided to county welfare department employees was capped at 6 percent in 1981–82. No state funding was allowed for the cost of these COLAs in 1982–83. Preliminary data indicate that, in spite of the zero percent state cap on COLAs, 31 counties have provided cost-of-living increases to their employees, ranging from 0.13 to nearly 15 percent. The full cost of these increases must be funded by the counties themselves. The budget proposes a 3 percent cap on the COLAs that the state will help fund for 1983–84.

Table 3
Differences Between Cost Control Plan Targets and Allowed Productivity Targets (27 Large and Medium Sized Counties) 1982–83 [a]

	Allowed Target Equals *Plan Target*	*Allowed Target Results in* Higher *Cost Than Plan Target*	*Allowed Target Results in* Lower *Cost Than Plan Target*
AFDC			
Intake cases/worker	25	2 [b]	—
Intake workers/supervisor	21	5	1
Continuing cases/worker	20	6	1
Continuing workers/supervisor	17	7	3
Quality Control workers	12	15 [b]	—
Quality Control workers/supervisor [c]	4	14	6
Nonassistance Food Stamps			
Cases/worker	10	17	—
Workers/supervisor	17	8	2
Support ratio [d]	7	20	—

[a] SOURCE: Department of Social Services.
[b] In two counties, added costs of lower productivity per worker or more quality control staff are offset by lower costs in other categories.
[c] Three counties have no targets for Quality Control workers/supervisor.
[d] Support ratio equals the ratio of support costs to eligibility staff costs.

Support Ratio Limit. Last year, the Legislature adopted a third means for controlling county costs. It did so by adding language to the Budget Act limiting the support ratio at one dollar of support costs to one dollar of staff costs. This reduced General Fund expenditures by $4,793,000. Most of the reductions in state aid was experienced by Los Angeles County, which lost $4,369,000 due to its size and the fact that its support ratio was among the highest in the state. The budget proposes to delete the limit on the support ratio, thus increasing General Fund costs by the amount saved in 1982–83.

We concur with the department's deletion of this limit. A fixed dollar limit on the ratio of support costs to eligibility worker costs does not allow a county the latitude to decrease total costs by shifting resources to support activities in order to achieve savings in eligibility worker costs.

Budget Year Estimates for County Administration. Generally, the department calculates the General Fund appropriation for county administration in the budget by adjusting the current-year allocation for changes in caseload that are expected to occur in the budget year. The department, however, does not adjust the proposed expenditures for any changes in administrative procedures that may have been required by state or federal law changes or by court decisions. The total amount budgeted for county administration therefore depends only on the established productivity targets, the allowed salaries, and the projected caseload increase.

The budget for 1983–84 proposes a significant departure from this approach. Specifically, for 1983–84 the administration has increased the estimated county allocations to reflect the costs of changes in administrative

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

procedures that would be required for 1983–84 if the Legislature approves its proposal to prorate the AFDC need standard for shelter costs in shared living arrangements.

Proration of Shelter Costs

We recommend deletion of $3,600,000 ($1,080,000 from the General Fund and $2,520,000 in federal funds) proposed for AFDC administrative costs associated with the implementation of the shelter costs proration, because the addition of these costs represents a departure from standard budgeting procedures under the County Administrative Cost Control Plan.

The budget proposes to change the method by which the AFDC grant is calculated in 1983–84. Specifically, it proposes to prorate the AFDC need standard and grant amount for these AFDC families living with another individual(s). If approved by the Legislature, this change would require eligibility workers to obtain information about all members of the household where the AFDC applicant/recipient lives. This information will be needed in order to determine whether a prorated reduction of the AFDC need standard and grant is required in order to reflect the lower costs of shared living arrangements. The DSS estimates that gathering this information would require an additional five minutes of eligibility worker time for each of 165,000 cases per month. This would result in additional costs of $4,800,000, of which the state's share would be $1,080,000, the counties' cost would be $1,200,000, and the federal share would be $2,520,000.

In budgeting for the estimated costs associated with this proposed new procedural requirement, DSS has failed to use the method normally used to budget for the cost or savings from proposed changes in procedural requirements. Normally, DSS *identifies* costs associated with procedural changes, but does not change the total amount budgeted for county administration to reflect these costs. They are merely cited for illustrative purposes, to identify the part of the total budgeted for county administration that could be attributed to the procedural changes. The costs associated with these new procedures are subtracted from total costs, as estimated under the cost control plan, and the remainder is labeled "Basic Costs."

Rather than follow the normal practice of budgeting for procedural changes, the administration has *added* the costs associated with proration for shelter to the total budget-year estimate, thereby increasing the total amount requested from the General Fund for county administration.

Many procedural changes have been implemented by the department in recent years, resulting in more or less time to process workload at the county level. For example, various AFDC procedural changes identified in this year's subvention estimates (other than the change associated with proration) would permit, using the same logic used to augment the budget for the cost of proration, a General Fund savings of $1,158,000. These savings, however, do not affect the size of the General Fund appropriation in either the current or budget year. If these procedural changes *were* used to adjust the amount of state support budgeted for AFDC administration, they would more than compensate for the $1,080,000 in additional costs due to shelter proration, and result in a net General Fund savings of $78,000.

Because the proposed allowance for the costs associated with the proration of shelter costs is not consistent with past policy, we believe the proposal requires special justification by the department. Specifically, DSS should demonstrate that:

1. The costs of proration would impose an exceptionally large cost on the county compared to the typical procedural change, and that the added requirement will prevent counties from meeting productivity targets specified in the cost control plan.
2. Compared to other procedure changes, the costs associated with this procedural change are more readily identifiable and more easily measured than the costs associated with the other procedure changes.
3. The estimate of five minutes added time per case is relatively accurate, compared to the estimated costs or savings for other procedural changes.

We recommend deletion of the costs for proration for shelter costs, until DSS is able to justify treating this procedural cost item in a special manner. If the department provides further information concerning these costs, we would evaluate this recommendation in light of the criteria stated above.

AFDC Quality Control Reviews

Federal regulations require states to review a sample of AFDC case files twice a year to determine whether those receiving benefits are eligible for such benefits, and whether the correct amounts have been paid.

Every six months, California draws a random sample of cases from the counties' files and reviews each case. Based on its review, the state calculates the percent of payments made in error to AFDC families. This percent is the state's error rate. The federal government then reviews a subsample of the original state sample for accuracy, and adjusts the state's finding to reflect the results from the subsample review. This adjusted error rate is the final federally recognized error rate.

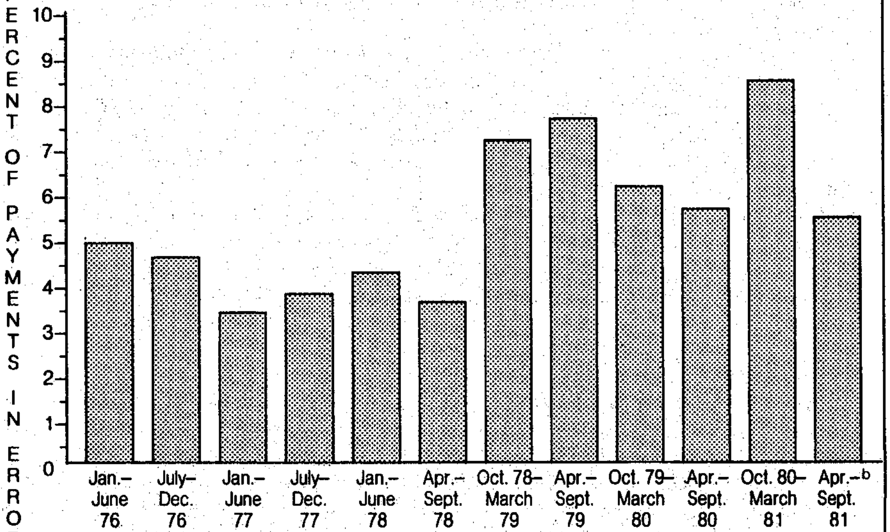
State regulations further require 34 of the 35 largest counties to conduct similar quality reviews twice a year. The thirty-fifth county (Los Angeles) estimates its error rate on the basis of the federal sample results. County quality control staff review about 140 cases, and calculate the county's error rate based on the results of these reviews. A subsample of these county-reviewed cases is reviewed by the state to check on the accuracy of the original county results. The state then adjusts the county findings to arrive at the final state finding for each of the counties.

California's Error Rate Is Increasing. Chart 1 shows the AFDC error rates in California since 1976. It shows that, although the statewide error rate never exceeded 5 percent between January 1976 and 1978, since 1978 the error rate has consistently been above 5 percent. In the most recent period for which final federal results are available, October 1980 to March 1981, the state's error rate jumped to 8.6 percent.

Chart 2 compares the state error rate findings for the last review period shown on Chart 1, April to September 1981, with the results from the next review period, October 1981 to March 1982. Chart 2 separates errors according to the type of error, in order to show the kinds of errors that are occurring. Chart 2 shows that in the period October 1981 to March 1982, error rates increased compared to the rates for the previous review period, and that the increase occurred in all of the major error categories except for one—earned income. The decrease in the earned income category occurred because fewer recipients have earned income to report as a result of the 1981 changes in federal law.

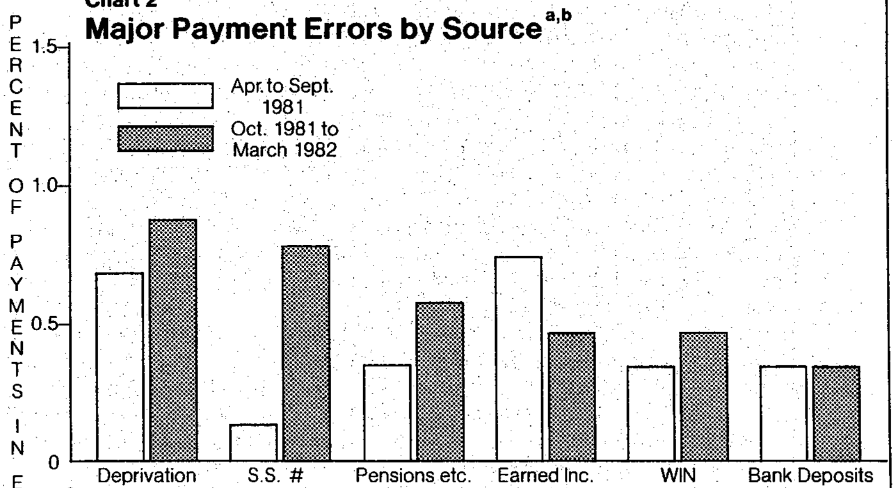
COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

Chart 1
Statewide AFDC Error Rates[a]
January 1976 to September 1981



[a] SOURCE: Department of Social Services; federal findings, combined payment error rates for overpayments and payments to ineligibles.
[b] Estimated.

Chart 2
Major Payment Errors by Source[a,b]



[a] Source: Department of Social Services, based on state findings only.
[b] Sources of error are as follows:

Deprivation—all or some members of the case are not qualified for AFDC because they fail to meet the criterion of deprivation of parental support; most errors occurred in the qualifications for the unemployed parent program.

S.S. #—Social security number wrong or missing.

Pensions, etc.—Amounts of income from R.S.D.I. (Social Security), veterans' programs, unemployment compensation, workman's compensation, or other benefit programs are missing or wrong.

Earned income—discrepancy exists between earned income recorded in case and actual.

WIN—required parent not registered and appropriate action not taken.

Bank Deposits—family has bank accounts or cash in amounts that differ from case record.

Another way to categorize errors is to divide them into two general categories: (1) agency-caused errors (for example, the eligibility worker fails to act on a client report of change in employment status) and (2) client-caused errors (for example, a client fails to report a change in employment status). For the first time since April 1973, the October 1981 to March 1982 results show that agency-caused errors account for the majority of all errors, while the rate of client-caused errors actually declined.

Federal Sanctions. Federal regulations require states to reduce their error rates by one-third decrements, starting in October 1980. Federal regulations also require that for the October 1982 to September 1983 review periods, states achieve an error rate of 4.0 percent or lower. Beginning on October 1, 1983, states must achieve an error rate of 3 percent or lower. Failure of states to achieve either the interim reductions or the 4.0 percent level will result in a reduction in federal financial participation in the costs of the AFDC program. Because California's error rate in the base period (April to September 1978) was below 4.0 percent, the state must achieve the 4.0 percent standard for all review periods between October 1980 and September 1983, and a 3 percent standard for all subsequent review periods. Federal sanctions can be imposed upon the state when the combined error rate over two six-month sampling periods exceeds these standards.

It is likely that California exceeded the allowable error rate standard of 4.0 percent during the October 1980-through-September 1981 review period. The final error rate for the period October 1980 to March 1981, is 8.6 percent. Although final figures are not available from the federal government, DDS estimates that California's error rate for the April-to-September 1981 period will be 5.5 percent. When these two error rates are combined, California can expect to be notified of sanctions totaling between $30 and $40 million. The state then will have 65 days in which to request a waiver of sanctions, based on the state's good faith effort to improve error rates in the AFDC program. The Secretary of DHHS will then determine whether all, part, or none of the sanctions will be waived.

State Legislation. Chapter 327, Statutes of 1982 (SB 1326), requires that federal sanctions be passed on to the counties in an "equitable" way. Counties may have sanctions reduced or set aside if the Director of DSS finds "that extenuating circumstances exist and that the imposition of the full sanction amount would unfairly penalize the county."

The act provides that the costs of federal sanctions attributable to the 23 smallest counties will be borne by the state. The remaining sanctions will be distributed among the 35 largest counties based on the extent to which the individual county error rates exceed the federal standard.

The county error rate findings are based on a sample of 5,000 cases drawn and reviewed independently from the federal quality review sample in all counties except Los Angeles, where the federal sample cases are used. The county error rate findings could be quite different from the statewide findings of the federal sample because the two error rate estimates come from two different samples. If the county results have an overall error rate less than the federal rate, the state would have to bear a greater portion of the federal sanction.

State-Imposed Sanctions Unlikely. Chapter 1025, Statutes of 1982 (AB 1456), requires that the error rate used to determine if a county's error

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

rate is above the allowable standard will be the low point of the statistically reliable range. For example, a county with a 4.5 percent error rate and a reliability of plus or minus 1 percent, could have a "true" error rate as low as 3.5 percent (low point of the range) or as high as 5.5 percent (high point of the range). Under the provisions of Chapter 1025, the county's true

Table 3
Thirty-Five Largest Counties [a]
AFDC Payment Error Rates
April to September 1981

County	Mid-Point Estimate of the Error Rate: With Technical Errors [b]	Mid-Point Estimate of the Error Rate: Without Technical Errors [c]	Low-Point Estimate of the Error Rate [d]
Alameda	9.0	4.8	1.6
Butte	5.8	5.8	1.2
Contra Costa	4.2	3.2	0.9
Fresno	5.3	2.8	1.0
Humboldt	2.9	2.6	0.3
Imperial	6.6	2.9	0.3
Kern	1.8	1.7	−0.2
Kings	1.1	0.5	−0.1
Los Angeles	3.7	3.2	1.9
Madera	3.1	2.1	0.3
Marin	2.1	0.7	0.1
Mendocino	1.9	1.9	−1.0
Merced	5.6	2.8	1.2
Monterey	6.7	5.5	2.4
Orange	4.7	2.6	0.1
Placer	6.9	5.1	2.4
Riverside	5.1	4.1	1.7
Sacramento	2.4	1.3	0
San Bernardino	4.9	4.2	1.5
San Diego	9.0	7.2	2.9
San Francisco	8.1	4.5	0.4
San Joaquin	4.3	3.2	0.7
San Luis Obispo	2.8	2.2	0.5
San Mateo	2.4	1.7	−0.5
Santa Barbara	8.5	8.1	3.8
Santa Clara	9.4	6.2	2.6
Santa Cruz	4.2	2.0	0.4
Shasta	7.2	3.5	0.8
Solano	5.6	4.2	1.7
Sonoma	4.6	3.7	−0.3
Stanislaus	5.4	2.9	0.9
Tulare	2.2	2.0	0.3
Ventura	3.1	2.3	0.6
Yolo	4.7	3.2	0.6
Yuba	0.1	0.1	−0.1
Number of Counties with Error Rates Above 4 percent:	22	11	0

[a] SOURCE: Department of Social Services, State sample, original county findings.
[b] This number is comparable to the error rate reported as the statewide rate based on the separate federal sample.
[c] This is the midpoint estimate of the error rate—that is, the actual error rate in each county's sample.
[d] This is the low point of the 95 percent confidence interval for the error rate without technical errors.

error rate is assumed to be 3.5 percent. In addition, the department has adopted regulations which provide that sanctions are to be imposed only if a county's error rate exceeds the standard for two consecutive six-month periods. Also, error rates exclude so-called technical error, e.g., social security number of WIN registration, that are included in federal error rates.

As a result of these provisions, it is unlikely that counties will *ever* be deemed to have exceeded the 4 percent error rate standard.

Table 3 shows that when the provisions of Chapter 1025 and the department's regulations are applied for the quality control review period of April to September 1981, no county is found to be liable for sanctions, despite the fact that 22 of the 35 counties had reported error rates (first column of Table 3) exceeding 4 percent. Under the rules as applied by the department, two counties were notified that they were liable for sanctions for the April to September 1981 period, but upon appeal it was determined that cases in the sample were incorrectly identified as errors. The recalculated error rate for each county was below the error rate standard. (Table 3 includes the corrected rates for these counties)

Sanctions Offset by Previous Year's Performance. Even if sanctions ever were to be imposed, the amount of the penalty would be reduced by taking into account the county's performance in earlier periods. Under current rules, the amount of the sanction, which would be roughly equal to the state's share of assistance payments in excess of 4 percent that had been made in error during the year, would be reduced by an estimate of the payments "saved" during the previous year if the county's error rate was below the error rate standard during the previous year. Thus, it is likely that sanctions would only be imposed on a county that consistently had extraordinarily high error rates.

The State Pays the Cost of Erroneous Payments

Taken as a whole, current state law and regulations result in a policy where sanctions will not be imposed on counties, and consequently the state will continue to bear most of the nonfederal cost of these payment errors. For example, if the 5.5 percent error rate, for the April-to-September 1981 period continued throughout 1981–82, we estimate that payments made in error to AFDC recipients would total $160,852,000 ($82,118,000 in federal funds, $70,249,000 in state funds, and $8,485,000 in county funds). Under the current no-sanction policy, the state ends up paying $70,249,000 to individuals that, under existing law and regulations, do not warrant this assistance. This is nearly five times the amount spent from the General Fund on other county social services in 1981–82.

If, instead, counties had been required to pay sanctions under the programs they administer for errors exceeding 4 percent, the counties would have reduced the state's cost of erroneous payments by $19,159,000.

We conclude that this no-sanction policy—"Let the State Pay"—does not serve the interests of the state as a whole for the following reasons.

Counties Have Insufficient Incentive to Keep Error Rates Low. As long as the state bears the major share of the cost of the erroneous payments, the counties have little incentive to reduce errors. This can be seen in a comparison of error rates for different periods. Prior to 1978–79, when the counties paid 16 percent of the costs of AFDC grants, error rates were generally below 4 percent. Now that the county's share is only 5 percent, the statewide error rate is much higher. By imposing sanctions on those counties with high error rates, counties are given an incentive to take

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

those managerial steps needed to keep rates low.

Taxpayers in Counties with Low Error Rates Subsidize Taxpayers in Counties with High Error Rates. As long as the state pays the cost of the erroneous payments made by counties with high error rates, each taxpayer in the state shares in the costs of these errors. This means that taxpayers residing in counties able to administer AFDC program with error rates of 4 percent or less are paying through their state taxes for the errors made in counties with error rates higher than 4 percent. Effective state sanctions would transfer the costs of these errors to taxpayers in the counties where they are made.

The State Pays Three Times for High Error Rates. In addition to the $70,249,000 the state has already paid for erroneous AFDC payments in 1981–82, the current no-sanction policy may require the state to bear additional costs associated with the errors made by county welfare workers. First, if federal sanctions are imposed, the state will pay a portion of the cost to the federal government of these errors. Second, the state allows counties with high error rates to employ more quality control workers than the cost control plan calls for, in order to help those counties to reduce their error rates. If these additional personnel are not successful in lowering error rates, the state will pay for the extra workers, as well as the uncorrected errors. Thus, the state may have to pay for errors made at the county level in three different ways: (1) the state's share of payments (45 percent), (2) the cost of any federal sanctions that are not passed onto the counties, and (3) the extra costs of quality control workers assigned in counties with high error rates.

Current policy places the responsibility for welfare administration in the counties, but the state bears the costs of the counties' failure to effectively discharge that responsibility. Unless the counties bear a greater share of the cost of their mistakes, the state probably can expect error rates to remain high.

The Reliability of Error Rate Data Can Be Improved

We recommend adoption of Budget Bill language requiring DSS to amend its regulations to specify that the performance measure to be used for the purposes of applying state sanctions shall be the combined annual error rate over two quality control review periods. We also recommend that DSS provide the fiscal committees prior to the budget hearings, with a plan for coordinating the federal sample and the separate state sample so that the results can be combined.

Auditor General's Recommendations. The Auditor General issued a report in September 1982 that recommended several steps to lower error rates. He recommended that DSS (1) improve the assistance if provides to counties in identifying and analyzing the source of errors and (2) improve its quality control sampling procedures in order to increase the reliability of individual county error rate estimates. Improved estimates would increase the chances that sanctions might be imposed on counties with high error rates. In June 1982, DSS held the first meeting of a new statewide corrective action advisory committee established in response to the Auditor General's first recommendation. The DSS has established a plan to address the remaining recommendations contained in the Auditor General's report.

Error Rate Estimates. We concur with the Auditor General's conclusion that the lack of reliable county error rate data reduces the likelihood that sanctions will be applied against counties with high error rates. The department could improve the reliability of its error rates by increasing the number of cases reviewed. The size of the sample, however, is limited by the cost of conducting the case reviews. Any increase in the state's sample of 5,000 cases would result in increased costs to sample and review the additional cases.

Our analysis indicates that the department could increase the effective size of the quality sample without incurring any additional quality control costs by (1) combining results from two consecutive quality review periods and (2) combining the federal and state samples.

Combining the results from two consecutive quality review periods will double the sample size for most counties, and improve the reliability of the county error rate estimates. The improved reliability will result in a narrowing of the 95 percent confidence interval around the combined midpoint estimate of the error rates for the two six-month periods. This means that the low point estimate of the error rate will be closer to the midpoint of the interval, and will improve the chances that a county with truly high error rate will face sanctions. Therefore, we recommend that the Legislature adopt the following Budget Bill language requiring the department to combine the results from two consecutive review periods for the purpose of determining a county's error rate:

"For the purposes of state sanctions pursuant to Section 15200.4 of the Welfare and Institutions Code, the error rate estimate that shall be used to measure the quality performance of each county shall be the low point estimate of the confidence interval estimated by combining the results from the two quality review samples conducted during the two subsequent quality review periods."

The DSS could also improve the reliability of error rate estimates by combining the federal and state quality review samples. The state selects about 5,000 cases every six months in order to determine the error rates in the 35 largest counties. In the review period April to September 1981, an additional 796 cases were drawn in all counties except Los Angeles, for review by the state and the federal government to determine the official statewide error rate. If these samples were combined, it would increase the total sample statewide by approximately 23 percent. This increase would improve the reliability of county-specific error rates, narrow the confidence intervals, and increase the chances of sanctions being imposed on counties with excessive error rates.

We therefore recommend that DSS develop and present to the fiscal committees prior to budget hearings a plan to combine the results from the federal and state samples in order to improve the accuracy of county error rate estimates.

BUDGET ISSUES

Asset Clearance Match

We recommend a reduction in funds budgeted for county administration in order to reflect caseload decreases anticipated from the Asset Clearance Match demonstration project, for a savings of $476,000 ($114,000 from the General Fund, $244,000 in federal funds, and $118,000 in county funds).

Chapter 703, Statutes of 1981 (SB 620), authorized DSS to conduct a demonstration project (referred to as the Asset Clearance match) which

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

matches AFDC files against interest and dividend information from the Franchise Tax Board. The purpose of this project is to identify AFDC recipients who have personal property which exceeds the allowable federal and state limits. The department estimates that this system will result in a grant savings because some individuals will no longer be eligible for aid. Although the department acknowledges that the demonstration will reduce the AFDC caseload, it has not reduced the amount budgeted for county administration funds accordingly. (These administrative costs are budgeted according to the estimated caseloads for the budget year.) In order to account for impact of the program on county workload, we recommend a reduction of $451,000, consisting of $110,000 from the General Fund, $231,000 in federal funds, and $110,000 in county funds.

Because these amounts were included in the base used for calculating the cost-of-living amounts requested for county administration, a further reduction of $25,000 should be made ($4,000 from the General Fund, $13,000 in federal funds, and $8,000 in county funds in the cost-of-living item (Item 5180-181-001). The total recommended reduction, is $476,000 ($114,000 from the General Fund, $244,000 in federal funds, and $118,000 in county funds).

Federal Food Stamp Incentive Payments

We recommend that federal Food Stamp Incentive Payments be budgeted in 1983–84, for a savings of $2,143,000 ($1,072,000 to the General Fund and $1,071,000 to county funds).

Federal law provides that states which reduce their Food Stamp error rates by more than 25 percent in any year will receive an increase in federal funds for Food Stamp administration. Specifically, the federal government will increase its share of administrative costs from 50 to 55 percent.

During the period April 1981 to September 1981, California's Food Stamp error rate was 8.2 percent, down 27 percent from the 11.3 percent rate for the period April 1980 to September 1980. According to DSS, this will result in enhanced federal funding of $2,143,000, and a corresponding savings to the state and counties. These funds will be received during either the current year or the budget year. Current law provides that these funds be distributed according to the share of administrative costs borne by the state and counties during the 1981 period.

No adjustment has been made to the estimated General Fund expenditures for 1982–83 or 1983–84 in recognition of these additional federal funds. Accordingly, we recommend that the anticipated increase in federal funds be reflected in the 1983–84 budget, resulting in a General Fund savings of $1,072,000 (Item 5180-141-001), a savings to the counties of $1,071,000, and an increase in federal funds of $2,143,000 in Item 5180-141-866.

Food Stamp Mail Loss Liability

We recommend that funds proposed for alternative food stamp issuance methods be reduced to reflect a lower-than-anticipated caseload, for a savings of $140,000 ($35,000 from the General Fund, $70,000 in federal funds, and $35,000 in county funds).

The Food Stamp Amendments of 1981 (P.L. 97-98) provide that states will be held liable for food stamp coupon mail losses. Counties which issue more than $300,000 in coupons per quarter will bear the cost of coupon losses exceeding 0.5 percent of total coupons issued. Smaller counties are liable for losses over $1,500. The DSS reports that 20 counties face sanctions totaling $330,684 per quarter, based on actual mail loss rates during July to September 1982. State regulations provide that the counties shall bear the full cost of the mail loss liability.

The budget includes $630,000, all funds, to support alternative means of issuing coupons to decrease the mail losses and avoid the sanctions. Such alternatives include certified mail, over-the-counter issuance, or automated computer-assisted issuance. The budget assumes that alternative issuance methods will cost an additional $0.25 for each of 2,518,400 coupons issued during the budget year.

Our analysis indicates that the number of coupons issued will reach only 1,960,000, based on current department caseload estimates in counties threatened with mail loss liability. This caseload would result in a cost of $490,000 to alter the method of issuing the coupons. Therefore, we recommend a reduction of $140,000 to reflect the lower caseload estimate, resulting in a General Fund savings of $35,000, a federal fund savings of $70,000, and a $35,000 decrease in estimated county costs.

Enhanced Federal Funding for On-Line Food Stamp Issuance

We recommend that enhanced federal funding for the development of on-line issuance of food stamp coupons be budgeted, for a savings of $398,000 ($197,000 to the General Fund and $201,000 in county funds).

The Food and Nutrition Service of the U.S. Department of Agriculture offers enhanced federal funding—75 percent rather than the usual rate of 50 percent—for the planning, design, development, and installation of new automated data processing and information retrieval systems. The budget includes a total of $1,595,000 for the development of an on-line Food Stamp issuance system which could qualify for enhanced funding as an automated data processing system.

Our analysis indicates that the state will receive enhanced federal funds for the development of an automated on-line issuance system, resulting in decreased state and county costs of $197,000 and $201,000 respectively. The budget, however, has not been adjusted to reflect these savings. Therefore, we recommend that increased federal funds of $398,000 be budgeted, for a savings of $197,000 to the General Fund and $201,000 in county funds.

Development of On-Line Food Stamp Issuance Systems

We recommend that DSS identify prior to budget hearings (1) the counties where on-line food stamp issuance is expected to become operational, (2) the costs and savings expected from installation of on-line systems in each county, and (3) the scheduled dates for implementation.

In its original 1982–83 budget, the DSS included funds for the development of on-line food stamp issuance systems in Los Angeles County. The department now proposes to develop in 1982–83 an on-line system for counties where Case Data Systems are operating, and to expand the system in 1983–84 to other counties where it would be cost beneficial.

In order to evaluate the costs estimated for this program and to insure that expected savings are appropriately budgeted, the Legislature needs information on (1) the current plan for implementing this system, (2) the costs associated with the development and operation of the system, and (3) the savings expected to accrue in the cost of Food Stamp administration. We recommend that the DSS provide this information to the fiscal committees prior to budget hearings.

Department of Social Services
SOCIAL SERVICES PROGRAMS

Item 5180-151 from the General Fund and the Social Welfare Federal Fund — Budget p. HW 147

Requested 1983–84	$173,098,000 [a]
Estimated 1982–83	177,977,000
Actual 1981–82	175,132,000
Requested decrease $4,879,000 (−2.7 percent)	
Total recommended reduction Item 5180-151-001	15,893,000
Total recommended reduction Item 5180-181-001 (c)	(511,000)
Recommendation pending	$17,170,000

[a] This amount includes $13,149,000 proposed in Item 5180-181-001 (c) for cost-of-living increases.

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-151-001—Social Services Program/Local Assistance		General	$159,949,000
5180-181-001—Social Serivces Program/Local Assistance: COLA		General	13,149,000
5180-151-866—Social Services Program/Local Assistance		Federal	(337,212,000)
Total			$173,098,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Federal Title IV-E Funds. Reduce by $14,185,000.*** Recommend unbudgeted federal funds be used to replace General Fund support for social services program, in order to provide the Legislature with more fiscal flexibility. 1159
2. Other County Social Services (OCSS). Withhold recommendation on funds proposed for child welfare services in the OCSS program ($11,208,000 from the General Fund and $96,143,000 in federal funds), pending review of (a) final regulations implementing the family reunification and permanent placement programs and (b) draft regulations implementing the emergency response and family maintenance programs. 1160
3. In-Home Supportive Services (IHSS). Withhold recommendation on $3,007,000 requested from the General Fund and $25,791,000 in federal funds proposed for administration of the IHSS program, pending receipt of data reflecting actual administrative expenditures for this program for the quarter ending December 31, 1982. 1161

4. In-Home Supportive Services (IHSS). Recommend adoption of supplemental report language requiring the Department of Social Services (DSS) to report quarterly on IHSS administrative expenditures. 1161
5. Allocation of OCSS Funds to Counties. Recommend adoption of Budget Bill language requiring DSS to submit an allocation formula to the fiscal committees which is consistent with the department's estimates of the costs of the OCSS program and is based on appropriate caseload measurements. 1162
6. OCSS Cost Control Plan. Recommend adoption of Budget Bill language requiring DSS to develop an OCSS cost control plan. 1166
7. ***OCSS Funds for Shasta and San Mateo Counties. Reduce Item 5180-151-001 by $1,600,000 and Item 5180-181-001 (c) by $48,000.*** Recommend reduction in General Fund support budgeted for the OCSS program to correct for double-budgeting. 1168
8. OCSS Cost-of-Living Adjustment (COLA). Recommend a General Fund reduction of $252,000 and a federal funds augmentation of $726,000 in the OCSS COLA items (Item 5180-181-001 (c) and Item 5180-181-866) to correct for technical errors in calculating the effects of a 3 percent OCSS COLA. 1168
9. IHSS COLA. Recommend a General Fund reduction of $211,000 from the amount proposed for the IHSS COLA (Item 5180-181-001 (c)) to correct for overbudgeting. 1172
10. ***Issuance of IHSS Payroll Checks. Reduce by $108,000.*** Recommend General Fund reduction of $108,000 to correct for overbudgeting of reimbursements to the State Controller's Office for checkwriting services for the IHSS program. 1173
11. IHSS Payrolling Contract. Withhold recommendation on $2,955,000 requested from the General Fund to support a new IHSS payrolling system contract, pending receipt of the May revision of expenditures. 1174
12. IHSS Time-for-Task Standards. Recommend DSS report to the fiscal committees prior to budget hearings on potential General Fund savings from statewide time-for-task standards. 1174
13. Licensed Maternity Homes. Recommend enactment of legislation requiring DSS to collect additional financial data regarding residents of maternity homes. 1178

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 six categories: (1) Other County Social Services (OCSS), (2) specialized adult services, (3) specialized family and children's services, (4) adoptions, (5) demonstration programs, and (6) refugee social services.

Federal funding for social services is provided pursuant to Titles IV-A, IV-B, IV-C, IV-E, and XX of the Social Security Act and the Federal Refugee Act of 1980. In addition, 10 percent of the funds available under

SOCIAL SERVICES PROGRAMS—Continued

the federal Low Income Home Energy Assistance (LIHEA) block grant are transferred to Title XX social service programs each year.

ANALYSIS AND RECOMMENDATIONS

Table 1 shows that the budget proposes total expenditures of $566.2 million for social services programs in 1983–84. Of this amount, $173.1 million, or 31 percent, is requested from the General Fund, and $337.2 million, or 60 percent, is anticipated from the federal government. The budget also anticipates county support for social services totaling $55.9 million.

Of the total General Fund request, $13.1 million is for a three percent cost-of-living adjustment for social services programs. The total cost-of-living increase proposed for social services programs is $14.7 million.

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 DSS. The 1982 Budget Act authorized 420.6 positions in the department for administration of social services. During the current year, the department eliminated 22.5 positions. The budget proposes creating two new positions during 1983–84. Thus, the budget proposes a total of 400.1 state positions to administer social services programs during 1983–84.

Table 1
Department of Social Services
Proposed Expenditures for Social Services Programs
Including Cost-of-Living Adjustment
All Funds
1983–84
(in thousands)

Program	*General Fund*	*Federal Funds*	*County Funds*	*Total*
A. Other County Social Services	$18,293	$156,916	$52,598	$227,807
B. Special Adult Services	134,310	148,070	2,082	284,462
1. In-Home Supportive Services	(130,265)	(148,070)	(2,082)	(280,417)
2. Maternity Home Care	(2,167)	—	—	(2,167)
3. Access Assistance for the Deaf	(1,878)	—	—	(1,878)
C. Work Incentive (WIN) Program	355	14,494	1,245	16,094
D. Adoptions	19,482	—	—	19,482
E. Demonstration Program	658	432	—	1,090
1. Child Abuse Prevention	(610)	(432)	—	(1,042)
2. Family Protection Act (AB 35)	(48)	—	—	(48)
F. Refugee Social Services	—	17,300	—	17,300
G. Totals:				
Amount	$173,098	$337,212	$55,925	$566,235
Percent	30.6%	59.5%	9.9%	100.0%

Proposed General Fund Budget Changes

Table 2 details the proposed changes in General Fund spending for social services programs. The table shows a net decrease in General Fund expenditures of $4,879,000, or 2.7 percent, from estimated current-year outlays. This reflects both increases and reductions. The major increases are due to: (1) the increased costs of children's services budgeted for the Other County Social Services (OCSS) program that are attributable to the provisions of Ch 978/82 (SB 14) ($15,816,000), (2) increased In-Home Supportive Services (IHSS) caseload ($7,495,000), and (3) cost-of-living adjustments ($13,149,000). These increases are offset by proposed decreases due to: (1) anticipated increases in federal Title IV-A, IV-E, and XX funds ($24,144,000), (2) a reduction in the number of service hours to clients in the IHSS program ($7,495,000), and (3) the elimination of funding for Ch 1398/82, which appropriated $10,000,000 for child abuse prevention during 1982–83, of which $8,683,000 was for local assistance.

Table 2

Department of Social Services
Proposed 1983–84 General Fund Budget Adjustments
For Social Services Programs
(in thousands)

	Adjustments	*Totals*
A. 1982–83 Current Year Revised		$177,977
B. Budget Adjustments		
1. Other County Social Services		
a. Transfer funding for Ch 104/81 (AB 35) from demonstration projects	1,600	
b. Costs of Ch 978/82 (SB 14)	15,816	
c. General Fund reduction due to increased federal funds	−7,948	
d. Cost-of-living increase	4,596	
Subtotal		$14,064
2. IHSS		
a. Caseload increase	$7,495	
b. Reduction in service hours to clients	−7,495	
c. General Fund reduction due to increased federal funds	−16,196	
d. Cost-of-living increase	7,812	
Subtotal		−$8,384
3. Adoptions		
a. Costs of AB 2695	$51	
b. Cost-of-living increase	575	
Subtotal		$626
4. Demonstration Programs		
a. Eliminate Funding for Ch 1398/82 (AB 1733)	−$9,751	
b. Transfer funding for Ch 104/82 (AB 35) OCSS program	−1,600	
c. Ch 104/81 (AB 35) cost-of-living increase	48	
Subtotal		−$11,303
5. Licensed Maternity Home Care Services		
a. Cost-of-living increase		$63
6. Deaf Access		
a. Cost-of-living increase		$55
Total Proposed General Fund Adjustments		−$4,879
c. Proposed Total General Fund for 1983–84		$173,098

OTHER-COUNTY SOCIAL SERVICES

The Other-County Social Services (OCSS) program funds eight of the nine Title XX services that counties are required by the state to provide. In-Home Supportive Services (IHSS) is the ninth mandated program. Under the OCSS program, counties may also provide one or more of the various services that are optional under state law.

Proposed Funding for OCSS. The budget proposes total spending of $227,807,000 for OCSS in 1983–84. This amount consists of $156,916,000 in

SOCIAL SERVICES PROGRAMS—Continued

federal funds (Titles IV-A, IV-B, IV-E, and XX), $52,598,000 in county funds, and $18,293,000 in General Fund support. The total includes a cost-of-living adjustment of $4,596,000 proposed separately under Item 5180-181-001(c).

Impact of Major Legislation—Chapter 978, Statutes of 1982 (SB 14)

Chapter 978, Statutes of 1982 (SB 14), restructured the OCSS program by creating the family reunification and permanent placement programs, effective October 1, 1982, and the emergency response and family maintenance programs, effective October 1, 1983. These programs replace the emergency response, child protective services, and out-of-home care services for children programs authorized under prior law. Table 3 summarizes these changes in child welfare services.

Table 3
Summary of SB 14 Changes in Child Welfare Services

Prior Law	*Senate Bill 14*
Emergency Response Protective Services for Children	Preplacement Preventive Services a. Redefined Emergency Response, effective October 1, 1983. b. Family Maintenance Services, effective October 1, 1983.
Out-of-Home Care Services for Children	Family Reunification Services, effective October 1, 1982. Permanent Placement Services, effective October 1, 1982.

The purpose of each of the new child welfare services programs created by SB 14 is as follows:

1. ***The Emergency Response Program*** will be the initial intake and assessment component of a new preplacement preventive program to help abused and neglected children remain with their families.

2. ***The Family Maintenance Program*** will be the second component of the new preplacement preventive program, and will provide ongoing services to children and their families who have been identified through the emergency response program as being abused, neglected, or in danger of being abused or neglected. These services will be limited to six months with the possibility of two three-month extensions. The primary goal of the family maintenance program is to allow children to remain with their families under safe conditions, thereby eliminating unnecessary placement in foster care.

3. ***The Family Reunification Program*** provides services to children in foster care who have been temporarily removed from their families because of abuse or neglect. The program also provides services to the families of such children. The primary goal of the program is to safely reunite such children with their families. Services under the family reunification program are limited to 12 months, with the possibility of a six-month extension.

4. ***The Permanent Placement Program*** provides services to facilitate the permanent placement of children who cannot return safely to their families. The primary goal of the program is to ensure that these children are placed in the most family-like and stable setting available, with adoption being the placement of first choice, followed by legal guardianship and long-term foster care.

In addition to these changes in child welfare services programs, SB 14 made several procedural changes affecting the juvenile courts. Specifically, SB 14 required that the status of each child in foster care be reviewed at least once every six months, and that the court conduct a permanency planning hearing within one year of the child's initial placement. Senate Bill 14 also provides that counties may establish an administrative review process to take the place of six-month court reviews for children who have had a permanency planning hearing.

Unbudgeted Federal Funds

We recommend that unbudgeted Title IV-E funds be used in lieu of General Fund support for the social services program, in order to increase the Legislature's fiscal flexibility, for a General Fund savings of $14,185,-000.

Background. The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) provided that qualifying states could receive federal Title IV-E funds for case management services provided to federally eligible foster care children. In order to qualify for these federal funds, states are required to have an approved Title IV-E plan. With the enactment of Ch 977/82 (AB 2695) and Ch 978/82 (SB 14), California came into compliance with the requirements for an acceptable Title IV-E plan. The U.S. Department of Health and Human Services (DHHS) approved California's Title IV-E plan effective October 1, 1982.

Title IV-E Funds Not Budgeted for 1982–83. The OCSS budget includes $13,694,000 in federal Title IV-E funds for the case management of federally eligible foster care children during 1983–84. This amount represents the federal share (50 percent) of the costs of providing case management services to foster children under the family reunification and permanent placement programs. The budget proposes to use these federal funds during 1983–84 to offset a portion of the General Fund costs of the OCSS program.

Our analysis indicates that California is eligible to receive additional Title IV-E funds for 1982–83 because its Title IV-E plan was effective October 1, 1982. The department estimates that the family reunification and permanent placement programs, which also went into effect on October 1, 1982, will cost $59,666,000 during 1982–83, of which $48,423,000 will be for case management services. Of this amount, the department estimates that approximately 59 percent, or $28,370,000, of all spending for case management services, will be for federally eligible children. Under the federal sharing rate of 50 percent, California is eligible to receive additional Title IV-E funds during 1982–83 totaling $14,185,000. Although these funds will be available for use during 1982–83 or 1983–84, the administration's budget does not include these funds for either fiscal year. If these funds are used to replace General Fund support for social services programs in 1983–84, the Legislature will have an additional $14,185,000 in General Fund resources to draw on, and thus more flexibility in funding its priorities in this or other program areas. We therefore recommend that the $14,185,000 in unbudgeted Title IV-E funds be used in 1983–84 to offset the General Fund costs of social services programs.

SOCIAL SERVICES PROGRAMS—Continued

Final Regulations Implementing SB 14 Child Welfare Services Programs Not Available

We withhold recommendation on $107,351,000 proposed for child welfare services in the OCSS Program ($11,208,000 from the General Fund and $96,143,100 in federal funds), pending review of (1) the final regulations implementing the family reunification and permanent planning programs and (2) the draft regulations implementing the family maintenance and emergency response programs.

Background. Under the provisions of SB 14, the family reunification and permanent placement programs went into effect on October 1, 1982, and the family maintenance and emergency response programs will go into effect on October 1, 1983. The department's regulations implementing the family reunification and permanent placement programs went into effect on an emergency basis on October 1, 1982. The department expects to submit final regulations to the Office of Administrative Law (OAL) for its review by January 28, 1983. The OAL will have 30 days from the date the regulations are submitted in which to accept or reject the regulations.

Service Levels Required by the Regulations may Exceed those Established in Law. At the public hearing on the regulations implementing the family reunification and permanent planning programs, several counties presented testimony which identified specific instances in which the requirements of the regulations exceed the requirements of SB 14. Specifically, counties noted that the regulations:

- Require monthly face-to-face contact between the social worker and the parents, foster parents, and child for all family reunification cases. This is not a requirement of SB 14.
- Set specific time limits on the development and documentation of case plans. This also is not a requirement of SB 14.
- Establish a six-month administrative review process which is far more costly than the one created by SB 14. In fact, every county we have contacted has decided not to establish an administrative review process, but rather to have six-month reviews of children in foster care conducted by the court because they estimate that the review process created by the regulations would be a *more costly alternative than a court review.* It should be noted that any regulations issued by the Department of Social Services which exceed the requirements of SB 14 could be considered an executive mandate and subject to reimbursements under Article XIIIB of the Constitution.

Regulations May Be Revised. It is our understanding that the department is considering a revision of the family reunification and permanency planning regulations, in response to the concerns raised at the public hearing. We have not had the opportunity to review the version of the regulations which the department will submit to the OAL. Furthermore, the regulations implementing the emergency response and family maintenance programs have yet to be published even in draft form.

SB 14 Estimates are Based on the Department's Regulations. The budget proposes total expenditures of $139,578,000 for child welfare services in 1983–84. This funding level is based on the department's estimate of SB 14 costs, which is, in turn, based on the department's regulations. We estimate that, of the total OCSS spending for child welfare services, $11,-

208,000 will be from the General Fund, $96,143,000 will be from federal funds, and $32,227,000 will be from county funds.

Given (1) the possibility that the regulations implementing the family reunification and permanent placement programs may be changed in response to public testimony, and that they are subject ot OAL approval in any event, and (2) that the regulations implementing the family maintenance and emergency response programs will not be made public until April 1983, we have no basis on which to evaluate the department's estimates of the costs of child welfare services programs established by SB 14. We therefore withhold recommendation on funds budgeted for the OCSS program ($11,208,000 from the General Fund and $96,142,700 in the federal funds), pending our review of (1) the final regulations for the family reunification and permanent placement programs and (2) the draft regulations for the emergency response and family maintenance programs.

IHSS Administrative Savings

We withhold recommendation on $28,798,000 ($3,007,000 from the General Fund and $25,791,000 in federal funds) budgeted for IHSS administration, pending receipt of data needed to estimate the savings attributable to the change from semi-annual to annual reassessments of IHSS recipients.

Senate Bill 14 eliminated semi-annual reassessments of IHSS recipients' eligiblity and need for services, and instead required annual reassessments. This change will result in a reduction in IHSS administrative costs to the extent that it results in fewer reassessments of IHSS recipients by county welfare departments. Senate Bill 14 also required the Legislative Analyst to (1) identify the savings attributable to this change for 1982–83 and (2) estimate the savings in 1983–84.

The *Supplemental Report of the 1982 Budget Act* requires the department to provide the Legislature with quarterly reports on IHSS administrative expenditures. The department's first report for the quarter ending September 30, 1982 was submitted on December 13, 1982. Because SB 14 did not take effect until September 13, 1982, however, the full effect of the change in the frequency of IHSS reassessments is not reflected in the expenditures for this period. We believe that data reflecting IHSS administrative expenditures during the quarter ending December 31, 1982, will provide the data necessary for making the required estimate of IHSS administrative savings.

The budget proposes a total of $37,443,000 for the administration of the IHSS program during 1983–84. This amount consists of $3,007,000 from the General Fund, $25,791,000 from federal funds, and $8,645,000 from county funds. Until we have reviewed actual expenditure data for IHSS administration during the quarter ending December 31, 1982, we have no basis for evaluating the department's estimate of 1983–84 IHSS administrative costs. Therefore we withhold recommendation on $28,798,000 ($3,007,000 from the General Fund and $25,791,000 in federal funds) requested for IHSS administrative costs.

Report on IHSS Administrative Costs

We recommend adoption of supplemental report language requiring the department to make quarterly reports on the costs of IHSS administration.

The *Supplemental Report of the 1982 Budget Act* requires DSS to provide the Legislature with quarterly reports on IHSS administrative ex-

SOCIAL SERVICES PROGRAMS—Continued

penditures. In order to facilitate the Legislature's continued review of the fiscal effects resulting from the change in the frequency of IHSS reassessments, we recommend the adoption of the following supplemental report language:

"The department shall submit, within 90 days of the last day of each quarter of 1983–84, a report on the amount spent by each county from state, federal, and county funds, for the administration of the In-Home Supportive Services program."

OCSS Allocation Formula Will Result in "Underfunding" of Some Counties

We recommend adoption of budget bill language requiring the department to submit to the fiscal committees and the Joint Legislative Budget Committee an allocation formula for the OCSS program which is consistent with the department's estimates of the costs and savings of SB 14.

The budget proposes total spending from all funds for the OCSS program of $227,807,000 in 1983–84. Of this amount, $226,681,000 is for the department's estimate of the costs of the OCSS program resulting from the provisions of SB 14. Assuming the department's estimate is correct, the amount proposed in the budget will be sufficient to provide each county with an amount adequate to pay for the costs of the OCSS program, including the increased costs attributable to the provisions of SB 14.

Our analysis indicates, however, that the current formula used by the department to allocate state and federal funds to the counties will result in significant under-funding of some counties.

Historical Basis for the Allocation Formula. The department's formula for allocating OCSS funds is grounded in the history of the OCSS program.

During the early 1970's, funding for the program was more than sufficient. In fact, each year many counties spent less than their total allocations. Unexpended funds were reallocated among the remaining counties. During the mid-to-late 1970's, however, the amount of funding available for the OCSS program (primarily federal Title XX funds, at that time) did not keep pace with escalating costs, with the result that those counties which traditionally had returned a portion of their OCSS allocations to the state began to use all of the funds allocated to them. In response, the department developed an allocation formula incorporating measurements of each county's need for funds, such as county population, welfare caseload, and children in foster care. The exclusive use of these caseload indicators, however, would have resulted in a massive shifting of funds *away* from those counties which had a high level of expenditure for OCSS *to* those counties which had traditionally returned much of their OCSS allocation. The department therefore decided that no county would receive more than 102 percent, or less than 98 percent, of its prior-year allocation, adjusted for any cost-of-living increase granted by the Legislature.

Allocation Formula Inconsistent with SB 14 Cost Estimates. The formula used by the department to distribute OCSS funds may have been appropriate prior to enactment of SB 14. The passage of SB 14, however, represents a major change in the OCSS program, making the formula obsolete. The department, however, has not acted to change the allocation formula to reflect these changes in the program.

Our analysis indicates that the department's allocation formula is inconsistent with the SB 14 cost estimates in the following ways:

- ***The formula distributes the total funding available for the OCSS program to the specific service programs in a manner which is inconsistent with the costs of each service program, as estimated by the department.*** Prior to SB 14, 63 percent of OCSS funds were spent for the children's services programs. According to the department's estimate, the changes enacted by SB 14 will require that 76 percent of OCSS funds be spent for child welfare services. The allocation formula used by the department in 1982–83—the first year in which SB 14 was in effect—however, continues to allocate only 63 percent of the available funding based on child welfare services caseloads.
- ***The formula allocates funds using inappropriate measures of caseload.*** The portion of the funds intended for child welfare services is allocated to counties based on each county's share of statewide AFDC-FG and U children, AFDC-Foster Care children, and children aged 0–17, with each of these factors weighted equally. More appropriate caseload indicators would be each county's share of statewide AFDC-Foster Care children and child protective service referrals. This is implicitly recognized by the department, since its estimates of the costs of the child welfare service programs created by SB 14 are based entirely on these caseloads.
- ***The formula allocates IHSS administration funds based on IHSS and SSI/SSP caseloads rather than on IHSS caseloads alone.*** Furthermore, it allocates $9.6 million more for IHSS administration than would be consistent with the department's estimates of the cost of IHSS administration.

Table 4 compares our estimate of each county's costs for the OCSS program with our estimate of how much state and federal OCSS money each county will receive as a result of the current allocation formula. Our estimate of the costs of the OCSS program in each county is based on the department's method of estimating the statewide costs of the OCSS program. The department based its estimate on (1) the statewide caseloads in the child welfare services programs, (2) the statewide costs of the IHSS administration component of the OCSS program, including the estimate of savings from the change in the frequency of IHSS reassessments, and (3) the statewide costs of the OCSS programs not affected by SB 14 (that is, adult protective services, out-of-home care services for adults, information and referral, and the optional programs).

In estimating these costs on a county-by-county basis, we used the same caseload data used by the department in arriving at its estimate of statewide costs. In estimating the distribution of state and federal funds that will result from the current allocation formula, we merely applied the department's allocation formula to the funds proposed in the budget. The county share of the costs of the OCSS program are not shown. For both our estimate of costs and our estimate of how the funds will be distributed, we assumed that the county shares would be at the maximum levels established in SB 14.

Table 4 shows that 26 counties will receive an amount of state and federal funds that will not be sufficient to pay for all of the costs of the counties' OCSS programs. The combined shortfall for all of these counties will be $14.6 million. Conversely, 32 counties will receive $14.6 million more under the department's allocation formula than what the department's own estimates would imply they need. We emphasize that these conclusions are based on the department's estimate of the costs of the OCSS programs. This estimate may change as the implementation of SB 14 proceeds and actual data reflecting the law's costs become available.

SOCIAL SERVICES PROGRAMS—Continued

Table 4
Comparison of OCSS Estimated Costs With Estimated Allocation of Proposed OCSS Funding
1983–84
(in thousands)

COUNTIES	*OCSS Costs*[a] *Based on DSS estimate of SB 14*	*Allocation of State and Federal Funds for OCSS-DSS Allocation Formula*[b]	*Difference*	
			Amount	*Percent*
Alameda	$7,924.4	$8,429.1	$504.7	6
Alpine	−8.1	71.9	80.0	N/A[c]
Amador	65.6	89.8	24.2	37
Butte	1,608.9	1,220.1	−388.8	−24
Calaveras	85.6	113.8	28.2	33
Colusa	47.4	85.1	37.7	80
Contra Costa	4,690.2	6,291.0	1,600.8	34
Del Norte	175.4	142.8	−32.6	−19
El Dorado	610.2	429.3	−180.9	−30
Fresno	5,218.7	4,511.1	−707.6	−14
Glenn	165.1	160.1	−5.0	−3
Humboldt	655.2	780.0	124.8	19
Imperial	490.9	601.3	110.4	22
Inyo	82.3	106.7	24.4	30
Kern	2,260.6	2,518.4	257.8	11
Kings	926.4	473.4	−453.0	−49
Lake	305.2	248.1	−57.1	−19
Lassen	89.2	122.1	32.9	37
Los Angeles	70,694.5	66,449.7	−4,244.8	−6
Madera	535.8	494.0	−41.8	−8
Marin	604.5	1,023.9	419.4	69
Mariposa	37.3	69.9	32.6	87
Mendocino	572.6	577.7	5.1	1
Merced	1,713.6	1,108.7	−604.9	−35
Modoc	72.4	56.7	−15.7	−22
Mono	40.0	45.6	5.6	14
Monterey	1,812.8	1,537.4	−275.4	−15
Napa	435.5	491.5	56.0	13
Nevada	346.3	293.7	−52.6	−15
Orange	7,565.3	8,251.6	686.3	9
Placer	949.6	729.0	−220.6	−23
Plumas	115.7	114.4	−1.3	1
Riverside	5,805.0	4,827.8	−977.2	−17
Sacramento	4,805.7	7,035.9	2,230.2	46
San Benito	78.7	112.1	33.4	42
San Bernardino	6,283.7	5,480.6	−803.1	−13
San Diego	12,933.9	10,287.6	−2,646.3	−20
San Francisco	5,634.5	6,543.3	908.8	16
San Joaquin	1,933.7	3,831.2	1,897.5	98
San Luis Obispo	1,247.2	621.7	−625.5	−50
San Mateo	3,662.5	3,450.2	−212.3	−6
Santa Barbara	1,315.9	1,471.2	155.3	12
Santa Clara	4,758.1	8,454.7	3,696.6	78
Santa Cruz	1,076.2	1,025.6	−50.6	−5
Shasta	762.9	839.1	76.2	10

Sierra	18.3	39.8	21.5	117
Siskiyou	196.2	220.6	24.4	12
Solano	1,199.3	1,538.8	339.5	28
Sonoma	2,592.9	1,812.2	−780.7	−30
Stanislaus	2,373.2	2,306.2	−67.0	−3
Sutter	289.3	361.2	71.9	25
Tehama	218.0	269.3	51.3	24
Trinity	86.0	69.1	−16.9	−20
Tuolumne	225.9	186.5	−39.4	−17
Tulare	3,332.2	2,352.6	979.6	−29
Ventura	1,264.3	2,147.8	883.5	70
Yolo	526.7	681.6	154.9	29
Yuba	573.6	478.4	−95.2	−17
Totals	$174,083.1	$174,083.1	–	–

[a] The estimate of total OCSS cost is from DSS. The distribution of the costs on a county-by-county basis was prepared by the Legislative Analyst.

[b] Legislative Analyst's estimate of the county-by-county allocations of OCSS funds that would result from applying DSS' allocation formula.

[c] Caseloads for the OCSS program in Alpine County are so small that the required county share is actually more than sufficient to pay for the costs of the OCSS program.

We have the following three concerns regarding what appears to be underfunding for 26 counties.

Underfunding may cause counties to reduce service levels in the OCSS program. Senate Bill 14 provides that the service requirements established in the bill may be reduced under certain circumstances. Specifically, Section 72 of Ch 978/82 provides that:

- The department must reduce the bill's mandates upon the counties whenever reductions in federal funding result in a reduction in the funds available for the OCSS program.
- The counties will not be required to meet any of the mandates created by the bill during any fiscal year in which funding for the OCSS program falls below the funding available during 1981–82.

In addition, SB 14 limited the required county match for OCSS funds to a specific dollar amount for each county. These amounts total $51,065,596. The limit established by SB 14 for each county is approximately equal to that county's required 25 percent match during 1981–82 (Prior to SB 14, counties were required to pay for 25 percent of the costs of the OCSS program.) The bill provides that the limit on each county's share of OCSS program costs shall be increased annually by any percentage cost-of-living increase provided to the OCSS program in the budget act.

This limit on county spending raises the question of whether a county would be exempt from the service requirements of SB 14 in the event that it received OCSS funds which, if combined with the required county funding, would not be sufficient to pay for the costs of providing services at the required levels. In that regard, Legislative Counsel has advised us that:

> "Since counties are only to expend out of county funds the share allotted pursuant to Sections 10200 and 10201, it is reasonable to assume that the Legislature meant for a county to have the authority to reduce child welfare service levels where insufficient funding has been provided to ensure that the county will expend no more than its allotted share of costs for OCSS, even under circumstances where Section 72 of Chapter 978 is inapplicable."

SOCIAL SERVICES PROGRAMS—Continued

Thus, SB 14 gives counties the authority to reduce child welfare services below the levels required in the bill if funding is not sufficient to pay for the provision of services at the required level.

Federal Sanctions Possible. Our analysis indicates that the failure of underfunded counties to provide child welfare services at the levels established by SB 14 could result in federal sanctions. Federal law requires that: (1) the parents of a foster child be allowed to participate in the six-month review of the child's status and (2) one of the parties involved in the review not be directly responsible for the child's case management. Federal financial participation in the foster care program, expected to total $72.6 million during 1983–84, is conditioned upon the state meeting these as well as other provisions of federal law. Senate Bill 14 incorporated these requirements into state law. Thus, to the extent that any of the 26 underfunded counties choose to achieve savings in the OCSS program by ignoring the requirements for the six-month reviews of children in foster care, or any other provision of SB 14 which is also a requirement of federal law, the state would be out of compliance with federal law and therefore subject to federal sanctions.

Allocation Formula Inequitable. In addition to the possibility of federal sanctions, the underfunding of 26 counties which we estimate could result from the department's allocation formula also raises a question of equity. Why should the citizens of 26 California counties receive a lower level of the services provided under the OCSS program than do the citizens of the remaining 32 counties? In enacting SB 14, the Legislature clearly intended for the provisions of the law to apply equally to all counties. Yet, the department's allocation formula could result in 26 counties reducing OCSS service levels by an unknown amount below the service levels established by SB 14, despite the fact that, on a statewide basis, adequate funds would be available for all counties to provide the required service levels.

Conclusion. We conclude that the use of the department's allocation formula will result in the underfunding of some counties, and that this underfunding could, in turn, result in (1) federal sanctions against the state and (2) reductions in the level of services available to residents of the underfunded counties. To avoid these problems, we recommend that the Legislature adopt the following Budget Bill language requiring the department to submit an allocation plan to the fiscal committees prior to the allocation of OCSS funds for 1983–84 which is consistent with the department's estimate of the costs of SB 14:

"Provided that the Department of Social Services shall submit its plan for allocating OCSS funds to the counties to the Chairpersons of the fiscal committees of each house and the Chairperson of the Joint Legislative Budget Committee no later than 30 days before such allocations are made. The allocation plan shall be consistent with the department's estimates of the costs of the OCSS program under the provisions of Ch. 978/82, and shall be based upon the same caseload measurements used in such estimate."

The Department Has Failed to Develop an Adequate Cost Control Plan

We recommend adoption of Budget Bill language requiring the department to develop an OCSS cost control plan which (1) assesses the effectiveness of the OCSS program in each county and in the state as a whole,

(2) compares the effectiveness of similar counties in providing required services, and (3) develops caseload measurements and workload standards for each of the OCSS services.

Senate Bill 14 requires the department to establish "a plan whereby costs of county administered social services programs will be effectively controlled within the amount annually appropriated for these services." In response to our request for a copy of its OCSS cost control plan, the department forwarded a copy of its OCSS *allocation* plan. In a memorandum to our office dated January 4, 1982, the department stated that, "It is the department's position that an allocation plan in itself is a cost control plan whereby costs of county administered social services are effectively controlled within the amount annually appropriated for these services. The department will reimburse the counties only up to the amount appropriated by the budget act."

We recognize that an allocation plan limits the amount of state and federal funds that each county may spend, and is therefore a spending plan. A spending plan is not the same as a cost control plan, however, for the following reasons:

- An allocation plan only provides information on how much money each county will spend. It provides no information regarding what each county, or the state as a whole, will accomplish with the money spent. The Legislature appropriates money for the OCSS program to enable the counties to provide a certain level of services to the program's clients, not merely so that the counties can spend the money it appropriates.
- An allocation plan provides no information regarding the cost-effectiveness of each county's program. For example, the plan for 1982–83 shows that Sacramento and Orange County were allocated approximately equal amounts of money ($6.5 million and $6.2 million, respectively), but it provides no basis for comparing the effectiveness of the programs in the two counties.
- Finally, an allocation plan cannot serve as the basis for determining the appropriate costs of providing these services. Specifically, the allocation plan provides no basis for determining workload standards. Nor does the plan identify appropriate caseload measurements for the various OCSS services. Only when such workload standards and caseload measurements have been developed will it be possible to determine the appropriate level of funding for the OCSS program for each county as well as for the state as a whole.

For these reasons, we do not believe that the department's allocation plan can serve as an adequate cost control plan. In fact, SB 14 requires the department to develop both a cost control plan *and* an allocation plan, clearly demonstrating the Legislature's understanding that the two plans are not one and the same.

We therefore recommend adoption of the following Budget Bill language requiring the department to develop an OCSS cost control plan which (1) assesses the effectiveness of the OCSS program in each county and in the state as a whole, (2) compares the effectiveness of similar counties in providing required services, and (3) develops caseload measurements and workload standards for each of the OCSS services:

"Provided that the Department of Social Services shall submit to the chairpersons of the Fiscal Committees and the chairperson of the Joint Legislative Budget Committee by December 1, 1983 a cost control plan

SOCIAL SERVICES PROGRAMS—Continued

for the OCSS program which shall, at a minimum, identify the department's plans to (1) develop a method of assessing the effectiveness of the OCSS program in each county and in the state, as a whole, (2) develop a method of comparing the effectiveness of similar counties in providing services under the OCSS program, and (3) develop caseload measurements and workload standards for each of the OCSS services."

Double-Budgeting of OCSS Funds

We recommend a General Fund reduction of $1,648,000 ($1,600,000 from the OCSS item (Item 5180-151-001) and $48,000 from the COLA item (Item 5180-181-001(c)) to correct for double-budgeting of the costs of SB 14 in Shasta and San Mateo Counties.

The Family Protection Act (FPA) was enacted by the Legislature in 1978 to test many of the programs and concepts which ultimately were incorporated into SB 14. The demonstration project is conducted in Shasta and San Mateo Counties. With the enactment of SB 14, the FPA demonstration has, in effect, been made into a statewide program.

The budget proposes to eliminate the FPA demonstration program and to transfer the funding for the program from the demonstration programs item (Item 5180-151-001(e)) to the OCSS item (Item 5180-151-001(a)). Our analysis indicates that this results in double-budgeting because OCSS funding has already been increased by $15,816,000 for the statewide costs (including the cost attributable to Shasta and San Mateo Counties) of the provisions of SB 14. We therefore recommend a General Fund reduction of $1,648,000 ($1,600,000 from the OCSS item and $48,000 from the COLA item) to correct for the double-budgeting of the costs of SB 14 in Shasta and San Mateo Counties.

General Fund Cost of Proposed 3 Percent OCSS COLA is Overbudgeted

We recommend a General Fund reduction of $252,000 and a Federal Fund increase of $726,000 to the OCSS cost-of-living increase item (Items 5180-181-001(c) and 5180-181-866) to correct for technical errors in calculating the cost of providing a 3 percent COLA to the OCSS program.

The budget proposes a 3 percent COLA for the OCSS program and includes a General Fund appropriation of $4,596,000 to fund it. The budget proposes no increase in federal funds as a result of the COLA.

Our analysis indicates that in estimating the cost of a 3 percent COLA for the OCSS program, the administration made two errors which result in overbudgeting. Specifically, the administration:

- Neglected to include in the base upon which the 3 percent was calculated the increased costs to the OCSS program of SB 14, thereby understating General Fund costs.
- Neglected to account for the fact that the 3 percent OCSS COLA will result in a 3 percent increase in federal Title IV-A and IV-E funds, thereby overstating General Fund costs.

The net effect of these two errors is that the budget (1) overestimates the cost to the General Fund of providing a 3 percent COLA by $252,000 and (2) underestimates federal funding by $726,000. Therefore, in order to accurately reflect the costs of a 3 percent OCSS COLA, we recommend a General Fund reduction of $252,000 and a federal fund augmentation of $726,000 to the OCSS cost-of-living increases item (Items 5180-181-001(c) and 5180-181-866).

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) program provides specified services to eligible aged, blind, and disabled persons for the purpose of enabling them to remain in their own homes when they might otherwise be institutionalized in boarding or nursing facilities. Two broad categories of services are available within the IHSS program: (1) domestic and related services and (2) nonmedical personal services. Domestic and related services include routine cleaning, meal preparation, shopping, and other household chore services. Nonmedical personal services include feeding, bathing, bowel and bladder care, and other services.

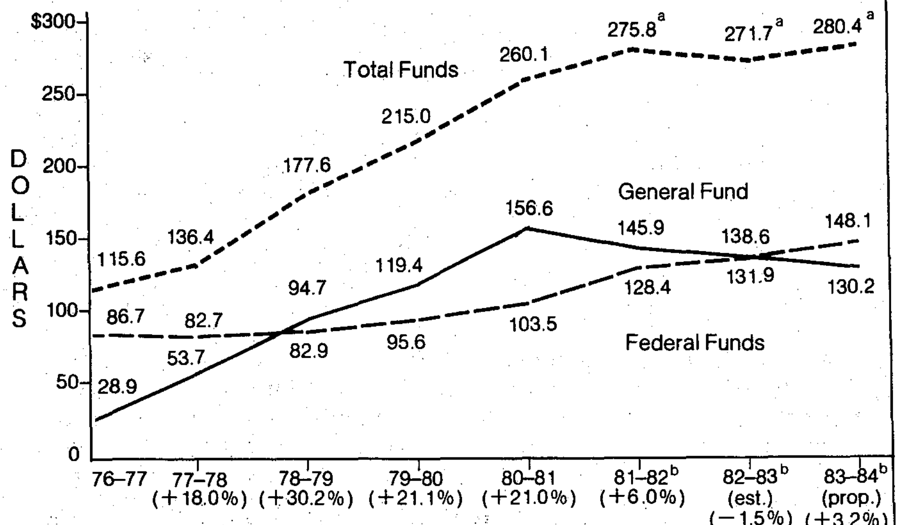
Currently, county welfare departments administer the IHSS program. Each county may choose to deliver services in one or a combination of three ways: (1) directly by county employees, (2) by private agencies under contract with the counties, or (3) by individual providers hired directly by the recipients. The delivery method used most extensively is by individual providers. The department estimates that individual providers will deliver 75 percent of IHSS case-months in 1982–83.

Current-Year Expenditure Shortfall

The budget estimates that expenditures under the IHSS program in the current year will be $7,592,000 less than the amount reflected in the 1982 Budget Act. Of this amount, $6,983,000 will appear as a shortfall in General Fund expenditures. The remaining $609,000 represents savings to the counties from decreased matching requirements. The shortfall is due primarily to a lower-than-anticipated number of service hours.

Chart 1

Department of Social Services Expenditures for In-Home Supportive Services General Fund, Federal Funds, and Total Funds 1976–77 to 1983–84 (in millions)



[a] County match of $1.5 million for 1981–82, $1.2 million for 1982–83 and $2.1 million for 1983–84 not displayed.
[b] Source: Governor's Budget for 1983–84.

SOCIAL SERVICES PROGRAMS—Continued

Budget Year Proposal

The budget proposes a General Fund appropriation of $130,265,000 for IHSS in 1983–84. This is a decrease of $8.4 million, or 6 percent, below estimated 1982–83 General Fund expenditures.

The budget proposes a total expenditure for IHSS of $280,417,000 in 1983–84.

Chart 1 shows the state and federal cost-sharing relationships for IHSS, for the period 1976–77 to 1983–84 (proposed). The county share of costs since 1980–81 is not displayed in the chart, although county funds are included in the estimates of total expenditures.

The department estimates that an average of approximately 97,538 individuals will receive IHSS services each month in 1983–84. This is an increase of 2,198 over estimated monthly caseloads in the current year. The cost of funding projected budget year caseloads at current service levels would be $287,912,000, including the cost of a COLA. Because the budget is requesting $280,417,000, the administration will have to reduce the level of services provided to IHSS clients by $7,495,000. This means reducing services to the average client by approximately two hours each month. Because counties utilize different modes of delivering services to clients, and because the average hourly cost of these modes varies considerably, the size of the service reductions in each county will vary.

As Table 5 indicates, the budget assumes that counties will commit $2.1 million to the IHSS program in 1983–84. The extent to which counties will, in fact, share in the cost of providing the level of service proposed in the budget for 1983–84 depends on whether actual program costs exceed the amount of state and federal funds appropriated for IHSS in the budget year.

Table 5
In-Home Supportive Services
Proposed Funding by Source
1982–83 and 1983–84
(in thousands)

Total Program[a]	Estimated 1982–83	Proposed 1983–84	Change Amount	Change Percent
General Fund	$138,649	$130,265	−$8,384	−6.0%
Federal funds	131,874	148,070	16,196	12.3
County funds	1,214	2,082	868	71.5
Totals	$271,737	$280,417	$8,680	3.2%

[a] Includes proposed 3.0 percent COLA.

Impact of Chapter 69, Statutes of 1981

Chapter 69, Statutes of 1981 (SB 633) limited General Fund expenditures for the IHSS program to the amount appropriated in the Budget Act. In addition, it made the following changes to the program:

- *Comfort Was Eliminated as a Criterion of Need.* During 1981–82, counties were required to eliminate service hours granted to clients for their comfort, rather than their health and safety. In implementing this provision, the department specified that counties could provide a maximum of six hours per client per month for domestic chore services. Subsequent legislation (Ch 309/82), however, provides that cuts in services that are being provided on the basis of client comfort may be made only after an assessment of the individual recipient's need.

- *Counties Must Share in the Cost of the Program.* Counties must now pay 10 percent of the General Fund-supported costs in excess of General Fund expenditures for the IHSS program in 1980–81. In 1981–82, 19 counties—and ten of the 14 largest—were required to provide the 10 percent match.
- *Annual Program Plans Must be Submitted to DSS.* Counties must submit plans to the department indicating how they intend to remain within their allocation of state and federal funds for the year. These plans are utilized by DSS in determining the county IHSS allocation for the year. Plans generally are not submitted in time, however, to be considered in the budget process.
- *Counties Are Authorized to Make Necessary Program cuts.* Any county needing to cut program expenses in order to stay within its allocation must make the cuts in the following predetermined order: (1) reduce the frequency of nonessential services, (2) eliminate nonessential services, (3) terminate or deny eligibility to individuals requiring only domestic services, (4) terminate or deny eligibility to persons who would not require institutionalization in the absence of services, and (5) reduce, on a per capita basis, the costs of services authorized. In 1981–82, only two counties had to resort to the priority cuts. In both cases, they did not go further than reducing the frequency of nonessential services, and these reductions were in effect for only a short period of time. At the time this *Analysis* was written, no county anticipated resorting to priority cuts in the current year in order to stay within its allocation.

Chapter 69 appears to be effective in controlling the costs of the IHSS program. Before implementation of Ch 69/81, the IHSS program frequently overspent the amount appropriated by the Legislature. This no longer occurs. In 1981–82, IHSS received a supplemental appropriation of $3 million under Chapter 3X. At the end of the year, however, the department returned $6.3 million in funds appropriated for IHSS to the General Fund, or more than the amount made available by Chapter 3X. In the current year, the department estimates that counties again will not spend their entire allocations.

In our conversations with county welfare officials and social workers in the field, we found that counties have adopted diverse strategies for controlling costs within the IHSS program. These strategies include:

- Enhancing the awareness of social workers of the costs of providing IHSS services;
- Educating assessment workers to the choice existing between austerity in initial need assessments or the painful task of later on reducing services;
- Substituting technically trained assessment workers for social workers; and
- Tightening time-for-task standards, which are the basis for awarding IHSS service hours.

SOCIAL SERVICES PROGRAMS—Continued

Eligibility and Need Determination

Eligibility for the IHSS program is tied closely to eligibility for the SSI/SSP program. An individual can qualify for IHSS services if he/she:

1. Is currently a recipient of SSI/SSP;
2. Meets all SSI/SSP criteria, but is not receiving SSI/SSP grants;
3. Was once eligible for SSI/SSP, is now performing substantial gainful activity, but still has the disability which was once the basis for his/her eligibility; or
4. Meets all other SSI/SSP eligibility criteria, but has an income which, although higher than the SSI/SSP payment standard, is not sufficient to pay the full cost of IHSS services. These individuals are required to pay a share of the cost of the services provided.

Assessment of Need. County social workers determine the type and level of IHSS services an individual needs in order to remain safely in his/her home. In addition to the initial determination of need made by the county, each recipient must be reassessed periodically. Until the current year, the state required counties to reassess eligibility for IHSS services at least once every six months. Chapter 978, Statutes of 1981 (SB 14), lengthened the period for mandatory reassessments to no less frequently than once each year.

Severely and Nonseverely Impaired Recipients. Individuals may qualify for IHSS services as either nonseverely impaired or severely impaired clients. Individuals who require 20 hours or more each week, of the following services are considered to be "severely impaired:" (1) Routine bodily functions, (2) dressing, (3) meal preparation and feeding, (4) moving into and out of bed, (5) ambulation, (6) bed baths, and (7) paramedical services. In the current year, severely impaired individuals are eligible for service awards of up to $838 each month.

Individuals requiring less than 20 hours of the services identified above each week are considered nonseverely impaired. In 1982–83, the nonseverely impaired client is eligible for a maximum service award of $581 per month.

Cost-of-Living Increase

The budget proposes $7,812,000 from the General Fund to provide a 3 percent increase in the maximum allowable monthly payments provided under the IHSS program and salary increases to IHSS providers. If approved, the maximum grant for a nonseverely impaired recipient will increase from $581 in 1982–83 to $598 in 1983–84. The maximum grant for a severely impaired client will increase from $838 in the current year to $863 in the budget year.

General Fund Cost of Proposed IHSS COLA is Overbudgeted

We recommend a General Fund reduction of $211,000 to the IHSS cost-of-living increase item (Item 5180-181-001 (c)) to correct for technical errors.

In calculating the IHSS COLA, the administration made an error that results in overbudgeting.

The COLA proposed in the budget assumes that program costs will be $279,232,000 in the budget year. The budget, however, proposes that program costs be limited to $271,737,000, or $7,495,000 less than the base amount used in calculating the COLA. Calculating the COLA on the correct base results in a General Fund Savings of $211,000.

We therefore recommend that funds proposed under Item 5180-181-001(c) for transfer to this item to finance a 3.0 percent COLA be reduced by $211,000 to correct for the error and make the COLA amount consistent with the budget request.

IHSS Payrolling System

The IHSS program pays individual providers of service through a centralized payrolling system. Currently, the payrolling function is performed by a private contractor—Electronic Data Systems-Federal (EDSF). Counties provide the private contractor with payroll data through terminals located in the counties. Payroll data is then aggregated by the contractor at a central location where checks are written and statewide reports are produced.

The budget proposes $3,063,256 for the costs of contracting for the IHSS payrolling system in 1983–84. This consists of the current year funding level of $2,963,256 plus $100,000 for the amortization of one-time start-up costs.

Issuance of IHSS Payroll Checks

We recommend a General Fund reduction of $108,000 requested to reimburse the State Controller's Office (SCO) for issuing IHSS payroll checks during 1983–84.

The current contract for the payrolling system has been extended to June 30, 1983. DSS currently is soliciting bids for a new payrolling agent whose contract would begin in the budget year. The new contract will differ from the current contract in that the contractor (1) will not issue the IHSS payroll checks and (2) will be required to provide expanded data on payroll and case management. The department informs us that the SCO will begin performing the checkwriting function when the new contract takes effect.

The budget proposes $648,000 to reimburse the SCO for the issuance of IHSS payroll checks in 1983–84. This assumes that 150,000 checks will be issued monthly, at a unit cost of 36 cents. EDSF, however, informs us that approximately 125,000 checks currently are issued each month. The budget thus assumes a 20 percent growth in the number of providers covered by the centralized payrolling system in 1983–84.

Our analysis indicates that the number of providers is not likely to grow appreciably in the budget year, for the following reasons. First, the department projects an increase of less than 3 percent in the number of case-months of service provided through the Individual Provider (IP) mode in 1983–84. Secondly, the budget assumes that client services will be reduced by an average of two hours each month. Presumably, some IHSS recipients who now receive two hours of service each month will lose their eligibility as a result of this reduction, thus offsetting part of the projected caseload growth in the IP mode. Thus, we conclude that the budget's estimate of 150,000 checks to be issued under the IHSS program is unrealistic, and that approximately 125,000 IHSS checks will continue to be issued each month. On this basis, we recommend a General Fund reduction of $108,000 in order to more accurately reflect anticipated costs to the SCO of issuing the IHSS payroll checks.

SOCIAL SERVICES PROGRAMS—Continued

IHSS Payrolling Contract

We withhold recommendation on the remaining $2,955,000 proposed to fund the payrolling contract in 1983–84, pending receipt of the May revision of expenditures.

The department's projected contract costs of $3,063,256 for 1983–84 are based on (1) current-year cost of the contract and (2) the 1983–84 share ($100,000) of amortized start-up costs. Our analysis indicates that the cost of the new contract could be higher or lower than the estimate included in the budget, for the following reasons:

1. The department has not selected a vendor, and thus has no basis for determining whether contract bids will be higher or lower than the cost in the current year.
2. Because the cost of issuing checks was not bid separately in the past, it is impossible to project cost savings in the 1983–84 contract resulting from the transfer of this service to the SCO.
3. The invitation for bid for the 1983–84 contract makes significant changes to the current contract which could result in additional costs in 1983–84. For example, the new contractor will be required to expanded case management reporting activities.
4. Start-up costs may be lower than anticipated if the current contractor is awarded the new contract, because much of the basic system is already operational.

Given the uncertainty surrounding the costs of the IHSS payrolling contract in 1983–84, we withhold recommendation on $2,955,000, pending the May revision of expenditures. At that time, the department will know the actual costs associated with the lowest bid.

Statewide Time-for-Task Standards

We recommend that prior to the budget hearings the department report to the fiscal committees on the potential for achieving General Fund savings by imposing statewide time-for-task standards in the IHSS program.

Currently, state law mandates the types of services which are available to recipients under the IHSS program. Services to IHSS recipients include domestic and related services, heavy cleaning, nonmedical personal services, travel to medical facilities and other essential transportation, yard hazard abatement, protective supervision, teaching and demonstration, and paramedical services. Within broad guidelines set by the state, counties (1) determine the manner in which the services are provided to clients and (2) develop the standards used by social workers to determine the number of hours which an individual will receive. As a result, the unit costs of IHSS services vary widely among counties.

Current Time-for-Task Standards. County social workers or eligibility workers determine the number of IHSS services for which clients are eligible, based on the client's degree of impairment and individual circumstances. Most counties have implemented some method of limiting the number of hours granted to clients. One of the most widespread methods employed by counties for limiting hours to clients has been the establishment of time-for-task standards. Under time-for-task standards, a county specifies the maximum amount of time a social worker can allow for a given task.

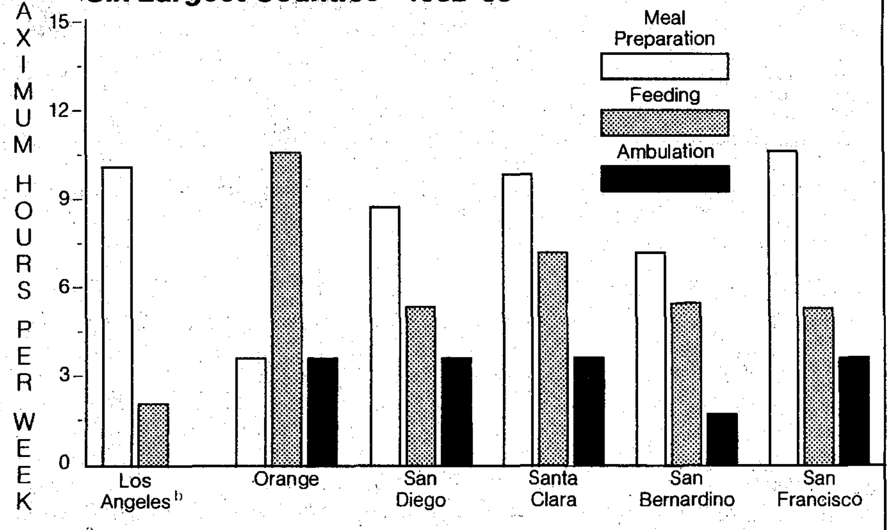
Thirty-seven counties now utilize time-for-task standards for a portion of IHSS services. There are, however, wide variations among counties in the development and application of time-for-task standards. Some county standards, for example, are based on historical awards of hours under the IHSS program. Other county standards, however, are based on actual time-studies conducted by welfare staff. Some counties apply standards to a small fraction of the total services available under IHSS, while other counties have sought to apply standards to as many services as possible. In the face of funding limitations placed on IHSS by Ch 69/81, many counties have tightened their time-for-task standards, but wide variations still exist.

Variations in Time-for-Task Standards Among Counties. For some types of services, it may not make sense to require counties to provide the same maximum number of hours. Some tasks may vary by case, by degree of impairment of the client, or by distance from the source of services. It makes little sense, for instance, to establish uniform standards for transportation to medical appointments since IHSS clients live at varying distances from medical personnel, and require varying frequencies of treatment.

Other tasks, however, lend themselves to uniform time-for-task standards among counties. Meal preparation should take no longer in one county than in another, yet county time-for-task standards vary widely. As shown in Chart 2, San Francisco County allows up to 10.5 hours per week for meal preparation while Orange County allows only 3.5 hours per week. If San Francisco were to use Orange County's meal preparation standards, savings could accrue to the IHSS program. Given the current average hourly statewide cost of $3.84, San Francisco would save $27 per week for each client whose hours were reduced from the San Francisco maximum to the Orange County maximum for meal preparation.

Chart 2

In-Home Supportive Services Time-for-Task Standards Six Largest Counties[a] 1982–83



[a] Excluding Alameda and Sacramento Counties. Alameda uses computerized assessments indices. Of the three time-for-task standards illustrated above, Sacramento uses only Meal Preparation standards.

[b] Los Angeles County has no time-for-task standard for ambulation.

SOCIAL SERVICES PROGRAMS—Continued

Precedent for Statewide Time-for-Task Standards. In implementing Ch 69/81, DSS established a statewide standard for domestic services. Currently, no more than six hours per month can be granted for such services as sweeping, vacuuming, dusting, cleaning kitchen and bath, and storing supplies. The cap on hours for domestic services acts as a time-for-task standard within which all domestic tasks can be accomplished in a manner sufficient to protect the health and safety of the client.

Savings Potential of Time-for-Task Standards. Since implementation of Ch 69/81, growth in IHSS program expenditures has been curbed significantly. In 1982–83, total expenditures for the IHSS program decreased by 1.5 percent from the previous year's level. This is in contrast to years prior to 1981–82, when the average annual rate of growth exceeded 19 percent. One of the factors contributing to the decline in the rate of growth of the program has been the cap on hours of domestic services available to clients.

Our review of time-for-task standards employed by counties suggests that even greater savings could be realized under the IHSS program if (1) all counties utilized appropriate time-for-task standards for IHSS services and (2) time-for-task standards were applied on a statewide basis for services which can be offered in a uniform manner across counties. For this reason, we recommend that DSS report to the fiscal committees prior to the budget hearings on (1) the feasibility of implementing statewide time-for-task standards and (2) the potential for cost-savings from implementing such standards.

LICENSED MATERNITY HOME CARE

The Licensed Maternity Home Care program provides a range of services to unmarried pregnant women under the age of 21. The program was established by the Pregnancy Freedom of Choice Act (Ch 1190/77) to provide unmarried minors with an alternative to abortion.

Eight homes (four in Southern California and four in Northern California) currently are licensed to provide maternity care. Licensed maternity homes provide food, shelter, personal care, protection, supervision, and maternity-related services to residents. Postnatal care, limited to two weeks after delivery, is also allowed under the program. Homes are reimbursed by the state for care provided to eligible minors. Reimbursement rates currently range from $965 to $1,238. In the current year, the maternity homes are licensed to provide care to 314 residents at one time. The average monthly caseload through October of the current year was 295 residents.

Budget Year Proposal

The budget proposes a General Fund appropriation of $2,167,000 for support of the Licensed Maternity Home Care program in 1983–84. This includes $63,000 for a 3.0 percent discretionary COLA.

The Legislature is not required to provide a COLA to the Licensed Maternity Home Care program. Under current law, however, the department may increase the reimbursement rates to homes by up to 10 percent each year in order to reflect changes in the cost of providing care.

Maternity-Related Services Offered to Residents. The Department of Social Services (DSS) has adopted regulations specifying the range of services to be provided residents of maternity homes. All homes must offer:

- Individual and group counseling;
- Pre- and postnatal care;
- Information regarding child health and welfare services; and
- Referral to education, psychiatric, child placement, family planning, and adoption services.

In addition, residents of licensed maternity care homes are categorically eligible for Medi-Cal.

Reimbursements for the Cost of Care. Licensed maternity homes can be divided into three broad categories: (1) those which offer services exclusively to pregnant unmarried minors, (2) those which offer services to both pregnant unmarried minors and young unmarried women who have children, and (3) those who offer services to delinquent adolescents who are neither pregnant nor mothers. For those homes which provide services exclusively to pregnant unmarried minors, the cost of care may be reimbursed under the Licensed Maternity Care program or through the Aid to Families with Dependent Children-Foster Care (AFDC-FC) program. The source of reimbursement depends on the circumstances of the girl's placement in the home. If the girl is under the custody of the juvenile court, or is placed pursuant to a voluntary agreement between the county and the parents or guardians and comes to the maternity home as a foster care placement, the home receives reimbursement for care through AFDC-FC. If the girl has not been removed from her family, but rather comes to the home on her own volition, the home is reimbursed through the Licensed Maternity Care program. AFDC-FC reimbursement rates generally are higher than reimbursements made under the Licensed Maternity Home Care program.

Adolescents who are not pregnant are supported in the homes by alternative funding sources. These sources include AFDC, AFDC-FC, foundation and other private sources, and parental contribution. Table 6 shows that homes differ significantly in the degree to which they rely upon funds from the Licensed Maternity Care program.

Table 6
Licensed Maternity Home Care Program
Comparison of Allocations to
Licensed Capacity of Homes
(1982–83)

Home	*Residential Capacity*	*Percent of Total Capacity*	*Percent of Total Allocation*
Booth Memorial (Los Angeles)	35	11.1%	9.7%
Booth Memorial (Oakland)	30	9.6	7.7
Door of Hope (San Diego)	20	6.4	8.6
Crittenton (Fullerton)	58	18.5	1.0
Crittenton (San Francisco)	42	13.4	1.4
Mt. St. Joseph—St. Elizabeth (San Francisco)	25	8.0	11.9
St. Anne's (Los Angeles)	90	28.6	52.3
Violet Rice (San Jose)	14	4.4	7.4
Totals	314	100.0%	100.0%

The disparity between the homes' residential capacity and the proportion of total program funds allocated to them through the Licensed Maternity Care program implies that some homes have large numbers of

SOCIAL SERVICES PROGRAMS—Continued

residents supported from other funds. The Florence Crittenton Home in Orange County, for instance, receives only 1.0 percent of total program allocations, even though it has more than 18 percent of the beds maintained by all licensed maternity homes. The administrator of the home informs us that many residents are either nonpregnant troubled adolescents, mothers with children, or pregnant adolescents placed by the court. These residents are reimbursed through other sources such as AFDC and AFDC-FC. St. Anne's, on the other hand, has approximately 29 percent of the beds, but receives 52 percent of maternity care program funding. A high proportion of the young adolescents residing at St. Anne's are voluntary placements which are reimbursed by the Licensed Maternity Home Care program.

Characteristics of Residents. The DSS regularly collects characteristics data on the licensed maternity home residents. The data, however, is limited to age, ethnicity, primary language, and educational background of the applicants. The state does not collect data on family income because current law forbids parental contributions for care. If data concerning family income were collected, the department could assess the extent to which parents could afford to (1) contribute toward the cost of care of their pregnant child or (2) purchase necessary medical, counseling, and maternity related services from other sources.

Recent Legislation. Chapter 327, Statutes of 1982 (the companion bill to the 1982 Budget Act), established a means for (1) collecting information concerning family income and alternative resources of residents and (2) assessing parental financial responsibility for the care of their pregnant child. Under Ch 327/82, parental copayments would have been sought only in cases where parents expressed willingness to contribute to the cost of their child's care. Chapter 1460, Statutes of 1982, however, repealed the provisions for parental copayment. It also repealed all authority for DSS to collect additional information about applicants for maternity home care. This authority was repealed because the Legislature feared that some adolescents might be discouraged from seeking care if, as a requirement for acceptance into a home, the girl's parents must be contacted and a family financial assessment made.

The Legislature Needs Better Information on Program Participants enactment of legislation

We recommend enactment of legislation requiring the department to adopt regulations for the collection of additional financial data about residents after their acceptance into a maternity home.

Additional information concerning family income and resources of girls applying for maternity home care would be useful to the Legislature in assessing the extent to which limited General Fund resources are needed to support the Licensed Maternity Home Care program. Our analysis indicates that this information can be collected in a manner that does not dissuade some girls from applying for care. Rather than requiring homes to secure financial data from parents prior to an adolescent's acceptance into the home, this information could be collected *after* the application procedure is completed and the pregnant minor has become a resident of a licensed maternity home. We recommend, therefore, enactment of legislation requiring the department to collect income data on *residents* of maternity homes and their parents.

Unfunded Legislation—Child Abuse Prevention

Chapter 1398, Statutes of 1982, appropriated $10 million to the Department of Social Services for child abuse prevention programs. Under the provisions of Ch 1398/82, funds for child abuse prevention would be awarded to contractors on a competitive-bid basis. Up to $9 million of the funds available during 1982–83 would be awarded by participating counties, with the remaining funds awarded by the Office of Child Abuse Prevention.

At the time this *Analysis* was written, none of these funds had been encumbered according to the department. Legislation has been introduced which would revert to the General Fund any funds appropriated by Ch 1398/82 which are not encumbered as of the effective date of the legislation. The 1983–84 budget contains no funds for the child abuse programs created by Ch 1398/82.

Department of Social Services

COMMUNITY CARE LICENSING

Item 5180-161 from the General Fund and Social Welfare Federal Fund — Budget p. HW 152

Requested 1983–84	$2,963,000 [a]
Estimated 1982–83	8,316,000
Actual 1981–82	8,756,000
Requested decrease $5,353,000 (−64.4 percent)	
Total recommended reduction Item 5180-161-001	2,007,000
Total recommended reduction Item 5180-181-001 (d)	($167,000)

[a] Includes $248,000 proposed in Item 5180-181-001 (d) to provide a 3 percent cost-of-living increase.

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-161-001	—Community Care Licensing	General	$2,715,000
5180-161-866	—Community Care Licensing	Federal	(2,676,000)
5180-181-001 (d)	—Community Care Licensing—COLA	General	$248,000
Total			$2,963,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Unbudgeted Federal Funds. Reduce by $2,007,000.* Recommend unbudgeted federal funds be used to replace General Fund support for foster family home licensing in order to provide the Legislature with more fiscal flexibility. 1180
2. Cost-of-Living Increase. Recommend General Fund Reduction of $167,000 to correct for error in calculating the cost of a 3 percent Cost-of-Living adjustment. 1182

COMMUNITY CARE LICENSING—Continued

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation needed to cover the state's cost of contracting with counties to license foster family homes. The Department of Social Services also directly licenses foster family homes, as well as other 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 $2,963,000 from the General Fund to reimburse counties for licensing activities in 1983–84. This is a reduction of $5,353,000, or 64 percent, from current-year expenditures. Table 1 shows that the proposed reduction is primarily due to three factors: (1) the proposed elimination of family day care licensing ($2,894,000), (2) the transfer of funding for a portion of the Foster Family Home Licensing Program from the General Fund to federal Title IV-E funds ($2,676,000), and (3) the proposed 3 percent cost-of-living adjustment (COLA) for 1983–84 ($248,000).

Table 1
Proposed General Fund Budget Adjustments
For Community Care Licensing
1983–84
(in thousands)

	Adjustment	*Total*
1. 1982–83 Estimated Expenditures	—	$8,316
2. Budget Adjustments		
A. Family day care caseload transfer	−$18	
B. Foster home caseload transfer	−13	
C. Elimination of family day care licensing	−2,894	
D. Transfer funding for Foster Family Home Licensing to federal Title IV-E funds	−2,676	
E. 1983–84 Cost-of-Living adjustment	248	
F. Total Adjustments		−5,353
3. Total Proposed General Fund		$2,963

Unbudgeted Federal Funds

We recommend that unbudgeted federal Title IV-E funds be used in lieu of General Fund support for Community Care Licensing in order to increase the Legislature's fiscal flexibility, for a General Fund savings of $2,007,000.

Background. The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) provided that qualifying states could receive federal Title IV-E funds for administrative activities on behalf of federally eligible foster care children, including licensing of foster family homes. In order to qualify for these federal funds, states are required to have an accepted Title IV-E plan. With the enactment of Ch 977/82 (AB 2695) and Ch 978/82 (SB 14), California came into compliance with the requirements for an acceptable Title IV-E plan. The U.S. Department of Health and Human Services (DHHS) approved California's Title IV-E plan effective October 1, 1982.

Title IV-E Funds Not Budgeted for 1982–83. The community care licensing budget includes $2,676,000 in federal Title IV-E funds for foster family licensing during 1983–84. The budget proposes to use these federal funds during 1983–84 to offset a portion of the General Fund costs of the Community Care Licensing program.

Our analysis indicates that California is eligible to receive an additional $2,007,000 in Title IV-E funds for 1982–83 because its Title IV-E plan was effective October 1, 1982. These additional funds represent the federal share of the costs of county licensing of foster family homes during 1982–83. Although these funds will be available for use during 1982–83 or 1983–84, the administration's budget does not include these funds for either fiscal year. If these funds are used to replace General Fund support for the Community Care Licensing program in 1983–84, the Legislature will have an additional $2,007,000 in General Fund resources to draw on and thus more flexibility in funding its priorities in this or other program areas. We therefore recommend that the $2,007,000 in unbudgeted Title IV-E funds be used in 1983–84 to offset the General Fund costs of the Community Care Licensing program.

Elimination of Family Day Care Licensing

Budget Proposal. The budget assumes enactment of legislation to eliminate the statutory requirement that the state license family day care facilities. This change would result in total General Fund savings of $4,100,000. Of this amount, $2,894,000 represents the costs of contracts with counties to license family day care homes, and $1,206,000 represents the cost of licensing family day care homes directly by the department.

A family day care home provides care, protection, and supervision to up to 12 children, in the care-giver's own home, while the children's parents or guardians are away, for periods of less than 24 hours per day. Under existing law, if one adult care provider is present in the home, up to six children may be cared for in the home. With an assistant present, a maximum of 12 children may be cared for in a family day care home. If more than 12 children are cared for in a facility, the facility must be licensed as a day care *center.*

The budget provides no information in support of the proposal to eliminate family day care licensing. Lacking such information, we are unable to advise the Legislature of the specific impact that this proposal would have on the operation of family day care homes. Our review of the Family Day Care Licensing program, however, has identified several factors which the Legislature may wish to consider during its deliberation on the proposed statutory change. Specifically, our review found that:

1. ***These facilities are small, and are located in the home of the care providers.*** Thus, they can be readily inspected and evaluated by the parents or guardians of the children being cared for in the home.

2. ***The parents or guardians of each child in these homes visit the homes at least twice a day while licensing evaluators visit the homes much less frequently.*** Under current law, licensing evaluators inspect these homes once prior to issuing the initial license, and again after a request for a renewal of a license has been received. The renewal visit is required, however, only if the home has been cited for a major violation of licensing standards during the three-year term of its previous license. Evaluators are also required to visit on a random basis 10 percent of all licensed family day care homes each year.

3. ***These homes make up slightly more than one-half of all community care facilities, yet they account for only 15 percent of all complaints against such facilities.***

COMMUNITY CARE LICENSING—Continued

4. ***The licensing of these homes is generally ineffective.*** State law requires that all such homes be licensed, yet estimates of the percentage of all family day care homes which operate without licenses range from 50 percent to 66 percent.

The Legislature Rejected a Proposal to Eliminate Family Day Care Licensing in 1981–82. The current proposal to eliminate family day care licensing is identical to the one made in the 1981–82 budget. The Legislature rejected that proposal. Instead, the Legislature streamlined the licensing program by replacing the statutory requirement that each facility be inspected every two years with the requirement for random inspections of one-in-ten licensed facilities each year. In taking this action, the Legislature clearly expressed its desire to continue the licensing of family day care homes, but to do so at a reduced General Fund cost.

Options Available to the Legislature. If the Legislature continues the licensing of family day care homes at the current level, an augmentation to the budget of $4,100,000 will be required. However, we have identified an option which would allow the licensing program to be continued without an augmentation.

In our review of the Community Care Licensing Program, which appears as part of our analysis of the department's support item (Item 5180-001-001), we recommend that all community care facilities pay a licensing fee based on (1) the cost of licensing each facility type and (2) the number of private placements in each facility. We believe such fees are warranted, and would eliminate what appears to be, from an analytical standpoint an unjustified subsidy of private placements in community care facilities. The overwhelming majority of placements in family day care homes are private placements—that is, the cost of the care provided is paid for by private parties, generally the parents, rather than by any governmental program. If the fee we recommend is applied to family day care homes, it will generate revenues approximately equal to the costs of licensing these homes. Therefore, if the Legislature accepts our recommendation that all community care facilities be required to pay a license fee based on the number of private placements in each facility, it could continue the Family Day Care Licensing program without having to augment the budget.

Cost-of-Living Adjustments

We recommend a General Fund reduction of $167,000 from the amount budgeted under Item 5180-181-001 (d) for cost-of-living increases for community care licensing due to overbudgeting.

The budget includes $248,000 in Item 5180-181-001(d) to provide a 3 percent COLA for the Community Care Licensing program. The $248,000 does not, however, reflect the reductions in the basic costs of the licensing program associated with (1) the proposal to eliminate family day care licensing and (2) the transfer of funding for foster family home licensing to federal Title IV-E funds. If these adjustments are accounted for, the basic costs of the licensing program are reduced to $2,715,000. A 3 percent COLA on this amount would require an increase of $81,000 which is $167,000 less than the amount proposed.

The question of what is the appropriate COLA for the Community Care Licensing program is a policy question which the Legislature must address in determining its overall fiscal priorities for 1983–84. Here, we merely address the technical issue of the appropriate base to be used in determining the cost-of-living increase associated with a three percent COLA. In order to accurately reflect the fiscal effect of a three percent COLA for Community Care Licensing, we recommend a reduction of $167,000 from the amount budgeted for cost-of-living increases under Item 5180-181-001(d).

Department of Social Services

COST-OF-LIVING ADJUSTMENTS

Item 5180-181 from the General Fund and Social Welfare Federal Fund — Budget p. HW 156

Requested 1983–84	$89,134,000
Total recommended reduction	$682,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5180-181-001	—Cost-of-Living Adjustments	General	$89,134,000
5180-181-866	—Cost-of-Living Adjustments	Federal	(18,355,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Transfer Cost-of-Living Funds. Recommend that $72,267,000 proposed for cost-of-living increases for SSI/SSP recipients be used instead to provide Cost-of-Living Adjustments (COLAs) for AFDC recipients because the current standard of living achieved by these recipients is considerably lower than that of SSI/SSP recipients. 1186
2. ***Asset Clearance Match Demonstration Project. Reduce by $4,000.*** Recommend that proposed cost-of-living increases for county administration be reduced to reflect decreases in workload, for a General Fund savings of $4,000. 1189
3. ***Other County Social Services Program (OCSS)—Shasta and San Mateo Counties. Reduce by $48,000.*** Recommend that proposed OCSS cost-of-living increase for Shasta and San Mateo Counties be reduced by $48,000 to correct for double-budgeting. 1189
4. ***OCSS COLA. Reduce by $252,000.*** Recommend General Fund reduction of $252,000 and an augmentation of $726,000 from federal funds to correct for technical errors in calculating the effects of a 3 percent OCSS COLA. 1190
5. ***In-Home Supportive Services (IHSS) COLA. Reduce by $211,000.*** Recommend that proposed IHSS cost-of-living increase be reduced to correct for overbudgeting, for a General Fund savings of $211,000. 1190
6. ***Community Care Licensing. Reduce by $167,000.*** Recommend that proposed Community Care Licensing cost-of-living increase be reduced to correct for overbudgeting, for a General Fund savings of $167,000. 1190

COST-OF-LIVING ADJUSTMENTS—Continued

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide cost-of-living adjustments (COLA) to various welfare and social services programs.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation totaling $89,134,000 for cost-of-living increases for various local assistance programs administered by the Department of Social Services. Table 1 shows the fiscal effect of the cost-of-living increases proposed for each of these programs.

Table 1
Department of Social Services
Proposed Cost-of-Living Increases
General Fund
1983–84
(in thousands)

Program (Proposed Cost-of-Living Adjustment)	*Proposed Baseline Funding*	*Cost-of-Living Increase*	*Percent Increase in Expenditures*	*Total Expenditures*
AFDC cash grants (0 percent)	$1,174,669	—	—	$1,174,669
SSI/SSP cash grants (2.1 percent)	949,505	$72,267	7.6%	1,021,772
Special adult programs (0 percent)	1,708	—	—	1,708
County administration (3 percent)	105,683	3,470	3.3	109,153
Social Services (3 percent)	159,949	13,149	8.2	173,098
In-Home Supportive Services	(122,453)	(7,812)	(6.4)	(130,265)
Other social services	(37,496)	(5,337)	(14.2)	(42,833)
Community care licensing (3 percent)	2,715	248	9.1	2,963
Totals	$2,394,229	$89,134	3.7%	$2,483,363

As Table 1 indicates, the proposed cost-of-living increases would increase General Fund expenditures for these programs during 1983–84 from $2.4 billion to $2.5 billion, an increase of 3.7 percent. The increase reflects proposed cost-of-living increases in public assistance programs ranging from zero to 3.0 percent. Because of factors unique to individual programs, however, the percentage increase in General Fund expenditures may exceed the proposed COLA (expressed in percentage terms). For example:

- The percentage increase in SSI/SSP *expenditures* (7.6 percent) is greater than the percentage increase in *maximum* SSI/SSP grants (2.1 percent) because the federal cost-of-living adjustment is given both to recipients who are eligible only for state payments (SSP), as well as to those who are eligible for both SSI and SSP payments.
- The percentage increase in social services *expenditures* (8.2 percent) is greater than the 3 percent COLA proposed in the budget because the federal government does *not* provide funds for a COLA on federally funded social services, putting the burden for doing so on the state and counties.

Table 2 shows that the budget proposes total expenditures of $5,960,151,000 for welfare programs. Of this amount, $120,424,000 is proposed for cost-of-living increases.

Table 2
Department of Social Services
Proposed Cost-of-Living Increases
All Funds
1983–84
(in thousands)

Program	*Baseline Funding*	*Cost-of-Living Increases*					*Total Funding*
		General Fund	*Federal Funds*	*County Funds*	*Total Cost-Of-Living Increase*	*Percent General Funds*	
AFDC cash grants	$2,722,590	—	—	—	—	—	$2,722,590
SSI/SSP cash grants							
Proposed funding sources	1,873,546	$72,267	$305	—	$72,572	99.6%	1,946,118
Actual funding sources [a]	(1,873,546)	—	(72,572)	—	(72,572)	—	(1,946,118)
Special adult program	1,748	—	—	—	—	—	1,748
County administration	587,825	3,470	18,050	$10,535	32,055	10.8	619,880
Refugee cash assistance	97,941	—	—	—	—	—	97,941
Social Services	550,686	13,149	—	2,400	15,549	84.6	566,235
In-Home Supportive Services	(271,737)	(7,812)	—	(868)	(8,680)	90.0	(280,417)
Other social services	(278,949)	(5,337)	—	(1,532)	(6,869)	77.7	(285,818)
Community care licensing	5,391	248	—	—	248	100.0	5,639
Local Mandates	(291)	—	—	—	—	—	(291)
Totals	$5,839,727	$89,134	$18,355	$12,935	$120,424	74.0%	$5,960,151

[a] Because federal funds for the SSI/SSP program are not appropriated by this bill, the anticipated increase in federal funds of $72,267,000 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 a 2.1 percent COLA to SSI/SSP grants ($72.3 million, refugees excluded) is included in Item 5180-181-001(a) as a General Fund cost.

COST-OF-LIVING ADJUSTMENTS—Continued

Cost-of-Living Adjustments for Public Assistance Recipients

State law requires that recipients of assistance under the SSI/SSP and AFDC programs receive an annual cost-of-living increase in their grants, effective July 1 of each year. Under existing law, the COLA required on July 1, 1983 is equal to the percentage change in the California Necessities Index (CNI) from December 1981 to December 1982.

The Department of Finance estimated in December 1982 that the July 1, 1983, COLA required by existing law is 6.8 percent, and would, if approved, increase costs to the General Fund by $330,309,000: $231,529,000 for the SSI/SSP program and $98,780,000 for the AFDC program. The budget, however, proposes to suspend the statutory provision requiring a COLA on July 1, and proposes that in 1983–84 no COLA be provided to AFDC recipients and that a 2.1 percent COLA be given to SSI/SSP recipients. The budget companion bills repeal the statutory requirement that a COLA be given in 1983–84 and subsequent years, and instead make cost-of-living increases subject to determination in the budget act.

On the Basis of Need, AFDC Recipients Should Receive a COLA Instead of SSI/SSP Recipients

We recommend that $72,267,000 in General Fund support for cost-of-living increases budgeted for SSI/SSP recipients, instead be used to fund a COLA for AFDC recipients, because the current standard of living achieved by these recipients is considerably lower than that of SSI/SSP recipients.

The administration proposes to provide a 2.1 percent COLA to the maximum grants for SSI/SSP recipients, at a cost of $72.3 million. The proposed COLA would be financed by the General Fund. The budget document indicates, however, that the source of funding actually would be the federal government, not the state. The cost to the General Fund of the adjustments would be matched by an increase in federal funds totaling $72,267,000 which are made available to provide a cost-of-living increase on the *SSI* grant. The actual amount of federal funds to be provided will depend on the change in the CPI between January–March 1982 and January–March 1983. If the change in the CPI during this period is less than 3 percent, the federal government will not provide any funds for a COLA to SSI grants. Any changes in the estimate of federal funds will be reflected in the May revision of expenditures.

The federal government does not require that the additional funds it provides to California will be passed through to SSI/SSP recipients. This is because the state already pays for grants to SSI/SSP recipients that are considerably higher than the minimum required by the federal government. Consequently, the state could use the funds:

1. To provide a COLA on the total SSI/SSP grant, as proposed by the administration;
2. To achieve a measure of fiscal relief by replacing General Fund support for the SSP program; or
3. For any other purpose, including COLAs for other groups that do not have as high a standard of living as SSI/SSP recipients.

Our analysis indicates that, on the basis of need, it would make more sense to use these funds to provide a cost-of-living increase for AFDC recipients than it would to provide such an increase to SSI/SSP recipients.

As discussed below, the maximum grant currently paid AFDC recipients is not adequate to raise their incomes above the poverty level. In contrast, SSI/SSP recipients receive grants which currently exceed the poverty level, and will continue to do so throughout 1983–84 even if they do not receive a COLA.

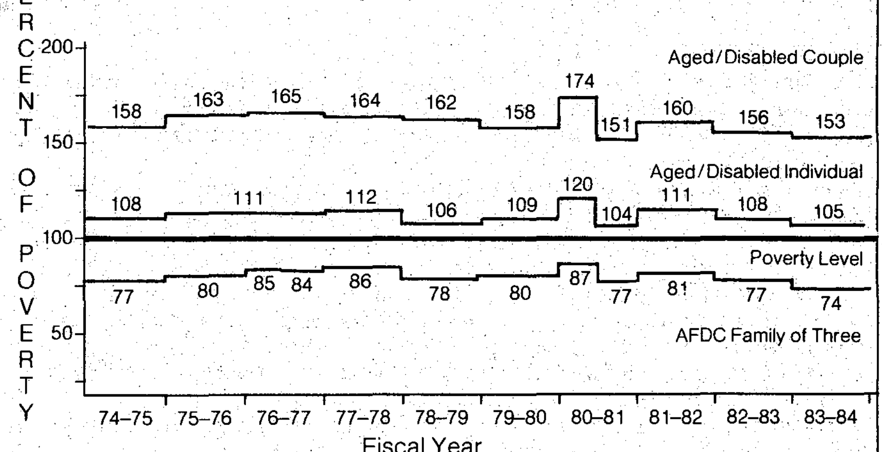
California's AFDC Maximum Grants Continue to Fall Short of the Poverty Level. One of the objectives of the AFDC and SSI/SSP programs is to provide recipients with a minimum standard of living. One way of assessing whether this objective is being achieved is to compare the maximum AFDC and SSI/SSP grant amounts with the federally designated poverty income level.

Historically, AFDC grants have been below the poverty level, as shown in Chart 1. In 1974–75, the AFDC grant level for a family of three was equal to 77 percent of the poverty level, or put another way, it was 23 percent below the poverty standard. The AFDC grants reached 87 percent of the poverty level in 1980–81, and dropped back to 77 percent of the poverty standard in the current year. Under the administration's proposal, the AFDC grant would drop back further, to 74 percent of the poverty level. Even when the value of food stamps is considered, the grant for an AFDC family of three is still below the poverty level.

Meanwhile, the maximum SSI/SSP grant for an aged and disabled individual has consistently been above the poverty level. In the current year, for example, the maximum SSI/SSP grant to an aged or disabled individual exceeds the poverty level by 8 percent, while the grant to couples is 56 percent above the poverty standard.

Chart 1

Welfare Maximum Aid Payments as a Percent of Annual Poverty Level[a] AFDC[b] and SSI/SSP Aged/Disabled Individuals and Couples 1974–75 to 1983–84



[a] SOURCE: U.S. Bureau of the Census. 1983–84 poverty level estimated.

[b] Family of three without food stamps. AFDC family of three is at approximately 91 percent of poverty level *with* food stamps in 1982–83.

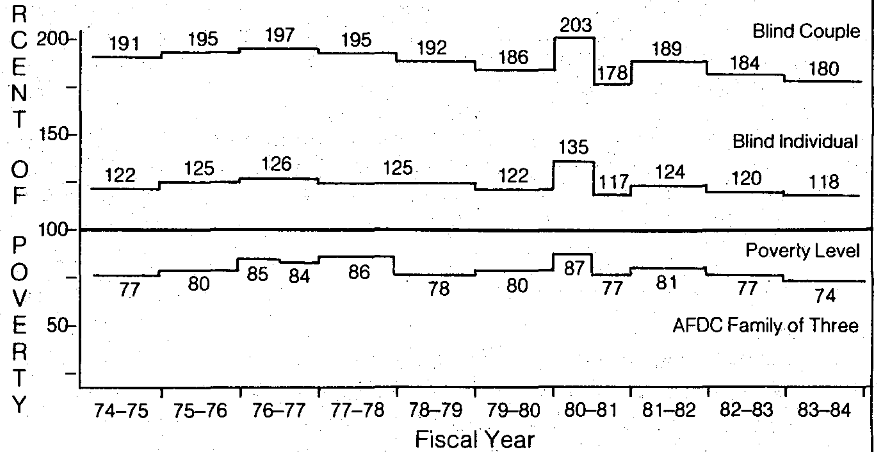
Chart 2 compares the maximum AFDC grant for a family of three to the

COST-OF-LIVING ADJUSTMENTS—Continued

maximum SSI/SSP grants for blind individuals and blind couples. In the current year, the AFDC family of three is receiving a maximum grant which is *77 percent* of the poverty level, while a blind individual is receiving a grant which is *120 percent* of the poverty standard, and a blind couple is receiving a maximum SSI/SSP grant which is 184 percent of the poverty level.

Chart 2

Welfare Maximum Aid Payments as a Percent of Poverty Level[a] AFDC[b] and SSI/SSP Blind Individuals and Couples 1974–75 to 1983–84



[a] SOURCE: U.S. Bureau of the Census. 1983–84 poverty level estimated.
[b] AFDC family of three without food stamps. AFDC family of three is at approximately 91 percent of poverty level *with* food stamps in 1982–83.

SSI/SSP recipients have received partial or full cost-of-living increases in every year since 1974, including a 2.8 percent increase for the current year. Grants for AFDC recipients, however, have remained unchanged since July 1981.

Given the significant disparity in grant amounts relative to the poverty level, we recommend that the funds budgeted for cost-of-living increases for SSI/SSP recipients be used instead to provide COLAs to AFDC recipients. Approval of this recommendation would narrow the gap between AFDC and SSI/SSP grant levels, without raising expenditures above the level proposed in the budget. Approval of the budget proposal, however, would cause this already-wide gap to widen further. We believe that this recommendation is consistent with the Legislature's past policy of providing cost-of-living increases to those with the greatest demonstrated need.

Approval of this recommendation would result in approximately a 5 percent COLA for the maximum AFDC grants. Table 3 compares the maximum AFDC grants in 1983–84 for selected family sizes, assuming (1) no COLA, as proposed by the administration and (2) a 5 percent increase. The table shows that a 5 percent COLA would increase the maximum monthly AFDC grant for a family of three to $531 in 1983–84. This would maintain the AFDC family of three at 77 percent of the poverty level.

Table 3
Maximum AFDC Grants

			1983–84	
			Legislative Analyst Proposal (5 Percent COLA)	
Family Size	*1982–83*	*Administration Proposal (No COLA)*	*Amount*	*Change*
1	$248	$248	$260	$12
2	408	408	428	20
3	506	506	531	25
4	601	601	631	30
5	686	686	720	34

Effects on Other Budgets. To be consistent with this recommendation, we make related recommendations in our analyses of two other budgets. In the Department of Developmental Services (Item 4300), we recommend a General Fund augmentation of $1.5 million to replace lost SSI/SSP reimbursements. In Medi-Cal (Item 4260), increased General Fund costs of $7.2 million would be offset partially or wholly by savings. Therefore, we recommend that the department submit estimates of the net effect of our AFDC and SSI/SSP COLA recommendations on Medi-Cal costs.

TECHNICAL BUDGETING ISSUES

County Administration

We recommend a General Fund reduction of $4,000 from the amount budgeted for county administration to reflect estimated caseload decreases due to the Asset Clearance Match demonstration.

Chapter 703, Statutes of 1981 (SB 620), authorized the Department of Social Services (DSS) to conduct a demonstration project which matches AFDC recipient case files with interest and dividend information from the Franchise Tax Board. The purpose of the project is to identify AFDC recipients who have personal property which exceeds the AFDC eligibility standards. The DSS estimates that this system will result in a reduction in the AFDC caseload. The department, however, has not reduced the COLA to reflect the lower caseload. We estimate the savings to the General Fund from reducing the COLA to be $4,000.

Other County Social Services—Shasta and San Mateo Counties

We recommend a General Fund reduction of $48,000 from the Social Services program cost-of-living increase item to correct for double-budgeting.

In our analysis of the Social Services programs (Item 5180-151-001), we conclude that the proposal to transfer $1,600,000 in General Fund support for the Family Protection Act (FPA) from the demonstration programs item to the Other County Social Services (OCSS) item results in double-budgeting. This is because the OCSS item already includes funding for the two FPA counties (Shasta and San Mateo) for which the transferred funding is proposed. The COLA item includes $48,000 of General Fund support for a 3 percent COLA increase for the FPA counties. Consistent with our recommendation under the social services item, we recommend that the $48,000 COLA increase be eliminated to correct for double-budgeting.

COST-OF-LIVING ADJUSTMENTS—Continued

Other County Social Services

We recommend (1) a General Fund reduction of $252,000 in the amount budgeted for an OCSS COLA and (2) an increase of $726,000 in the federal fund COLA item, to accurately reflect the cost of a 3 percent OCSS COLA.

In our analysis of the OCSS item (Item 5180-151-001), we conclude that the proposed General Fund OCSS COLA of $4,596,000 is based on estimates which fail to account for (1) the increased General Fund cost of a 3 percent COLA which will result due to implementation of SB 14 and (2) the decreased General Fund cost of a 3 percent COLA due to increased federal funds. The net effect is that the budget overestimates the General Fund costs of the proposed 3 percent COLA by $252,000, and underestimates the federal fund costs by $726,000.

To correct these errors, we recommend a reduction of $252,000 to the General Fund COLA item for OCSS and an augmentation of $726,000 to the federal funds COLA item.

In-Home Supportive Services

We recommend a General Fund reduction of $211,000 from the amount proposed for a 3 percent COLA to the IHSS program, in order to correct technical errors.

The budget proposes $7,812,000 to fund a 3 percent COLA to the IHSS program. The amount requested for the 3 percent COLA, however, is overbudgeted, because the administration failed to calculate the COLA on the correct base expenditures for the IHSS program. Specifically, the COLA proposed in the budget assumes baseline costs of $279,232,000 in the budget year. In fact, the budget proposes baseline expenditures of $271,737,000. In order to reflect the actual costs of providing a 3 percent COLA to the IHSS program, we recommend a General Fund reduction of $211,000.

Community Care Licensing

We recommend a General Fund reduction of $167,000 from the amount proposed for a 3 percent Community Care Licensing (CCL) COLA in order to correct a technical error.

The budget proposes $248,000 from the General Fund to provide a 3 percent COLA for the Community Care Licensing program. The $248,000 from the General Fund, however, actually represents a 9.1 percent COLA. Our analysis indicates that this is the result of a technical error made in calculating the basic costs of the licensing program. Specifically, the budget neglected to reduce the basic costs of the program to reflect the General Fund savings associated with (1) the Governor's proposal to eliminate family day care licensing (General Fund savings of $2,894,000) and (2) the transfer of a portion of the funding responsibility for foster family home licensing to federal Title IV-E funds (General Fund savings of $2,676,000). If the basic costs of the program are adjusted to reflect these proposed savings, a 3 percent COLA will cost $81,000, which is $167,000 less than the amount proposed.

In order to accurately reflect the fiscal requirements for a 3 percent COLA, we recommend a General Fund reduction of $167,000 from the amount budgeted for the CCL cost-of-living increase.

Health and Welfare Agency
CALIFORNIA HEALTH FACILITIES COMMISSION

Item 5190 from the California Health Facilities Commission Fund — Budget p. HW 167

Requested 1983–84	$3,653,000
Estimated 1982–83	3,308,000
Actual 1981–82	2,635,000
Requested increase (excluding amount for salary increases) $345,000 (+10.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Reduce Fee Assessments. Recommend that the Legislature adopt Budget Act language directing the commission to calculate its health facility fees based on a contingency reserve of $200,000, which is $113,000 less than the amount budgeted, because our analysis indicates that the budgeted contingency reserve is excessive. 1193

GENERAL PROGRAM STATEMENT

The California Health Facilities Commission (CHFC), established in 1972, collects patient and financial data from 597 hospitals and 1,189 nursing homes in the state and summarizes the data in reports to government agencies and the public. The purposes of the commission's activities 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.
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 83.5 staff positions authorized in the current year.

Chapter 329, Statutes of 1982 (AB 3480), reduced the number of commission members from 15 to 9 as of January 1, 1983, and made various changes in hospital reporting requirements. The act also terminates the commission and its functions, effective January 1, 1986.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $3,653,000 from the California Health Facilities Commission Fund to support commission activities in 1983–84. This is an increase of $345,000, or 10 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

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

budget year. This proposed increase is due primarily to an increase of $234,000 in the commission's budget for Central Administrative Services. The majority of this increase is payment for costs incurred by the Auditor General in conducting a legislatively mandated audit of the commission in 1981–82.

Auditor General's Report on the Commission

In response to language in the *Supplemental Report of the 1981 Budget Act,* the Auditor General reviewed (1) the commission's effectiveness in collecting, processing, and publishing health care cost information and (2) the activities of the commission's Criteria for Health Planning Committee. The Auditor General's review team published its report in May 1982. The team found that problems with data accuracy and timeliness have reduced the usefulness of commission reports. The Auditor General's findings are summarized below.

Accuracy of Reported Data. According to the report, some information in the CHFC hospital and long-term care reports may not be reliable or comparable, because some health facilities have not correctly implemented or interpreted the CHFC standard accounting and reporting requirements. The Auditor General recommended that the commission (1) improve its quality control review of health facility reporting practices and (2) increase the training and guidance it provides to facilities on reporting techniques.

Timeliness of Data. The report stated that certain commission reports present annual data that are from one and one-half to three and one-half years old, although it noted that the commission generally publishes its reports within mandated deadlines. The Auditor General recommended that the commission (1) be stricter in imposing sanctions on facilities that are late in reporting data and (2) publish facility data in increments as it is received throughout the 16-month authorized reporting period. The report also identified delays by the commission in converting data processing systems and in filling vacant staff positions.

Subsequent to reviewing the Auditor General's report, the Legislature adopted language in the 1982 Budget Act which mandates the commission to (1) improve control of health facility disclosure report quality, (2) enforce health facility reporting requirements, and (3) improve computer and other processing functions to avoid delays in processing data.

The commission indicates that it has taken the following steps to resolve the problems addressed by the Auditor General's report and by the Legislature in the 1982 Budget Act:

1. *Reliability and Comparability of Facility Data.*

- Conducted two pilot reviews of hospital data reporting procedures.
- Required all facilities to review accounting and reporting systems and to either certify the reliability of their systems or submit a plan of corrections.
- Conducted data reporting workshops for facilities.
- Distributed periodic technical guidance bulletins to facilities.
- Provided checklist to facilities to assist in editing their cost reports.

2. *Timeliness of Commission Reports.*

- Produced recent reports on or before mandated deadlines.
- Developed new penalty assessment and extension guidelines for delinquent facility reporting.

3. *Usefulness of Commission Reports.*

- Sent out questionnaries to report users.
- Established a core of report users from whom to solicit guidance as to how their data needs can best be met.

Reduce Fee Assessments

We recommend that the Legislature adopt Budget Bill language directing the commission to base its health facility fee calculations on a contingency reserve of $200,000, which is $113,000 less than the amount budgeted, because our analysis indicates that the budgeted contingency reserve is excessive.

The commission is funded entirely from the California Health Facilities Fund, which was established by Ch 1241/71 solely for the purpose of funding commission activity. The budget indicates that $3,966,000 will be available to the fund in 1983–84. This amount consists of (1) $3,308,000 in annual fees to be assessed the 597 hospitals and 1,189 long-term care facilities, (2) $18,000 in penalties assessed facilities which submit delinquent cost reports, (3) $500,000 in estimated fund reserves to be carried over from 1982–83, and (4) $140,000 in interest earned on money held in the fund. The $3,966,000 in resources is $313,000 more than 1983–84 budgeted expenditures of $3,653,000.

The commission states that the reserve of $313,000 is necessary because (1) actual revenues received by the fund could vary from those estimated in the budget and (2) the commission's expenditure authority typically is augmented by the Legislature for such items as employee compensation increases and additional reporting requirements.

Our analysis indicates that it is appropriate to plan for a reserve. We believe, however, that $200,000 is sufficient for this purpose. This amount would be sufficient to cover:

A Potential Fee Revenue Shortfall of $30,000. In 1981–82, actual fee revenues were $3,257 less than the amount budgeted. In the current year, however, actual fee revenues are projected to exceed by $72,411 the amount budgeted. The commission indicates that it is becoming increasingly more accurate in projecting the total gross operating costs of hospitals and long-term care facilities—the basis for fee assessments—when it establishes fee assessment rates. Consequently, the likelihood that actual fee revenues would vary significantly from the amount budgeted is becoming smaller and smaller every year. We recommend, however, that the CHFC fund include within its reserve $30,000 as a contingency in the event of a fee revenue shortfall.

Legislative Augmentations Totaling $170,000. In past years, the Legislature has granted additional expenditure authority to the commission to cover costs not reflected in the commission's budget, such as the cost of employee compensation increases and expanded reporting requirements. Since 1979–80, actual commission expenditures for any one year have exceeded the amount originally appropriated in the CHFC item by an average of $31,400 per year. In 1980–81, actual expenditures exceeded the amount appropriated for the CHFC budget item by $167,000, which represents the largest increase above the amount budgeted during the past five years. The 1980–81 increase was primarily due to a large employee compensation increase in that year.

In summary, we estimate a worst-case need of $200,000 as a reserve in 1983–84, not $313,000 as estimated by the commission. We recommend, therefore, that the Legislature adopt Budget Bill language directing the

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

commission to calculate its health facility fee assessments based on a contingency reserve of $200,000. This would reduce projected revenues by $113,000, or 3.4 percent, in 1983–84. As a result of this action, a typical hospital's annual fee would be reduced by approximately $154, from approximately $4,505 to $4,351. A typical long-term care facility's annual fee would be reduced by approximately $10, from approximately $567 to $557.

Legislatively Mandated Reports

Pursuant to Ch 1632/82, the commission submitted its recommendations regarding 11 legislatively mandated reports which require 100 or more personnel-hours per year to produce. Based on our analysis of the information provided by the commission, we recommend that the Legislature not discontinue the legislative mandates which require the commission to produce these reports.

Youth and Adult Correctional Agency

DEPARTMENT OF CORRECTIONS

Item 5240 from the General Fund and various special funds — Budget p. YAC 1

Requested 1983–84	$658,740,000
Estimated 1982–83	541,319,000
Actual 1981–82	463,137,000
Requested increase (excluding amount for salary increases) $117,421,000 (+21.7 percent)	
Total recommended reduction	6,542,000
Recommendation pending	$71,699,000

1983–84 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
5240-001-001	Department Operations	General	$599,236,000
5240-001-678	Prison Industries	Revolving	41,545,000
5240-001-917	Inmate Welfare Fund	Revolving	11,071,000
5240-101-001	Local Assistance	General	6,888,000
5240-001-890	Department Operations	Federal	(88,000)
Total			$658,740,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Funding for Inmate Population Growth. Withhold recommendation, pending analysis of population proposal contained in the May revision. — 1198
2. ***Security for Patton State Hospital. Reduce Item 5240-001-001 by $979,000.*** Recommend reduction in security staff, due to delays in occupying a portion of the hospital. — 1200
3. ***Records System. Reduce Item 5240-001-001 by $82,000.*** Recommend deletion of positions due to workload reduction. — 1200